Northern Ireland Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Efficiency Savings

11 November 2009

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr David McNarry
Mr Declan O'Loan
Mr Ian Paisley Jnr

Witnesses:
Mr Victor Hewitt) Economic Research Institute of Northern Ireland

The Chairperson (Ms J McCann):
I welcome Victor Hewitt from the Economic Research Institute. I remind members, the witness and those in the Public Gallery that the session is being recorded by Hansard and, therefore, mobile phones must be turned off. Victor, please make some opening remarks, and we will then move on to questions.

Mr Victor Hewitt (Economic Research Institute of Northern Ireland):
The Economic Research Institute of Northern Ireland (ERNI) has provided the Committee with a general paper on the issues with measuring efficiency in the public sector. It is a truncated version of a more technical paper, which we can make available, should anyone wish to delve into it.

I shall focus on some of the more pertinent issues from the Departments' efficiency savings plans. If one reads those plans, one sees that there is much confusion about what efficiency saving actually is in the public sector and some well crafted phrases appear. It is possible to distinguish three sorts of efficiency savings. First, the straightforward definition of efficiency is: getting more output for the same input or using less input for the same output. Secondly, there is something called "allocative efficiency", where one makes use of resources in a way that, given people's preferences, delivers the optimal output. A third definition of efficiency is called ex-efficiency. It is about efficiency in Administrations and designing systems to prevent bureaucracies growing in a way that benefits themselves and not, necessarily, the public.

There are further issues about whether efficiency savings are really savings or a disguised form of cuts. There are some inherent problems with efficiency in services in both the public and private sectors. In some instances, a certain amount of human input is required to deliver a service. A classic example of that is that one hour of music from a string quartet requires four man-hours of input. Likewise, an orchestra requires as many people to play Beethoven's fifth symphony today as it did in 1850. Therefore, there are some inherent limitations on the delivery of certain services.

Essentially, efficiencies are achieved from process re-engineering and by throwing capital rather than people at an issue. The classic example of the second of those is the banking system, which makes extensive use of technology designed to keep customers out of bank branches. As much as possible is done through an ATM machine, because the last thing that a bank wants is for customers to come inside and to have to provide people to deal with them. That is one of the massive ways in which the banks have driven up their efficiencies, and the public sector should also consider whether it can make more use of technology to deliver services that do not require face to face contact.

I will draw the Committee's attention to some issues that it may wish to consider when examining efficiency plans. In some instances, efficiencies are claimed for what are, effectively, increases in charges from one part of the public sector to another or to the private sector. The Department is often the monopoly provider of the services that are being charged for. For example, if I want to buy a Chinese meal, I have the choice of hundreds of outlets; however, if I want to get a MOT certificate, my options are very limited. One must be cautious about a

Department making use of its monopoly power in the market to push up charges and claim those as efficiency gains, because all that it is really doing is pushing a charge on to the customer.

A second, similar point to look out for is displacement. That occurs when a Department, effectively, transfers its responsibilities on to someone else's shoulders. For example, the Department of Agriculture and Rural Development (DARD) used to cover the cost of removing fallen animals; those costs have now been passed on to farmers. Committee members may agree or disagree with that sort of activity, but, if it is claimed as an efficiency gain, one must question what additional output has been attained from it in the real world.

Genuine savings tend to come from things such as rationalisation and reducing overheads by bringing organisations together. There is, for example, a Department of Finance and Personnel as opposed to a Department of Finance and a Department of Personnel. However, I must caution that approximately two thirds of all mergers fail in one way or another, and there are always costs associated with mergers. The other route is the streamlining of funding. Instead of having a number of different streams of funding going into the same thing, such as research and development, those streams are amalgamated and a more streamlined approach to delivery created.

There are some other issues that I want to mention before taking questions from Committee members. Savings are reported net or gross. Expenses are often incurred to obtain savings. If one merely reports the savings and does not report the costs of putting the systems in place to obtain them, it can give a somewhat distorted view. In spend-to-save type schemes, one invests now in the hope of making savings in the future. Redundancy schemes are a classic example: an up front hit on the cost of redundancies is taken in order to save on future wages.

Resilience is another issue, which is rarely — if ever — mentioned. We are all in favour of efficiency and doing things in an efficient way. However, systems are subject to shocks from time to time. If a system has been pared down in the search for efficiency, it becomes inherently less resilient to shocks. We have had a very good example of that in the banking system, which has shown us the consequences of not having enough redundancy in the system to absorb shocks.

There are other measurement issues. Efficiency programmes are often launched without proper attention to the baseline from which the gains obtained will be measured. There is also an issue of which technique is used to measure efficiencies. In our paper, we describe a couple of techniques that are increasingly being used, and we give an example in which one of those was used to look at the efficiency with which local authorities in Northern Ireland dealt with waste disposal. Explanations of such techniques are a bit technical, but I can touch on them if you want.

Finally, there is the issue of who makes the evaluation of whether efficiencies are being obtained. Economists would describe that as a classic principal/agent problem. If the Department of Finance and Personnel (DFP) is pressing for efficiencies, it is the principal and the agents are the Departments that are supposed to deliver those efficiencies. However, the Departments know a great deal more about their business than DFP can ever know, so one has to try to set up systems and incentives that will actually deliver the savings.

Mr McNarry:

Thank you very much for your paper. As usual, it was worth reading. We are restricted in what we can ask you; I would love to ask you about a whole raft of things, but I will stick to the brief.

Do you agree that, to some extent, your paper highlights the difference between the way in which a politician has to look at a problem and the way in which an economist or a bureaucrat has to look at the same problem? What I am really getting at is: do you think that the ability to make political judgements has been replaced by reductive, technical and centralised efficiency drives? Has leadership and the judgement of political risk been lost, and, in the process, have we lost the ability to trust people who are on the front line of public service delivery to tell us honestly whether something is working or not?

Mr Hewitt:

That is a very good question. Efficiencies tend to be achieved when there is some form of competition. Firms become efficient when they have to compete against one another. In the public sector, competition tends not to be an underlying factor. Therefore, in order to stimulate competition, we put in place other mechanisms, such as regulation of one form or another. In the public sector, it is quite difficult to know whether efficiencies are being achieved, because, in many instances, services are provided free of charge or at a nominal charge that does not reflect the actual cost of producing them. So there are technical difficulties.

Much like the British and the Americans, economists and politicians are divided by a common language. Economists are more worried about efficiencies in the global sense. Is the economy producing more with the same resources or is it using fewer resources to produce what it was producing before? Are those resources properly aligned with the preferences of the population?

Departments and, to some extent, Ministers are much more interested in where savings can be found to do other things. Those are not quite the same things. There is some flexibility in the language in many of the departmental plans. In the DFP plan, a lot of efficiency is being generated by increasing charges of one sort or another. To an economist, that transfers the costs from one part of the economy to another and does not result in more activity in the global economy. Economists tend to look at things slightly differently, but Departments and politicians are under pressures that economists are not.

Mr McNarry:

We have a unique system here that you either do or do not buy into. At the moment, we seem to have bought into it. That leaves us with an Executive that does not have a single political mandate and has to accommodate a number of parties. Does that system create its own danger, in that the Executive, and all of us, may be overly reliant on centralised bureaucratic methods?

I sometimes view the Executive as a fiefdom of individual Taliban tribes or as cantons; everyone sitting round that table is fighting for themselves and there is not the collective that we seek. Is that an obstruction?

Mr Hewitt:

I do not want to stray into the political sphere. It is fairly clear in the system that we have —

Mr McNarry:

Is it efficient or inefficient?

Mr Hewitt:

I will answer that question in my own way. The tendency has been to find savings by salami-slicing the total baseline of the relevant Departments. Relatively crude methods, such as a 3% efficiency saving across the board, are used. Each Department must find 3%; how it does that is up to it. It is, nominally, supposed to do so in a way that does not impact on service delivery, but it is difficult to tell whether it does.

In an ideal world in which one has priorities listed, one would seek the greatest savings from the lowest priority in order to protect the highest priority. I do not want to stray into the political dimension, but I am not sure that we have reached that stage in our approach to budgeting.

Mr McNarry:
I am grateful for your answer. I will ask one more question and then let others have a chance. I may have a couple more points for you, depending on what may not be said.

When the Chancellor imposed a further £9 billion in efficiency savings over the period 2011-14 in his Budget statement of 2009, there was speculation that that would mean a reduction of £75 million per year for the Northern Ireland block grant. Do you agree with that speculation? Can you comment on the potential effect of those efficiencies on the Northern Ireland block grant each year? Can such a reduction be termed "efficiency savings" or are we now going to have to look at cuts, slashes and snips?

Mr Hewitt:
First, I will say something about the mechanism by which these things occur. As you know, Northern Ireland, Scotland and Wales are funded through a formula-based system called the Barnett formula, which, essentially, gives each country its population share of any change — up or down — in a comparable programme in England. Behind that formula, there is a set of funding rules, which is published at the time of the comprehensive spending reviews. Those rules provide for across-the-board cuts, where there is a similar situation in England.

Therefore, there are two mechanisms by which an efficiency saving in English Whitehall Departments may be transmitted to Northern Ireland. One mechanism is that the Chancellor says that the Treasury is taking a 3% efficiency saving across the board in Departments; therefore, the Assembly is required to take a 3% efficiency saving on the block grant. However, the mechanism that has tended to be used is to take the cuts in England through the Barnett formula and to deliver that against the Northern Ireland block grant. For example, if the Health Service has to take a cut — we are 100% comparable on health — Northern Ireland would take a cut that is proportionate to its population. That is the way in which efficiency savings have been transmitted to us.

The block grant was reduced by some £123 million through efficiency savings. The upside was that more money was given to some programmes in England at the same time and that abated our loss. We got £116 million back. The difference between the two figures is our net loss. However, there is a timing issue because the £123 million loss falls in one year and the gain falls in other years. Therefore, there is still pressure on the block grant.

At present, the UK faces a substantial financial crisis in public expenditure. Its debt is rising unsustainably. We put together a model with the Institute for Fiscal Studies, which we will release to the Committee, in which one can become the Chancellor, the Finance Minister and a departmental Minister all in one. We used the model to see what the consequences would be for Northern Ireland of potential cuts in England under various scenarios — with health protected or not protected and so forth. The cut for Northern Ireland can range from £500 million to £700 million, depending on where the cuts fall in England.

People talk about the Ministry of Defence taking massive cuts. However, they forget that the Ministry of Defence is not that big: its budget is about £40 billion out of £650 billion. Therefore, it cannot take the entire strain.

We need to get our borrowing requirement down from about 12% of GDP to about 6% of GDP within four years. Unfortunately, pain is coming. I cannot say exactly where it will fall in England; therefore, we cannot say exactly what effect that will have here. We can give the Committee the means to do the calculation itself.

Mr McNarry:

Is the public to perceive that as cuts or efficiencies? I realise that you do not like to get involved in politics, but you can help us to know how to explain these matters. Should politicians explain them as a mixture of efficiencies and cuts or do we use the word "pain" and say that the pain is due to cuts and all that they entail?

Mr Hewitt:

The term that people tend to fall back on in these circumstances is "savings", which covers a multitude of sins. It really depends on how you absorb your share of what will be necessary to bring UK public finances back into balance. Everyone is committed to protecting front line services as much as possible and to trying to make cuts only in areas that have less impact. However, the truth is that, if cuts are very large, there is no way of avoiding some pain in the delivery of services.

The Chairperson:

What is your assessment of the departmental efficiency plans? There is a lot of criticism in particular Departments that those plans are resulting in cuts.

Mr Hewitt:

I have had a quick sweep through the plans, some of which are quite extensive. I know that you focus, particularly, on DFP. In the DFP's plan, the first target area in the summary of proposed savings is to maximise receipts and extend charging. As I said, I have doubts, from an economist's point of view, as to whether that is an efficiency gain as opposed to a transfer of charges to other parts of the system.

Realising the accommodation target would represent a true efficiency gain. I am not sure where that now sits, given the demise of Workplace 2010, which was the heart of the project. The efficiency targets for Land and Property Services are OK in terms of efficiency gains. Targeting general administrative expenditure and staffing reviews will depend on how that is taken forward. Saving on paperclips is one thing; saving by not replacing posts is another. The final targeted area — recognition of costs recovered in respect of rate collection — seems to be a displacement of costs back onto district councils. Therefore, a mixture of things are being claimed as efficiencies, some of which, when looked at carefully, can lead one to wonder whether something is being gained more globally.

I have looked at some of the other Departments' efficiency delivery plans. For example, the Department of Enterprise, Trade and Investment's plan includes the electricity buy-out money being sacrificed in order to protect other things. I am unsure what efficiency saving that represents or why that money has been sitting dormant for so long, if it is not being used, because that plan has existed since I was floating around in government.

I confess that I could not find the efficiency delivery plan for the Department of Health, Social Services and Public Safety. I do not know whether anyone here has seen it, but I could not find it on the Department's website. I could comment on some of the others, but members get the general drift; one must be careful when examining such documents line-by-line.

Mr Hamilton:

I find this a very interesting subject generally, and I value Victor's input. It is important to say that efficiencies are not just about saving money; they are about better delivering a service. The import of that is that the recipient — the taxpayer and ratepayer — gets something better. Sometimes, we look at it purely as saving money, and I am as guilty of that as anyone; whereas the issue is about giving the person who puts the money in something better in return.

We are all frustrated at times at the way that the issue of efficiencies has developed or not developed. In your view, Victor, is one of the problems the fact that there is no set, central definition of what efficiencies are? You talked about what some Departments have done and others have not. It seems to be a hotchpotch or mishmash of different approaches.

Departments have, rightly, been set a target of further efficiency, but no parameters have been set by which that should be done. What happens then is that there is an interface with politics, as David said, where different Departments come forward with plans that annoy people and irritate politicians and all hell breaks loose. In my view, that type of development would be avoidable if there were a better central definition of efficiency. Leaving Departments to decide conjures up problems further down the line.

Do you think that our Departments are capable of making those tough decisions? Your evidence seems to back up the fact that they take easier options, such as trying to increase costs or pass costs on. Departments will sometimes throw in emotive issues and say that a plan is too politically unpalatable with the general public, rather than getting to the core of the issue. Do you think that there is some scope for a wider review to be done by somebody outside government or someone centrally in government? I do not mean a budget process type of approach.

I take your point that 3% savings across the board is quite crude. In some Departments, 3% savings may be inappropriate at that particular time; in other Departments, more than 3% may be achievable. Therefore, the right amount of efficiency is not being achieved from some and too much pressure may be being put on others. I am not taking a position, but, in your expert opinion, do you think that Departments are capable of doing that or, even if they are given a central definition, will they revert to the easier options, rather than taking the options that might realise better efficiencies?

Mr Hewitt:

That is another good question. Departments are not, normally, renowned for volunteering to give up money. One needs to go back as far as Sir Keith Joseph, who served in the early Thatcher Governments, to find an example of someone who was prepared to give up money from his Department. Ministers tend not to prosper in shrinking Departments. In a situation in which cuts and savings are being made, Departments will tend to play the situation by producing bleeding stumps or by waving shrouds. The Ministry of Defence used to present the options of taking one course of action and risking nuclear war with the other course of action to show that choices were not really available.

Mr Hamilton:

"A courageous decision, Minister."

Mr Hewitt:

That would be a courageous decision by a Minister, indeed.

We have tended to sidestep the question of whether Departments can make decisions on savings for themselves. Earlier, I referred to the principal/agent problem. A Department such as DFP sits at the centre and wishes to achieve certain things, but the other Departments — the agents — know much more about the things that they are doing than DFP can know. The Department at the centre can devote only a certain amount of time and effort to that.

Some improvements have been made. The setting up of the performance and efficiency delivery unit (PEDU) is a step forward, but it is a small unit with a handful of people. It has a very big block of work to get into, and one tends to find that things become more complex as one gets into them. Four or five people cannot monitor performance and delivery in, for example, the broad area of health, so they have to narrow the focus. The more that the focus is narrowed, the more complex the issues become.

There is a living example South of the border, where necessity required that an independent group be established to consider where cuts could be made. That group produced the McCarthy report. Members will know that strong feelings have been expressed about the McCarthy report, and it is an interesting read. The group's approach was to identify what could be properly achieved through efficiency savings and to recognise that some cuts would have to arise through changes in policy. The report lays those out fairly carefully. The big money comes from cuts in policy, rather than from efficiency cuts.

There are also timing issues. Over half of the block is spent on salaries. If one is to reduce salaries, one must get rid of people. If one is to get rid of people, one is obliged to have a redundancy scheme. That means finding additional money up front to bring down the amount that is spent on salaries. I hope that, in a roundabout way, I have touched on some of the points.

Mr F McCann:

Simon referred to Departments not reacting to the 3% cuts. It follows from that that DFP or the Minister of Finance and Personnel might top-slice 3% from each Department. That forces Departments to make a decision. People believe that, in the past, front line services were targeted because they seemed to be an easy target.

Mr Hewitt:

DFP is interested in getting the savings, and the simplest way to do that is to tell Departments that they are getting 3% less money next year than they got this year. It tells the Department that it is up to it to arrange itself to live with that reduced budget. It would be a brave Minister who would cut front line services before trying to find savings elsewhere, because those cuts would impact on the public immediately. People will notice very quickly when they start to see hospital waiting lists and school class sizes increase. However, other aspects of a Department's work are not visible to the public. If there are opportunities to increase charges, I am sure that Departments will use them, because they are less painful from a departmental perspective.

Dr Farry:

Welcome, Victor. At the start of your presentation, you talked about productivity savings in the sense of inputs versus outputs. In the private sector, that is a routine process year on year. What sort of range would businesses be looking for? I expect that it would vary substantially, but, potentially, how far can it go in the private sector?

Mr Hewitt:

It depends on the extent to which one can, effectively, substitute capital for people. That is how manufacturing, for example, regularly produces productivity increases of 8% to 10%. It uses more capital such as computers. Services are more complex because sometimes the people are the service. Nonetheless, there is some scope.

The other day, I was reflecting with someone that the Civil Service used to have typing pools. Typing would be collected in carts and taken off to a typing pool. Two days later, a letter would come back with all sorts of spelling mistakes that had to be corrected.

Mr McNarry:

That is not quite true. My wife worked in a typing pool.

Mr Hewitt:

I am sure that she was the exception.

The typing pool has, essentially, disappeared. Technology was brought in and the obligation for typing was pushed back to the people generating the letters. Word processors and similar technologies have, more or less, wiped out that particular work stream. They have not produced paperless offices, which is another matter.

Dr Farry:

That leads on to my second point. You have made the point about a certain aspect of what the Civil Service used to do becoming, effectively, redundant. Anecdotally, the impression that a lot people have not only about the Northern Ireland Civil Service but about the public sector is that investment in technology has not resulted in a proportionate reduction elsewhere in the system. In some senses, bureaucracy has grown. Additional regulation may have added to that.

The Barnett report on Invest NI did some interesting work to drill down into the amount of money spent on back room activity versus customer-facing services. I am not sure how well we stood up in that comparison. Has the exercise on the balance between administration spend and spend on services been carried out for our Departments? If so, how does our spending balance compare to that in other jurisdictions?

Mr Hewitt:

What is spent on administration compared with what is spent on actual delivery of services has always been a concern. Departmental administrative expenditure was always a classification in the public expenditure classifications, and special controls were put on it. Those controls were gross controls, which limited the amount of money that could be spent on people. Of course, Departments tended to find ways round that by reclassifying some departmental expenditure as service type expenditure: consultancy is a very good example of that.

Departments still account separately for their departmental administrative budgets. There have been attempts to outsource activities to the private sector, some of which have been more successful than others. However, the concern remains that the public sector seems to be growing in spite of the action being taken. There is a broader concern about the degree to which public sector growth is squeezing out the private sector. That is a separate issue.

Dr Farry:

Cross-referencing efficiency savings with the notion of zero-based budgeting was recommended for Northern Ireland in a report a couple of years ago. However, the recommendation was not followed-up. Would that type of approach provide a better basis for making efficiency savings, particularly with regard to productivity gains?

Mr Hewitt:

In short; yes. However, I must include the caveat that zero-based budgeting is a major exercise. Departments would have to justify every penny given to them in the following year, not at the margins but in their fundamental programmes. That means that each Department would have to tackle those programmes head on in order to assess their effectiveness and whether they were still needed.

Such an exercise was carried out during the previous Assembly mandate, under the rubric of the needs and effectiveness analysis. I do not think that the results were published, but I will give the Committee an idea of the impact that such an exercise would have. For example, if one were to examine the Department of Health, Social Services and Public Safety, one would find that it would establish 10 or 12 working groups and would outgun you during every stage of the process. The technique originated in America and had to be abandoned because it was so resource intensive. However, from time to time, it is a useful benchmarking exercise to fundamentally examine processes to see whether the world has changed and, consequently, whether we still need them.

Dr Farry:

Outside the context of a formal zero-based budgeting exercise, is there evidence that Departments, in their approach to efficiency savings, are going through the process that you outlined by reviewing all of their policies and practices and identifying those of greater priority, those of lesser priority and those that are redundant? Alternatively, do they simply pass on their 3% efficiency savings to their divisions, units, agencies, etc?

Mr Hewitt:

Departments do not simply cascade their 3% efficiency savings through the entire system. It becomes a mixture of genuine efficiency cuts and sometimes combining those with cuts to activities that Departments no longer favour. I do not want to single out one Department, but the Department of Education's efficiency delivery plan includes grants to preparatory departments as an efficiency saving. That may be an efficiency saving, or it may simply be a reflection of a different view on policy in that Department: it is difficult to say.

Mr O'Loan:

Thank you for your presentation, Victor. One line in your paper surprised me:

> "CSR07 removes the money saved from the departments' resource allocations for the years 2008-09 to 2010-11",

with certain exceptions, which you mention. The Executive's three-year Budget contained efficiency savings of £793 million. I took that to mean that in the delivery of the Programme for Government, £793 million would be found by shifting money within the system.

There is some degree of cascading. For example, health trusts are told that they must make efficiency savings of 3% each year cumulatively over the three-year period. In order to deliver certain targets, those trusts must find 3% efficiencies year-on-year from other places in their system. Therefore, nobody is losing; the Northern Ireland block grant does not lose, nor do health trusts. Am I right to say that? If so, can that be reconciled with the statement in your document, which seems to suggest otherwise?

Mr Hewitt:

The statement referred to the UK level, and I mentioned some of the Departments that were protected. Efficiency savings can be either cashable or non-cashable: the previous terminology was “cash-releasing”. The word “cashable” means that one can be required to give up the money — in other words, lose it. In the UK system, that would mean the money going back to the centre; in other words, to the Treasury. In our system, the money is counted as being available for other things, possibly in the Department, but possibly elsewhere also, because the block grant should be managed as a block.

The other efficiency savings are “non-cashable” savings, which means that Departments are promising to do more with the money that they have. Instead of Departments saying that they will use less money to maintain existing output levels, they say that they will keep the money they have, but do more with it. Obviously, Departments prefer the latter to the former, because if savings are cashable, they can be removed and used elsewhere. However, if savings are non-cashable, Departments can hold on to them but promise to do something additional with them.

The matter arose from what is known as the Gershon report, which members will probably have looked at. Gershon savings were, to some extent, of the non-cashable type. However, when CSR 2007 came along, the Treasury took the line that it did not care about the promises being made and what Departments were going to do: it wanted the money. Therefore, efficiency savings, in totality, became cashable and were taken into the centre for reallocation.

Mr O’Loan:

Once we get our block grant —

Mr Hewitt:

Once you get your block grant, you have your block grant. That is it.

Mr O’Loan:

Are you concerned that the present drive for efficiency savings is causing misdirection, in that it distracts management activity from doing better long-term things in order to get short-term gains? I know that the Minister of Health, Social Services and Public Safety is saying that this is happening too quickly, and I have some sympathy with his point. It may mean that because people have to deliver the 3% savings year on year, they do not do better things that would lead to far better gains in the long run. Do you have any feel for that?

Mr Hewitt:

Someone said earlier that, in the private sector, seeking efficiency savings or gains is an ongoing process. One of the witnesses at a Treasury Select Committee spoke of it as being built into the DNA of the system: that is how it should be in the public sector also. For a public sector manager, efficiency should not be a one-off exercise imposed from somewhere else; it should be something that that manager does as part of his or her responsibilities. Managers should always be on the lookout for better ways of doing things and they should not wait until the centre says that it needs another few percentages of savings. In a sense, efficiency is part of the responsibilities of good managers and not something that they turn their minds to from time to time; if you follow what I mean.

Mr O'Loan is suggesting that, suddenly, a demand for efficiency savings comes in the post and everything must be dropped and attention turned to creating greater efficiencies. In a properly managed system, managers should be thinking about efficiencies all the time and looking for better ways to deliver services.

Mr O'Loan:

That leads me to my next question, which is not new: in fact, it is probably one of the oldest ones. In the private sector, the power of competition is huge, and companies know that they must keep changing and adapting or they will fail. Companies go bust regularly, even very strong ones, because the dynamic can change over a two- or three-year period. However, there is no such impetus in the public sector.

You say that good managers will be doing those things; but the same drive does not exist in the public sector. Many people think that there is a huge amount of slack in the public sector, taken as a whole: is there?

Mr Hewitt:

I know that that is a popular view; but when one looks at the cost of running organisations, especially those in the public sector, there are not, usually, huge savings to be made. Some savings can be made; however, public expenditure savings really come when it is decided to modify, or drop, a major block of spending because it is no longer serving the purpose for which it was designed. There is a certain amount of inertia in the public sector to keep on doing things that have lost their usefulness simply because the sector is not subject to the same competitive pressures. This is not particularly relevant, but —

Mr McNarry:
It is interesting.

Mr Hewitt:
Many years ago, I flew into Moscow shortly after the collapse of the Soviet Union. On the way in, I saw hundreds of brand new planes parked along the runway. The system had just continued to churn out planes. There was no demand for them, and they were of no use to anyone, but the system had been set up in such a way that it had targets to meet, and so it churned out planes.

That is an extreme example of where a bureaucratic system simply runs on due to the inertia in the system. That is inevitable to some degree when there is no competitive element or proper accounting for the resources used. I return to the point that most public services are delivered free at the point of use, so we do not know what value the public puts on those services. If things are provided free, people will, obviously, tend to use them more than if there were a charge.

I was interested to hear the Minister of Health say that thousands of people used the A&E system. In fact, hundreds of thousands of people use the A&E system: more than 600,000 each year from a population of 1·7 million. It is, effectively, an out-of-hours GP system, because people know that if they go to A&E, they will be seen. They pay the price, as regards having to queue. That issue is not really being reflected in the rest of the Health system. If it is what people want to do, perhaps more money should be put into A&E and less into the GP system. Choosing evidence such as that shines a light on public services that are not otherwise seen.

The Chairperson:
You spoke about prioritising particular areas. Hearing what you just said; would if make more sense to look at making efficiencies in certain areas rather than on a departmental basis? Is it possible to look at areas, services, and systems that could be run more efficiently rather than have overall 3% efficiency savings from each Department?

Mr Hewitt:
Yes. Objectives should not be focused departmentally; they should be focused generically. They should be focused on things such as improving the performance of the economy, in which many

Departments have a role. If one merely sets objectives on a departmental basis, Departments will take individual views on the programmes they are running.

If one were to make "improving the economy" the focus and say that one way of doing so would be to improve the amount of innovation and R&D, that would lead on to looking at funding streams for R&D; where those are coming from; which Department is taking the lead; and how Departments co-ordinate their activities. This is where considerable savings can be made, because there are multiple sources of funding for, basically, the same activity. Furthermore, firms and individuals are having to shop around to find the funding streams that are available and suit them best. I am very much in favour of taking Departments from their silos and making them co-operate.

A technique used previously was the top-slicing of the block grant and the creation of a separate fund to encourage Departments to work together on generic themes. One example was the provision for children, although it took a great deal of time to set anything up. However, the idea was good, because children require a whole range of services, many of which are co-ordinated. Creating a pool of money meant that Departments could bid, hopefully, as a collective to deliver services. Going back even further, initiatives such as Making Belfast Work required Departments to work in a co-ordinated manner to tackle problems of deprivation, and north Belfast was a key beneficiary of that scheme. Organising government better will obviously yield savings.

The Chairperson:
Objective need must be targeted rather than focusing on population or other factors.

Mr McNarry:
Victor, you said that big savings come from changes in policy, and you are absolutely right. On the BBC 'Spotlight' programme last night, even though it was recorded a few days in advance, the Minister of Finance and Personnel said —

Dr Farry:
Were you skiving David? We were all still at work at the time the programme went out.

Mr McNarry:

What did you say?

Dr Farry:

We were still at work at that time.

Mr McNarry:

You were not listening to me as usual Stephen. I said that even though the programme was recorded a few days earlier —

Dr Farry:

But you were watching it at home when the rest of us were in the Chamber. That is the point that I am making.

Mr McNarry:

I am sure that Hansard is very interested in this, but Members do have televisions in their offices. The programmes on CBeebies are over by 7.00 pm, Stephen.

Dr Farry:

OK. I did not watch the programme last night, but I will watch the repeat tonight.

Mr McNarry:

As I was saying before I was interrupted; the Minister of Finance and Personnel said on 'Spotlight' last night that £210 million of the £370 million of savings that must be found by the Executive will be used to pay for the deferment of water charges in 2010-2011. From what you know, is that fair reflection of the potential cost of deferring water charges next year?

Mr Hewitt:

I will update the Committee before I answer that question. The amount to be found next year is now closer to £400 million. In the September monitoring round, as the Committee knows, the Executive found money for the continuance of the CSeries project at Bombardier, and that will add a further £20 million to the money that must be found next year.

I do not want to rehearse the full history of water charges, because we all have some idea of that. However, the £210 million quoted by the Minister is essentially a reflection of the operating costs of water provision and the capital programme to take water and sewerage services forward, minus whatever money is being brought in through charges to non-domestic customers.

From next year there will be a new approach to public expenditure in the UK. Members may recall that items such as capital charges made their appearance. In fact, the water company would have incurred another £400 million in capital charges next year. Those are non-cash charges; and they do not have to be paid to anyone, but they had to be taken account of in the company's budget. Those charges are going to be abolished. However, that will not result in any gain to us, and the Treasury will adjust the block grant accordingly. The £210 million amount is a fair reflection, I think.

The real problem is that there is no comparable expenditure in England, which is from where we derive our share of public expenditure. There is no Barnett consequential for water; therefore, the water company must be funded from within the overall block grant. Inevitably, simple arithmetic shows that that will deny money to other programmes.

Mr McNarry:

I am grateful for what you have told me. However, one picks things up from various sources, and I am concerned that the £210 million that the Minister of Finance and Personnel has been talking about appears to contradict what the Minister for Regional Development has been saying. He has mentioned a figure of £1 billion over the next three years. Is it a case of £210 million this year, but that in the next two years we will have to find £800 million rather than simply dividing the £1 billion by three?

Mr Hewitt:

I am not sure about the source of the quote from the Minister for Regional Development or how recent that is. It may be that he was quoting in the belief that capital charges would still be an element, but capital charges, not depreciation charges, will disappear from 1 April 2010. There will be an adjustment to ensure that we do not gain anything from that, but the Minister may have been working on the old system, if I can use that term.

Mr McNarry:

Thank you.

The Chairperson:

Thank you very much, Victor. Members may have some other questions; is it OK to write to you?

Mr Hewitt:

Yes, by all means, Chairperson.

The Chairperson:

Thank you.