



ANY REPLY OR SUBSEQUENT REFERENCE  
SHOULD BE ADDRESSED TO THE FINANCIAL  
SECRETARY AND THE FOLLOWING REFERENCE  
NUMBER QUOTED:-

Telephone No. 92-28600-16  
Website: <http://www.mof.gov.jm>  
Email: [info@mof.gov.jm](mailto:info@mof.gov.jm)

MINISTRY OF FINANCE AND PLANNING  
30 NATIONAL HEROES CIRCLE  
P.O. BOX 512  
KINGSTON  
JAMAICA

November 10, 2004

Circular No. 27

File No. 107/022

Division: Public Expenditure Policy Co-ordination

Permanent Secretaries  
Heads of Departments  
Chairmen of Boards and  
Chief Executive Officers

Guidelines for the Measurement of Cost Savings

The attention of Permanent Secretaries, Heads of Departments, Chairmen of Boards and Chief Executive Officers is invited to Section D of the Memorandum of Understanding signed February 16, 2004 between the Government of Jamaica and the Jamaica Confederation of Trade Unions (JCTU), which states inter alia:

" (i) ..... Each agency will establish a Cost Saving Committee to effect general cost saving measures as well as those that are peculiar to the respective agency. Each Committee to submit through the Permanent Secretary/Head of Department/Chief Executive Officer quarterly reports to the Monitoring Committee detailing the savings achieved.

(ii) The PARTNERS agree that a proportion of the savings achieved will be available to the relevant entity as an incentive to be used for staff welfare.

and your attention is also invited to Ministry of Finance Circular No. 11 dated April 27, 2004 and entitled "Memorandum of Understanding – Expenditure Restraint".

The guidelines herein relate to the measurement of costs in the determination of whether a saving has been achieved in one period over another.

- (1) In each year being assessed the prior year's results must be used as the base against which current costs are compared. Therefore, financial Year 2003-2004 shall be used as the base year against which costs in 2004-2005 will be measured to determine whether there is an increase or reduction in expenditure.

(2) Expenditure for the base year and the year under review must not include the following:

- One-time payments;
- Grants and subvention payments;
- Capital Expenditure or the purchase of non current assets; and
- Non-cash expenditure (e.g. depreciation).

(3) The costs to be tracked and included in the determination of savings shall be any expenditure, which is controllable by the Ministry/Department. These include utilities (water, electricity and telephone), foreign travel and social functions.

(4) All unpaid bills and commitments in respect of each financial year, including the base year, must be added to the expenses of the year to which they relate.

(5) The formula for determining cost savings shall be:

$$\text{Savings} = (\text{adjusted cost of resources consumed in base period}) - (\text{adjusted cost of resources consumed in current period})$$

The adjusted cost of resources in the current period must include an adjustment for actual price increases.

### **Real Cost Reduction**

Real cost reduction cannot be achieved at the expense of efficiency, effectiveness or in isolation from whether or not ministries and departments achieve agreed objectives. Therefore, budgeted objectives must be accomplished for cost reductions to be deserving of rewards.

### **Submission of Report**

In accordance with Ministry of Finance and Planning Circular # 11 dated April 27, 2004 quarterly reports on cost savings in the format attached, certified by the Chief Internal Auditor must be submitted to the Coordinator Public Sector Monitoring and Evaluation Committee within a month following the close of each quarter. In addition to the signed 'paper copy' the report must be submitted electronically, in Microsoft Excel format, to [caroln@mof.gov.jm](mailto:caroln@mof.gov.jm).

Notwithstanding the above, the cost savings report for the quarter ended September 30, 2004 must be forwarded no later than December 15, 2004.

### **Contribution to Staff Welfare**

Ministries, Departments and Agencies shall be authorised to utilize forty percent (40%) of cost savings on staff welfare activities recommended by their cost saving committees and approved by the Ministry of Finance and Planning.

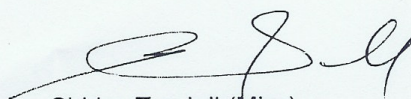


Public Expenditure Division (PEX) of the Ministry of Finance and Planning must be advised by ministries, departments and agencies in addition to public bodies that are financed from the budget, no later than July 31, 2005 of staff welfare activities proposed for deployment of the relevant portion of the cost savings that were realized in financial year 2004-2005. The PEX Division shall incorporate such expenditure in the Supplementary Estimates for F/Y 2005-2006 and shall authorize the ministry/department/agency to implement the approved staff welfare projects pending passing of the Supplementary Estimates by the House of Representatives.

Public Bodies that are not financed from the Budget must have their boards approve the staff welfare activities earmarked for the deployment of the relevant portion of the cost savings realized. Such expenditure may be financed from the budget of the public body in the ensuing financial year, or from a reserve established in the year in which the savings were realised.

Expenditure on staff welfare activities utilized from cost savings must be omitted from the measurement of cost savings operational costs for that year.

Permanent Secretaries, Heads of Departments, Chairmen of Boards and Chief Executive Officers must ensure that this circular is brought to the attention of all relevant officers.

A handwritten signature in black ink, appearing to be 'S. Tyndall', written over a horizontal line.

Shirley Tyndall (Miss)  
Financial Secretary

Financial Year: \_\_\_\_\_

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