



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

Efficiency Savings

18 November 2009

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr David McNarry
Mr Adrian McQuillan
Mr Declan O'Loan
Mr Ian Paisley Jnr

Witnesses:

Mr Kieran Donnelly)	Comptroller and Auditor General
Mr Eddie Bradley)	Northern Ireland Audit Office
Mr Brandon McMaster)	
Professor Colin Talbot)	University of Manchester

The Chairperson (Ms J McCann):

Today, we will hear from Kieran Donnelly, Eddie Bradley and Brandon McMaster from the Audit Office. You are very welcome.

Mr Weir:

I declare an interest as Chairperson of the Audit Committee.

Dr Farry:

I declare an interest as a member of the Audit Committee.

Mr Kieran Donnelly (Comptroller and Auditor General):

We are pleased to have the opportunity to address the Committee on efficiency savings. I hope that we can be of some help in your deliberations. Eddie Bradley is head of our value-for-money audit division, which has around 30 staff and carries out value-for-money investigations throughout central government. Brandon McMaster is a director in that division. He specialises in PFI transactions and such issues. He has done a lot of work on the major public service reform initiative.

I want to cover three things, the first of which is to give you a little bit of background on work that has been carried out at national level on how to measure efficiencies by the National Audit Office and the Public Accounts Committee at Westminster. Mr Bradley will say a few words about advisory work that we carried out for the Department of Finance and Personnel (DFP) on foot of the Gershon report a few years ago. Finally, we will comment on the main efficiency themes that have emerged from our programme of work.

The most appropriate starting point for any debate on efficiency savings is the report produced by Sir Peter Gershon in 2004. That was a seminal piece of work in our view, and different from any previous efficiency initiatives. The key theme of the report was to embed a culture of efficiency change, whereas, before that, there had been a lot of ad hoc initiatives. In that respect, the initiative has had some success; the search for efficiencies in a systematic way is now an inbuilt feature.

The report was also important because it tightened up definitions of efficiencies and what they are about. In addition, it identified some major cross-cutting themes across government where there was huge potential to deliver significant efficiencies, particularly in the areas of procurement and back-office functions. The whole concept of moving resources to the front line originated around the time of the report.

Subsequent to the Gershon report, the National Audit Office produced two reports, both of which were considered at evidence sessions of the Public Accounts Committee (PAC) at

Westminster. I will touch on some of the key findings that came from that. In its latest report in 2007, the Committee cast doubt on the reliability of nearly three quarters of the efficiencies claimed. One quarter of the claims were hard and fast, but there were doubts over the remaining 74%. That does not mean that there were not efficiencies, but there was an insufficient evidence base to say with complete confidence that they were genuine efficiency savings that did not compromise service delivery.

A good example of that was that the Department of Health nationally claimed to have saved and delivered £1 billion of savings as a result of shorter hospital stays. The downside was that a separate set of management information revealed that emergency readmissions within 28 days were on the rise. In other words, that claim needed to be abated as it did not refer to pure efficiency savings. It was a quoted saving, but was having an adverse affect on service delivery.

Other points came from the PAC's work at Westminster, particularly the fact that efficiency cannot be measured in isolation. It must be considered in the context of a wider basket of performance indicators, particularly in service delivery. The key point is that it is not good enough to rely on assurances that efficiency savings have had no adverse affect on service delivery. Hard evidence and a basket of hard indicators are needed to prove and demonstrate that service delivery has not been adversely affected. Departments were sometimes reporting recurrent efficiencies — in other words, ones that would recur year after year — when in fact they were one-off, short-term gains that would not be repeated. Some efficiencies were reported without netting off the expenditure incurred to achieve them.

Finally, there was an absence of a sufficient challenge function on reported efficiencies. The Westminster PAC recommended that a more robust challenge function should be in place to ensure that claimed efficiencies were genuine.

Mr Eddie Bradley (Northern Ireland Audit Office):

In order to measure efficiencies during the period 2004-07, DFP required all Departments to produce what were termed efficiency technical notes (ETNs). Those were the predecessors of our efficiency delivery plans, and were meant to provide a robust means of measuring, monitoring and quantifying the targeted financial impacts.

At that time, DFP invited us to review the initial drafts of the efficiency technical notes that

had been prepared by Departments and to advise as to whether they would form a reliable basis for measuring efficiency savings. Our work was unpublished; we presented the key findings to DFP senior management, with a view to helping them improve the quality of efficiency technical notes. Our key findings had a resonance with what the National Audit Office and the Public Accounts Committee at Westminster were finding.

The basis upon which the efficiency savings were to be generated was not always clear from the ETNs. Headcount reductions had not been specified sufficiently. There was also uncertainty as to whether any additional investment costs required to generate the efficiencies had been netted off. In our view, there was considerable scope to improve performance measurement. Baselines were described in general terms. There was often no attempt to measure the volume or quality of outputs and outcomes, which is fundamental to measuring efficiencies. We also considered that the data sources and proposed monitoring arrangements were often very high level in nature, and it was unclear how specific initiatives would be tracked. Generally, there was limited attention in the efficiency technical notes to issues of data quality. Potential data-quality risks and limitations were not actively assessed or disclosed in the notes.

If I may summarise, there was a lack of robust baseline data, a failure to identify measures of service quality, and a failure to include the investment costs associated with the delivery of efficiency-based projects. Those were the broad findings of our advisory work for DFP.

Mr Donnelly:

In the public service, manpower costs dwarf all others. Our colleagues in Scotland have just produced a report which found that manpower accounts for two thirds of the Scottish Budget. With that in mind, we have worked on various aspects of the control of manpower costs, including, most recently, our work on Civil Service absenteeism, which costs the core Civil Service £25 million a year. There is considerable scope for savings in that. We are rolling out those templates to other parts of the public sector. We are doing that currently in the education sector, where there are huge costs in paying substitute teachers. We have identified considerable potential there for efficiency savings.

Another major theme in our work is the major reform initiatives in the public service. They have huge potential for making efficiencies, but also huge risks. The reform initiatives often involve public-sector mergers, where there are a lot of upfront costs and teething difficulties, and

the savings come through much further down the track.

Similarly, there is considerable potential for efficiency savings with IT systems or IT-led change. However, it is hugely dependent on the quality of project management. There is a risk that potential efficiency savings could be frittered away because projects are not managed to the highest standard. IT-led systems have been a major theme of our work and the work of the Assembly's Public Accounts Committee, and we had huge problems with the system that was used by the Rate Collection Agency. The potential for efficiency savings is often handicapped by that sort of issue. However, there are potential solutions — for example, gateway reviews — and a big part of our work is to look at the extent to which those tighter project management disciplines are working throughout the public service.

Another element of our work is on spending to save. At this time of restraint, there is a huge temptation to make easy cuts in public expenditure; for example, in health prevention activities. In that type of area it is very important that robust business cases are designed for invest-to-save initiatives. Admittedly, some of the benefits are hugely long term. However, that is an area that needs to be protected in the current economic climate.

Mr E Bradley:

Procurement is always a key area for efficiency savings. In its operational efficiency programme the Treasury identified the potential to make savings of almost £6 billion through the use of more collaborative procurement. In Northern Ireland, approximately £2.5 billion a year is spent through the Central Procurement Directorate and the centres of procurement expertise (COPEs). It is clear that if procurement can be managed more effectively and efficiently there is the potential to generate savings.

Over the period 2005-08, the Central Procurement Directorate and the COPEs estimated that they made value-for-money savings of £250 million, which was a specific target set for that period. That target has not been carried forward under the current efficiency programme, but it is clear that improved procurement by competitive tendering, collaborative purchasing and the use of e-procurement mechanisms has the potential to drive out considerable efficiency savings.

Mr Weir:

I want to probe three areas, beginning with the issue of procurement, which is highly significant.

There is a live issue around the delivery models of procurement in local government. Mr Bradley outlined a way forward in which procurement could be improved and could deliver better value for money. However, I am concerned about a lack of joined-up thinking on procurement in local government and on how it plugs into the economies of scale that exist in central government. Perhaps you can comment on the level of linkage that there is and what your thoughts are on how that can be improved.

Mr Donnelly:

In principle, there must be scope for greater joined-up working between the various centres of procurement excellence. There are centres in health, education, local government and the central Civil Service, so there must be potential for greater joined-up thinking between COPEs and for harnessing collaborative contracts. In theory, that area is ripe for consideration.

Mr E Bradley:

The mechanisms for effecting savings in the procurement discipline are well recognised. There is scope to aggregate demand and undertake collaborative purchasing, to use leverage to negotiate better deals with suppliers, and to reduce transaction costs. I suppose that the review of public administration will provide an opportunity for some sort of shared service facility under the procurement discipline. Given that there are a number of central government COPEs, it would be sensible and prudent to tap into that rather than start from scratch and reinvent the wheel.

Mr Weir:

The Gershon report indicated that there should be a culture of finding efficiencies, and that that should be second nature rather than an exercise. Clearly, that is the main driver and ambition nationally. However, has that philosophy permeated the Departments in Northern Ireland, or are they still playing catch-up?

Mr Donnelly:

I do not think that the process of cultural change has gone as far as it can go, so there is potential to take that further. The process is no longer a one-off or ad hoc; rather, it is part and parcel of the system and is done every year. It is a lot better than it has been in the past. However, the potential exists to improve and tighten the process and to subject it to more rigorous validation.

Mr Weir:

Obviously, that is an evolving process and mindset.

I was struck by what you said about value-for-money studies, particularly in respect of the issue of spend and save. One of my concerns is that Government, public bodies and, to some extent, private bodies in Northern Ireland try to achieve efficiency savings targets in a risk-averse and conservative way. Anything with a reasonable level of lead-in costs seems to be scary, even if it might lead to much greater savings in the long run. Do you think that that is because they are risk averse and would prefer to play it safe, by shaving off a little bit here and there, than look at efficiency savings in a more strategic fashion?

I was also struck by the example of a particular branch of a government Department that looks at how it does a particular thing and sees a way of reducing costs in its budget line, but it simply shifts that cost onto a different part of another Department, or even another part of its own Department. That Department's finances may look great, because it has made a certain level of savings, but the cost to the public purse may be greater in the end.

Mr Donnelly:

All of the points that you mentioned are very familiar to us. We have come across some interesting examples in our work and in the work of the Public Accounts Committee. For example, huge amounts of public money are being spent on animal health issues like trying to eradicate bovine TB and brucellosis. We have had interesting debates about whether it is possible to eradicate those diseases as opposed to trying to contain them. If eradication was achieved, there would be huge savings. However, that would involve some upfront expenditure. We have to ask whether we can spend more now to save a lot down the track, or do we just manage the problem? There are many examples of that across the public sector as well, as examples of savings in one area having repercussions elsewhere.

Mr Weir:

Part of the solution could be more imaginative phasing of spend by Departments. The upfront costs might mean their having to forgo in the short term something that is regarded as a sacred cow, but generate savings, and they could reinvest in that other service a couple of years down the line to compensate.

Mr Donnelly:

It is perfectly understandable that, in the current economic climate, it is very difficult for Departments to think in any way other than short term. We have the benefit of approaching the issues with hindsight. Taking budget decisions on the ground is quite difficult. That is when an office like ours is useful; bringing, from time to time, a long-term perspective into the thinking of public bodies.

The Chairperson:

You said that you had looked at the previous efficiency savings plan. Have you looked at the forward programme for period 2008-2011?

Mr Donnelly:

The simple answer is that we have not. We carried out our early work in an advisory capacity and did not have our audit hats on. DFP asked us to do that, so we did not go back in. This is an area that will always bubble up when we are considering our forward programme, and it had been on our shortlist to do that type of work over the past two or three years. Therefore, it is something that we will be giving active consideration to.

The Chairperson:

I just wondered whether that would give you a sense of whether some of the points that you have made had been taken on board and implemented.

Mr Donnelly:

It would be interesting.

Mr McNarry:

My first question cuts across the procurement of property and effective usage thereof. Do you have a list of dormant, inactive or vacant properties that are held by the Civil Service estate, the Assembly estate or funded agencies?

Mr Donnelly:

If we do not, it should be quite easy to get one, because the current resource accounting regime means that all property assets are on the books of public bodies. There was an exercise a few years ago to identify surplus property in the system. We expect such exercises to be a regular

feature of departmental budgetary processes. The subject is very interesting and, again, holds potential for releasing cash in these times.

Mr Brandon McMaster (Northern Ireland Audit Office):

The capital realisation task force was put together primarily to identify properties and land owned by Government that could be disposed of. The task force came up with proposals. However, given the shift in the property market and the subsequent reduction in the value of property, the latest information that I have is that the task force's work is being revisited and that other plans and proposals will be drawn up.

Mr McNarry:

Are you accepting that argument about the shift in property values? Are you saying that that is a valid argument?

Mr McMaster:

I am not saying that it is a valid argument. However, in my understanding, that was the reason given at the time.

Mr McNarry:

You are correct; that is the reason. However, whether one accepts that or not is another matter.

Mr Donnelly used the word "surplus". Is there a problem that we use the term "surplus" in one sense, but are still prone to holding on to things that we do not need?

Mr Donnelly:

There is a huge temptation for that to happen. It is human nature, and there is the psychological aspect.

Mr McNarry:

I do not mean that we are hoarding it, in that sense.

Mr Donnelly:

We may need it at some stage, but we do not need it now. Those types of exercises need an independent assessment, as well as an assessment by those who are running the businesses.

Mr McNarry:

I am grateful for that. To continue on that theme, perhaps we might get that list of what is considered to be dormant and inactive or vacant. I know that we have a list of properties, but you might be able to help us with what is deemed dormant and inactive or vacant. It would be interesting to see your take on that. I am asking you to do work, and I am sorry for that: you can say yes or no. However, you might have a list of outstanding liabilities for maintaining vacant, dormant or surplus properties. The liability of that is a key area.

Mr Donnelly:

You are absolutely right. The hidden or opportunity costs of holding on to assets that are not needed can be huge. Whether it is easy to track those sorts of costs is another question. However, Departments should be tracking those costs.

Mr McNarry:

If you could produce that list, it would allow us to compile a value for rentals that have been paid to date for such properties since they became vacant. I understand that some of them have not even been used, let alone been allowed to become dormant: they have not been taken up. That information would be very useful.

Another important area is the value of the property in ownership. The public would like to know what they own and, as a member of the public, I would like to be able to tell them what we own. I am indulging a lot in asking you to indulge a lot, because I am damned if I can get the blooming answers in a satisfactory matter, and you might be able to do that. I have not heard a comment from you, although I may have missed it, but would that allow you to have a view on the efficiency of retaining properties over a period of time that are serving no useful purpose? Linked to that, how efficient do you find the scrapping of the Workplace 2010 project?

Mr Donnelly:

There are huge issues there. It is fair to say that we do not have an overview of the efficient use of the public sector estate. We have done pockets of work in particular areas where we have identified problems. However, it would be quite a task to do this sort of exercise right across the full suite of government. Nevertheless, it is an area where work has been done through the task force.

Mr McNarry:

Do you agree with me that it is in the public interest for the public to be told what they own, what the liabilities are for what they rent, and what messes people have got themselves into over entering into contracts for these things and then not putting them to any use? That is a public interest matter, as well as one for this Committee.

The Chairperson:

Was not the capital realisation task force to produce a register of that? It did not happen.

Mr McNarry:

That is why I am trying to —

Mr Donnelly:

On the right of the public to know what they own, every set of departmental accounts should contain details of assets on the balance sheet. However, it may not be presented in a user-friendly way. There may be potential for that sort of information to be more fully disclosed, in a meaningful way, in annual reports and accounts. That is the mechanism to do it.

Mr McNarry:

That would be helpful. Some Departments, particularly DFP, put together sets of figures very skilfully, so that one is never clear what is an asset and what is a liability. One month, it is argued that a certain item is a liability, depending upon the figures that they want to engineer, and the following month they may argue that it is not. Therefore, it would be useful to have that cleared up, and to oblige Departments to conform to a regular pattern. I would be very grateful for that.

Mr McMaster:

We produced a report a few years ago on the management of the health estate. That made a number of points in relation to identifying and disposing of surplus assets. There is a general principle in managing public money that, where assets are identified as surplus to requirements, they should be considered for disposal. That is a principle that DFP has set out in managing public money.

We have only looked at Workplace 2010 as part of a position report two years ago on shared

services projects. That report, as Mr McLaughlin knows, was examined by the Public Accounts Committee. The basic principle of Workplace 2010 was to rationalise and modernise the Civil Service estate. That principle still applies. Do we need to have an estate of this size? Are there ways to rationalise that estate?

Mr McNarry:

You are right. What is missing from your analysis is that, first, we were told that it had been scrapped, and then we were told that it might be looked at in bits and that there might be bits that could be disposed of. Then we were told that it was not commercially viable. No one took into account the fact that as the price of property has gone down, so has the price of everything else.

It is alarming that, while the principle is still there, there is nothing now attached to that principle. What happens is that an employer maintains its workforce in unsuitable surroundings and buildings. It seems that we can do that, and that that is embraced by this lovely principle. We are not doing anything to help those workers, even though, elsewhere, we have vacant buildings that are more user-friendly and worker-friendly. We do not seem to want to utilise those. We are prepared to keep people in conditions in which neither you nor I would work. I agree that the principle is there, but, perhaps somebody needs to decide how to act on that principle over the next months.

DFP efficiency plans include increasing charges to other public sector areas, and using a different accounting treatment to recognise the cost of rate collection. In your opinion, are those real efficiencies? Rather unfairly, do you have any further comments on DFP's efficiency delivery plan?

Mr Donnelly:

To be fair, we have not subjected the DFP efficiency plan to that degree of scrutiny, so —

Mr McNarry;

As a matter of interest, why not?

Mr Donnelly:

Well, we have not subjected any of them —

Mr McNarry:

Why is that?

Mr Donnelly:

There are many areas competing for our attention, and this is one area to which we will give active consideration in our forward programme.

Mr McNarry:

OK.

Mr Donnelly:

It has certainly been on our shortlist over the past couple of years. On the specifics of charging, there is always potential around the margin for getting more income. However, the potential is marginal compared with the major efficiencies that are needed across the system. There are clear guidelines on charging policy. There should be funds-for-cost recovery. Charges should be periodically reviewed. It is important to ensure that the Treasury rules are complied with fully. Some public sector areas are run on a chargeable basis.

Mr McMaster:

One issue that we identified in both the annual audit of accounts and the value-for-money study that we carried out on the LandWeb project, which was a computerisation project that delivered many customer benefits, was that the fees charged by Land Registers were generating quite a significant surplus. The general principle is that, as a government service, it should clean its nose; it is not there to make a profit. In the past four or five years, Land Registers has generated a surplus of more than £30 million that simply goes back into the Exchequer.

Mr McNarry:

I understand why you use the word “principle”. It is nice to have principles. Do you perceive a growing gap between principles and delivery?

Mr McMaster:

All that we can do is audit on the basis of principles. If the principle is full cost recovery, we ask whether full cost recovery is taking place. If surpluses are being generated, we report on that. The issue of taking action in response to that rests with the Departments.

Mr McNarry:

And you expect Departments to pay attention to what you go back to them with?

Mr McMaster:

One would like to think that they would take heed.

Mr McNarry:

Is there a principle in that?

Mr McMaster:

There is also the question of accountability in respect of the PAC, which brings the issue of accountability back to the Assembly, which, in turn, holds the Executive to account.

Mr McNarry:

Thanks. That is very good of you.

Mr McLaughlin:

Can we discuss further the review of the efficiency technical notes? Mr Donnelly referred to the Gateway Review process. Had that been available, I doubt that we would have been given the green light in relation to the key findings. Recently, the Minister has been talking about the need for the Executive to address the £380 million shortfall in the expenditure programme by finding savings in the system. Has the Minister invited you to advise on that process?

Mr Donnelly:

No, and I do not think that there is any precedent for a public auditor to be involved in such a process.

Mr McLaughlin:

Just to tease that out, are you saying that it would not be appropriate to ask for your advice?

Mr Donnelly:

I am not saying that it would not be appropriate. It has not happened, and I am trying to think of whether there has been any precedent of it happening in other jurisdictions.

Mr McLaughlin:

The paradigm has changed radically; economically, the world has been turned upside down since you conducted your review in 2004-07. If we were producing a suite of efficiency programmes, with a view to protecting front line services in these straitened circumstances, and if there were weaknesses in the process — and you identified such weaknesses, as did the Westminster PAC and the National Audit Office — are there particular requirements now that we take that into account in applying measurement to the absolute imperative to find these efficiencies? There is reference in the documentation before us to the top-slicing approach to departmental budgets as being a crude measure. There is the question of whether we can argue out a process of prioritising key front line services and, perhaps, protecting them from the process. If we took a top-slicing approach, would the big spending Departments carry proportionally more of the burden, and would that meet the requirement to protect front line services? There are complex issues to be worked through, but the Audit Office, in addition to playing its statutory role, has a particular insight into them.

Mr Donnelly:

Thank you very much. We certainly have something to bring to the table in respect of measurement and providing the Assembly with independent information about the reliability of efficiency measures. In this new world, it is debatable whether the kind of savings that are required can be delivered from efficiencies. Hard policy decisions are needed to achieve more. We have a measurement role to play, but getting the really big savings that might be needed will require hard policy decisions. One caveat is that, in my role, I am restricted from questioning the merits of policy objectives.

Mr McLaughlin:

I perfectly understand that.

Mr Donnelly:

However, subject to that restriction, we can bring something to the debate with respect to measurement and providing the Assembly with independent and objective information.

Mr McLaughlin:

It is all hands to the pump here, so we are looking at all the available expertise. The 2003-07

review indicated fundamental deficiencies in the approach, not least in validating claimed efficiency savings. There is a genuine perception and belief among the public that efficiency savings mean cuts. Nevertheless, Ministers have a huge challenge in meeting the budgetary constraints and delivering their respective programmes. Can we develop a suite of efficiency saving programmes that will allow all of the available expertise to be drawn in, and all of the recommendation and conclusions to be validated? That would be better than a retrospective examination such as the PAC might eventually look at.

This Committee took a particular focus on underspend, because it was outraged at the amount of money that was being surrendered to the Exchequer on an annual basis. Some of us, as party members, were also involved in the negotiations that led up to devolution, and we found that, because we were giving the money back each year, the Treasury believed it was giving far too much money to this region. They had formed a view that everyone was collectively looking for more money, and it was an achievement in itself to come to the view that there was not enough resources here to implement the programme that we want to deliver. We made that case collectively, and I think that that was a positive thing.

One of the outcomes — and the Committee played a substantial role in ensuring this — is that Departments have met and exceeded their underspend targets and adopted better project and financial management and better economic planning. I want to see the same happening with the efficiency outcomes, but that will mean corralling all of the resources, expertise and best practice that we have here. You referred to the Gateway Review process; we nearly need that process to be applied at a departmental level here.

If we are forced to consider cuts in expenditure — and we are, because the money will not be there and we have no facility to borrow money or generate revenues — we will have to go through a painful departmental process which may invite a certain amount of conflict or disagreement at ministerial level. It will involve working out a prioritised list of the issues that we absolutely have to protect in all circumstances and the programmes that have to be looked at in terms of the hard decision. The Audit Office has an ongoing statutory duty. How can it help Ministers address those issues?

Mr Donnelly:

I would be very happy to play a much more proactive role in the validation of efficiency savings,

but that is not just a role for us. The system requires its own internal checks and balances, and the Audit Office sits outside those internal controls. Nationally, huge figures are quoted for efficiency savings and the Office of Government Commerce has a challenge function within the system. Over and above that, the National Audit Office has been test-drilling retrospectively into some of the efficiency claims, and, as a result of that continuous work, the measurement standards in the system have gradually improved. However, given the current economic climate, an incremental approach will no longer suffice and a step-change approach must be adopted instead. I think that is the point that you are making.

Mr McLaughlin:

If the Minister were to invite you to assist, would you consider it?

Mr Donnelly:

I would have to consider such a request carefully.

Mr McLaughlin:

I suggest that we make that proposal.

Mr McNarry:

We would have to discuss pay and determine the efficiency of that proposal.

Mr O'Loan:

I agree with Peter Weir that we are a long way from having a culture in which efficiency and continuous improvement are embedded. Mr Donnelly presented a damning indictment of the history of efficiency changes over the period that we discussed. My first question was going to be whether it is any better this time around, but I take it that Mr Donnelly is saying that he is not yet in a position to make such an analysis, which surprises me.

Mr Donnelly:

Having said that, it would be fair to read the national findings across to the local findings. We have no reason to assume that the situation in Northern Ireland is any better than the national situation, and major problems still exist nationally.

Mr E Bradley:

Under the previous efficiency programme, the definition of efficiency followed the one that was outlined in Sir Peter Gershon's review. That comprehensive and robust definition identified five different ways in which efficiencies could be delivered. I will not rehearse each of those, but the definition was specific.

It is interesting to note the language that is used in the current efficiency delivery plans. It is less multi-faceted in nature, and the focus is on net cashable savings. The guidance still expects Departments to provide evidence that there has been no detrimental effect on high-priority services to the public, but the previous efficiency programme seemed to have a different focus; it was broader-ranging and was much more explicit on issues of quality and quantity of service provision. The previous efficiency programme was much more focused on service delivery.

Mr O'Loan:

You said earlier that, in many cases, service delivery was not defined.

Mr E Bradley:

It was not defined.

Mr O'Loan:

Recently, we have seen many different approaches to creating efficiency in the public sector. In the Margaret Thatcher era, there were moves towards privatisation, and, when privatisation could not be achieved, attempts were made to introduce private sector models. Since then, we have moved through a number of different phases. Is your assessment that the current phase, over the past five or 10 years, is working?

Mr Donnelly:

It works in certain areas. We mentioned the philosophy of reading private sector models across to the public sector. That works well in selected areas, but probably only in circumstances in which the public sector charges for its services. There are structures for chargeable services, which are known as trading funds. We have only one fully fledged trading fund in Northern Ireland, which is for the Driver and Vehicle Testing Agency (DVTA), and it is run on commercial lines. Whether there is potential for other services to be run in such a way is a moot point, but that discussion is at the margins.

The Next Steps philosophy was one of the engines of reform in the 1990s, whereby large Departments were broken down into smaller managerial units. That process caused a lot of pain, and the question is whether anything was gained by it. There was extra work for those agencies that provided free-standing accounts, but, despite the pain, I am not convinced that the gains from that change in process have worked through. That is a matter for debate.

On more practical issues, as opposed to philosophical points, huge potential exists for more productive use of time in the public sector. I go back to the point that manpower is a key cost. Some parts of the public sector are good at getting a handle on how time is spent. Other parts are less successful at job-costing systems and staff having to account for all the time that they spend. There is huge potential in that area, particularly in those parts of the public service that are staff intensive. Some good work is going on in the Social Security Agency, for example, in which the Lean project aims to rationalise work processes.

Much more potential exists to adopt a bottom-up as well as a top-down approach to efficiency through tapping in to the views of front-line staff. Mr O'Loan questioned whether such a culture has been fully embedded. The acid test of that is whether the front-line staff feel any kind of ownership of, or involvement in, the efficiency agenda. How does one tap into the ideas of staff at the bottom of organisations? Many initiatives are top-driven, but there must be huge potential in tapping in to the experiences of front-line staff to effect the sort of culture change that we need.

Mr O'Loan:

I agree that there is huge potential for improving the efficiency of our public services. I am by no means convinced that we have the best mechanisms in place for doing that at present. A distinction is often made between the front line and administration. Is that being described in the best way? I have my doubts.

Mr Donnelly:

You are absolutely right to have doubts, Mr O'Loan. In fact, one of the key issues flagged up by the Westminster Public Accounts Committee in 2007 was the insufficiently precise definition of what was meant by the front line and that there were different interpretations in different places. It is a difficult one to bolt down.

Mr O’Loan:

I could say more on the subject, but I will leave it at that.

Last week, we received advice from an expert, a respected economist who, I think, can bring a certain level of information to the table. You said that you bring something to the table, and I am sure that you do. When considering individual Departments and agencies, it strikes me that something else is needed to assess the quality and implementation of existing efficiency plans. In the Department of Health, Social Services and Public Safety, for example, someone with expert knowledge of health management is required to critique those plans. I am sure that that applies across the range of departments. Departmental Committees constitute another group that brings something to the table. I do not see the necessary evidence in the assessment of our current efficiency plans and how they are being implemented. Am I right in thinking that? How do we advance in that area?

Mr Donnelly:

That is a fair assessment with which I totally agree.

Mr O’Loan:

The McCarthy report in the South, which was born out of a dramatic crisis, produced sweeping recommendations. Do we need something similar here? You spoke earlier about efficiency savings not matching up to the level of change that we might need.

Mr Donnelly:

The McCarthy report was produced on the back of an emergency when a sudden change in public finances occurred. It is important that some form of consideration is given to those worst-case scenarios, because it is almost impossible to deliver any real efficiencies in the short term; it takes time. In the short term, the key costs are staff and pensions, most of which are fixed. If something has to be done in an emergency situation, it is almost inevitable that it will extend into the realm of cuts rather than efficiencies.

The Chairperson:

Members’ questions have teased out several issues. In the current system, individual Ministers are responsible for where efficiency savings are made in their Departments. The Department of Finance and Personnel can only monitor those efficiency plans; if it does not think that

efficiencies are being delivered in the right place, it cannot challenge them. Do you feel, as some members said, that there is a gap and that a panel with expertise on how those efficiencies could be better delivered should report back to the Executive?

Mr Donnelly:

There is a case for including all sorts of expertise. Mr O'Loan described the complexity of the Health Service, and that is an area in which specialist knowledge is essential. There are roles for economists and statisticians, but it is a question of how their expertise is harnessed. I envisage that sort of expertise being harnessed through all the Statutory Committees of the Assembly, not only this one, to maximise that potential. If expert support is available, it is essential to use it in such a technical area.

The Chairperson:

Members have no further questions. Thank you very much for your time.

Mr Donnelly:

Thank you.

The Chairperson:

Professor Talbot, you are welcome. I am sorry that you have had to wait because we are running late.

Professor Colin Talbot (University of Manchester):

Thank you. It is very warm in here; you would not want your witness to fall asleep.

Mr McLaughlin:

As opposed to the Committee falling asleep?

Professor Talbot:

I could not possibly say that.

The Chairperson:

I refer members to the letter sent to expert witnesses and the background note on Professor Talbot. Professor, I understand that we did not receive your paper, but I appreciate that there

were good reasons for that. Perhaps you would give a brief overview, after which members will ask questions.

Professor Talbot:

I do not know when the Committee is due to report, but I will be happy to provide a paper after the event. Unfortunately, some personal problems prevented my providing that paper. Thank you for inviting me to appear before the Committee. Apart from anything else, it means that I now have a full set, because I have given evidence to all the Assemblies and Parliaments in the UK.

Mr McLaughlin:

This will be the best.

Professor Talbot:

I am not an expert on the efficiency programme in Northern Ireland. I have done most of my work with the Westminster Parliament, where I have been a specialist adviser to the Treasury Select Committee and the Public Administration Select Committee. I have also worked extensively with the National Audit Office. I have read the interesting replies that the Committee received in response to its question to the various Ministers. I will comment on those later.

I will make some general points about efficiency in the public sector. We tend to beat ourselves up about efficiency in the public sector and ignore the bigger picture. For example, the United States of America spends 16% of its GDP on health services, whereas we spend 8% of our GDP on health services and achieve better health outcomes. That says something quite profound about efficiency. We must bear that bigger picture in mind; public services are not always as inefficient as people make out, and other systems absorb huge amounts of money.

There is always scope for efficiencies in large public and private organisations. Large organisations tend to become sclerotic and accrue inefficiencies over time. All large private sector and public sector organisations have periodic bouts of trying to purge unnecessary costs to make their organisations more efficient. To that extent, the public sector is no different from the private sector. The private sector is capable of being inefficient as well.

I will make some clear points about definitions. I have read some of the Ministers' responses

to the questions that the Committee posed, and it is clear that there is a certain amount of laxity about definitions and the way in which people describe efficiency savings. The technical definition of efficiency savings centres on the ratio of inputs to outputs. Is the ratio of inputs, which means the cost of producing things, improving when compared with the outputs, which, in the case of the public service, is service delivery? If that ratio is improving, efficiency is improving.

There are, however, some major problems with that definition. It is not as easy as it seems to measure inputs, because many accounting systems are not designed to attribute costs to the delivery of services. They are designed around various other structures, and robust activity-based costing or service-based costing is required to ensure that we can measure the inputs that go to achieve particular types of output. The biggest problem is the measurement of outputs. The public sector has not traditionally measured output, either at economic or more detailed organisational levels.

The measuring of outputs is quite tricky, particularly because a qualitative issue is involved. In the UK as a whole, the Atkinson commission was set up a while ago to try to measure the productivity of public service sectors. A large part of that work focused on creating robust measurements of outputs for public services that are measured by quantity and quality. It produced some interesting results, and the Office for National Statistics has carried on with that work. That is important, because some of the Ministers' responses to the Committee attribute the term "efficiency saving" to the simple cutting out of costs, without making any statement on the effect on services. In some cases, it is clear that it involves cutting the service. Technically, that is not an efficiency saving; it is a prioritisation of spending.

We must be realistic about what is possible in the public sector. Many times, I have pointed out to the Treasury Select Committee that human beings generally create more efficient organisations by creating new technologies that work more efficiently. It is difficult to achieve efficiency savings from the labour-intensive parts of human activity. Cutting hair has probably not become much more efficient in the past couple of thousand years, because it is difficult to make efficiencies in such activities. Most of the work that public sector employees do is fairly labour-intensive. The fact that professions such as teaching, nursing and medicine are highly labour-intensive makes it difficult to achieve efficiency savings. It is difficult to invest large amounts of capital in such professions to produce new, more productive ways of doing things.

Therefore, we must be realistic about what is possible, particularly after fairly prolonged periods of pressure to make efficiency savings. Recently, the new Comptroller and Auditor General of the National Audit Office, Amyas Morse, said that, given the intense attempts to introduce efficiency savings over the past four or five years, making further savings will not be easy. There is a danger that many prioritisations and cuts to services, brought about because of the financial situation, will be dressed up as efficiency savings. People will pretend that efficiency savings are being made when, in fact, services are being cut. The public will see through that fairly quickly.

I will mention briefly some other problems that can emerge, and they relate to some of the responses that the Committee received from Ministers. There is a unit-of-analysis problem when it comes to measuring efficiency, a gross example of which is that, according to the Office for National Statistics, while the British NHS was claiming efficiency savings during the first year of the Gershon programme, its productivity was decreasing. There are some technical issues about how productivity and efficiency should be measured, but, generally, it is difficult to see why productivity would go down when efficiency savings were, supposedly, going up.

The explanation is not a happy one. The efficiency programmes that were run under the Gershon review worked from the bottom up by measuring efficiency savings in certain specific and narrow areas. Those savings were then added together, and it was claimed that an excellent amount of efficiency savings had been made. Those programmes did not consider the efficiency of the whole system, and it is possible that localised efficiency savings either do not affect the efficiency of the whole system or, in some cases, negatively affect it.

I will give some concrete examples of that. Yesterday, I went to my local hospital, and, at the end of the consultation with the registrar, I was handed a sheet of paper with a recommended prescription that I had to take to my doctor. I do not know whether that system is used in Northern Ireland, but it was introduced in England in the 1980s. At that time, the National Audit Office pointed out that the use of that system meant that hospitals had stopped prescribing for outpatients or people who were leaving hospitals. It was an efficiency saving for the hospital, and it was great that hospitals were saving money. The problem was that it the cost National Health Service three times as much to fill a prescription through a local GP and dispense it through a private pharmacist as it did to dispense it from a hospital dispensary. Therefore, three times the

expenditure for the NHS as a whole was caused in the name of a localised efficiency saving in hospitals.

There are many other similar examples, and the Public Accounts Committee picked up on the issued of hospital throughput. The NHS claimed improvements in the efficiency of getting people in and out of hospital more quickly, but it did not include statistics on the fact that patients were returning to hospital because they had been discharged too early.

My favourite example is that HM Revenue and Customs claimed that it had made £650 million of efficiency savings under the Gershon review. However, at the same time, it was losing £9 billion through tax credit mistakes — £7 billion in overpayments and £2 billion in underpayments — but no one had included that in the efficiency equation.

It is easy to make fundamental mistakes, and I am deeply sceptical about how many of the savings under the Gershon review were genuine. Some significant savings were made, and there are, and always will be, significant savings to be made. However, Governments have a way of over-promising and under-delivering on such matters and using, as they say in Whitehall, smoke and mirrors to disguise what is actually happening.

I hope that my overview has been helpful.

The Chairperson:

Thank you, it has. You said that it is difficult to measure efficiency savings, and we hear the criticism that many front-line services are being affected. How do you envisage the Committees properly determining whether front-line services are being cut? How can the Committee measure those cuts?

Professor Talbot:

I do not think that you, as a Committee, can do that. However, you could demand that Departments and government agencies provide evidence on the quality and quantity of service levels. That is beginning to happen in England and other parts of the UK. It also happens in the United States, at federal and state level, and in some other European countries in which much more detailed data is available about the level of services being provided, quantitatively and qualitatively. That data demonstrates either that the efficiency savings do not affect front-line

services or that those services are being cut.

The Departments should be interested in that data, and they ought to be measuring the services. I read the responses to your questions to the Northern Ireland Departments, and I saw little evidence of any Department measuring any aspect of service delivery.

Mr McLaughlin:

What we have already heard tells us that the Departments are ill-served by being unable to measure output. In the present approach to efficiency savings, it appears that public service obligations, which underpin the Programme for Government, cannot be addressed alongside finding efficiencies. If the drive for efficiencies translates into drawing a red line through an output for which a particular Department is responsible, that outcome must be agreed at Executive level. However, we do not have that process. Departments operate within their own silos and issue statements on the monetary value of the efficiency savings that they could achieve. Those headlines dazzle people and distract them from the details of the savings.

We are trying to find a way to define efficiency savings. However, the Committee must be satisfied that the Executive have agreed a methodology whereby they will examine the impact of efficiency savings on the outputs of their commitments in the Programme for Government. The Executive have to review or justify that. Without that validation, there is no rigour, and the tendency is to give assurances, reassurances and plámás.

Periodically, in any given financial year, we might need a specific and dedicated focus on efficiency savings programmes across all Departments to satisfy ourselves that they are working within prescribed parameters. Has Britain any experience that could help us in that respect?

Professor Talbot:

As I did not hear all of the last evidence session, I do not know what the auditors said. However, there are two ways in which Parliaments, Assemblies and audit bodies can help to reinforce that process. The first of those is for audit bodies to assess reported efficiency savings. On the mainland, the NAO examined the reports on efficiency saving. Its reviews have been fairly critical of much of the data that has been provided. Indeed, the NAO may not have been critical enough, because, generally speaking, it assumes that efficiency savings in a particular local system translate to efficiency savings for the system as a whole, which is not necessarily true.

However, even within that parameter, it has been pretty critical of what has gone on.

Much more systematic reviews of those sorts of programmes are undertaken elsewhere. In the United States, for example, the Government Accountability Office, which reports directly to Congress, has much greater power to intervene and examine the programmes in much more detail. The Congressional Budget Office also has a scrutiny role. The Committees employ a vast number of staff, and, therefore, a huge weight of people outside the executive branch of government, including those with technical expertise, examine what is happening in great detail.

The second way in which the process can be reinforced is through the budgetary system at the other end of the system. I am not sure how your budgetary process works, but, in Scotland, for example, it includes the publication of draft budgets that go out for consultation. The draft budgets include some indication of past performance to enable people to compare that with the budgetary allocations. Some of the more strategic decisions about prioritisation can be brought out into the open and discussed. That does not happen in the Westminster Parliament, which operates a completely closed, behind-the-scenes system.

There are ways of beefing up the scrutiny process, particularly on the legislative or Assembly side and through audit. Stronger scrutiny would help to put pressure on Departments and agencies to deliver clearer information and a better analysis of what they are doing. However, it takes quite a time to build that level of scrutiny. It cannot be done in the short term and may take several years.

Mr McLaughlin:

Having identified serious questions about the validity of some of the efficiency claims, has the NAO moved to recommending expert scrutiny of the process, whether conducted by that the NAO or another expert?

Professor Talbot:

It has, but the NAO also expressed fears because of what happened at Westminster. The Office of Government Commerce, which was at least semi-independent of the Treasury and played a role in examining Departments' efficiency programmes across government, has been absorbed into the Treasury. The NAO fears that that will result in much less external scrutiny and less external or semi-internal pressure to develop better systems. In such circumstances, people tend

to treat efficiency savings as a paper exercise, and, rather than seeking to achieve real savings, they essentially fiddle the accounts to make it appear that have done so. That temptation will always exist, and, therefore, checks and balances must be put in place to ensure that it does not happen.

Mr McLaughlin:

I agree. We had to respond to the swine flu epidemic here, as did other regions. The response was a top-slicing of departmental budgets on a pro-rata basis. It was an emergency situation and an unforeseen circumstance, and, to that extent, a fairly dramatic response was required. Is that approach of salami-slicing the baseline of Departments a crude system, as a previous witness told us, and are there better ways of obtaining efficiencies on a targeted basis? If so, how do we go about that? Is it a matter of setting out strategic policies and attaching to them a highest priority that protects them from making efficiency savings that translate into cuts?

Professor Talbot:

There are two different questions: one is about efficiency savings, and the other is about making strategic decisions about priorities. I can deal with the first of those. We know that public expenditure cannot continue at the current level. There is an argument about how much public expenditure can cut in the short term without doing long-term damage. However, we can put that aside for a moment.

Let us assume that some public services cuts have to be made across the board. The first question is what is the best way to do that? The worst way to do that is by top-slicing across the board, because it damages what you want to keep and protects what you do not want to keep. That has been done in the past. Most Governments in the Western World tend to resort to top-slicing as a quick fix and as a way of sharing the pain across Whitehall, Departments in Belfast or wherever. Top-slicing is easy to implement, but it is extremely damaging, particularly in the long term.

A fascinating aspect of the current recession is that a considerable number of private sector companies that used top-slicing in the past have become much more strategic. For example, the first reaction of private sector companies in a recession is to cut costs by sacking lots of people. However, many private sector companies have been much more strategic this time round and have considered short-time working and pay reductions in order to keep their staff on. They

know that in two or three years' time they will need those people, and they will be trying to recruit them after they have all dispersed to the four winds. It makes sense to try to hang on to staff. One of the problems of making those short-term, across-the-board cuts is that that sort of damage can be done, and it must be repaired later on. The impact of the recession on public sector finance will not last for ever, and the economy will recover eventually. When it comes to priorities, it is important to be honest and make strategic decisions.

The second point relates to the efficiency agenda. One issues that was not discussed much in connection with the Gershon programme or the new programme is that the Government said that they were asking all Whitehall Departments to come up with 2.5% annual efficiency savings under Gershon for three years. That was nonsense. If one studies the figures, some Departments were being asked for about 3% efficiency savings over a three-year period in total, and other Departments were being asked for 17% efficiency savings over the three-year period. That might be perfectly justifiable, as some Departments could produce efficiency savings more easily than others. However, no such justification or explanation has ever been given publicly as to why those discrepancies existed. The Treasury Committee tried to get that information out of HM Treasury, but it has never received had a clear response as to why that was the case.

My argument is that the answer is obvious: some areas of the public sector will find it easier than others to achieve efficiency savings. Therefore, there ought to be a differentiating system that identifies areas in which major efficiency savings could be made and, conversely, areas in which there are no savings to be made. The same principle applies to prioritising expenditure. Simply imposing 3% efficiency savings across the board does not, necessarily, make sense. It may be that there are some areas in which that simply cannot be achieved and other areas in which much greater savings could be made. That situation must be examined in a much more fine-grained way than has been the case traditionally.

Mr McLaughlin:

What evidence should Statutory Committees seek from Departments to ensure that efficiency savings are properly identified, measured, validated and reported? We have 11 Statutory Committees: how might they properly determine whether front-line services are being affected by efficiency savings?

Professor Talbot:

I return to what I said earlier. We need clear evidence of the expenditure on a particular service area, clear quantitative and qualitative evidence of the levels of service provided and the relationship between the two. Even with that information, making a judgement is complex and involves working out the ratios between expenditure and service. However, it is possible, and several public services in the UK have wide experience of that. Over the past 15 years, a key indicator for HM Prison Service in England and Wales has been the cost per prisoner place. A “prisoner place” may sound strange, but it is an output and represents the delivery of a service. The cost is tricky to measure, but it is measured, and the Prison Service has been able to track that cost over time to determine how well it is doing.

Mr McLaughlin:

You said that you are prepared to submit a paper to the Committee. Could you possibly address that area in your paper?

Professor Talbot:

I will try to.

Mr O’Loan:

Thank you, Professor. You have introduced some appropriate and healthy scepticism into the whole process. You spoke about how we might scrutinise efficiency savings more effectively. Would you go further? Given the present model of efficiency savings, do you have any further broad recommendations on how we can make our public sector work more efficiently?

Professor Talbot:

Yes. I am interested in that area and have been giving it a great deal of thought recently, and I want to float an interesting example. I am not aware that the model that I am about to describe has been applied to public services, but it seems to me to be an option. In the United States, as you know, most utilities are privately owned. Despite that, the US has a record of offering the lowest prices to customers anywhere in the Western World, because it runs a system of open regulation. In the US, a utility regulator must agree prices; but he is not the same as UK regulators who are autonomous and make up their own minds about prices. Utility regulators in the United States must hold open public sessions to which all parties, including civic groups, are invited to give evidence on what they think prices for the utilities should be, how much money

they should invest in renewing capital resources, and so forth. The regulator's judgement is legally binding on utility companies, and he must justify it based on all the available evidence.

It would be incredibly radical to introduce a similar model into public services but, in the long term, we ought to consider it. In the UK, most of the recent discussion on empowering the consumers of public services has focused on empowering individuals. However, the open regulation of utilities empowers people collectively through the involvement of lobby groups, interest groups and community groups in the process of regulating the way in which utilities operate. That system a bit simpler because it concentrates mainly on fixing prices, albeit that there is much involved in that. However, that is the kind of model that should be considered.

My main argument is that counterbalancing forces must put pressure on public agencies and services to deliver effectively and efficiently. That is a role for a Committee like this or an auditor. If no such countervailing forces exist, the services tend to go their own merry way. That tends to lead to what is known in economics jargon as "producer capture", in which services are operated in the interests of the people who run them, rather than in the interests of those to whom they deliver services.

If you will indulge me for a second, Chairperson, my favourite story is about the Employment Service in the UK, and it illustrates my point. When the service became a separate agency, I spoke to the then chief executive, Mike Fogden, who told me that he discovered that employment offices in market towns in England always closed on market day so that the staff could go shopping. That is a wonderful example of a service being run in the interests of the staff rather than in the interests of the people who may use it. Market day would have been the best day for the employment offices to be open so that everyone who came into the towns could avail themselves of the service. There is always pressure on public services, but we must come up with ways of putting external pressure on them to deliver. The public sector does not have a market similar to that of the private sector, but pressure can be created in other ways.

Mr O'Loan:

We recently paid our firemen to sleep through the night, although there has been a change since then.

In its recruitment, training, promotion, management and enculturation, is our Civil Service up to the job?

Professor Talbot:

I do not know whether your Civil Service is up to the job. I know a little about your Civil Service because I worked with the Northern Ireland Office a few years ago, but I know quite a lot about the Westminster Civil Service. I will speak about it, and you can translate anything that applies to your Civil Service.

My major criticisms of the Westminster Civil Service are simple: it is isolated, and it is a cult of the gifted amateur. The majority of senior civil servants end up in that position through the public-school, Oxbridge, fast-stream entry to the Civil Service. They end up as permanent secretaries without having ever managed at the service-delivery end. There is a Whitehall and Industry group, but there is no Whitehall and public service programme.

Some 90% of UK public servants work outside the Civil Service. Indeed, 90% of workers inside the Civil Service deliver services such as HM Revenue and Customs, the Prison Service and Jobcentre Plus. Most senior civil servants have no experience of running a body either inside the Civil Service or elsewhere in the public service. As a consequence, they make all sorts of mistakes in designing services and issuing policies that are impractical on the front line.

We must undertake a fundamental reform to create a more responsive Civil Service that has more experience of delivery. The Civil Service must also be better educated, to be honest. There is real hostility to any sort of post-recruitment education. For example, Gus O'Donnell has put on the record his opposition to training senior civil servants through a Master of Public Administration or a Master of Business Administration. I would say all that because I am a university professor, but it would be a good idea to give them that sort of input. We do not do much of that in the UK.

Mr McNarry:

I recognise your expertise in this area. How did you become involved in advising the House of Commons Treasury Committee on, for example, its inquiry to evaluate the efficiency programme?

Professor Talbot:

I had been submitting written and oral evidence on comprehensive spending review processes and

public service agreements to the Committee since 1998. I had been following those out of personal interest. The Committee made me legitimate by appointing me as a special adviser in 2003 or 2004.

Mr McNarry:

Were you remunerated in that role?

Professor Talbot:

Yes.

Mr McNarry:

I do not want to pry.

Professor Talbot:

It is fine; this is all public knowledge. The Committee paid for some of my time, but very little. Most of my work was done primarily —

Mr McNarry:

Were there any other special advisers on the Committee?

Professor Talbot:

Westminster Select Committees usually have two or three special advisers, most of whom work mainly out of love.

Mr McNarry:

Would it have been within the Treasury Committee's remit to consider recommendations on potential pressures or efficiencies for a devolved region such as Northern Ireland?

Professor Talbot:

There would not have been specific consideration of the devolved regions. The Treasury Committee scrutinises the work of HM Treasury, so devolved matters, in which HM Treasury is not involved, are outside its remit. Scottish and Welsh members of the Select Committee often bring up issues concerning the devolved jurisdictions, but, strictly speaking, that is not part of the Committee's remit.

Mr McNarry:

Are there members from Northern Ireland on that Committee?

Professor Talbot:

I do not think that there has been since I became involved in the past 10 to 12 years.

Mr McNarry:

There you go.

Professor Talbot:

Part of your question relates to the capacity within Parliament. In recent years, the Westminster Parliament set up a general scrutiny unit to advise all the Select Committees. It has two functions: one centres on legislation, and the other focuses on spending, performance and efficiency. The unit is available to help to advise Committees, so it is a central resource for all of them. It is similar to the Congressional Budget Office in the US. The unit includes many people on secondment from the National Audit Office.

The National Audit Office, which, traditionally, reported only to the Public Accounts Committee, has started, in recent years, without any change in legislation, to become more involved with individual Select Committees. It has carried out several studies at the behest of Select Committees. A Select Committee has informed the National Audit Office that it is interested in a particular issue and requested the Audit Office to consider it, which it has done. That is an interesting development and has been tremendously helpful.

Mr McNarry:

Is it efficient for devolved bodies to retain reserves?

Professor Talbot:

I think so. There will always be emergency situations in which reserves will be needed. It is prudent for any organisation to have some sort of reserve capacity. One of the problems of an overemphasis on efficiency, whether that applies to reserves or capacity, is that some people believe that there should not be an excess of either, because it is inefficient to have them money or capacity sitting around. That is acceptable until something goes wrong, and things always go

wrong eventually. You may recall the collapse of the American electricity system a few years ago. That was caused by an over-efficient pruning of the system to the point that insufficient redundancy was built into the system. Therefore, when one bit failed, the whole system collapsed.

Mr Weir:

Did they cut the wrong wire?

Professor Talbot:

Exactly: if the wrong wire is cut, the whole system collapses, unless there is a backup system in place. However, in strict efficiency terms, backup systems are inefficient, because they do nothing in support of the run-of-the mill, everyday activities. However, they are needed to ensure that everything does not collapse when something does go wrong.

Mr McNarry:

I am tuned into your argument. When I have advanced that case, it has been knocked back for the very reasons that you outlined. There is a built-in resistance which means that one dare not have them. Perhaps we might change some minds, because I share your logic.

Professor Talbot:

Her Majesty's Treasury has a large reserve, although it might tell everyone else not to follow suit.

Mr McNarry:

We cannot always tap into that. You talked about the American example, and I would like to tease something out. Have you come across precedents in which a Department's reluctance to meet efficiency demands has been summarily overruled, or money has been withheld from it to compensate for its failure to work the system?

Professor Talbot:

I do not know of any precedents at Westminster and Whitehall level, because they are so non-transparent that it is difficult to find out. The records of the Treasury Committee minutes will show that I suggested to Committee members on several occasions that they ask the Chancellor to give examples of where poor performance led to reductions in budgets or any change in budget decisions. Of course, this relates to performance on the public service agreements and not to

efficiencies.

When he was Chancellor, Gordon Brown regularly dodged the question. The National Audit Office tried to initiate a value-for-money investigation into how Departments use performance information, which is the same problem as efficiency information, but the NAO abandoned the study. Its official reason for doing so was based on priorities, but I suspect that it was because of a lack of co-operation from Whitehall.

The problem is that we do not know how efficiency or performance information is used in government, yet in Whitehall and Westminster, decisions flow from that. That is a major issue because one of the main reasons that we produce much of the information about the performance of public services, including performance on efficiency, is, supposedly, to inform the decision-making process. However, no one seems to want to talk about how that works in practice, which is a vital component.

Mr McNarry:

Would members of Committees attached to the Departments not ask the questions or would their questions also be dodged? Would they not ask: are you being targeted or hit by the Treasury, is it withholding money or taking any money from your budget, or is it making you efficient through targeting your inefficiencies?

Professor Talbot:

Select Committees in the Westminster Parliament have been reluctant to engage in scrutinising either the performance information on public service agreements or the efficiency data that is produced by Departments. There has been little scrutiny, apart from by the Treasury Committee, which examines the overall picture, and by the Public Accounts Committee. Most of the individual Select Committees have done little in that respect.

A few years ago, a colleague and I conducted a research study that focused specifically on public service agreements, and we produced three years' worth of Committee reports for seven of the departmental Select Committees. We examined how much they referred to data on the public service agreements data, which is supposed to be fundamental to how well those Departments perform. The answer was not much; they hardly referred to it at all.

That problem is not necessarily confined to the UK. Data from the Organisation for Economic Co-operation and Development (OECD) suggests that Parliaments generally have been weak on picking up on the extra data and information that is available. They ask few questions about delivery performance or any areas in which they are failing. In the UK case, what does the Treasury do about that?

Mr McNarry:

From what you are saying, I take it that the problem has been identified, but that there is a cultural issue.

Professor Talbot:

In the UK, there is certainly a major cultural problem. Parliament does not scrutinise spending decisions, never mind output decisions. It does not scrutinise the input side. The tradition in the Westminster Parliament is that finance Bills are simply nodded through without amendment. Had there been a vote on the amendment on the 10p tax rate, which was tabled last year, it would have been the first vote on an amendment to a UK Government's Budget in about 30 years.

When I tell colleagues in Europe and North America about that, they fall about laughing, because, in their experience, that simply does not happen at such a high level of government. I do not know what happens in Northern Ireland, but Scotland and Wales vote on the detail of their respective Budgets. Local governments throughout England vote on the detail of their budgets, which are often amended as they go through. At Whitehall, there are no amendments, as Parliament does not engage. Given that it does not engage with the input, it is not surprising that does not engage terribly much with the output either.

To be fair, that is changing, and some improvements have been made. In the four of five years since we conducted our study, some Select Committees have carried out fairly detailed investigations of performance and efficiency issues. In the UK Parliament, the Liaison Committee comprises the Chairpersons of all the Committees, and it sets out the standard matters that Select Committees should consider. One such matter is public service agreements, but, despite its being one of the 12 areas that they should consider regularly, most of the Select Committees do not. There is a real structural problem when it comes to trying to engage people in that process.

Mr McNarry:

I will have to think long and hard about that; it is very interesting. What kind of role do you envisage efficiencies playing in reducing the accrued debt? Will the efficiency savings be vicious?

Professor Talbot:

In my opinion, public sector debt in the UK as a whole is too large and its growth must be stopped. How quickly that should be done in the long or short term, however, is an open question, but it would be extremely damaging to do too much in the short term.

Secondly, the major ways of reducing the debt are to cut spending or to increase taxes. In relation to those two options, efficiency savings come a poor third. Given the scale of the debt, we must stop spending large chunks of money and/or put up taxes in order to get more money.

Thirdly, we must consider what will happen to the economy as a whole. If the economy starts growing again, the debt problem will reduce. The big problem for the UK is not that a lot of extra public money has suddenly been spent, because, by and large, that is not the case. The major problem for the UK is the collapse in tax revenues, which have dropped by about 25%, particularly from the finance sector. No one really knows the full extent of the structural deficit, which is the long-term difference between how much the Government take in taxes and how much they spend. However, a structural deficit clearly exists, and economists are starting to argue about that.

Mr McNarry:

Does anyone know how much the structural deficit is?

Professor Talbot:

Different people have made various estimates. The figure that is being bandied about at the moment is £90 billion a year out of a total public sector expenditure of about £650 billion. Therefore, the annual deficit is about 15%, which is quite high. We are running neck and neck with the United States at the moment.

Mr McNarry:

They have China.

Professor Talbot:

And they are a reserve currency, which we are not.

Mr McNarry:

That was excellent. Thank you very much.

The Chairperson:

Professor Talbot, thank you for coming along. May the Committee write to you with any further questions?

Professor Talbot:

Please do.

The Chairperson:

Will you forward your paper to the Committee?

Professor Talbot:

Yes.