Research and Library Services

Northern Ireland Assembly

Research Paper 85/09 **9 October 2009**

EFFICIENCY SAVINGS

This paper provides some brief background to the efficiency-savings agenda and seeks to provide Committee members with contextual information for the forthcoming budget process in Northern Ireland.

Summary of Key Points

- The imposition of across-the-board efficiency savings is seen by some as a blunt instrument.
- The Northern Ireland public sector has already been seeking 2 to 3% efficiencies year-on-year for half a decade.
- Issues with the definition of efficiencies impact upon the possibility of achieving them.
- Measuring and reporting efficiencies relies on good baseline data and monitoring.
- Transparency and a strong challenge function is important in driving and monitoring an efficiency programme.

CONTENTS

INTRODUCTION

The Northern Ireland Executive's budget for 2008 to 2011 required each department to achieve year-on-year efficiency savings of 3%. These are set out in the table below:

Cash-releasing efficiency targets by department

	2008-09 £m	2009-10 £m	2010-11 £m
Agriculture & Rural Development	6.2	12.2	18.1
Culture, Arts & Leisure	3.6	7.0	10.4
Education	63.2	124.5	184.0
Employment & Learning	20.3	40.1	59.2
Enterprise, Trade & Investment	7.7	15.2	22.5
Finance & Personnel	5.7	10.3	14.8
Health, Social Services & Public Safety	118.2	232.8	344.0
Environment	3.9	7.7	11.4
Regional Development	22.4	44.2	65.3
Social Development	19.3	38.1	56.3
Food Standards Agency	0.2	0.4	0.7
Office of the First Minister & Deputy First Minister	2.4	4.6	6.8
Total	273.2	537.3	793.5

Source: Budget 2008-2011[1]

The sums in this table were removed from departmental budgets and reallocated for additional service provision.

Each department was then required to produce an Efficiency Delivery Plan[2] which was to set out how these targets would be achieved. The budget commits the Department of Finance and Personnel to a key focus:

> *on the delivery of Civil Service reform within DFP and across the Northern Ireland Civil Service (NICS) including benefits realisation. Civil Service reform will enable the NICS to focus energy and resources on frontline priorities through improving efficiency, rationalising support services and harnessing technology.*[3]

The budget document acknowledged that some respondents to the draft budget had expressed concerns. For example, "the view was expressed that a common 3% target, applied equally to all Departments, was a blunt instrument which did not target the areas

[1] Full document available at: http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf This table is reproduced from Annex B

[2] See http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf paragraph 1.4

[3] See http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf page 86

where inefficiency was most significant. Respondents also wanted an assurance that the efficiencies delivered would be reinvested in front line service delivery."[4]

These kinds of concerns are regularly reflected in the media. For a recent local example, see the BBC news report of 6 October 'Mothers to be sent home early':

> ***The Belfast Health and Social Care Trust plans to send new mothers home between six and 12 hours after giving birth, in an attempt to save money.***
> *A patient liaison group at the Royal Jubilee Maternity Hospital said it believed there were also plans to close a ward with the loss of up to 20 beds.*
> *It is understood patients would only be sent home early if they had undergone a normal delivery.*
> *A spokesperson for the Royal College of Midwives called the plan "shocking".*
> *Plans by the Department of Health to save money means every department within the Royal Victoria Hospital has to make cuts.*[5]

FURTHER SAVINGS

In his Budget 2009 speech, the Chancellor announced plans to find an additional £5bn in efficiency savings in 2010-2011, on top of the £30bn identified in the Comprehensive Spending Review.[6] The consequence for Northern Ireland of this further reduction of £5bn is that through the workings of the Barnett Formula existing funding for 2010-2011 will be reduced by £123m.[7]

The Committee for Finance and Personnel heard evidence from DFP officials on 29 April 2009, shortly after the Chancellor's announcement. In relation to the requirement for additional efficiencies, Mr Pengelly said:

> *To put Northern Ireland efficiencies into context, we should not forget that the 2004 spending review put 2·5% cumulative efficiency targets in place, which ran for three years through the Gershon work. The 2007 comprehensive spending review (CSR) layered another 3% of cumulative efficiencies on top of that. Therefore efficiencies have been carried out for five or six years here, at a rate of around 2% to 3% per annum.*
>
> *Instinct suggests that all of the low-hanging fruit has been grabbed, so we will need to work hard. There is scope for efficiency in the system: I defy anyone to appear before a Committee and say that the system is completely efficient. The question is whether £123 million can be eased out in the period under discussion.*[8]

4 See http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf page 13
5 http://news.bbc.co.uk/1/hi/northern_ireland/8291842.stm
6 See HM Treasury press release http://www.hm-treasury.gov.uk/bud_bud09_press01.htm
7 See DFP press release http://www.northernireland.gov.uk/news/news-dfp/news-dfp-april-2009/news-dfp-220409-dodds-responds-to.htm
8 Committee for Finance and Personnel Minutes of Evidence (29 April 2009): http://www.niassembly.gov.uk/finance/2007mandate/moe/2008/090429_budget.htm

Later in his evidence Mr Pengelly also stated that there was need for an external perspective when trying to identify efficiencies and "it is always difficult when efficiencies cross the line and become cuts." This is picked up in the section below.

WHAT ARE 'EFFICIENCY SAVINGS'?

In the simplest of terms, 'efficiency' is about turning **inputs** into **outputs** for maximum **impact**. Efficiency is **not about reducing costs if it compromises the quality or quantity of outputs**.[9] But the reality is often likely to be more nuanced.

"When is a budget cut an efficiency saving?" asked David Wood, former secretary of the Society of District Council Treasurers in November 2008. He continued:

> *No matter how hard you try to define efficiency gains, or whether it's cashable or non-cashable, politicians and [members of the public] can't be bothered with all that. What they want to know is, are we going to save money and if so what are we going to do with it.*[10]

In a recent report, Jamie Bartlett of the think-tank DEMOS argued that, when seeking to increase efficiency:

> *The natural tendency will be for the government to continue what it is doing, only more cheaply: by reducing unit costs in procurement; by cutting up-front investment for long-term change; or, even worse, by 'salami slicing' —which means making across-the-board percentage cuts in departmental budgets.*
>
> *These strategies might secure initial savings, but will make things more expensive in the long term. No matter how 'efficient' you make a public service in monetary terms, if it does not solve the problem it is intended to, or does not achieve the desired outcomes, it is a poor use of public money.*[11]

In 2004, a report by Sir Peter Gershon, former chief executive of the UK's Government's Office of Government Commerce, published a report 'Releasing resources to the front line: Independent Review of Public Sector Efficiency'.[12] He was commissioned to identify the scope for making efficiency savings across the public sector as a whole. The report defined 'efficiencies' as reforms which achieved:

- *reduced numbers of inputs (e.g. people or assets), whilst maintaining the same level of service provision; or*
- *lower prices for the resources needed to provide public services; or*

[9] National Audit office definition: http://www.nao.org.uk/what_we_do/other_specialist_expertise/efficiency/what_is_efficiency.aspx
[10] Local Government Chronicle 'Billed with efficiency' (2008) http://www.lgcplus.com/billed-with-efficiency/1922494.article#
[11] DEMOS 'Getting more for less: efficiency in the public sector' (2009) http://www.demos.co.uk/files/Getting_more_for_less.pdf?1248779976 page 7
[12] The full report is available on the Treasury website at http://www.hm-treasury.gov.uk/d/efficiency_review120704.pdf

- *additional outputs, such as enhanced quality or quantity of service, for the same level of inputs; or*
- *improved ratios of output per unit cost of input; or*
- *changing the balance between different outputs aimed at delivering a similar overall objective in a way which achieves a greater overall output for the same inputs ("allocative efficiency").*[13]

It was noted by the House of Commons Treasury Committee in its report of July 2009 'Evaluating the Efficiency Programme' that this definition "placed a constraint on the Government since efficiencies could not be recorded if service quality was adversely affected."[14] Reading between the lines, it also appears that it may have been possible to 'game' the savings: "efficiencies could be either cashable or non-cashable, and gains could be reported either gross or net of costs."[15]

Further, the Treasury Committee expressed concerns about whether the reported savings of that programme represented real efficiencies:

> *The [National Audit Office] interim report about Gershon efficiency savings highlighted serious problems in measuring efficiency. We are concerned the NAO did not audit the final Gershon efficiency savings. This has led to a lack of confidence on the part of some organisations in the reported savings. We heard from the Treasury Minister that using resources to check Gershon savings would not be efficient, but we believe it is important to check that efficiencies have actually been achieved. At a time when the public sector will be pressed to make further efficiencies, it is vital that any savings made are properly recognised and quantified. We want the Government to continue to work with the NAO to ensure that future efficiencies are accurately measured.*[16]

With that in mind, the next section raises some considerations in relation to the measurement of efficiency.

MEASURING AND REPORTING EFFICIENCIES

In 2007, the National Audit Office did publish a review of the Gershon efficiency programme. It made a number of recommendations to departments to improve the measurement of efficiency gains:

> *For each reported efficiency gain, Departments should ask:*
>
> - *Are baselines for inputs, outputs and service quality representative of past performance?*

[13] http://www.hm-treasury.gov.uk/d/efficiency_review120704.pdf paragraph 1.7
[14] The Committee's report is available at: http://www.hm-treasury.gov.uk/d/efficiency_review120704.pdf See paragraph 12
[15] http://www.hm-treasury.gov.uk/d/efficiency_review120704.pdf paragraph 12
[16] http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/520/520.pdf paragraph 18

- *For efficiencies based on a reduction in inputs, is there evidence that levels of output and service quality have been maintained?*
- *Have all additional costs been taken into account?*
- *Is the efficiency sustainable beyond March 2008?*
- *Is evidence supporting all aspects of the efficiency easily available?*[17]

Further it recommended that: departments should report headcount reductions with greater transparency - in particular, for example, in relation to increased costs arising from outsourcing work to the private sector; departments should focus on the efficiency of all aspects of their business, not just those covered by efficiency projects, and; departments should do more to encourage staff to put forward ideas for improving efficiency.

The NAO made two recommendations to the Office of Government Commerce -the body in charge of driving and monitoring the efficiency programme in that case:

- *Make progress across the [efficiency] programme more transparent; and*
- *Enable stronger challenge to departments on whether their efficiency gains meet good practice.*

The implication, therefore, is that the challenge function was not sufficiently robust under than regime and also that the programme was not sufficiently open to scrutiny.

Specifically, the NAO recommended that a central scorecard might be created to give information on work streams within departments, including:

- *the nature of the work;*
- *whether the efficiencies are cashable or non-cashable;*
- *how the efficiency gains are being measured;*
- *how the levels of output or service quality are being maintained; and*
- *contact details for others interested in replicating the success.*[18]

POSSIBLE FUTURE EFFICIENCIES

Various publications have made suggestions as to how further efficiencies can be introduced to the public sector. Three possible routes to efficiency were presented in 'Getting More for Less: efficiency in the public sector'[19] and are presented here as a catalyst for discussion.

[17] National Audit Office 'The Efficiency Programme: a second review of progress' (2007) http://www.nao.org.uk/idoc.ashx?docId=e238ee7e-b7d0-4d8a-88a6-8288ae5a47b4&version=-1 page 7
[18] http://www.nao.org.uk/idoc.ashx?docId=e238ee7e-b7d0-4d8a-88a6-8288ae5a47b4&version=-1 page 7
[19] DEMOS 'Getting more for less: efficiency in the public sector' (2009) http://www.demos.co.uk/files/Getting_more_for_less.pdf?1248779976 pages 14 to 24

1. Personalisation through personal budgets

The concept is that individuals with needs for social services, for example, can tailor services to fit those needs better than a government agency can on their behalf; people spend only as much out of a personalised budget as is needed to meet their requirements.

The argument is that when the public sector buys services in blocks to achieve economies of scale, much of the money tends to go on expensive institutional care, which can be inflexible. This leads to so-called 'Parkinson's law': that demand will always increase to match supply.

A further argument is that by giving people personal budgets for their social care, it encourages greater competition among providers; it may even encourage new, more efficient, service providers to enter the market.

For genuine efficiencies to accrue, two things must also be in place, it is argued. First, individuals need genuine choices and help to make them – i.e. they are given sufficient appropriate information. Second, there must be enough competition in the market initially; choice without some competition is meaningless. Such a model may also be applicable to other publicly provided services.

2. Prevention

The underpinning logic to this approach is that if you deal with or minimise a problem at root it's cheaper than responding once a crisis has developed - for instance, the Investing for Health programme was an example of this kind of intervention.

There are two kinds of preventative services presented. First, like Investing for Health, there are long-term preventative services and programmes. Second, there are short-term preventative services – such as investing in services for elderly people who fall and require hospital treatment. An example quoted is in adolescent mental health services, truancy and school exclusion; every £1 spent by The Learning Challenge, a charity in north-east England produced £11.60 in savings for other parts of the public sector.[20]

It is argued that preventative services can only realise efficiencies if you calculate savings counterfactually; this is achieved by working out what you would have spent if you had not invested in prevention. In itself this is technically rather challenging. Second, the savings may be spread across state agencies, and therefore cross-cutting savings have to be calculated. It might be seen that the difficulty of working out what has been saved could work against the arguments for doing so, because commissioners of services would not have the evidence to justify long-term spending to save.

3. Collaboration

This approach is about redesigning services and not about streamlining individual processes. It requires genuine joined-up government and collaboration with other – for example – third sector agencies.

---

[20] DEMOS 'Getting more for less: efficiency in the public sector' (2009) http://www.demos.co.uk/files/Getting_more_for_less.pdf?1248779976 see page 19

It is argued that this can save money because it uses the expertise of a range of organisations and is tailor-made for a specific area. Again, it is the calculation of savings that may give rise to difficulties:

> *Looking at added value from collaboration is problematic. There is, according to an OPM survey[21], insufficient data to develop accurate baselines to track efficiencies in relation to partnership working. However, there are some anecdotal cases where this potential is hinted at. For example, the 'one stop shop' for information has now brought on board local partners such as the Citizens Advice Bureau and local credit unions to provide financial and legal advice. This partnership has resulted in savings of around £600,000.*[22]

Whether such an approach is going to help NI departments meet the efficiencies required in a short timeframe is questionable.

This point was picked up in a recent policy paper by Corin Taylor of the Institute of Directors:

> *There has been much debate in recent weeks and months about choices between reforming public services to get more for less (improving productivity), and cutting frontline services.*
> *In reality, however, there is no choice between reforms and cuts, for the simple reason that reforms do not save money immediately. Both therefore have to be enacted as soon as possible.*[23]

A recent editorial in the *Financial Times* gave the following view:

> *Whoever wins the election – and however strong their reforming zeal – the next government will be remembered as a cutter. No reforms can save the British state from its coming resculpting: this is why both parties must unveil coherent political agendas.*
>
> *Labour and the Tories must both explain which functions of government they regard as sacred and which, if forced, they would sacrifice.*[24]

By extension, the governments of the devolved administrations may also have to do the same.

---

[21] OPM, Local Government Efficiency (2007) available at: http://www.opm.co.uk/resources/papers/localgov/Local_gov_efficiency_case_studies_litrev.pdf

[22] DEMOS 'Getting more for less: efficiency in the public sector' (2009) http://www.demos.co.uk/files/Getting_more_for_less.pdf?1248779976 see page 23

[23] Institute of Directors 'How to save £50 billion' in Big Picture Quarter 3 2009 no.4, page 14. The full IOD/Taxpayers' Alliance policy paper can be found at: http://www.iod.com/intershoproot/eCS/Store/en/pdfs/policy_paper_save_50_billion.pdf

[24] See http://www.ft.com/cms/s/0/d577f390-8c21-11de-b14f-00144feabdc0.html?catid=88&SID=google

SOURCES OF FURTHER ADVICE

The Committee has requested suggestions of possible external expertise in the field of how to implement efficiency savings effectively. These are attached as an Appendix.

Appendix: suggested expert witnesses in efficiency savings.

1. Professor Colin Talbot, University of Manchester, Manchester Business School.

Professor Talbot's main area of expertise in is public services and public management reform. He has recently completed major international comparative studies on the creation of arms-length agencies (for the UK government and ESRC); of the use of performance reporting systems (for the National Audit Office); and of budget participation and scrutiny systems (for the Scottish Parliament). Colin has advised Parliamentary Committees on performance and public spending issues for the Treasury, Public Administration and Welsh Affairs Committees.

He acted as specialist advisor to the House of Commons Treasury Committee in its recent inquiry evaluating the efficiency programme.

2. Professor Arthur Midwinter

Arthur Midwinter specialises in public finance. He has undertaken major studies of local government finance and devolution finance. He has undertaken research funded by a variety of sponsors, including Economic and Social Research Centre (ESRC), Leverhulme, Nuffield and Association of Chartered Certified Accountants (ACCA). Arthur has also advised a range of public sector institutions in financial matters.

Arthur is a budget Adviser to the Finance Committee of the Scottish Parliament, a consultant to East Ayrshire Council on finance and budgeting, and Financial Adviser to the Association of Directors of Social Work in Spending Review 2007.

His key research interests are public finance, especially mechanisms for the allocation of government measures and the means of exercising financial accountability over public funds.

3. Professor Richard Harrison, Queen's University Belfast, Management School.

Professor Harrison has almost 30 years academic and applied economics research experience in regional economics, entrepreneurship, business development, regional economic policy and company strategy development and implementation. This research experience has been gained in academic environments in Scotland and Northern Ireland, with international research experience in the EU, Pacific Rim (particularly China and Malaysia) and North America (particularly Canada). He has also had a number of years in applied regional economic research and policy analysis with the then Northern Ireland Economic Council. His consultancy and contract research experience has included projects for Scottish Enterprise, EU Directorates, Canadian High Commission, Bank of England, OECD, DTI, HM Treasury and others, on subjects as diverse as regional economic development policies, entrepreneurship and business development, university spin-outs and commercialisation strategies, early stage venture capital and business angel markets, financing innovation, developing commercialisation strategies for major university research institutes, attracting and retaining talent in regional economies, and the development of technology clusters. His experience of regional development economic policy extends over a 25 year period and has involved the analysis of public expenditure plans, regional economic policies (notably in the economic and industrial development area) and access to finance initiatives.

He developed a transformational change programme to integrate 4 separate units into a single School structure and is leading the development and implementation of a new strategy for the School.

4. Dr Graham Brownlow, Queen's University Belfast, Management School.

Graham Brownlow is a Lecturer in Economics at the Queen's University of Belfast (QUB). Graham's research on long-run economic performance, which has been published recently in a variety of outlets including the *Cambridge Journal of Economics* and the *Economic History Review*, is focused on economic history and institutional and evolutionary economics. He is a member of QUB's Economic & Financial Institutions Research Group (EFIRG). In the area of economic efficiency and the public sector, Graham has published work on fiscal decentralisation and public choice analysis.

5. Victor Hewitt

Victor Hewitt is the Director of the Economic Research Institute of Northern Ireland (ERINI), which was created early in 2004 through a merger of the Northern Ireland Economic Council (NIEC) and the Northern Ireland Economic Research Centre (NIERC). The mission of ERINI is to undertake research and analysis for the public good and for the improvement of policy making in Northern Ireland.

Mr Hewitt was born in Northern Ireland and educated at The Queen's University of Belfast and the University of Manchester. Up until 1988 he taught economics and conducted research on regional modelling and fiscal issues at Queen's before becoming the Director of the NIEC. In 1991 Mr Hewitt joined the Northern Ireland Civil Service as Chief Economist and Head of Profession. He worked in the Department of Finance and Personnel with responsibility for European Programmes and later public expenditure planning and liaison with HM Treasury. Mr Hewitt has also worked in the Department of Enterprise, Trade and Investment which is responsible for economic development policy in Northern Ireland. While there he was responsible for the department's research strategy.

As Director of ERINI Mr Hewitt is responsible for managing a broad research agenda including work on the role of innovation and technical change in promoting economic development.

6. Sir John Dowdall

John Dowdall was the NI Comptroller and Auditor General until his recent retirement. His understanding of the public finance system in NI may be of considerable benefit when considering efficiency savings. The Finance Committee in Wales has engaged a senior Audit Wales official in an advisory capacity.