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Reducing the number of departments: possible savings

This Briefing Note considers the evidence relating to cost savings arising from a reduction in the number of government departments in Northern Ireland. Whilst a decision to reorganise government departments will ultimately be political, the Briefing Note focuses on the importance of any future decision being based upon robust evidence of cost savings. It also highlights the need for a plan to realise the potential efficiency benefits to be clearly established and executed.

1. Background

On 19 January 2009, the Assembly passed the following motion:

That this Assembly recognises the importance of ensuring that the maximum amount of public spending is directed at front line services; and calls on the First Minister and deputy First Minister to bring forward proposals to reduce the number of Government Departments.¹

In response to an Oral Question in October 2009, the Minister of Finance stated:

There is wide recognition of the need to rationalise Departments, and it is estimated that reducing the number of Departments from 11 to six would save tens of millions of pounds per annum on an ongoing basis. Such a move would also be a significant demonstration to the broader public sector and wider society that the Executive are serious about efficiency.²

In response to a further question in March 2011 the First Minister/deputy First Minister outlined the current position on a review of the number of government departments:

The St Andrews Agreement had indicated that we would appoint an Efficiency Review Panel to examine efficiency and value for money aspects of the Strand One institutions. We have announced that the first task of such a Panel would be to examine the number and organisation of Departments in the light of the present financial pressures and the implications of the Review of Public Administration, and to ensure that the departmental structure is best organised to deliver public services in an efficient manner.

The Panel has not yet been appointed but is among the matters to be covered by the draft report which is being prepared for consideration and agreement of the St Andrews Agreement Working Group established under the Hillsborough Castle Agreement.

In line with the Hillsborough Castle Agreement, the Working Group will forward its report, when agreed, to us for consideration. In the meantime, we remain committed to pursuing greater efficiency and effectiveness in the delivery of our public services.³

In their manifestos for the 2011 Assembly elections, both the DUP and Alliance made explicit reference to the number of departments. The DUP proposed that the twelve

¹ Official Report 19 January 2009, available online at: <http://www.niassembly.gov.uk/record/reports2008/090119.pdf> (accessed 25 May 2011) (see page 297)

² Official Report 6 October 2009, available online at: <http://www.niassembly.gov.uk/record/reports2009/091006.htm#AQO168/10> (accessed 25 May 2011)

³ In response to AQO 1317/11, tabled 10 March 2011

existing departments should be reduced to *between* six and eight, although it actually proposed an eight-department structure.⁴

Alliance proposed that the number should be reduced from twelve to eight.⁵

None of the other political parties made explicit statements about or commitments to reducing the numbers of departments.

2. Current number of departments

There are currently twelve departments. The Good Friday/Belfast Agreement provided for First and deputy First Ministers, and 'up to ten Ministers with Departmental responsibilities.'⁶

Section 17 of the Northern Ireland Act 1998 provides that:

17.(1) The First Minister and the deputy First Minister acting jointly may at any time, and shall where subsection (2) applies, determine—

(a) the number of Ministerial offices to be held by Northern Ireland Ministers; and

(b) the functions to be exercisable by the holder of each such office..

(2) This subsection applies where provision is made by an Act of the Assembly for establishing a new Northern Ireland department or dissolving an existing one.

(3) In making a determination under subsection (1), the First Minister and the deputy First Minister shall ensure that the functions exercisable by those in charge of the different Northern Ireland departments existing at the date of the determination are exercisable by the holders of different Ministerial offices..

(4) The number of Ministerial offices shall not exceed 10 or such greater number as the Secretary of State may by order provide..

(5) A determination under subsection (1) shall not have effect unless it is approved by a resolution of the Assembly passed with cross-community support.⁷

⁴ Democratic Unionist Party (2011) 'Manifesto 2011' available online at: http://www.mydup.com/efiles/DUP_Manifesto_2011/pubData/source/DUPManifesto2011.pdf (accessed 25 May 2011) (see page 24)

⁵ Alliance Party (2011) 'Manifesto Summary' available online at: <http://www.allianceparty.org/document/> (accessed 25 May 2011)

⁶ <http://cain.ulst.ac.uk/events/peace/docs/agreement.htm>

⁷ <http://www.legislation.gov.uk/ukpga/1998/47/section/17>

This means that in practical terms a change in the number of departments will require, at the very least, agreement of the two largest political parties: change can only occur if FM and dFM act jointly.

3. Cost savings?

The motion passed by the Assembly refers to ‘the importance of ensuring that the maximum amount of public spending is directed at front line services.’ This implies that the rationale for reducing the number of departments is to save money – presumably expressed in terms of ‘back office administration’ or ‘bureaucracy’ – on the running costs of government. Indeed, the Minister of Finance’s answer referred to ‘efficiency’ and the OFM/dFM answer both refer to ‘efficiency’ and ‘effectiveness.’

What constitutes a saving?

According to the National Audit Office (NAO), Value-for Money savings (i.e. where actual spend is below the counterfactual) only occur when conditions apply.⁸ Savings must be:

- **Sustainable:** Savings must exist for at least the current year and be sustained for two subsequent financial years.
- **Neutral to service quality:** Reforms must not have impacted adversely on the quality of public services in terms of strategic objectives and public service agreements.
- **Cashable:** Cashable gains involve reducing inputs without affecting service quality. Non-cashable gains (in which outputs are increased for a given level of input) cannot be reported.
- **Realised:** Savings must have materialised in the year in which they are reported in order to impact overall spending levels.
- **Net of Costs:** The upfront / investment costs and additional ongoing / running costs associated with the generation of savings must be subtracted from the value of the benefit to show the ‘net saving’.

Do departmental reorganisations realise these kinds of savings?

In March 2010, the National Audit Office (NAO) published *Reorganising central government*.⁹ This study sought to estimate the gross cost of reorganisations of central UK government departments and their arm’s length bodies between 2005 and 2009. The NAO survey covered 51 reorganisations at a gross cost of £780m, or £15m per reorganisation.

⁸ Independent review of reported CSR07 value for money savings, *National Audit Office*, July 2010 (p. 5)

⁹ NAO (2010) ‘Reorganising central government – full report’ available online at: http://www.nao.org.uk/publications/0910/reorganising_government.aspx (accessed 27 May 2011)

The NAO states that these costs:

...do not take account of financial and non-financial benefits generated by reorganisation, because we found limited evidence of measurable benefits, or of reorganisation being the most cost effective way to deliver those benefits.¹⁰

The NAO found that the motivations for reorganisations varied. Departments tend to be reorganised (often at short notice) for policy reasons. Arm's length bodies tend to be reorganised for service delivery and efficiency reasons.

The ability for central government to identify reorganisation costs is "very poor" because:

- There is no standard approach for preparing and approving business cases assessing expected costs and intended benefits. It is therefore easy to take decisions without clearly demonstrating that they are sensible;
- Generally, reorganisation budgets are not set for departmental reorganisations (and only in about half of arm's length body reorganisations) which results in costs being hidden and borne by routine business activities in ways that are likely to be unclear and unplanned; and,
- There is no requirement for bodies to disclose the costs of reorganisations after they happen.

The NAO argues that central government bodies are weak at identifying and systematically securing the benefits of reorganisation. This is partly because the reasoning is expressed in broad terms without clear explanations of the benefits (which is why the information reproduced in section 1 is important) and also because no metrics are set to track the benefits that should justify the reorganisation.

Finally, even though a departmental reorganisation is a project (and in the case of, for example, the merger of the Inland Revenue with Customs and Excise, clearly a very major one) the NAO found that adherence to the principles of good project management is poor.

The NAO went as far as to conclude that:

The value for money of central government reorganisations cannot be demonstrated given the vague objectives of most such reorganisations, the lack of business cases, the failure to track costs and the absence of mechanisms to identify benefits and make sure they materialise. Some arm's length bodies apply sound cost management and systematic benefits measurement, but even they cannot necessarily demonstrate value for

¹⁰ NAO (2010) 'Reorganising central government – full report' available online at: http://www.nao.org.uk/publications/0910/reorganising_government.aspx (accessed 27 May 2011) (see page 4)

money. Overall, the value for money picture is unsatisfactory and the costs are far from negligible.¹¹ [emphasis added]

Another study - *Making and Breaking Whitehall Departments*¹² by the London School of Economics' Institute for Government – found that Whitehall reorganisations are sometimes (but not invariably) costly to undertake, and (echoing the NAO findings) are often rushed and poorly planned.

A barrier to effective reorganisation is identified as being the Treasury's approach that reorganisations should be cost-neutral and that no new resources can be made available to help smooth the changes. It states:

The Treasury stance has no counterpart in the private sector and it is dysfunctional, forcing new departments to obsess about finding relatively small amounts of money (say £15m for the first year of a new departmental centre, which is trivial in terms of overall central government running costs) to simply conduct their basic operations.¹³

Bluntly then, the answer to whether these reorganisations save money seems to be 'no'. Or at the very least, it's impossible to tell.

4. Lessons for reorganising NICS departments

Drawing from the recommendations made by the NAO there are some fairly clear and fundamental lessons to be learned by the Northern Ireland Executive if it is going to reduce the number of NICS departments.

- There should be a single central team with oversight of reorganisation which should:
 - oversee a 'cool-off' period for reorganisations of departments, during which time most staff would stay in their current organisations and change would be achieved through, for example, a small support team for ministers and changed reporting lines; and,
 - oversee a review process of these minimally disruptive arrangements after two years, leading to the implementation of more permanent change, if appropriate, at that stage;

This team could also:

- undertake continual assessment of how well the interaction of central government bodies is working and where there is scope or need for improvement; and,

¹¹NAO (2010)'Reorganising central government – full report' available online at:

http://www.nao.org.uk/publications/0910/reorganising_government.aspx (accessed 27 May 2011) (see page 6)

¹² Institute for Government (2010) 'Making and Breaking Whitehall Departments' available online at:

http://www.instituteforgovernment.org.uk/pdfs/making_and_breaking_whitehall_departments.pdf (accessed 27 May 2011)

¹³ Institute for Government (2010) 'Making and Breaking Whitehall Departments' available online at:

http://www.instituteforgovernment.org.uk/pdfs/making_and_breaking_whitehall_departments.pdf (accessed 27 May 2011) (see page 81)

- be accountable for overseeing the overall reporting.
- A statement should be made to the Assembly quantifying the expected costs, demonstrating how benefits justify these costs and showing how they will be measured and controlled;
- Intended benefits should be stated in specific measurable terms;
- Planned and actual costs for reorganisation should be separately identified and controlled;
- A breakdown of planned and actual costs, and of financial benefits, should be reported to the Assembly; and,
- Those departments involved should share with the central team an analysis of lessons learned within two years of the reorganisation.

Drawing on the Institute for Government work, there are the following further considerations:

- Once plans are announced for a reorganisation the Assembly should have an opportunity to consider them in detail – perhaps through statutory committee meetings as well as plenary debate;
- The senior officials involved should outline how the reorganisations will work and provide a detailed cost-benefit analysis (this could instead be performed by the proposed but as yet unformed Efficiency Review Panel). The Northern Ireland Audit Office could be asked to consider this analysis in advance;
- The Executive needs to consider making allocations available to affected departments, perhaps through Invest-to-Save funds, to meet the extra costs that will be incurred in the reorganisation; and,
- The central team proposed by the NAO could also be developed as a ‘scratch team’ to run new departments’ core operations (HR, press, facilitating IT and finance changes) for a transition period while senior departmental officials deal with the reorganisation itself; and,
- The Assembly should evaluate the change programme against the original plans submitted.

5. Concluding remarks

While the picture painted by the experience of central UK government departments is rather bleak in terms of the potential for savings, it may be noted that the NICS may have some advantages over their Whitehall counterparts when it comes to reorganisation. Some functions are already delivered as shared services, such as HRConnect, IT Assist and Account NI, for example. This may make the transition process more straightforward. Also, the NICS has a single pay structure whereas Whitehall departments negotiate pay and grading in a decentralised manner.

On the other hand, the fact that some back-office functions are already shared may undermine further the potential for reorganisation to deliver savings. In addition, if the changes require contracts with the shared services partner organisations to be renegotiated, there could be costs involved in varying those contracts.