

Committee for Finance and Personnel

Report on the Preliminary Inquiry into Public Sector Efficiencies

Together with the Minutes of Proceedings of the Committee
Relating to the Report, Written Submissions, Memoranda and the Minutes of Evidence

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Committee for Finance and Personnel

Report: NIA 60/09/10R

Committee Powers and Membership

Powers

The Committee for Finance and Personnel is a Statutory Departmental Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, Section 29 of the Northern Ireland Act 1998 and under Assembly Standing Order 48. The Committee has a scrutiny, policy development and consultation role with respect to the Department of Finance and Personnel and has a role in the initiation of legislation.

The Committee has the power to;

- consider and advise on Departmental budgets and annual plans in the context of the overall budget allocation;
- approve relevant secondary legislation and take the Committee Stage of primary legislation;
- call for persons and papers;
- initiate inquiries and make reports; and
- consider and advise on matters brought to the Committee by the Minister of Finance and Personnel.

Membership

The Committee has eleven members, including a Chairperson and Deputy Chairperson, with a quorum of five members.

The membership of the Committee since its establishment on 9 May 2007 has been as follows:

Ms Jennifer McCann (Chairperson)

[2] Mr David McNarry** (Deputy Chairperson)

[3] Mr Jonathan Craig***

Dr Stephen Farry

Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
[1] Mr Ian Paisley Jnr*
Ms Dawn Purvis

[1]* Mr Ian Paisley Jnr replaced Mr Mervyn Storey on the Committee on 30 June 2008

[2]** Mr David McNarry replaced Mr Roy Beggs on the Committee on 29 September 2008

[3]*** Mr Jonathan Craig replaced Mr Peter Weir on the Committee on 13 April 2010

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List of Abbreviations and Acronyms used in the Report

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BCS Business Consultancy Service

C&AG Comptroller and Auditor General

CAL Centre for Applied Learning

CAP Common Agricultural Policy

CBI Confederation of British Industry

CIPFA Chartered Institute of Public Finance and Accountancy

CoPE Centre of Procurement Expertise

CPD Central Procurement Directorate

CSR Comprehensive Spending Review

CRT Capital Realisation Taskforce

DARD Department of Agriculture and Rural Development

DCAL Department of Culture Arts and Leisure

DE Department of Education

DEL Department for Employment and Learning

DETI Department of Enterprise Trade and Investment

DFP Department of Finance and Personnel

DHSSPS Department of Health, Social Services and Public Safety

DID Delivery and Innovation Division

DOE Department of the Environment

DRD Department for Regional Development

DSD Department for Social Development

EDP Efficiency Delivery Plan

ePIMS Electronic Property Information Mapping Service

ERINI Economic Research Institute of Northern Ireland

ETN Efficiency Technical Note

EU European Union

FSA Financial Services Authority

FTE Full-Time Equivalent

GAE General Administration Expenditure

GB Great Britain

GDP Gross Domestic Product

HMRC Her Majesty's Revenue and Customs

HR Human Resources

ICT Information and Communication Technologies

LPS Land and Property Services

MLA Member of the Legislative Assembly

NAO National Audit Office

NISRA Northern Ireland Statistics and Research Agency

NDPB Non-Departmental Public Body

NHS National Health Service

NI Northern Ireland

NIAO Northern Ireland Audit Office

NICS Northern Ireland Civil Service

ODPM Office of the Deputy Prime Minister

OFMDFM Office for the First Minister and Deputy First Minister

OGC Office of Government Commerce

OSNI Ordnance Survey of Northern Ireland

PAC Westminster Public Accounts Committee/ NI Assembly Public Accounts Committee

PEDU Performance and Efficiency Delivery Unit

PfG Program for Government

PSA Public Service Agreement

PSD Public Spending Directorate

PMDU Prime Ministers Delivery Unit

SSA Social Security Agency

SR Spending Review

TPI Total Place Initiatives

UK United Kingdom

VfM Value-for-Money

Executive Summary

While the full implications for Northern Ireland from the current deficit in UK public sector finances have still to emerge, there can be little doubt that the coming years will see a period of exceptional budgetary constraint for the local public sector. The pressure is already mounting on government departments and public bodies to maintain, or even increase, service delivery with decreasing resources. Terms such as "budget cuts", "value-for-money savings" and "efficiency gains" are being used interchangeably to describe approaches to addressing the public expenditure pressures, while there is increasing public concern over the impact of these measures on priority frontline services. This situation presents the Executive with an immense challenge going forward, especially given the scale and immediacy of the additional budgetary pressures and the fact that Northern Ireland departments have already been working to achieve cumulative efficiencies of between 2% to 3% over each of the last six years.

It is in this context that the Assembly Committee for Finance and Personnel decided to undertake this preliminary inquiry, with the aim of examining how the Executive can maximise efficiencies without having an adverse impact on essential front-line services and strategic policy priorities. As part of its investigation, the Committee also sought to establish some clarity around the nature of proper efficiency gains and how they differ from straightforward budget cuts. The Inquiry also examined approaches to monitoring and overseeing the delivery of efficiencies, including the identification of issues and lessons which will be of help to all the Assembly statutory committees in scrutinising the performance of their departments in this area. Consideration has also been given to the opportunities for realising further efficiency savings in the future and to the types of accompanying measures needed to ensure that our public services are delivered effectively as well as efficiently.

To inform its considerations, the Committee received evidence from a number of expert witnesses, with experience of efficiency programmes locally and in other jurisdictions. The Inquiry has also drawn on a wide range of other sources, including: relevant plenary debates; Ministerial responses to Assembly Questions on efficiency savings across departments; guidance issued by the Department of Finance and Personnel on efficiency delivery plans; the Department's own Efficiency Delivery Plan; Assembly Research papers; correspondence with other Assembly committees; in addition to a wider literature review of best practice in this subject area.

A number of key themes have emerged from the Inquiry findings. Foremost of these is the need for the Executive to set out clearly the essential services and strategic policies which are to receive priority, in terms of ensuring that there is no diminution in the level and quality of services delivered or outcomes achieved as a result of the planned savings. A further theme is that it will be vitally important for the Executive to take a strategic approach to targeting, delivering and monitoring the additional efficiency gains. This will help to avoid both a crude "salami slicing" of departmental budgets and a disjointed or silo approach by individual departments, which can be counterproductive in terms of the efficiency of the wider public sector.

As all public sector bodies move into this period of constrained spending, the Committee recognises that there is much more work to be done. This will involve more input from the key stakeholders, including the other Assembly statutory committees and wider public engagement, to fully explore the issues raised. The report findings and recommendations aim to provide a useful starting point for discussion and a positive contribution to the debate about the best way forward in driving out further public sector efficiencies.

Key Conclusions and Recommendations

Background to the Efficiency Drive

1. The Committee is mindful that the public sector in Northern Ireland has been working to achieve cumulative efficiencies of between 2% to 3% over each of the last six years. Moreover, the pressure on departments to deliver "more with less" continues to mount in 2010-11, with additional savings of £123m forming part of the £367m in in-year budgetary pressures confirmed in April, with a further £128m to be imposed on the Northern Ireland Block as announced in May. The Committee does not underestimate the challenge that this presents to the Executive, both in terms of the current year and, more especially, as regards the, as yet to be quantified, additional budgetary reductions in the period 2011-14. The proposals arising from this preliminary inquiry are, therefore, intended as a positive contribution to the deliberation on how to meet this challenge. (Paragraph 33)

Budgetary Savings or Efficiency Gains?

2. The Committee recognises that the scale and immediacy of the current public expenditure pressures facing the Executive means that straightforward budgetary savings are required in 2010-11. However, the Committee believes that these can and should be achieved without having an adverse impact on essential public services and strategic policy priorities. This necessitates a thorough-going reassessment of spending programmes to identify those which have achieved or are no longer fulfilling their intended purpose and those which are lowest priority and therefore offer scope for allocative savings. (Paragraph 35)

3. The Committee also contends that, in addressing the immediate public expenditure pressures for 2010-11 through budgetary savings, the Executive should not lose sight of the benefits of achieving real public sector efficiency gains in the medium to long term, as this will assist in minimising and managing any further public expenditure pressures in the years ahead. (Paragraph 36)

4. The Committee is concerned that there is no clear audit trail to give assurance that the 3% cumulative savings deducted from departments in the Budget for 2008-11 have been allocated to key frontline services and Programme for Government priorities. Arising from the recent Review of 2010-11 Spending Plans for Departments, the Committee highlighted similar concerns around the lack of information on how departments will manage the additional in-year budgetary pressures to safeguard essential services and strategic policy priorities. The Committee therefore calls on the Department of Finance and Personnel and the wider Executive to make the necessary arrangements to ensure that, in future, the requisite information and transparency is provided to enable the Assembly and the wider public to track how such savings are applied. (Paragraph 39)

The Need for a Strategic Approach

5. The Committee recommends that the Executive develops a co-ordinated strategy for targeting, identifying and realising further efficiencies, which protects essential frontline services and strategic policy priorities and avoids the imposition of pro rata budgetary cuts across all departments. Whilst the Committee believes that this further efficiency drive should include measures to improve the efficiency of front-line services as well as back-office operations, it calls for robust safeguards to ensure that there is no consequential diminution in the level and quality of service provision in priority areas. (Paragraph 46)

6. The Committee believes that the 2008-11 Programme for Government and Public Service Agreement framework is cumbersome and overly complex in terms of the need to prioritise at a time of exceptional budgetary constraint. As such, the Committee calls on the Executive to urgently review its Programme for Government, which is due to expire in the current financial year, and set out clearly the services and policies to receive highest priority during the upcoming period of further budgetary savings and efficiencies. (Paragraph 50)

7. The Committee recommends that, as part of its central monitoring of the efficiency programme, the Department of Finance and Personnel should provide continual assurance to the Executive and Assembly that: (a) the short-term focus on savings is not adversely affecting the achievement of key long-term objectives at a departmental and Executive level; and (b) efficiencies being claimed at a departmental level are not having a negative effect on the efficiency of the wider public sector. (Paragraph 54)

8. The Committee recommends that, in its central personnel role, the Department of Finance and Personnel should ensure that the skills exist and are marshalled within departments, and their arms-length bodies, to effectively examine systems and processes for the purpose of identifying valid efficiencies; and, more generally, that a culture of efficient delivery is embedded into the routine responsibilities of public sector managers. The Committee also believes that assurances are required in terms of the capability of departmental boards and the governing bodies of public bodies to lead and oversee the efficiency drive. (Paragraph 59)

Planning, Delivering and Monitoring Efficiencies

9. The Committee would encourage the Northern Ireland Audit Office to urgently review the performance of departments to date in achieving efficiency gains, including both in terms of the reliability of the identified efficiencies and the progress which has been reported against departmental efficiency delivery plans. The Committee considers that the findings and lessons from such a review could be valuable in informing any further efficiency drive following the next UK Spending Review. (Paragraph 72)

10. The Committee recommends that, pending any Northern Ireland Audit Office review of the efficiency programme in Northern Ireland, the Department of Finance and Personnel should examine the findings and recommendations from the work of both the National Audit Office and the Westminster Public Accounts Committee in relation to the efficiency programme in Whitehall and ensure that all applicable lessons and action points have been addressed by Northern Ireland departments. (Paragraph 73)

11. The Committee recommends that, in fulfilling its central monitoring role, the Department of Finance and Personnel should ensure that a clear definition of valid efficiencies is applied consistently both in its guidance to departments and by departments in their efficiency delivery plans. It is the view of the Committee that a lack of consistency and transparency in this area risks both confusion within the public sector and controversy in the political and public domain in terms of the rationale and outworking of the efficiency programme. (Paragraph 77)

12. The Committee calls on the Department to facilitate a process whereby a single Efficiency Delivery Plan for each department is published in a central location to allow effective monitoring of efficiency delivery plans both centrally by the Department of Finance and Personnel and by the Assembly's statutory committees. In addition, the Department of Finance and Personnel and the relevant statutory committee should subsequently be informed by departments of any amendments made to their efficiency delivery plans. (Paragraph 83)

13. The Committee recommends that both the Department of Finance and Personnel centrally and each Assembly statutory committee encourage departments to provide clear quantitative and qualitative evidence on the inputs and outputs associated with the specific services which they provide, for the purpose of ensuring more effective validation and measurement of efficiency gains. (Paragraph 91)

14. The Committee calls on the Department of Finance and Personnel centrally to determine whether it is appropriate for increased income from charging to be included in departments' efficiency delivery plans, given that it is not included in the Efficient Government Programmes in Whitehall or Scotland. The Committee believes that, if budgetary savings and other measures are to be included in efficiency delivery plans, then these should be distinguished from proper efficiencies. (Paragraph 102)

15. The Committee is concerned to find evidence that Full-Time Equivalent staff numbers in the Northern Ireland Civil Service had increased notably by April 2009, following the achievement of the Fit for Purpose reductions in April 2008. Moreover, the Committee sees scope for closer monitoring of efficiencies achieved in accommodation expenditure and calls on the Department to provide a detailed breakdown of accommodation efficiencies achieved since April 2008, including clear evidence to verify the further reductions in Full-Time Equivalent posts being projected by departments. (Paragraph 106)

16. The Committee has concerns that, as baselines for efficiency targets from 2008–2011 were set in the Budget in January 2008, departments could claim to be achieving efficiencies by living within these baselines, even if they receive additional funds for these programmes in subsequent quarterly monitoring rounds. The Committee calls on the Department of Finance and Personnel to examine this issue to determine whether this has happened to date and how this anomaly might be addressed going forward. (Paragraph 110)

17. Given the concerns expressed in the evidence around the potential for departments to circumvent limits on administration expenditure, the Committee calls on the Department of Finance and Personnel to provide a detailed analysis of administration spend by departments in 2008-09 and 2009-10, including the extent to which targets have been achieved at both departmental and block level. (Paragraph 114)

18. The Committee wishes to highlight, as a case in point, the tardiness on the part of the Department of Finance and Personnel in updating and reporting progress on its Efficiency Delivery Plan and seeks an assurance from the Department that this matter will be given higher priority going forward. (Paragraph 117)

19. The Committee recommends that all Assembly statutory committees give increased attention to examining the efficiency delivery plans of their respective departments, including progress to date. In undertaking this scrutiny the committees may wish to draw on the practical advice received from the expert witnesses to this Inquiry. In this regard, the committees may also wish to seek evidence on how departmental boards and governing bodies of arms-length bodies are applying the good practice efficiency checklist published recently by the Northern Ireland Audit Office. (Paragraph 124)

20. The Committee has concerns with the central reporting of progress by departments in achieving efficiency targets, both with the time lag in receiving co-ordinated progress reports from the Department of Finance and Personnel and as regards the reliability of the risk levels attached by departments to efficiency achievement. Also, the Committee is alarmed to note from the most recent progress report that almost 50% of planned savings for 2010-11 are considered to be "on track with significant risk" or "not on track". This is especially worrying given the additional savings that have subsequently been announced for 2010-11. The Committee considers that the Department of Finance and Personnel's central monitoring of departmental efficiency delivery plans needs to be more robust and that the outcomes should be reported to Assembly statutory committees, via the Committee for Finance and Personnel, on a more timely basis. (Paragraph 137)

Improving Public Sector Efficiency in the Future

21. The Committee recognises that scope exists for achieving additional efficiencies in the Northern Ireland public sector by further reducing bureaucracy, eliminating the duplication of services and improving Human Resources management practices. The Committee believes that this will require strong leadership at both the political and managerial levels of government, together with combining the strategic "top down" and "bottom up" approaches to effecting organisational and cultural change across all public bodies. (Paragraph 146)

22. The Committee continues to see shared services as offering significant potential for realising true efficiencies in the medium to long term. However, it notes with concern that, in the recent report on performance against Public Service Agreements and departmental business targets for 2009-10, the Department of Finance and Personnel has attached an amber status to the benefits realisation plans for HRConnect, Account NI, and Records NI. Whilst welcoming the continued focus on the benefits realisation targets within the Department of Finance and Personnel business plan for 2010-11, as the reform programme moves forward, the Committee will wish to receive regular updates on the performance of the shared services, including substantiation of reported efficiencies. (Paragraph 156)

23. The Committee sees scope for more strategic co-ordination of the public procurement function to realise additional efficiencies, including in terms of e-procurement and collaborative purchasing between the different levels of government. The Committee reiterates its previous call for a new target to be set for achieving further efficiencies from public procurement, to include a monetary value and baseline for such savings, with an associated implementation plan which links to individual departmental efficiency delivery plans. (Paragraph 160)

24. Given the potential to realise further efficiency savings from accommodation expenditure, the Committee welcomes moves by the Department of Finance and Personnel to develop a policy on remote working, which is likely to entail measures such as the use of local satellite offices and shared desking, and to facilitate this through improvements to the Northern Ireland Civil Service information technology and telecommunications systems. The Committee is mindful that the concept of remote working has been under consideration for some time and urges the Department to establish policy promptly in this area, including in terms of implementation targets, in the context of finalising the development of the Northern Ireland Civil Service Accommodation Plan 2010-11 to 2012-13. (Paragraph 165)

25. Given the importance of good practice asset management and capital realisation to wider public sector efficiency, the Committee recommends that surplus government properties, together with the annual costs involved, should be fully disclosed in a more user friendly and meaningful way. In this regard, the Committee believes that a comprehensive, mandatory central asset register for all public bodies – as recommended in the report of the Capital Realisation Taskforce in December 2007 – should be established without further delay. The

Committee also recommends that, in its central finance role, the Department of Finance and Personnel should ensure that an exercise to identify surplus property is a regular feature of annual budget processes within departments and that a mechanism is used to independently assess the outcomes of such exercises. (Paragraph 171)

26. Whilst the Committee is disappointed at the low level of uptake of the Performance and Efficiency Delivery Unit services by departments to date, it acknowledges that this issue can only be addressed through agreement amongst Executive Ministers. The Committee therefore calls on the Department of Finance and Personnel to put forward options to the Executive for ensuring that the Performance and Efficiency Delivery Unit functions are exercised effectively across all departments. This might include maintaining the Performance and Efficiency Delivery Unit in its existing form, with each Executive Minister committing to utilise its services on a more proactive basis. However, other options for consideration might include, for example: establishing the Unit as an independent body in statute; relocating the Unit elsewhere outside the Department of Finance and Personnel; or retaining the business function within the Department of Finance and Personnel by merging the work of the Performance and Efficiency Delivery Unit with the Business Consultancy Service to provide a more comprehensive service to departments. (Paragraph 185)

27. Overall, the Committee is supportive of the Invest to Save initiative and considers that it is another useful tool for incentivising departments to make efficiency savings. While at this stage the Committee would, in principle, be supportive of a continuation of this initiative in future budgetary cycles, it will wish to consider the outcome of any scrutiny by the relevant Assembly statutory committees of the implementation of the programme during 2010-11 to assess its effectiveness. (Paragraph 191)

Other Related Challenges

28. The Committee considers that the efficiency drive will need to be accompanied by an equally important focus on effectiveness in public service delivery. This will necessitate a range of business improvement measures across the public sector, including the consistent application of best practice in governance, management and budgeting, aimed at optimising the allocation and use of resources and raising the performance and effectiveness of public services. The Committee also notes calls for the Executive to consider revenue-raising measures to support public services. While the scope of this preliminary inquiry did not enable a detailed examination of these accompanying measures, the Committee believes that such issues will take on greater significance in this time of exceptional budgetary constraint. (Paragraph 213)

Introduction

Context

1. In a submission to the Committee in November 2009 the Economic Research Institute of Northern Ireland (ERINI) suggested that:

"As the UK financial position deteriorates the push to increase the efficiency with which the public sector uses increasingly scarce public expenditure resources to deliver services is being constantly ratcheted up."^[1]

2. The new Chancellor's announcement^[2] on 24 May 2010 of a further £6.2bn savings in 2010-11 has given an indication of how the incoming Westminster Government intends to begin to address the UK's budget deficit in the short-term. Whilst the full implications for NI departments are as yet unclear, the Department of Finance and Personnel (DFP) has estimated that NI's

share of this round of cutbacks will be £128m. The Minister of Finance and Personnel stated that the three options before the Executive were: to implement all the cuts in the current financial year, to defer some, or to postpone all until 2011-12. The Minister further suggested that some of the necessary savings could be realised from monies surrendered by departments during the in-year monitoring process.^[3] At the time of agreeing this report, however, the Committee awaits confirmation as to how and when the Executive plans to address these additional savings.

3. In terms of further pressures on public expenditure over the period 2011-12 to 2013-14, ERINI has concluded that, based on projections from the Institute for Fiscal Studies, "even in a most favourable case where large spending departments in Whitehall that have more or less total comparability with NI departments are protected the outcome is still the loss of between £500 – 600 million in real terms over three years."^[4]

4. Concern felt by Assembly Members over the potential impact of efficiency savings on front line services has been expressed during plenary debates and through a number of Assembly Questions (see Appendix 4). In evidence to the Committee on 29 April 2009, a DFP official acknowledged that "it is always difficult when efficiencies cross the line and become cuts."^[5]

5. It is therefore timely that the Committee for Finance and Personnel, given its key role in scrutinising a range of strategic and cross-cutting issues which have an impact on public expenditure and financial performance across the Northern Ireland Civil Service, pays particular attention to the issue of efficiency savings. The Committee believes that consideration of such medium-to-long term strategic finance issues is important at this stage, in terms of minimising and managing any further public expenditure pressures in the years ahead.

Terms of Reference

6. At its meeting on 14 October 2009, the Committee agreed that, as part of its role in scrutinising strategic public finance issues, the efficiency programme for NI departments merited further examination and agreed to invite expert witnesses to assist its scrutiny. The Committee agreed that the primary focus of this preliminary inquiry would be on how departments can maximise efficiency savings without affecting priority frontline services, but that it would also seek expert evidence on the following:

- the nature and definition of efficiency savings, including how they differ from other savings and budgetary measures, including standard financial management good practice;
- approaches to measuring, validating and reporting on efficiencies, including possible improvements to Efficiency Delivery Plans (EDPs) and what Assembly statutory committees should be looking for as evidence that departments are achieving efficiencies whilst maintaining key frontline services;
- possible models for ensuring a strong challenge/oversight function, including at a cross-departmental level; and
- future opportunities for realising further savings, including from further shared services, improved business processes and zero-based budgeting.

7. Whilst the Committee had originally intended that its analysis of the evidence from expert witnesses would form part of its co-ordinated report on the Review of 2010-11 Spending Plans of NI Departments^[6], it subsequently decided to present its findings in this separate report, which looks beyond 2010-11.

8. The Committee believes that the findings from this initial inquiry will offer a basis for informing future Assembly scrutiny of the efficiency drive across departments. However, the

Committee anticipates that, once there is clarity on the quantum of additional savings required from departments following the next UK Spending Review, there will be a need for a more in-depth and co-ordinated inquiry by the Assembly statutory committees aimed at ensuring that efficiencies are maximised across departments, whilst safeguarding key frontline services and Programme for Government (PfG) priorities. The Committee considers that this further inquiry could be informed by work in other jurisdictions, including the outcome from the ongoing inquiry into the efficient delivery of public services which is being undertaken by the Finance Committee in the Scottish Parliament.^[7]

The Committee's Approach

9. The Committee subsequently took oral evidence from the following:

- Victor Hewitt, Director, ERINI, who previously worked in the NICS as Chief Economist and Head of Profession, including work in DFP in public expenditure planning and liaison with HM Treasury;
- the Comptroller and Auditor General, Kieran Donnelly and other senior officials from the Northern Ireland Audit Office (NIAO);
- Professor Colin Talbot, University of Manchester, Manchester Business School, who has recently completed major international comparative studies on the use of performance reporting systems (for the National Audit Office); and of budget participation and scrutiny systems (for the Scottish Parliament) and has advised parliamentary committees on performance and public spending issues. He acted as specialist advisor to the House of Commons Treasury Committee in its recent inquiry evaluating the efficiency programme.

10. The Committee also received written submissions from Professor Arthur Midwinter, who has undertaken major studies of local government finance and devolution finance and is a Budget Adviser to the Finance Committee of the Scottish Parliament. A written submission was also received from the Chartered Institute of Public Finance and Accountancy (CIPFA). The written submissions from the expert witnesses are available at Appendix 4.

11. By way of background information, a written briefing was prepared for each of the witnesses in advance of receiving their evidence. This included a background paper prepared by the Assembly Research Service; guidance on preparing efficiency delivery plans that was issued by DFP to other departments; DFP's own EDP; and Ministerial responses to Assembly Questions on the impact of efficiency savings.

12. Having considered the expert evidence received, the Committee took evidence from DFP on its own EDP and held a further oral evidence session with officials from DFP's Central Finance Group on its strategic role in monitoring efficiency plans. An oral evidence session was also held with DFP officials on the role and performance of the Performance and Efficiency Delivery Unit (PEDU). The Official Reports of these evidence sessions are available at Appendix 2.

13. To further inform its thinking, the Committee commissioned Assembly Research to prepare two additional research papers. The first paper, on "Methods of Budgeting", presented different approaches to budgeting in the public sector, while the second looked at public sector efficiencies within the context of a "Systems Thinking" approach. Both papers assisted members in reflecting on the tools available to NI public sector bodies seeking to improve the effectiveness and efficiency of their activities.

14. In October 2009 the Chairperson, acting in her capacity as an individual Assembly Member, tabled a question to each Executive Minister seeking information on what impact, if any, planned

efficiency savings within their departments was having on frontline services. A full set of responses is available at Appendix 4.

15. A number of plenary debates have also informed the Committee's report, including a Private Members' Motion on inviting PEDU to investigate potential non-front line savings within the Department of Health, Social Services and Public Safety (DHSSPS); the "Take Note" debate on the Review of 2010-11 Spending Plans for NI Departments; and the Minister of Finance and Personnel's motion on the Revised 2010-11 Spending Plans.^[8]

16. During the course of this Inquiry the Committee has taken a particular interest in the role which PEDU can play in assisting departments as they seek to deliver efficiency savings. As such, the Committee sought views from the other statutory committees on the current or potential use of PEDU within their respective departments.

17. The Committee considers that the Inquiry findings and recommendations provide an initial contribution from the Assembly to the ongoing deliberations and focus on efficiencies during the current period of increased budgetary constraint. However, this is only a first step and, as alluded to above, a more in-depth and co-ordinated inquiry, involving both input from the other statutory committees and wider public engagement, will be necessary to fully explore the issues raised.

18. The key issues arising from the evidence considered by the Committee are detailed in the remainder of the report.

Consideration of the Evidence

Background to the Efficiency Drive

19. In its written submission, ERINI helpfully put the efficiency drive in the public sector into context and detailed the background to date, both for the efficiency agenda at Whitehall and its subsequent consequences for NI. The ERINI submission also sounded a note of caution in the following statement:

"Efficiency savings seem to hold out the promise of sustaining, or even improving services at the cost of little, or no pain. Terms such as 'cutting waste', 'taking up the slack' and 'slashing bureaucracy to release resources for the frontline', reinforce this perception of getting something for nothing. In reality, however, securing true efficiency gains in delivering public services can be difficult both to achieve and to measure."

20. The present approach to efficiencies has largely been dictated in the UK by the 2004 report by Sir Peter Gershon, former chief executive of the UK Government's Office of Government Commerce (OGC), who was commissioned to identify the scope for making efficiency savings across the public sector as a whole. His report, *Releasing Resources to the Front Line: Independent Review of Public Sector Efficiencies*, defines efficiencies as "those reforms to delivery processes and resource (including workforce) utilisation that achieve:

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

iii. additional outputs, such as enhanced quality or quantity of service, for the same level of inputs; or

iv. improved ratios of output per unit cost of input; or

v. 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')."

21. In its evidence, NIAO informed the Committee that the key theme of this report was to embed a culture of efficiency change, and to tighten the definitions of efficiencies and what they are about. As to the extent to which this culture has been embedded into NI departments, it stated that "the process has not gone as far as it can go. It is a lot better than it was in the past, but the potential exists to improve and tighten the process and to subject it to more rigorous validation."

22. OGC classifies efficiency gains as cashable and non-cashable. Cashable efficiency savings release financial resources that could be deployed elsewhere, whilst maintaining outputs and their quality. Non-cashable efficiency gains take place when productivity or quality increases without releasing financial resources. In general, cashable efficiency implies less expenditure for the same outcomes and non-cashable gains occur where better outcomes are achieved for a given amount. The following table presents a summary of cashable and non-cashable efficiency gains.

Table 1: Cashable and Non-Cashable Efficiency Gains

Cashable Gains	Non-Cashable Gains
Reduce the level of inputs for the same outputs	Get greater outputs for the same inputs
Decrease outputs in return for a proportionately larger decrease in inputs	Increase outputs by a proportionately smaller increase in inputs
	Improvements in service quality for the same inputs

23. In his report, Gershon also identified the following six "workstreams", (i.e. broad areas of public sector activity, with the potential to deliver cashable and non-cashable efficiency savings):

- Procurement: purchase of goods and services, including: utilities, ICT systems, professional services, temporary labour, construction, social housing, social care, and environmental services;
- Back office functions: provide essential support to frontline services including finance, human resources, information technology support, procurement services, legal services, facilities management, travel services, marketing and communications;
- Transactional services: involve the most common interaction between government and the public (both citizens and private and community/voluntary sector organisations) including payment of benefits and pensions, collection of taxes, charges or fees and taxes; collection and exchange of information (e.g. registration of births and deaths) etc;
- Public service policy, funding and regulation: parts of government that develop policy, provide funding to, inspect, or regulate other parts of the public sector;
- Private sector policy, funding and regulation: government activities designed to impact on, or intervene in, the private sector; and
- Productive time of front-line public service professionals: including schools, hospitals, police, and public sector staff in general.

24. Flowing from the Gershon report, Spending Review 2004 put 2.5% cumulative efficiency targets in place for all departments.

25. Subsequently, in the Comprehensive Spending Review (CSR) 2007, the UK Government significantly increased the target for Value-for-Money (VfM) savings from efficiency measures. VfM savings under CSR 2007 differed from efficiency savings under the Gershon Efficiency Programme in a number of important ways:

- i. VfM savings take account of upfront and ongoing costs whereas efficiency gains under Gershon could be reported gross;
- ii. only cashable savings were recognised as VfM savings (up to 40% of Gershon efficiency savings were classified as "non-cashable");
- iii. VfM savings can be termed "allocative" – i.e. savings from stopping, or reducing, low priority activities as long as there is no adverse impact on Public Service Agreement targets or Departmental Strategic Objectives; and
- iv. the Gershon Efficiency Programme allowed departments to reinvest savings in front line services. However, CSR 2007 removed the money saved from Whitehall departments' resource allocations for the years 2008 to 2011 with the exception of HMRC, the Department for Work and Pensions, and the Ministry of Defence.

26. For the 2008-11 period covered by CSR 2007, NI departments were required to find 3% cashable efficiency savings. These were included in the Executive's Budget for 2008-11 and are set out in Table 2 below.

Table 2: Comprehensive Spending Review 2007 Cash Releasing Efficiency Targets by NI 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 2008-11^[9]

27. The amounts in this table were removed upfront from departmental budgets and reallocated for additional service provision in NI. Each department was then required to produce an Efficiency Delivery Plan (EDP) which was to set out how these targets would be achieved.

28. In his Budget 2009 statement, the then Chancellor announced plans to find an additional £5bn in efficiency savings from Whitehall departments in 2010-11, on top of the £30bn for 2008-11 already identified in CSR 2007.^[10] The implications for NI became clearer when, on 12 January 2010, the Minister of Finance and Personnel made a statement to the Assembly announcing the Review of 2010-11 Spending Plans for NI Departments. This Review was initiated as the Executive faced spending pressures totalling £367 million in 2010-11, and DFP reported that the consequence for NI of the additional £5bn in efficiencies at Whitehall was that, through the workings of the Barnett Formula, existing funding for 2010-11 would be reduced by £122.8m.^[11] In subsequent evidence, however, the Department explained that, while this figure was offset by an increase of £95.6m in additional Barnett allocations received as part of the Budget and Pre-Budget Report, since the Block Grant for 2010-11 was first set in the 2007 CSR, there remained a net reduction.

29. Arising from the written evidence from Professor Midwinter, the Committee queried with DFP whether the reduction in planned expenditure through Barnett consequentials for 2010-11 represented a reduction in the rate of growth rather than in the current budget baseline. During an evidence session with Departmental officials on 17 February 2010, the Committee sought further clarification from DFP as to the basis for including the £122.8m in the calculations for the £367m public expenditure pressures for 2010-11. DFP followed up by providing a table setting out the changes in the 2010-11 Block Grant since CSR 2007 (Appendix 3) and explained that the net reduction had resulted in a spending pressure because the Executive had fully allocated the previous Barnett additions to departments who had planned their programmes on that basis.

30. In its subsequent report on the Review of 2010-11 Spending Plans for NI Departments, the Committee echoed the dissatisfaction expressed by a majority of Assembly statutory committees with shortcomings in the information provided by departments on their revised spending proposals for 2010-11. In particular, this included the detail that departments were expected to provide on "the proposed measures to be taken to deliver additional savings whilst at the same time minimising the impact on the delivery of priority frontline public services."^[12]

31. In terms of future years, in his Budget 2009 statement, the then Chancellor additionally imposed a further £9bn in efficiency savings from 2011-14, with the NI media speculating at the time that this will mean a reduction in the NI Block of £75m per year during this period. In its evidence to the Committee, ERINI was of the view that the Chancellor's Budget reference to these new efficiency savings was somewhat vague and more detail will not be available until the next Spending Review covering these years, the timing of which should become clearer following the recent Westminster election. Until further clarification is obtained on whether these future efficiency savings will be spread across all Whitehall departments, or targeted on specific areas, it is not possible to calculate the NI consequentials precisely. ERINI did however estimate a cut of £220m over the three years (2011-14), which would be added to the Barnett consequentials of any programme cuts at Whitehall, needed to bring borrowing under control. The Committee also heard evidence from ERINI of the Chancellor's need to reduce the borrowing requirement from 12% to 6% of Gross Domestic Product (GDP) within four years.

32. In relation to the potential for further efficiency savings to be imposed on NI departments, the Committee heard evidence from DFP officials on 29 April 2009, shortly after the Chancellor's Budget 2009 statement, when a senior DFP official informed the Committee that:

"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."^[13]

33. The Committee is mindful that the public sector in NI has been working to achieve cumulative efficiencies of between 2% to 3% over each of the last six years. Moreover, the pressure on departments to deliver "more with less" continues to mount in 2010-11, with additional savings of £123m forming part of the £367m in in-year budgetary pressures confirmed in April, with a further £128m to be imposed on the NI Block as announced in May. The Committee does not underestimate the challenge that this presents to the Executive, both in terms of the current year and, more especially, as regards the, as yet to be quantified, additional budgetary reductions in the period 2011-14. The proposals arising from this preliminary inquiry are, therefore, intended as a positive contribution to the deliberation on how to meet this challenge.

Budgetary Savings or Efficiency Gains?

34. In its evidence, ERINI drew the Committee's attention to the McCarthy Report in the Republic of Ireland, which identified what could properly be achieved through efficiencies and highlighted that major savings could only be achieved through changes in policy. NIAO noted that this report was produced on the back of an emergency, when a sudden change in public finances occurred, but considered it important that consideration is given to worst case scenarios as it is almost impossible to deliver any real efficiencies in the short-term. In its written submission (at Appendix 4), CIPFA stated that:

"To reduce public expenditure on the scale required means that some less essential and lower priority public services will have to be cut, together with cost cutting of 'back office' expenditure. Therefore, we believe it should not be a pre-condition that all front line services should be protected from reductions in expenditure. This will require the Executive and the Northern Ireland Assembly to manage expectations about the provision of public services."

35. In this regard, the Committee recognises that the scale and immediacy of the current public expenditure pressures facing the Executive means that straightforward budgetary savings are required in 2010-11. However, the Committee believes that these can and should be achieved without having an adverse impact on essential public services and strategic policy priorities. This necessitates a thorough-going reassessment of spending programmes to identify those which have achieved or are no longer fulfilling their intended purpose and those which are lowest priority and therefore offer scope for allocative savings.

36. The Committee also contends that, in addressing the immediate public expenditure pressures for 2010-11 through budgetary savings, the Executive should not lose sight of the benefits of achieving real public sector efficiency gains in the medium to long term, as this will assist in minimising and managing any further public expenditure pressures in the years ahead.

37. In a recent report on efficiencies, 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."^[14]

This latter point is discussed later, in terms of the need to for the drive for increased efficiency to be accompanied by a focus on improving the effectiveness of public services.

38. ERINI informed the Committee that there are two mechanisms through which efficiency savings in Whitehall departments may be transmitted to NI. One mechanism is an announcement that HM Treasury is taking a percentage efficiency saving across the board from departments; therefore the NI Executive is required to take that percentage saving on the block grant. However, the mechanism which has tended to be used is to take the cuts in England through the Barnett Formula and to deliver the finalised figure against the block grant. As outlined earlier, in the Executive's Budget for 2008-11, it agreed to deliver the efficiency target by setting 3% cumulative efficiency targets for all departments.

39. In Professor Arthur Midwinter's forthcoming paper, *Efficiency Savings in the Scottish Budget: Problems of Accounting Practice*, which he helpfully shared with the Committee, in relation to the reallocation of efficiency savings in Scotland, he states that the use made of resources released is not highlighted in the Scottish Budget or in the subsequent EDPs and that "for most plans there is no clear audit trail from budget line to budget line to permit proper accountability for financial management."^[15] The Committee queried the approach taken in NI in this regard. During oral evidence on 13 January 2010, DFP officials acknowledged that it is very difficult to clearly link the savings, which were removed upfront from departmental baselines, with allocations to frontline services, and explained that the savings formed part of the overall pot of money available to the Executive and which was allocated to departments, based on the bids presented. In a subsequent written response to the Committee, DFP stated that "all planned efficiency savings in the 2008-11 Budget process were used to fund allocations to departments, which were made on the basis of the achievement of the targets for improved public services in the Programme for Government." Whilst it understands the process which was followed in funding allocations to departments, the Committee is concerned that there is no clear audit trail to give assurance that the 3% cumulative savings deducted from departments in the Budget for 2008-11 have been allocated to key frontline services and PfG priorities. Arising from the recent Review of 2010-11 Spending Plans for Departments, the Committee highlighted similar concerns around the lack of information on how departments will manage the additional in-year budgetary pressures to safeguard essential services and strategic policy priorities. The Committee therefore calls on DFP and the wider Executive to make the necessary arrangements to ensure that, in future, the requisite information and transparency is provided to enable the Assembly and the wider public to track how such savings are applied.

The Need for a Strategic Approach

40. The view was expressed in the Committee that savings should be sought in specific policy areas rather than across the board from all departments. The Committee believes that there is still evidence of departments operating within their own silos and issuing statements on the monetary value of the efficiencies which they can achieve on a departmental basis. As further public expenditure pressures take effect, there may need to be a process for prioritising frontline services and protecting these from future budgetary savings, although the Committee recognises that this may invite a certain amount of conflict at Executive level. However, if the drive for efficiencies translates into drawing a red line through an output for which a particular Department is responsible, the Committee believes that this outcome must be agreed by the Executive.

41. This view was supported by ERINI, who considered that departments should not be focused departmentally, but generically, on strategic targets in the Programme for Government, such as

improving the economy. ERINI saw the strategic approach to efficiencies as a way of encouraging departments from their silos and making them co-operate. Professor Talbot informed the Committee that the worst way to implement efficiencies is by top-slicing across the board, as it damages what you want to keep and protects what you do not want to keep. He concluded, however, that most Western governments resort to top-slicing as a quick fix, which is easy to implement and a way of sharing the pain, but it is extremely damaging, especially in the long-term.

42. The Committee has previously flagged up the possibility that the 3% cumulative efficiency targets imposed on all departments by the Executive may be more easily achievable for some departments and put enormous pressure on others. In its Report on the Executive's Draft Budget 2008-11, the Committee commented that the nature and structure of a department's budget and the particular demands thereon, will have a bearing in this regard.^[16] The Committee considered that some departments may be in a position to achieve efficiencies over and above the 3% target, and called on DFP to keep under review the comparative impact which the efficiency target is having on individual departments in delivering public services. In its response to the recommendations in the Committee's Report, DFP stated that the 3% per annum efficiency target had been inherited from Direct Rule Ministers and had been agreed by the Executive for the purposes of the Budget for 2008-11. DFP undertook to keep the situation under review.

43. In January 2010 the Committee noted an update from the Department on the monitoring of efficiency savings by NI Departments for 2008-09. All departments reported that they had achieved their savings target with two, the Department of Agriculture and Rural Development (DARD) and the Department for Social Development (DSD) slightly exceeding the target set. Aside from this, it was not possible to determine from the evidence provided whether some departments were more easily achieving their targets than others.

44. On 21 April 2010 members received a six-month progress report on the efficiency savings achieved by departments from April–September 2009. The delay in the report was due to late returns from several departments. The report indicated that, within the first six months, all departments had achieved over 50% of their efficiency savings target, with both the Department of Enterprise, Trade and Investment (DETI) and the Food Standards Agency already meeting their full year target. In the case of DETI, this is because the Department now had plans to deliver more savings than it had originally intended. Whilst over 12% of EDPs were considered to be "On Track with Significant Risk" or "Not on Track", DFP had not identified to which departments these figures relate. Again, on the basis of the progress report provided, it was difficult to ascertain if some departments are having more difficulty in meeting their targets than others, or which specific areas are at risk.

45. In his oral evidence, however, Professor Talbot confirmed for the Committee that some areas of the public sector will find it easier to achieve efficiency savings and there therefore needs to be a differentiating system to identify areas where major efficiency savings could be made and, conversely, areas where no efficiency savings are achievable. He stated that this must be examined in a much more fine-grained way than has traditionally been the case.

46. The Committee recommends that the Executive develops a co-ordinated strategy for targeting, identifying and realising further efficiencies, which protects essential frontline services and strategic policy priorities and avoids the imposition of pro rata budgetary cuts across all departments. Whilst the Committee believes that this further efficiency drive should include measures to improve the efficiency of front-line services as well as back-office operations, it calls for robust safeguards to ensure that there is no consequential diminution in the level and quality of service provision in priority areas.

47. In its evidence, CIPFA highlighted the need for political will and strong leadership in the NICS to take and implement tough decisions, including the need "to review the Programme for Government to identify key priorities." CIPFA was also in favour of delegating priorities and budgets to departments to ensure delivery, and stated that "this will ensure that only those priority public services are provided and savings are made by cutting out the non essential, low priority, services."

48. On a similar tack, NIAO has recently highlighted the need for a priority-based approach to budgeting and spending, which considers the competing priorities and decides where to target the limited funds available. NIAO advises that "in considering whether policies and services deliver value for money, leaders should consider which ones:

- are absolutely essential to delivering agreed outcomes and are already being delivered as efficiently and effectively as possible;
- should continue but need to be redesigned or reshaped to deliver them more efficiently and effectively; and
- could stop without significantly affecting public services and outcomes."[17]

49. In terms of the need for the Executive to clearly identify its key priorities, as far back as December 2007, the Committee echoed calls from a number of the Assembly statutory committees for greater clarity and simplification in this regard. It was noted at the time that within the draft PfG there was one overarching aim, five strategic and interrelated priorities of which one was the top priority, two cross-cutting themes and 38 goals, in addition to 23 PSAs, encompassing 95 objectives above a myriad of actions and targets.[18]

50. The Committee believes that the 2008-11 PfG and PSA framework is cumbersome and overly complex in terms of the need to prioritise at a time of exceptional budgetary constraint. As such, the Committee calls on the Executive to urgently review its PfG, which is due to expire in the current financial year, and set out clearly the services and policies to receive highest priority during the upcoming period of further budgetary savings and efficiencies.

51. Some concern was expressed by the Committee that the current drive for savings may cause an element of misdirection in the NICS, with focus on the achievement of long-term objectives being sacrificed for short-term gains. In other words, when the public purse is under pressure, there may be a temptation to cut services to effect short-term savings. NIAO informed the Committee that a short-term perspective of this nature creates risks for the public sector and that it had reported on a number of themes where investment now can generate greater savings in the future. For example, its review into obesity and type 2 diabetes concluded that the effective targeting of health promotion strategies could help to reduce the not inconsiderable cost burden of the disease. Similarly, its review of the Control of Bovine TB concluded that DARD did not have enough internal vets to test the cattle and so had to engage more expensive private sector vets. NIAO also informed the Committee that robust business cases needed to be in place for such initiatives, but that this was an area which needed to be protected in the current economic climate.

52. The Committee noted that CIPFA argued for greater delegation of authority and accountability from DFP to departments and Non-Departmental Public Bodies (NDPBs), with the scrutiny and challenge functions undertaken by Boards, the work of internal and external audit, the Accounting Officer and ultimately the Public Accounts Committee (PAC). In the view of CIPFA, this delegated oversight model would mean greater budgetary flexibility for departments and would "lead to greater clarity of roles, more focused accountability, the potential for Departments and NDPBs to be more flexible and innovative in their approaches to service

delivery, thereby unshackling these organisations to deliver, and still be held accountable for, better performance and greater efficiencies."

53. In his evidence to the Committee, however, Professor Talbot emphasised the risk of localised efficiency savings having a negative effect on the efficiency of the whole system. He referred to the system introduced in England, where hospitals stopped prescribing for outpatients, or people leaving hospital and referred these on to the local GP. Whilst the hospitals claimed efficiency savings, Professor Talbot informed the Committee that it cost the National Health Service (NHS) three times as much to fill a prescription through a local GP and dispense it through a private pharmacist, than dispensing it through a hospital. He also picked up on the example (also quoted by NIAO), where the NHS nationally claimed efficiency improvements of £1 billion in getting people out of hospital more quickly, but did not include statistics on the fact that emergency readmissions within 28 days were on the rise as patients had been discharged too early. Professor Talbot also informed the Committee that HMRC had claimed £650m efficiency savings under the Gershon Review, when it was simultaneously losing £9 billion in tax credit mistakes, which no one had included in the efficiency equation.

54. The Committee recommends that, as part of its central monitoring of the efficiency programme, DFP should provide continual assurance to the Executive and Assembly that: (a) the short-term focus on savings is not adversely affecting the achievement of key long-term objectives at a departmental and Executive level; and (b) efficiencies being claimed at a departmental level are not having a negative effect on the efficiency of the wider public sector.

Leadership, Skills and Cultural Issues

55. In its submission to the Committee, CIPFA contended that successful delivery of efficiency savings will depend on how senior executives and boards within departments and NDPBs "execute their responsibilities; develop the necessary skills to successfully undertake their scrutiny and challenge roles within the efficiency and financial management agendas; and exhibit leadership in embracing best practice in delivering efficiencies and better performance." CIPFA also offered a number of practical suggestions to promote increased professionalism amongst boards and governing bodies of public bodies to ensure they exercise a strong challenge and oversight function.

56. The CIPFA evidence also identified a range of requirements associated with the culture and capacity of organisations to ensure delivery of further savings. These included, for example: having a VfM culture within the organisation; monitoring and incentivising staff according to what they save instead of what they spend; having the courage to abandon projects that are not going to deliver benefits; and recognising that some projects require several years to deliver a financial return on investment.

57. In its evidence, ERINI stated that the question of whether departments can make decisions on efficiencies for themselves has traditionally been sidestepped. It questioned their capability to make tough decisions on efficiencies and considered that departments' current EDPs contained examples of taking the easier options (e.g. increasing charges or passing costs on, or proposing emotive efficiencies which are politically unpalatable, rather than getting to the core of the efficiency issue).

58. On whether the skills currently existed within departments to examine systems of delivery and make valid efficiencies, ERINI was of the view that the NICS is mostly a generalist body in the senior ranks, so specialist expertise is hard to find and the practice of moving people around every few years to give them breadth of experience is usually at the expense of depth. It stated that there is considerable talent in the public services which has perhaps not been organised to

promote the systematic pursuit of efficiency. ERINI also stated that achievement of efficiencies should be built into the DNA of the public sector and be part of a manager's daily activities, rather than as a result of a one-off exercise imposed from the centre. That said, it expressed the view that there will be some aspects of efficiencies that involve major changes in processes, practices or structures and that the system can only cope with major upheavals infrequently without becoming destabilized and putting services at risk.

59. The Committee recommends that, in its central personnel role, DFP should ensure that the skills exist and are marshalled within departments and their arms-length bodies to effectively examine systems and processes for the purpose of identifying valid efficiencies; and, more generally, that a culture of efficient delivery is embedded into the routine responsibilities of public sector managers. The Committee also believes that assurances are required in terms of the capability of departmental boards and the governing bodies of public bodies to lead and oversee the efficiency drive.

Planning, Delivering and Monitoring Efficiencies

Work of the National Audit Office (NAO) and the Westminster Public Accounts Committee (PAC)

60. NIAO informed the Committee that NAO had produced two reports examining the accuracy and reliability of efficiency savings claimed by GB departments, including a number of recommendations to improve the measurement of efficiency gains. In particular, NAO recommended that, for each reported efficiency gain, departments should ask:

- Are baselines for inputs, outputs and service quality representative of past performance?
- 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?^[19]

61. Other key recommendations made by NAO in its reports on efficiency savings included:

- Departments should report headcount reductions with greater transparency - in particular 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.

62. NAO specifically made two recommendations to OGC, the body in charge of driving and monitoring the efficiency programme at that time:

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

The implication being that the challenge function was not sufficiently robust and that the programme was not sufficiently open to scrutiny.

63. Both the NAO reports referred to above were taken as evidence sessions by the Westminster PAC. NIAO stated that, amongst the main conclusions drawn by the PAC were the following:

i. There were some doubts, and measurement weaknesses, around the reliability of the claimed efficiencies;

ii. There was also evidence that some efficiency projects may be having an adverse impact on service quality;

iii. Departments need a portfolio of indicators to identify more accurately factors contributing to changes in quality;

iv. Some of the claimed improvements in efficiency may not be sustainable. If lasting change is to be demonstrated, departments need to develop measures which reflect the unit cost of delivering key services and outputs over time;

v. Departments were reporting efficiencies without netting off the expenditure incurred to achieve them. Consequently, they may have over-stated their efficiency gains;

vi. The basis for some claimed efficiencies had not been sufficiently challenged. PAC recommended that the Treasury should adopt a more rigorous process for reviewing the supporting evidence for departments' claims, using qualified analysts and statisticians when required; and

vii. The full potential to achieve efficiencies was not being realised. Efficiency improvements were being sought from the narrow basis of a small collection of projects in each department. This was not encouraging departments to look at efficiency in the round.

64. According to NIAO, the PAC at Westminster has cast doubt on nearly three-quarters of the efficiencies claimed there and concluded that there was insufficient evidence to say with complete confidence that these were genuine efficiencies which did not compromise service delivery. The PAC's work at Westminster concluded that efficiency cannot be measured in isolation and must be considered in the context of a wider basket of performance indicators, particularly in service delivery. It also found that Westminster departments were reporting recurring efficiencies when they were one-off, short term gains which would not be repeated, and that some efficiencies were reported without netting off the expenditure incurred to achieve them. The Westminster PAC also recommended that a more robust challenge function should be in place to ensure that claimed efficiencies were genuine. The findings of the Westminster PAC were recently reflected in an open letter from the outgoing Committee Chairperson, Edward Leigh, to his successor, when he stated:

"If efficiency gains are to be anything other than empty words, more must be done to make them real and demonstrable. They must not be one off cuts, but savings deliverable year after year. And they are not genuine if, as we have found in a number of cases, they are achieved at the expense of the quality of service provided."[\[20\]](#)

65. In a House of Commons Treasury Committee report of July 2009 "Evaluating the Efficiency Programme", 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."^[21]

66. In his written evidence to the Committee (Appendix 4), Professor Midwinter outlined the key findings from Audit Scotland's review of the efficiency programme in Scotland, particularly in relation to the need for a clearer specification of savings as a necessary improvement to the financial information and the absence of appropriate output information to validate efficiency gains. Audit Scotland concluded that "efficiency savings and targets must be properly planned and integrated within the ongoing business of an organisation. Efficiency targets should therefore be included within corporate objectives, as well as service and departmental plans. Public bodies must also have identified baseline levels of service delivery and have effective systems for measuring and monitoring delivery of efficiency savings."

Work of NIAO to date

67. The public sector in NI was set a target to achieve cumulative efficiency gains of 2.5% per year from 2004-07, at least half of which would release resources to priority frontline services. In order to measure these efficiencies, DFP required all departments to produce Efficiency Technical Notes (ETNs), meant to provide a robust means of measuring, monitoring and quantifying the targeted financial impacts. DFP invited NIAO to review the initial drafts of these ETNs and to advise whether they would form a reliable basis for measuring efficiency savings.

68. The Committee heard that, although NIAO's work was unpublished, the key findings were presented to DFP senior management with a view to helping them improve the quality of ETNs. These included:

- i. The basis upon which savings were to be generated was not always clear, headcount reductions had not been specified and there was uncertainty as to whether any additional investment costs had been netted off from the efficiency saving;
- ii. 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 costing methodologies were vague;
- iii. Data sources and proposed monitoring arrangements were often very high level in nature and it was unclear how specific efficiency initiatives would be tracked. There was also limited reference to ensuring that service quality would not deteriorate as a result of the focus on efficiency; and
- iv. There was limited attention to the issue of data quality – potential data quality risks and limitations were not assessed or disclosed.

69. In its oral evidence to the Committee, NIAO summarised its findings on these ETNs as "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." NIAO informed the Committee that it has not yet examined the current departmental EDPs from 2008-11, but undertook to give this active consideration. Nevertheless, it indicated that it would be fair to read the NAO/Westminster PAC findings across to the situation here and had no reason to

assume that the situation in NI is any better than the situation in GB where major problems still exist.

70. The finances available to the public sector have been restricted since the NIAO review of ETNs for 2004-07 and recent announcements at Westminster show that this will continue to be the case. The Committee is concerned that both NAO and PAC at Westminster have identified significant weaknesses in the efficiency programme there, whereas the EDPs for NI departments for 2008-11 have not been audited to date. The Committee believes that, in addition to its statutory role, NIAO has a particular insight into the complex issues involved in NI's current efficiency programme and, in his evidence to the Committee, the Comptroller and Auditor General recognised that NIAO has something to bring to the table in respect of measurement and providing the Assembly with independent information on the reliability of efficiency measures.

71. The Committee welcomes the recent publication of a good practice efficiency checklist which has been developed by NIAO, Audit Scotland and the Wales Audit Office. The checklist sets out three key elements to securing greater efficiency and productivity, including:

- adopting a priority-based approach to budgeting and spending;
- improving information on productivity, service quality and performance; and
- improving collaboration and joint working to deliver efficient and user-focused services.

The checklist is intended as an aide-memoire for board members, elected members and senior managers in their oversight function and includes a series of questions, under the three key elements, which can be used to self assess an organisation against good practice and to identify actions for improving efficiency and productivity.^[22]

72. Given the mounting pressure on the public sector to deliver more with less, the Committee would encourage NIAO to urgently review the performance of departments to date in achieving efficiency gains, including both in terms of the reliability of the identified efficiencies and the progress which has been reported against departmental EDPs. The Committee considers that the findings and lessons from such a review could be valuable in informing any further efficiency drive following the next UK Spending Review.

73. The Committee recommends that, pending any NIAO review of the efficiency programme in NI, DFP should examine the findings and recommendations from the work of both the NAO and the Westminster PAC in relation to the efficiency programme in Whitehall and ensure that all applicable lessons and action points have been addressed by NI departments.

Definitions Used

74. In the simplest of terms, NAO has defined "efficiency" as being about turning inputs into outputs for maximum impact. Efficiency is not about reducing costs if it compromises the quality or quantity of outputs.^[23] The Committee has been unable to find evidence of a formal central definition of efficiencies laid down for NI departments, and considers that there are therefore no clear parameters within which departments are to achieve efficiency targets. For example, the guidance to all departments for the development of EDPs, which was noted by the Committee, does not have a stated definition of an efficiency saving.

75. In a written response to the Committee, DFP officials outlined the definition of efficiency that was to be used within the context of the 2007 CSR:

"In the CSR 07 context a broader definition of efficiency is used beyond the 'pure' efficiency concept of outputs increasing/decreasing at a faster/slower rate than inputs. Also included is 'allocative' efficiency whereby resources are transferred from low to high priority/effectiveness areas in terms of service delivery."

76. It is the view of the Committee that this is neither an adequate definition, nor does it provide robust parameters for departments in their consideration of appropriate efficiency savings within their business areas. In its evidence, ERINI agreed with the view expressed in the Committee that there needed to be clearer definitions of efficiency savings, and that these should be made public.

77. The Committee recommends that, in fulfilling its central monitoring role, DFP should ensure that a clear definition of valid efficiencies is applied consistently both in its guidance to departments and by departments in their EDPs. It is the view of the Committee that a lack of consistency and transparency in this area risks both confusion within the public sector and controversy in the political and public domain in terms of the rationale and outworking of the efficiency programme.

DFP's Central Monitoring Role

78. In response to an Assembly Question, the Minister of Finance and Personnel has stated that:

"Primary responsibility for the planning and delivery of the 3% per annum efficiency savings target, as agreed by the Executive for the years 2008-09 to 2010-11, lies with individual Ministers and their departments. This includes the production and implementation of Efficiency Delivery Plans detailing how efficiency savings are to be achieved. In this context, the role of DFP is to monitor the delivery of savings only with individual departments responsible for ensuring that services are delivered in line with the targets set out in the Programme for Government."[\[24\]](#)

79. The Committee had been waiting for some time on the outcome of the monitoring of the achievement of efficiency targets from April - September 2008, which was carried out centrally by DFP. This was finally received in September 2009. A full report for 2008-09 was considered by the Committee in January 2010 and a further update covering the period April - September 2009 was noted on 21 April 2010. These were primarily summary documents and, while they detail the extent to which departments have met their efficiency targets, there is no commentary to indicate how difficult, or easy, these were to achieve.

80. Each update received reiterated the point that departments are responsible for determining how efficiencies are to be achieved and ensuring the subsequent implementation; but goes on to highlight the importance of monitoring delivery to identify areas where revisions need to be made, ensuring that priority front-line services are not being cut and examining the scope for further savings. Whilst DETI exceeded its efficiency delivery target for 2009-10 due to the identification of further efficiency savings, it is unclear if other departments have revised their targets taking account of business pressures and need.

81. The initial update highlighted that the monitoring role has been allocated to DFP's Public Spending Directorate and also stated the necessity of reporting overall performance to both the Executive and the Assembly. The Committee is concerned, however, that DFP's monitoring role does not include a critical assessment of the validity of the efficiencies contained in the current plans and that this seems to have been left to individual departments to determine. This is hampered by the lack of a clear definition within the departmental guidance on the development of efficiency delivery plans.

82. In written evidence, DFP highlighted the importance of EDPs in providing assurance to the Assembly, key stakeholders and the public that departments will deliver the targeted level of savings in a strategic and planned manner, rather than through an arbitrary cuts exercise. However DFP has informed the Committee that, for the eleven departments, over 80 EDPs have been published on departmental websites to date, with varying levels of detail provided.

83. The Committee calls on the Department to facilitate a process whereby a single EDP for each department is published in a central location to allow effective monitoring of EDPs both centrally by DFP and by the Assembly's statutory committees. In addition, DFP and the relevant statutory committee should subsequently be informed by departments of any amendments made to their EDPs.

Validating and Measuring Efficiencies

84. In its strategic finance role, DFP issued guidance on EDPs for 2008-11 to all departments. Having considered this guidance, Prof Midwinter concluded that:

"the guidance is mostly concerned with inputs – how financial savings will be delivered and monitored. Whilst there is reference to impact on services and the need 'to provide evidence there has not been a detrimental impact on services to the public', this is not a systematic approach. Cash-releasing efficiency savings should provide the same service at a lower cost. That requires both financial (input) baselines and service (output) baselines for each saving proposal so that efficiency gains can be validated. The NI approach, in the main, reports economies, not efficiencies."

85. In its evidence to the Committee, ERINI stated that the EDPs provide evidence that there is much confusion about what efficiency saving actually is in the public sector and that, in some instances, efficiencies are being claimed for what are effectively increases in charges from one part of the public sector to another, with departments using their monopoly powers in the market to push up charges and claim these as efficiency gains, when all they are really doing is pushing a charge onto the customer. When scrutinising EDPs, ERINI advised that statutory committees should be aware of the following issues:

- displacement, which occurs when a Department transfers its responsibilities onto someone else (e.g. DARD passing on the costs of removing fallen animals to farmers). If this is claimed as an efficiency gain, questions must be asked as to what additional output has been gained;
- savings claimed from rationalisation by bringing organisations together, as two-thirds of all mergers fail in one way or another and there are always costs associated with mergers;
- the importance of reporting efficiencies net of the costs incurred to put the systems in place to achieve them;
- the need for proper attention to the baseline from which the efficiency gains will be measured; and
- the issue of who evaluates whether efficiencies are being obtained in that, whilst DFP is pressing for efficiencies, departments know a great deal more about their business than DFP can ever know.

86. ERINI emphasised, in particular, the need for transparent baselines and output measurement to demonstrate efficiency gains made by departments and to show these do not represent cuts to frontline services. Similarly, Professor Talbot stated that the Assembly's statutory committees should be demanding evidence on the quality and quantity of service levels, as this is beginning to happen in GB. It is also happening in the USA and in other parts of Europe, where much more

detailed data is available on the level of services being provided, both quantitatively and qualitatively. Professor Talbot stated that this data shows either that the efficiency savings do not affect frontline services or that those services are being cut and that departments should be interested in this data and ought to be measuring the services. He stated that clear evidence of expenditure on a particular service area, clear quantitative and qualitative evidence of the levels of service provided and the relationship between the two should be provided and that several public services in the UK, such as HM Prison Service in England and Wales, have wide experience of providing this.

87. Also on this point, in its recent good practice efficiency checklist, NIAO has identified "improving information on productivity, service quality and performance" as a key element to securing greater efficiency and productivity, and has set out a number of related self-assessment questions. NIAO states that:

"...the public sector needs to understand better the relationship between the costs, volume and quality of services to get improvements in productivity and reductions in cost. Public bodies also need to be able to demonstrate that efficiency savings have not resulted in a cut in services delivered (either the level or quality), or if cut, cut following a rational analysis of priorities. To do this, public bodies need to have good information on costs, activity, productivity and quality of services and demonstrate how these are linked."^[25]

88. In October 2009, the Committee Chairperson, acting in her capacity as an individual Assembly Member, tabled Assembly Questions to each Executive Minister, asking what services in their respective departments had been affected by efficiency savings in the previous financial year (2008-09) and the first six months of 2009-10. To inform this Inquiry, the Committee agreed to also forward the responses from each Minister, which are included at Appendix 4, to Professors Talbot and Midwinter for scrutiny.

89. Having considered these, Professor Talbot concluded that there is a certain amount of laxity around the definitions and descriptions of efficiency savings. He indicated that some of the responses attribute the term efficiency saving to the simple cutting of cost, without considering the effect on services. He concluded that this is not an efficiency saving, but a prioritisation of spending and saw little evidence in the responses of any Department measuring any aspect of service delivery.

90. Professor Midwinter also examined these responses in some detail. His individual comments on departments are included in his written submission at Appendix 4. He concluded that the responses confirm that the efficiencies in departmental EDPs are mainly conventional budget savings options and that most provided little or no evidence that efficiencies have not reduced services, whilst some provided evidence that services have been cut. His view was that the responses are not fit for purpose and do not facilitate robust scrutiny of current practice.

91. The Committee recommends that both DFP centrally and each Assembly statutory committee encourage departments to provide clear quantitative and qualitative evidence on the inputs and outputs associated with the specific services which they provide, for the purpose of ensuring more effective validation and measurement of efficiency gains.

DFP's Efficiency Delivery Plan – a case in point

92. DFP's EDP states that it will realise total annual efficiencies of £14.8 million by 2010-11 (5% above the set target) to be available for reinvestment in front-line activities across the NI Block. The profile of the annual target efficiency savings is shown in Table 3 below.

Table 3: Annual Target Efficiency Savings

Total Efficiency Targets (3%)	2007-08	2008-09	2009-10	2010-11
	£ million	£ million	£ million	£ million
Baseline (excl non cash)*	160.585	155.767	151.094	146.561
Total Efficiencies Required -	4.8	9.5	14.0	
Total Efficiencies Identified -	5.7	10.3	14.8	

* The baselines in respect of finance, human resources and ICT, all areas directly involved in a number of major reform programmes, are excluded.

93. The EDP states that DFP is fully committed to long-term measures to improve the quality of the services it provides, both directly and indirectly and has therefore sought efficiencies which do not compromise service delivery and are key to helping DFP to achieve its objectives by delivering more and better outputs. The plan also states that the final composition of how this total will be delivered may vary from that set out in the original EDP as more detailed plans are developed across business areas and that the EDP will therefore be kept under review and updated as necessary.

Summary of the Proposed Savings

94. The areas targeted as a means of realising cash-releasing efficiencies in DFP's EDP are:

Efficiency Measure 1 - Increase Charging

Maximising receipts and extending charging in respect of services provided by DFP, particularly to non-NICS customers.

Efficiency Measure 2 - Accommodation

Realise potential savings from the release of accommodation following Fit for Purpose staff reductions (target of 2,300 posts) across the NICS.

Efficiency Measure 3 - Land and Property Services (LPS)

Savings in corporate and common services.

Efficiency Measure 4 - Targeted General Administration Expenditure and Staff Reviews

Efficiency Measure 5 - Recognition of Costs Recovered in Respect of Rates Collection

A summary of the savings proposed are provided in Table 4 below.

Table 4: Efficiency Programme Summary Table

£m	2007/08 Baseline	2008/09	2009/10	2010/11
Efficiency Savings Accruing to Department				
(a) Near cash resource DEL	Res DEL			
1. Increase Charging (1)	-49.2	0.2	0.4	0.5
2. Accommodation (2)	76.2	0.3	2.0	4.7
3. Land & Property Services	21.4	-	0.5	0.9
4. Target GAE/ Staff Reviews	24.8	0.8	2.4	3.0
5. Recognition of costs recovered in respect of rate collection	12.5	4.4	5.0	5.7
(b) Capital				
	-	-	-	-
Total Departmental Savings (a + b)	-	5.7	10.3	14.8

Notes:

1. The charging review will take place across the income generation areas within the Department. The baseline shown in 2007-08 represents total resource DEL income (excluding EU income).

2. The accommodation baseline in 2007-08 represents the full Properties Division budget.

95. On 19 November 2008, the Committee took oral evidence from DFP officials on progress to date against its EDP for 2008-09. Having obtained further expert evidence on DFP's EDP, the Committee invited DFP officials again on 2 December 2009 for a further update. The key findings from the evidence to date are detailed below.

Efficiency Measure 1 - Increase Charging

96. In November 2008, the Committee was informed that there was scope for increasing charging in DFP's Central Procurement Directorate and in the Departmental Solicitor's Office. It was also informed that the Department was reviewing proposals submitted by the shared service centres on hard charging arrangements for their services. The view was expressed in Committee at this time that, although DFP would gain, other departments looking for efficiency savings will be subject to these extra charges, which meant that there will be extra pain for them in proportion to the gain for DFP.

97. In December 2009, DFP informed the Committee that its review of income generation had identified disparities in approaches taken by DFP's business areas to common customers, and work was ongoing to develop a common approach. Despite the EDP containing a target for the implementation of additional charges to external customers in 2008-09, Departmental officials informed the Committee that a draft charging policy had not yet been sent out for consultation. The focus of the target in the EDP is on extending charging to external customers (e.g. non-NICS departments), but Departmental officials were unable to provide the proportion of the income being generated from the private sector, as opposed to public money merely being moved around the system, nor were they able to provide figures on the additional income generated for 2008-09 against the efficiency target.

98. In a follow up written submission to the Committee, DFP provided an analysis of the Department's income for the years 2007-08 and 2008-09 and this is detailed in the Table 5 below.

Table 5: DFP income 2007-08 & 2008-09

	2008-09 £'000	2007-08 *Restated £'000
Income from external customers	34,546	35,746
Other income	47,084	50,163
Total	81,630	85,909

* The 2007-08 figures have been restated to include income relating to the transfer of Ordnance Survey NI from the Department of Culture, Arts and Leisure and Occupational Health Service from DHSSPS.

99. However the submission also noted that the income recorded in the Operating Cost Statement in the Departmental Resource Accounts for 2008-09 decreased by £4.3m from £85.9m in 2007-08 to £81.6m. The decrease was due to a reduction in EU income and income from Land Registry services. The Committee would suggest that this information should be more readily available to enable progress against this target to be properly measured.

100. In the March 2010 update on the Department's EDP, it is noted that a departmental policy on charging has now been prepared to address the anomalies identified above. However the timescale for the implementation of this policy remains unclear.

101. In its evidence, ERINI cast doubts as to whether DFP's proposal to extend charging for services is an efficiency gain as opposed to a mere transfer of charges to other parts of the system. Professor Midwinter informed the Committee that increased income from charging is not included in the Efficient Government Programmes in Whitehall or Scotland, as these are seen to constitute a reduction in service. He viewed increased charges as an economy measure, commonly used to deliver budget savings, but not resulting in efficiency gains. NIAO informed the Committee that there are clear Treasury guidelines on charging policy, with the general principle that a government service is not there to make a profit. During oral evidence, DFP officials viewed this action as a "displacement of costs and an economy measure for DFP, focussing on managing within a reduced baseline."

102. The Committee calls on DFP centrally to determine whether it is appropriate for increased income from charging to be included in departments' EDPs, given that it is not included in the Efficient Government Programmes in Whitehall or Scotland. The Committee believes that, if budgetary savings and other measures are to be included in EDPs, then these should be distinguished from proper efficiencies.

Efficiency Measure 2 - Accommodation

103. DFP's efficiency target for accommodation relates to staff reductions of 2303 full-time equivalent (FTE) posts by March 2008 under the Fit for Purpose document. During an oral hearing with DFP officials, however, the Committee drew attention to a press release from NISRA on 30 October 2009, which reported that FTE staff numbers in NICS had increased by 2.9% (660 staff) between 1 April 2008, when the Fit for Purpose reductions were achieved, and 1 April 2009. The Committee queried how this increase could be explained in the context of an ongoing efficiency drive and whether this increase made it more difficult to achieve accommodation efficiencies.

104. In follow up correspondence to the Committee on 26 February 2010, DFP stated that "the increase in 2008-09 was due to an increased rate of vacancies being filled, additional staff

appointed to deal with increased benefit uptake and the introduction of the new Employment Support Allowance." The Department also advised that "latest projections from the 11 NI Departments suggest that during the Budget 07 period reductions in the region of 2,000 FTE posts will be achieved."

105. In oral evidence to the Committee, DFP officials were unable to provide a breakdown of the accommodation efficiencies achieved since the target was set in April 2008, merely stating that the target had been achieved as they were living within the reduced baseline. Further to this, DFP stated that there were upfront costs associated with achieving this efficiency, including fit out costs and costs involved in staff relocation, which also included the costs of the pilot schemes at Clare House, Royston House, and Lesley Exchange. No evidence was provided as to what these upfront costs amounted to and they have not been netted off against any gross efficiencies which may have been achieved in this area.

106. The Committee is concerned to find evidence that FTE staff numbers in NICS had increased notably by April 2009, following the achievement of the Fit for Purpose reductions in April 2008. Moreover, the Committee sees scope for closer monitoring of efficiencies achieved in accommodation expenditure and calls on the Department to provide a detailed breakdown of accommodation efficiencies achieved since April 2008, including clear evidence to verify the further reductions in FTE posts being projected by departments.

Efficiency Measure 3 - Land and Property Services (LPS)

107. During the evidence session in December 2009, DFP officials stated that LPS frontline services have not been impacted by the £500k in efficiency savings which it has had to deliver in 2009/10, as this involved rationalising four finance units from the four organisations which merged into LPS in April 2008. Whilst stating that there may have been some additional project staff costs in achieving the efficiency, no detail was provided on this and again, it has not been netted off against efficiencies achieved.

Efficiency Measure 4 - Targeted General Administration Expenditure and Staff Reviews

108. The Committee was informed that there has been a suite of reductions at all grades throughout DFP in relation to this target; including five at Senior Civil Service level and a further planned reduction of a Grade 3 post in DFP's Central Finance Group and that these had been achieved through natural wastage and redeployment. Whilst welcoming DFP's efforts to effect targeted savings in administrative expenditure, as set out in its EDP, the Committee would wish to be assured that any efficiencies achieved through staff cuts will not affect the quality and quantity of outputs in priority areas.

Efficiency Measure 5 - Recognition of Costs Recovered in Respect of Rates Collection

109. The view was expressed in Committee that this was merely a book exercise or a revised accounting treatment, which accounted for over one-third of DFP's efficiencies by 2010-11 and seems to be a displacement of costs onto district councils. The Committee considers that DFP centrally should determine whether the revised accounting treatment relating to the recognition of costs recovered in respect of rates collection should be included as a valid efficiency.

Baselines

110. The Committee considers that there may also be an issue with the baselines used to calculate the amount of efficiencies to be achieved by NI departments. Members were informed by DFP officials that the figures were set when the Executive's Budget was announced in January 2008 and, as such, it may be possible for departments to achieve the efficiency targets originally set, whilst bidding successfully for further monies in quarterly monitoring rounds. The Committee has concerns that, as baselines for efficiency targets from 2008–2011 were set in the Budget in January 2008, departments could claim to be achieving efficiencies by living within these baselines, even if they receive additional funds for these programmes in subsequent quarterly monitoring rounds. The Committee calls on DFP to examine this issue to determine whether this has happened to date and how this anomaly might be addressed going forward.

Administration Resource Savings

111. Whilst DFP has been required to identify efficiencies of at least £14m in overall terms, specific targets have also been set to achieve efficiencies in administration budgets. When DFP's reform work on behalf of all departments has been excluded, administration efficiency targets of £1.3m / £5.3m / £9.1m have been set for 2008-11. DFP officials informed the Committee that the efficiency measures outlined in its EDP will address this requirement as, given the composition of DFP's budget, 61.5% of the cash-releasing efficiencies to be achieved by March 2011 will be delivered from administration budgets.

112. The Committee was informed that administration spend on the reform programmes had been excluded from administration efficiency targets for DFP and Departmental officials undertook to determine the administration efficiency targets had the reform programmes been included, to establish whether these targets would have been more challenging. In follow up information, DFP provided the following table to illustrate: first, the baselines on which the Department's EDP is based, which excludes non cash and the baselines associated with finance, human resources and ICT, together with the level of efficiencies identified; and second, the comparative baseline including finance, human resources and ICT together with comparative efficiencies required. Table 6 below illustrates that by including the reform programmes in the baselines, the efficiencies targets are slightly more challenging for 2009-10 and 2010-11.

Table 6: Annual Target Efficiency Savings Including Reform Programmes

	2007-08	2008-09	2009-10	2010-11
	£ million	£ million	£ million	£ million
Total Efficiency Targets (3%)				
Baseline on which EDP is based (excl non cash and the baselines in respect of finance, human resources and ICT, all areas directly involved in a number of major reform programmes, are excluded.)	160.585	155.767	151.094	146.561
Total EDP Efficiencies Required (3%)	-	4.8	9.5	14.0
Total EDP Efficiencies Identified	-	5.7	10.3	14.8
Comparative baseline if finance, human resources and ICT are included (excl non cash)	176.385	171.093	165.961	160.982
Comparative Total Efficiencies Required (3%)	-	5.3	10.4	15.4

113. The Committee was aware that DFP requests to reclassify expenditure to administration spend had been a regular feature of previous quarterly monitoring rounds and therefore questioned whether the administration spend target for 2008-09 had been met and progress in

2009-10. In response, Departmental officials informed the Committee that administration targets were managed centrally at block level and it was therefore possible for DFP, and other departments, to exceed their targets on administration spend, provided there were sufficient savings elsewhere in the system to allow overall targets to be achieved.

114. The Committee heard expert evidence about controls to limit administration expenditure being circumvented by the reclassification of administration spend, particularly in payments to consultants. The Committee was informed by DFP that new guidance, effective from April 2009, makes it clear that all external consultancy work should be treated as administration and that the previous practice of reclassifying administration to other resource in such cases was therefore no longer possible. Given the concerns expressed in the evidence around the potential for departments to circumvent limits on administration expenditure, the Committee calls on DFP to provide a detailed analysis of administration spend by departments in 2008-09 and 2009-10, including the extent to which targets have been achieved at both departmental and block level.

Review of DFP's EDP

115. At the evidence session in November 2008, Departmental officials informed the Committee that DFP had realised £2.95m of efficiency savings to September 2008 and highlighted that it would have significant difficulties in delivering the efficiencies for 2009-10 and 2010-11. The DFP officials undertook to constantly review and monitor progress and engage with business areas on an ongoing basis to develop options for the delivery of efficiencies. Nevertheless, when asked to give oral evidence in December 2009, over a year later, the same version of the EDP was presented to the Committee, including actions to be completed from as early as February 2008, with no confirmation that these had been completed. The Departmental officials were unable to report progress to date, as this had not yet been reported to the Minister. When questioned on this, the officials admitted that "perhaps there has been too much focus on managing the budget", as opposed to a focus on the efficiency agenda and indicated that the EDP should be updated by January 2010.

116. The Committee finally received an updated EDP in March 2010. As has been discussed previously in the report, the EDP baselines for each year and projected efficiency savings targets remain unchanged, despite additional monies being allocated to business areas during quarterly monitoring rounds and significant events like the termination of the Workplace 2010 programme. Whilst a progress update section has been added against each efficiency measure it remains unclear as to how progress is measured. There are also no projections to indicate whether anticipated savings for 2010-11 are on track.

117. The Committee wishes to highlight, as a case in point, the tardiness on the part of DFP in updating and reporting progress on its EDP and seeks an assurance from the Department that this matter will be given higher priority going forward.

118. Professor Midwinter's assessment of DFP's EDP was that it is a budget savings plan rather than an efficiency delivery plan, it was unclear on how savings will be delivered and it offered no baseline data on which to validate efficiency gains. The EDP states that efficiencies will not compromise service delivery, but deliver more and better outputs. However, according to Professor Midwinter, no output measures for any of the five savings categories are provided.

119. Having examined DFP's EDP in some depth, together with the responses to the Assembly Questions posed by the Committee Chairperson, Professor Midwinter concluded that the NI Efficiency Programme shows the same weaknesses as the Scottish Programme, which makes it difficult to subject it to rigorous scrutiny. He stated that a lack of transparency is a major

problem that needs to be tackled and that describing these budget savings as efficiencies is misleading the Assembly and the public.

120. Professor Midwinter advised the Committee to draw its concerns over the poor quality of information to the attention of the other statutory committees, and for these committees to seek the following information for each EDP:

(a) Identification of the budget lines in which savings will be made, the current allocation and the scale of savings sought, so that the realism of the proposal can be assessed;

(b) Identification of an output baseline for each proposal – a quantified statement of what is provided for the funding – so efficiency gains can be validated; and

(c) Identification of budget lines to which the savings have been reallocated with a statement of the expected outputs/outcomes from this spend.

Enhanced Statutory Committee Role

121. ERINI concurred with the view that statutory committees should have efficiency plans high on their agendas. Professor Talbot informed the Committee that much more systematic reviews of these types of programmes are undertaken elsewhere and drew the Committee's attention to the Government Accountability Office in the USA, which reports directly to Congress and has much greater power to intervene and examine programmes in much more detail. He was of the view that stronger committee scrutiny here would help to put pressure on departments to deliver clearer information and better analysis of what they are doing. Without this, Professor Talbot said that the potential remains for efficiency savings to be treated as a paper exercise and, rather than seeking real savings, departments could "essentially fiddle the accounts to make it appear that they have done so ... That temptation will always exist and checks and balances must be put in place to ensure that this does not happen." He went on to state that:

"counterbalancing forces must put pressure on departments 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, which leads to what is known in economic terms as 'producer capture' where services are operated in the interests of the people who run them, rather than in the interests of those to whom they deliver services."

122. Professor Talbot advised the Committee that the Westminster Parliament has, in recent years, created a general scrutiny unit as a central resource to advise all select committees. The unit has two functions, a focus on legislation and a focus on spending, performance and efficiency and is similar to the Congressional Budget Office in the USA. Each Westminster select committee also has special advisors. In addition, Westminster's Liaison Committee, comprising the chairpersons of all committees, sets out the standard matters that select committees should consider regularly. Professor Talbot also informed the Committee that the NAO at Westminster, which has traditionally only reported to the PAC, has started in recent years, and without any changes to legislation, to become more involved with individual select committees. He described this as an "interesting development which has been tremendously helpful."

123. The Committee is currently undertaking Stage 2 of its Inquiry into the Role of the Assembly in Scrutinising the Executive's Budget and Expenditure, which will review the resources available for assisting Assembly statutory committees and members in undertaking budget and financial scrutiny and will aim to put forward a set of practical recommendations for enhancing the capacity of the Assembly in this regard. As part of this exercise, the Committee is taking evidence on the resources available in other legislatures to support budget scrutiny, including

Westminster and the Scottish Parliament. In addition, the Committee is taking evidence from NIAO on the extent to which it could support the work of the Assembly's statutory committees in addition to PAC. The findings from this work will form a separate Committee report.

124. The Committee recommends that all Assembly statutory committees give increased attention to examining the EDPs of their respective departments, including progress to date. In undertaking this scrutiny the committees may wish to draw on the practical advice received from the expert witnesses to this Inquiry. In this regard, the committees may also wish to seek evidence on how departmental boards and governing bodies of arms-length bodies are applying the good practice efficiency checklist published recently by NIAO.

Central Assessment of Progress in Implementing EDPs

125. In September 2009 DFP provided the Committee with a progress report on the first six months of the 2008-09 financial year to the end of September 2008. The progress report was copied to the other statutory committees for information. Up to that point departments generated £174m (63.7%) in efficiency savings, against a target for 2008-09 of £273.2m. Four departments (Culture, Arts and Leisure; Education; Employment and Learning; and Enterprise, Trade and Investment) had achieved 90% or more of their efficiency target for the whole financial year within six months.

126. In addition, as detailed in the table below, an assessment was made on whether the efficiency target for each department was likely to be achieved for the remainder of 2008-09 and for 2009-11, using the following three categories:

- On Track for Achievement;
- Not on Track for Achievement; and
- On Track for Achievement but with a significant risk.

Table 7: Planned Savings by NI Departments – Assessment of Position at September 2008 (received September 2009)

	Not on Track	On Track but with significant risk	On Track
% of EDP's			
2008-09	2.9%	5.8%	91.3%
2009-11	2.4%	18.2%	79.4%
% of savings			
2008-09	0.4%	47.7%	52.0%
2009-11	0.5%	51.6%	48.0%

127. The Committee was concerned both at the time lag in monitoring the achievement of efficiency targets (i.e. progress to September 2008 was reported one year later in September 2009) and especially at the fact that significant risk was attached to the achievement of approximately 50% of actual savings for the remainder of 2008-09 and for 2009-11 (£665m). Members also noted with concern that a small number of EDPs across 2008-09 and 2009-11 carried a significant proportion of the savings risk (i.e. in 2008-09 5.8% of EDPs were identified as on track but with significant risk which equated to 47.7% of the overall savings required).

128. DFP informed the Committee that a risk-based approach will be used to monitor and provide information to the Executive on delivery against efficiency savings targets; and that this will involve a greater degree of challenge and interrogation with respect to those EDPs where

implementation is proving to be difficult, or where there is a significant risk that the targeted level of savings will not be achieved. As part of DFP's normal business with departments, the implementation of EDPs will be included as a regular agenda item for monthly stocktake meetings, focusing on those where there are problems achieving the planned level of efficiency savings. There should also be early discussion regarding the corrective action that the departments are proposing to take, including possible changes to the EDPs.

129. The Committee suggests that, given the importance which DFP has attached to its monthly stocktake meetings with departments in addressing problems associated with the achievement of efficiency targets, statutory committees should ask to be informed of the outcomes of these stocktake meetings by their respective departments. This will enable the committees to determine that effective action is being taken to address problems identified with achieving efficiency targets.

130. Less than 3 months after the first monitoring report, the Committee received a further monitoring report on 3 December 2009, detailing progress on efficiency targets for 2008-09. Table 8 below shows that NI departments fully delivered the required level of efficiency savings for 2008-09 with £275.1 million of savings achieved compared to the target of £273.2 million.

Table 8: Departmental Efficiencies Achieved in 2008-09

Department	2008-09 Target (£m)	6 months Savings (£m)	2008-09 Savings Achieved (£m)	% of 2008-09 Savings Achieved
DARD	6.2	4.2	7.2	116%
DCAL*	3.2	3.2	3.2	100%
DE	63.2	57.4	63.2	100%
DEL	20.4	19.4	20.3	100%
DETI	7.7	7.7	7.7	100%
DFP *	6.1	3.0	6.1	100%
DHSSPS	118.2	48.0	118.3	100%
DOE	3.9	3.4	3.9	100%
DRD	22.4	18.0	22.5	100%
DSD	19.4	8.4	19.6	101%
OFMDFM	2.4	1.1	2.4	100%
FSA	0.2	0.1	0.8	354%
Total	273.2	173.9	275.1	101%

* OSNI moved from DCAL to DFP during 2008-09, the efficiency target and achievement of the target was moved from DCAL to DFP as a result (£0.4m in 2008-09)

131. The Committee noted that, despite being informed in September 2009 that significant risk was attached to 47.7% of the efficiency targets for 2008-09, these targets had been superseded. The Committee therefore has concerns at the reliability of the risk levels attached by departments to efficiency achievement and this further highlights the need for a clear audit trail in the realisation of efficiency savings. The submission also updated the position on the risk attached to whether the targeted level of savings for each EDP is likely to be achieved for 2009-10 and 2010-11, as detailed in Table 9 below.

Table 9: Planned Savings by NI Departments - Assessment of Position at end year 2008-09 (received December 2009)

	Not On Track	On Track with Significant Risk	On Track
% of EDP's			
2009-10	3.8%	15.4%	80.8%
2010-11	5.8%	19.2%	75.0%
2009-11	4.8%	17.3%	77.9%
% of Savings			
2009-10	0.8%	13.6%	85.5%
2010-11	1.7%	14.6%	83.9%
2009-11	1.3%	14.2%	84.5%

132. This update showed a significant reduction in the number of EDPs that were considered to be "on track but with significant risk" in the subsequent years matched by a significant reduction in the quantum of savings also considered to be at risk. While the Committee welcomed this improvement, there was continued concern that over 15% of projected savings for the period of 2009-11 were considered to be "not on track" or "on track but with significant risk".

133. In April 2010 the Committee received information on the progress of the implementation of EDPs for the first six months of financial year 2009-10 and this is detailed in Table 10 below. Again members wish to record their concern at the time lag in the provision of information about the achievement of departmental efficiencies.

Table 10: Departmental Efficiencies Achieved in April 2009 – September 2009

Department	2009-10 Target (£m)	6 months savings (£m)	% of 2009-10 Savings Achieved
DARD	12.2	6.2	50.4%
DCAL*	6.0	3.8	63.0%
DE	124.5	113.7	91.3%
DEL	40.1	30.3	75.6%
DETI**	15.2	16.8	110.2%
DFP*	11.3	5.7	50.0%
DHSSPS	232.9	144.0	61.8%
DOE	7.7	3.9	50.1%
DRD	44.2	33.4	75.5%
DSD	38.1	25.8	67.7%
OFMDFM	4.6	3.5	76.1%
FSA	0.4	0.4	100.0%
Total	537.3	387.4	72.1%

* OSNI moved from DCAL to DFP during 2008-9, the efficiency target was moved from DCAL to DFP as a result (£1m in 2009-10)

** The % savings achieved for DETI is more than 100% of its target due to plans to deliver more savings than its original plans.

134. The Committee notes that DETI had exceeded its target within the first six months of the year. This further supports the Committee's view that baselines for efficiency savings should be revisited throughout the reporting period and that, where a Department appears to be easily meeting its target, further ways of achieving efficiencies should be explored.

135. The submission also updated the position on the risk attached to whether the targeted level of savings for each EDP is likely to be achieved for 2009-10 and 2010-11, as detailed in the table below.

Table 11: Planned Savings by NI Departments - Assessment of Position at September 2009 (received April 2010)

	Not On Track	On Track with Significant Risk	On Track
% of EDP's			
2009-10	4.4%	8.0%	87.6%
2010-11	3.5%	18.4%	78.1%
% of Savings			
2009-10	0.1%	16.5%	83.8%
2010-11	5.8%	42.0%	52.5%

136. Again the Committee notes with concern the significant proportion of savings (almost 50%) which was considered to be "on track with significant risk" or "not on track" for 2010-11. Also the Committee observes that these savings are associated with just over 20% of EDPs and expresses its reservation that a small number of EDPs appear to carry a significant burden.

137. The Committee has concerns with the central reporting of progress by departments in achieving efficiency targets, both with the time lag in receiving co-ordinated progress reports from DFP and as regards the reliability of the risk levels attached by departments to efficiency achievement. Also, the Committee is alarmed to note from the most recent progress report that almost 50% of planned savings for 2010-11 are considered to be "on track with significant risk" or "not on track". This is especially worrying given the additional savings that have subsequently been announced for 2010-11. The Committee considers that DFP's central monitoring of departmental EDPs needs to be more robust and that the outcomes should be reported to Assembly statutory committees, via the Committee for Finance and Personnel, on a more timely basis.

Improving Public Sector Efficiency in the Future

138. Arising from its scrutiny of DFP's performance to date and of the expert evidence received, the Committee wishes to highlight a number of areas which might contribute to more efficient delivery going forward. The Committee was informed by NIAO that one of its core business areas is its programme of value for money reports. Over the past number of years, a number of these studies have dealt with efficiency-related issues, and some of the key themes which have emerged are also included below.

139. Also, the Committee noted that, arising from its work with public bodies in GB, CIPFA has identified the following ten key principles designed to delivery efficiency savings:

- i. focus on those approaches and techniques that have been successful in delivering efficiency in the past;

- ii. implement strategic changes in working practices that will make the organisation more efficient over the long-term, rather than focusing on short-term cost savings;
- iii. continually review "back-office" efficiency;
- iv. introduce a simple, standardised approach to reviewing VfM to create baselines and aid comparison across services;
- v. make VfM "business as usual" by integrating it into performance and budgetary planning and monitoring;
- vi. involve managers and front-line staff in the development of VfM assessments to ensure ownership and communicate the objectives effectively to them;
- vii. benchmark against comparable organisations and adopt identified good practice;
- viii. focus on improving performance in priority areas;
- ix. consider whole-life costs in major areas of expenditure; and
- x. work with local partners to reduce costs and improve services.

140. The Committee notes that a number of these principles were also reflected in the evidence from the other expert witnesses and in the recently published NIAO good practice efficiency checklist. The Committee considers that the rigorous application of the principles will help to drive out further public sector efficiencies in the future, including in the areas identified below.

Bureaucracy, Organisational and Human Resource Issues

141. Commenting on the possibility that investment in technology in the NICS has not resulted in a proportionate reduction in bureaucracy, ERINI informed the Committee that special controls were applied to administrative expenditure by departments which limited the amounts which could be spent on staff. However these controls had been circumvented in the past by reclassifying administrative spend to service type expenditure (e.g. in employing consultants). ERINI's view was that the public sector seemed to be growing in spite of the action being taken.

142. Human Resource costs account for a significant element of all public expenditure (NIAO drew the Committee's attention to a recent audit report in Scotland which found that manpower accounts for two-thirds of the Scottish Budget) and NIAO has identified potential efficiencies in this area. Its review into sickness absence in the NICS found that it was twice as high as in the local private sector and 36% higher than the public sector in GB, costing the taxpayer in excess of £25m per annum. Promoting and implementing best practice in this area has the potential to make significant savings. The Committee is currently monitoring progress on DFP's implementation of the recommendations in both the NIAO and PAC reports on this issue.

143. NIAO is also involved in other work, identifying where human resources can be used more efficiently (e.g. it is currently reviewing the Management of Substitute Teachers, where costs have risen from £38m in 2000-01 to £64m in 2008-09). NIAO is of the view that huge potential exists for more productive use of time in the public sector, particularly in areas which are staff intensive and quoted the Lean Project in the Social Security Agency, which aims to rationalise work processes, as a good example of this. It also spoke of the need to adopt a bottom-up as well as a top-down approach to efficiency by tapping into the views of frontline staff to effect the sort of cultural change needed.

144. In its written submission, CIPFA identified the following related activity-based themes through which efficiencies could be achieved:

- organisational change – including redesigning, restructuring or rationalising services;
- project management – including improvements in the preparation and assessment of business cases and the management of projects and programmes;
- customer self-service – including increased use of online and automated telephone line services;
- IT and e-Government – including increased use of technology to support new ways of working;
- flexible working – such as remote and home-working;
- vacancy management – including reducing the dependency on agency staff and not filling vacancies; and
- absence management – involving further reducing the number of days staff are absent.

145. Also related to the issue of bureaucracy, in its evidence, CIPFA highlighted the higher costs of public services which have been incurred arising from the political divide, including the duplication of public services such as schools, leisure centres, GP surgeries and public transport. In the view of CIPFA "as political stability increases in Northern Ireland, there is an opportunity to move towards eliminating duplication so that public services are integrated for the whole community and costs can be saved."

146. The Committee recognises that scope exists for achieving additional efficiencies in the NI public sector by further reducing bureaucracy, eliminating the duplication of services and improving HR management practices. The Committee believes that this will require strong leadership at both the political and managerial levels of government, together with combining the strategic "top down" and "bottom up" approaches to effecting organisational and cultural change across all public bodies.

Major Reform Initiatives

147. In its evidence, CIPFA also highlighted partnerships, involving joint working and/or shared services with other public sector organisations, as a way of achieving further efficiencies. Similarly, ERINI was of the view that the six workstreams identified by Gershon remain highly relevant in the search for efficiencies and shared services are an important part of this approach. It considered the NICS shared service reforms to be complex processes which need time to bed down and at least one (Workplace 2010) has been disabled. There was a need to take stock of these programmes and the costs and benefits to date before loading further changes on existing structures.

148. The major reform initiatives are also a further area of NIAO focus as it is clear that many of the planned efficiencies are predicated upon the successful delivery of these. NIAO has carried out a review of the £3bn Reform Agenda, encompassing HRConnect, Workplace 2010, Records NI, Account NI, Network NI, the Centre for Applied Learning (CAL) and IT Assist. At the time of this initial review in July 2008, it was too early for NIAO to determine whether the efficiencies and benefits envisaged were being delivered, but it has given an undertaking to continue to monitor implementation with a view to providing further assurance reports to the Assembly. NIAO informed the Committee that these have huge potential for making efficiencies, but also involve huge risks, as they often involve public sector mergers, with upfront costs and teething difficulties and savings are not produced until much later.

149. The risks involved with the introduction of a programme of shared services were observed recently by outgoing House of Commons PAC Chair Edward Leigh, who in an open letter^[26] to his successor noted that, in relation to efficiency savings:

"One approach has been the shared services programmes, an initiative to encourage sharing of back office functions such as IT and finance, with a view to improving both quality and efficiency. The Cabinet Office claim there is scope to save some £1.4 billion each year across government, but do so without accurate information on what corporate services cost and how they perform. And they have not set a timetable for achieving this level of saving."

150. Mr Leigh goes on to cite an example within the Department for Transport which planned and implemented a shared corporate services project aimed at saving £57 million by 2015, now estimated to cost £81 million partly due to an underlying computer system which was not properly tested and was therefore unreliable.

151. In its report on the Executive's Draft Budget 2008-11, the Committee for Finance and Personnel considered that there would be benefit, in terms of monitoring and accountability, from having the projected value-for-money savings from each of the Civil Service reform projects quantified and disaggregated from the overall 3% cumulative efficiency target. DFP officials subsequently informed the Committee that expenditure on the reform projects was excluded from the baselines for all departments, on which efficiency targets for 2008–11 were calculated, in the context that efficiency savings emanating from the reform programmes should be targeted separately, as some of the quantitative and qualitative benefits from the programmes would not be realised until after the 2008–11 Budget period. In December 2009, the Committee was informed that work was still ongoing in DFP's Reform Delivery Unit to produce benefits realisation packs for all departments.

152. The Committee has continued to scrutinise the delivery and implementation of the shared services project through oral evidence sessions and monitoring of performance against departmental targets. Members have expressed specific concerns about the implementation of HRConnect, with a focus on the 'end-user' experience of more than 27,000 NICS employees. Issues that had been raised with members by NICS staff related to: overpayment, underpayment and, in some cases, no payment of salaries; recruitment; and accessing information. In spring 2009 the Committee was alarmed to learn of a significant spike in the number of complaints to be resolved with HRConnect and sought further information from Departmental officials on the level of abatements to the service charge.

153. In an oral evidence session on the Shared Services Organisation (now Enterprise Shared Services) in January 2010, Departmental officials told members that their first priority was to ensure the organisation's effectiveness and that a focus on efficiency would follow. The Committee will shortly take evidence on DFP's progress against PSA and Departmental Targets 2009-10. Members have noted that the HRConnect targets for the achievement of service levels and Key Performance Indicators (KPIs), and the realisation of benefits in line with respective benefits realisations plans, have been awarded an 'amber' status. In the view of the Committee, the uncertainty over the achievement of service levels and KPIs for 2009-10 means that questions remain over the effectiveness of HRConnect.

154. At the request of the Committee, in subsequent written evidence, the Department provided further information on the efficiencies achieved to date from the wider reform programme. This suggested that key benefits accrued to date include:

- IT Assist – a reduction in the cost of desktop support from £1,572 to £1,000 per person producing over £4.5million efficiency savings. The target for the CSR period is £900 per person;
- Centre for Applied Learning (CAL) – actual cash savings totalling over £3.9million for the years 2006-07, 2007-08 and 2008-09;
- Network NI – savings to date of over £1.5million;
- HRConnect – a reduction in cash running costs when compared to 2005-06 expenditure uplifted to 2009-10 prices.

155. DFP also indicated that anticipated efficiencies are defined in the "Benefit Reporting Packs" for each shared service, developed in conjunction with the Department's Reform Delivery Unit. The Department further advised that the packs set out key benefits for each reform project, how the benefit will be measured, baseline values, target values and, actual values. The Committee is mindful that, in its report on the progress of the shared services in December 2008, PAC observed that "the absence of baseline data makes it much more difficult for the Department to demonstrate, and for the Committee to assess, whether value for money has been maximised."^[27] The progress of the shared services in realising benefits and achieving efficiencies is therefore an area which the Committee will wish to monitor closely in the upcoming period.

156. The Committee continues to see shared services as offering significant potential for realising true efficiencies in the medium to long term. However, it notes with concern that, in the recent report on performance against PSAs and Departmental business targets for 2009-10, DFP has attached an amber status to the benefits realisation plans for HRConnect, Account NI and Records NI. Whilst welcoming the continued focus on the benefits realisation targets within the DFP business plan for 2010-11, as the reform programme moves forward, the Committee will wish to receive regular updates on the performance of the shared services, including substantiation of reported efficiencies.

Procurement

157. NIAO considers this to be a key area for the achievement of efficiencies and informed the Committee that HM Treasury has identified the potential to make savings of almost £6 billion by the use of more collaborative procurement. NIAO's report on the use of consultants touched upon this issue and reported that annual spend in this area had increased substantially, too many contracts were not being competitively tendered and consultants were often appointed without the business case being formally made.

158. In NI, central and local government spend upwards of £3 billion annually on the purchase of supplies, services and construction works.^[28] From 2005–08 the Central Procurement Directorate (CPD) and the other Centres of Procurement Expertise (CoPEs) achieved estimated value-for-money savings of £250m, which was a specific target set for that period. That target has not been carried forward under the current efficiency programme, but NIAO informed the Committee that "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." The Committee expressed concern at the lack of joined up thinking on procurement in local government. In response, NIAO stated that there must be scope for greater joined up thinking between CoPEs; including the proposed centre in local government and those in central government and that the Review of Public Administration will provide an opportunity for a shared service facility under the procurement discipline.

159. In its evidence, CIPFA also highlighted procurement as an area where further efficiencies could be achieved. It referred to the need to improve the management of the procurement

function and adopt IT-enabled procurement techniques, such as e-marketplaces, online auctions and purchasing cards.

160. Arising both from the evidence received for this inquiry and from its recent Inquiry into Public Procurement in NI, the Committee sees scope for more strategic co-ordination of the public procurement function to realise additional efficiencies, including in terms of e-procurement and collaborative purchasing between the different levels of government. The Committee reiterates its previous call for a new target to be set for achieving further efficiencies from public procurement, to include a monetary value and baseline for such savings, with an associated implementation plan which links to individual departmental efficiency delivery plans.

Government Accommodation

161. As referred to at paragraphs 103 to 106, the Committee has raised concern around whether enough attention is being paid to the potential for realising greater efficiencies from government accommodation. This issue arose during Committee scrutiny of DFP's EDP and also in the context of both the Review of Policy on Location of Public Sector Jobs, led by Professor Sir George Bain, and follow up to the termination of the procurement of Workplace 2010.

162. In December 2009, DFP officials informed the Committee that a robust review of all accommodation services expenditure had been carried out to determine the potential for savings. The Departmental officials were questioned on the scope of these reviews and whether they included short term responses to the post Workplace 2010 project, apart from variations on the theme of the open plan working concept. The Committee is aware that the Bain Report, which risks being set aside in the face of short-term expenditure pressures, addresses issues such as shared desking and allowing staff to work more locally using telecommunications clusters and satellite offices. These are softer issues which have the potential to produce efficiency savings in accommodation expenditure with less upfront costs.

163. In follow up to queries raised by the Committee regarding progress in this area, the Minister wrote to the Committee on 18 December 2009 to advise that:

"We are developing a policy which will cover the circumstances in which home or remote working would be possible, balancing the demand from staff for such arrangements with the requirements of departments in managing their day to day business."

164. The Minister went on to explain that remote working has been facilitated by the introduction of new technologies through the IT Assist and Network NI shared services and that consideration is being given to upgrading the phone systems to enable civil servants to also access their office phone lines from remote locations. In outlining these plans, the Minister also pointed out that there would be initial set up costs associated with satellite offices and that efficiencies would only be gained through the adoption of shared desking policies which are not always popular with staff.

165. Given the potential to realise further efficiency savings from accommodation expenditure, the Committee welcomes moves by DFP to develop a policy on remote working, which is likely to entail measures such as the use of local satellite offices and shared desking, and to facilitate this through improvements to the NICS IT and telecommunications systems. The Committee is mindful that the concept of remote working has been under consideration for some time and urges the Department to establish policy promptly in this area, including in terms of implementation targets, in the context of finalising the development of the NICS Accommodation Plan 2010-11 to 2012-13^[29]. The Committee will wish to monitor progress in this area over the coming months.

Asset Management and Capital Realisation

166. From a literature review of this issue, the Committee noted that a recent Audit Scotland report, which examined a reported £82m of efficiency savings from better asset management achieved by the Scottish Government in 2008-09, concluded that "good asset management – including making better use of under-used assets, sharing the use of assets with partner organisations and disposing of surplus assets – is ... critical to public bodies becoming more efficient."^[30] In its evidence, CIPFA also identified asset use as an area for realising efficiencies, including "getting more value from existing assets and/or selling those that are no longer required."

167. In December 2007 the Capital Realisation Taskforce (CRT) produced a report containing a range of recommendations and upon which the Committee received a briefing. Included in these was a call for the development of a co-ordinated Asset Management Strategy and a comprehensive, mandatory Central Asset Register for all public bodies. CRT considered that the asset management programme should assist the broader efficiency agenda. Whilst this initiative aimed to identify properties and land owned by the NI public sector which could be disposed of, the Committee welcomed an assurance from DFP that the focus of CRT would be as much on improving the use of the existing asset base – through, for example, identifying public land for social housing – as it would be on identifying assets for disposal.^[31]

168. During more recent evidence, however, DFP has informed the Committee that, given the shift in the property market and the subsequent reduction in property values, the work of CRT is currently being revisited. In separate written briefing, DFP also advised the Committee that the ePIMS (electronic Property Information Mapping Service) database would be piloted shortly and that, when fully operational, this will "allow property costs to be captured centrally allowing disposal/rationalisation opportunities to be more easily identified."

169. During its oral evidence, NIAO informed the Committee that the current resource accounting regime means that all property assets are on the books of public sector bodies, though it may not be presented in a user-friendly manner. There may be potential for that sort of information to be more fully disclosed in a meaningful way in annual reports and accounts and the NIAO would expect exercises to identify surplus property in the system to be a regular feature of departmental budgetary processes. In NIAO's view, such exercises need an independent assessment, as well as an assessment by those running the business. NIAO went on to state that the hidden or opportunity costs of holding onto assets that are not needed can be huge and that such costs should be tracked by departments.

170. Arising from its evidence, NIAO undertook to carry out a review of departmental resource accounts to establish if these could be used to compile a list of outstanding liabilities for maintaining vacant, dormant or surplus properties. However, in follow up correspondence, NIAO advised the Committee that it was not possible to produce such a list as the information for each department is at an aggregate level and does not provide the necessary detail. Given the interest in efficiency savings across the Assembly, NIAO has, however, brought forward plans to carry out a value for money review into Capital Asset Realisation, including the work of the CRT and how its recommendations are being taken forward.

171. Given the importance of good practice asset management and capital realisation to wider public sector efficiency, the Committee recommends that surplus government properties, together with the annual costs involved, should be fully disclosed in a more user friendly and meaningful way. In this regard, the Committee believes that a comprehensive, mandatory central asset register for all public bodies – as recommended in the report of the Capital Realisation Taskforce in December 2007 – should be established without further delay. The Committee also recommends that, in its central finance role, DFP should ensure that an exercise

to identify surplus property is a regular feature of the annual budget processes within departments and that a mechanism is used to independently assess the outcomes of such exercises.

The Work and Future Role of PEDU

172. The creation of a PEDU within DFP was announced by then Minister of Finance and Personnel, Peter Robinson, in November 2007. At that time it was envisaged that PEDU would mirror the work of the Prime Minister's Delivery Unit (PMDU) and would re-examine the scope for generating cash-releasing efficiencies and improving delivery and performance within departments, and across the wider public sector. In a DFP briefing note to the Committee it was also suggested that "the Unit should be led by a credible and external figurehead."[\[32\]](#)

173. In December 2007, as part of its Report on the Executive's Draft Budget 2008-2011, the Committee concluded that it saw considerable potential in the proposal to establish PEDU, as this could provide the Executive with a tool for driving out additional efficiencies and provide individual Ministers with a means for raising performance and delivery within their departments. However, the Committee recommended that, before launching the initiative formally, DFP should resolve a number of issues which the Committee had identified, including: the terms of reference within which PEDU would operate; the protocols to provide for consensus-based engagement and positive relationships between PEDU and departments; approaches to offering incentives to gain commitment from departments; clear accountability arrangements and robust reporting mechanisms and targets that would enable the Unit's performance to be measured and assessed.[\[33\]](#)

174. A detailed statement on the formation of PEDU was made to the Assembly by the Minister on 15 April 2008. The statement outlined the proposed twin focus of PEDU, namely efficiency and delivery. PEDU would fulfil the efficiency aspect of its remit when invited by an Executive Minister to investigate a particular departmental business area. The focus on delivery is linked to the implementation of the PSAs and associated targets within the PfG, against which delivery is monitored regularly. The Minister also announced the members of a ministerial panel for PEDU, including: Sir Michael Barber (McKinsey & Co., previously worked with PMDU); Frank Cushmanan (Belfast Harbour Commissioner); and Dennis Licence (former Managing Director, First Trust Bank).

175. The Minister made it clear that PEDU was available as an instrument for Ministers to use in order to improve departmental performance but that the final story told would be of departments doing things better rather than the work of PEDU itself. In his statement the Minister said:

"No strand of government has a fence built around it to indicate that PEDU should stay away... If one of the Executive's Programme for Government priorities is not being met, PEDU will be involved in getting it back on track."[\[34\]](#)

176. PEDU's first two areas of consideration were Planning Service and LPS. The Committee understands that both business areas have benefited from the contribution that PEDU has made. As it falls within the remit of DFP, the Committee receives regular updates on the progress that LPS is making in implementing the recommendations of the PEDU review. PEDU has retained a role on the LPS Delivery Oversight Team in relation to the review and the Committee has been satisfied to date that the implementation of the review's recommendations has aided the efficiency and effectiveness of the organisation.

177. On 17 June 2009, PEDU briefed members on the delivery aspect of its role in monitoring the implementation of the PfG. A number of issues were raised including discrepancies and contradictions between departments reporting of their own performance and the final assessment in the End-Year Delivery Report for 2008-09 as compiled by PEDU in conjunction with OFMDFM. Almost one year later, however, members are still waiting for the opportunity to debate the End-Year Delivery Report for 2008-09 in plenary. The six-month report for April – September 2009 has also not yet been published. The Committee considers that the delay in the publication of the PfG progress and delivery reports severely hinders the ability of Assembly statutory committees to scrutinise departmental performance against PSA targets. The need for timely performance reporting in this regard will be even more pertinent in the event of there being a more transparent linkage between PSA targets and future budget allocations.

178. A Private Members' Motion, debated in plenary in February 2010, suggested that PEDU should be instructed to assist the Minister for Health, Social Services and Public Safety by investigating potential non-front line savings and making recommendations. The motion allowed members to discuss the role of PEDU and the debate reiterated the need for PEDU to work collaboratively with departments, rather than be forced upon them. Responding to the debate the Minister said that "the best way forward is for Ministers to invite PEDU to do its work and to co-operate with it."^[35] This echoes the consensus led approach outlined by Departmental officials in their initial briefing on PEDU in November 2007. Members also note that this collaborative approach is consistent with the Departments (Northern Ireland) Order 1999, which determines that the functions of a department shall at all times be exercised subject to the direction and control of the Minister.

179. PEDU officials again briefed the Committee on 14 April 2010 on its progress to date. During the evidence session members expressed concern about the effectiveness of PEDU and how that is measured. The officials again emphasised the behind-the-scenes nature of the work, and that once a department has engaged with PEDU, the story is about how the Department is operating more effectively and not about the Unit's particular contribution.

180. Members also queried whether the apparent reticence amongst departments to commission the services of PEDU stems from a perception that the Unit is not sufficiently independent. Comparison was made with the work of the Business Consultancy Service (BCS) within DFP's Delivery and Innovation Division. This is an independent business area within DFP which provides management consultancy services to departments, and which reports to the client Department directly rather than to the DFP Minister. The PEDU officials noted that the requests currently received by PEDU are often more suited to the work of BCS, as they appear to be seeking management consultancy style work. Requests to use the services of BCS can be made by officials, whilst a PEDU intervention requires the specific invitation of the Department's Minister. The PEDU officials also highlighted the already established independent credentials of BCS and commented that the latest customer survey figures for BCS indicated that 100% of customers were either satisfied or very satisfied with its work. The Committee also noted that, during Oral Question Time in the Assembly on 13 April 2010, the Minister of Finance and Personnel made reference to the increasing use of BCS by departments, rather than using outside consultancy services.

181. Members were disappointed to note that, since the reviews of the Planning Service and LPS no other Department has employed the services of PEDU. Members considered this issue during the evidence session and subsequently wrote to the other statutory committees to enquire if their departments had considered commissioning work from PEDU, or if there would be a willingness in this regard. Seven statutory committees have responded to date, including the Committee for Culture, Arts and Leisure; the Committee for Employment and Learning; the Committee for Enterprise, Trade and Investment; the Committee for the Environment; the

Committee for Justice; the Committee for Regional Development; and the Committee for Social Development. These are included at Appendix 4.

182. As previously noted, the Planning Service within the Department of the Environment (DOE) has already been considered by PEDU. While all the other related departments, for which responses were received, have indicated that they would be willing to engage with PEDU should the appropriate business need arise, only one, DETI, has indicated ongoing interaction with PEDU in the identification of best practice in the case work process.

183. While broadly supportive of the intention behind the creation of PEDU, the Committee continues to have concerns about its outworking. It does not, for example, operate under an external figurehead, as outlined by Departmental officials in their initial briefing on PEDU in November 2007. During that evidence session the officials stated:

"...the broad vision for the unit is that it will probably be headed by an individual from outside the Civil Service — outside the public sector, even — with a proven track record of delivering organisational improvement and ensuring that organisational change happens in a productive way. That person might not be a household name; it could be someone who has worked in local government or in the private sector here or elsewhere in Ireland or in the rest of the UK."[\[36\]](#)

184. The Committee considers it possible that an external figurehead, as originally envisaged, may have enhanced the willingness of departments to engage with PEDU as it may have been seen by departments to have more independence.

185. Whilst the Committee is disappointed at the low level of uptake of the PEDU services by departments to date, it acknowledges that this issue can only be addressed through agreement amongst Executive Ministers. The Committee therefore calls on DFP to put forward options to the Executive for ensuring that the PEDU functions are exercised effectively across all departments. This might include maintaining PEDU in its existing form, with each Executive Minister committing to utilise its services on a more proactive basis. However, other options for consideration might include, for example: establishing the Unit as an independent body in statute; relocating the Unit elsewhere outside DFP; or retaining the business function within DFP by merging the work of PEDU with BCS to provide a more comprehensive service to departments.

Invest to Save

186. In response to written questions from the Committee in November 2009, ERINI suggested that gaining efficiencies that would involve major changes in processes or practices, may involve spend to save schemes. On this same theme, as part of the Review of 2010-11 Spending Plans for NI Departments, the Minister announced on 12 January 2010 the introduction of a £26 million "Invest to Save" fund designed to provide additional support to departments for the upfront costs that are often required in order to make savings. This was to encourage Ministers to think now about what needed to be done to make savings in the future.

187. In written evidence to the Committee, DFP indicated that the Invest to Save proposals would be assessed in terms of the quantity of projected savings versus the level of upfront cost as well as the quality of the proposal in respect of, for example, deliverability. The Minister expanded on this at an oral hearing with the Committee on 11 February 2010. During this evidence session, the Minister indicated that 60 applications had been received for the £26 million fund. He also outlined how the individual proposals would be assessed and suggested that there would be a bias towards those projects yielding quicker returns.

188. The approved Invest to Save projects were announced by the Minister in his statement to the Assembly on 21 April 2010 on the Revised 2010-11 Spending Plans for NI Departments. Fourteen projects from five departments were approved including:

"£6.5 million for redundancy costs associated with transition to a more streamlined administrative structure in Education and £4.8 million for a land measurement improvement project in the Department of Agriculture and Rural Development (DARD) to reduce the risk of Common Agricultural Policy (CAP) disallowance payments, which have the potential to reach £15 million each year. It includes £3.7 million for the digital dictation project in the Department of Health, Social Services and Public Safety (DHSSPS) to reduce the need for administrative support, £1.4 million to fund additional redundancies as part of the restructuring of libraries and £1.4 million to fund the refurbishment of Enterprise trains to increase fuel efficiency."

189. Members had the opportunity to hear further evidence on the final Invest to Save projects during an evidence session with DFP officials on 14 April 2010. The approved Invest to Save projects are outlined in Table 12 below:

Table 12: 2010-11 Invest to Save Projects

Department	Project	£m
DARD	Improved measurement systems for agricultural land to reduce the risk of disallowance penalties in respect of Common Agricultural Policy (CAP) payments to farmers.	4.8
DCAL	Restructuring of Libraries NI	1.4
DE	Consolidation of administrative educational services	6.4
DHSSPS	Move from manual to electronic systems for arranging nursing staff duties	2.6
DHSSPS	Funding for Eating Disorder Teams reducing reliance of residential care in England	0.8
DHSSPS	Tyrone & Fermanagh Hospital- refurbishment costs associated with moving to more cost effective form of service provision	1.0
DHSSPS	Rationalisation of switchboard facilities across Trusts and move to Internet based Telephony.	1.9
DHSSPS	Transition from manual updates by secretarial staff to electronic dictation of patient case notes by medical staff.	3.7
DHSSPS	Extension of the NI Picture Archiving and Communications System through purchase of additional diagnostic viewing stations.	0.2
DHSSPS	Replacement of old inefficient equipment for the delivery of intravenous medication.	0.5
DRD	Replacement of old high wattage street lanterns with new, more efficient versions with lower power consumption.	1.0
DRD	Refurbishment of Enterprise train locomotives to increase fuel efficiency.	1.4
DRD	Replacement of lighting at Translink sites with new, more efficient versions with lower power consumption.	0.5
DRD	Replacement of lighting in Class 300 Trains with new, more efficient versions with lower power consumption.	0.1
	Total	26.1

190. A number of organisations wrote to the Committee about the Review of Spending Plans 2010-11 and made comment about the Invest to Save initiative. Children in Northern Ireland suggested that proposals to be funded should be open to public scrutiny. While welcoming the

creation of the Invest to Save fund, CBI suggested that the scheme did not go far enough to achieve what it considers to be the necessary changes required in light of expected future spending cuts.

191. Overall, the Committee is supportive of the Invest to Save initiative and considers that it is another useful tool for incentivising departments to make efficiency savings. While at this stage the Committee would, in principle, be supportive of a continuation of this initiative in future budgetary cycles, it will wish to consider the outcome of any scrutiny by the relevant Assembly statutory committees of the implementation of the programme during 2010-11 to assess its effectiveness.

Other Related Challenges

192. In addition to the increased focus on driving out further public sector efficiencies, the Inquiry evidence also pointed to the need for a range of accompanying measures to ensure that, as public services become more efficient, they are also delivered more effectively and achieve desired outcomes. Whilst these areas could not be examined thoroughly within the scope of this preliminary inquiry, the Committee would wish to flag up some related issues touched on in the evidence and which warrant more detailed examination.

Improving the Effectiveness of Public Services

193. As alluded to earlier, in a recent report on efficiencies, Jamie Bartlett of the think-tank DEMOS has pointed out that "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."^[37] Indeed, this research contended that if the initial focus is on effectiveness, to get things right, efficiency will follow.

194. Related to this issue, the Committee has noted a number of innovative approaches to improving public service effectiveness. In particular, on Wednesday 17 February 2010, the Committee considered an Assembly Research paper on "Systems Thinking and Public Sector Efficiencies". A copy of this paper is included at Appendix 5.

195. The Committee noted that "Systems Thinking" has been applied with some success in the public sector in England and Scotland. The principles of Systems Thinking have been described in a report by the Office of the Deputy Prime Minister (ODPM), as follows:

- Considering work from the perspective of the customer – it must be understood from the outside in;
- The system is designed against predictable demand;
- Understanding the flow of work through the whole system is critical;
- Work is done against demand with the right resources pulled together at the right time; and
- People on the spot have the responsibility and capability to do what is needed. With responsibility comes ownership of the work.^[38]

196. It is vital in the first instance that organisations first understand the nature of demand for their services, which allows for the development of systems against the demands of customers. Demand can be understood in two parts:

- Value demand: people wanting what the organisation exists to provide;

- Failure demand: demand caused by the organisation failing to do something for the customer or failing to do something right first time for the customer.

The primary purpose of understanding demand is to increase effectiveness rather than to increase efficiency, although, as the referred to above, it could be argued that the latter is a by-product of the former.

197. The Committee agreed to give DFP officials the opportunity to comment on the research paper and to outline ways in which the Systems Thinking approach has been applied to the public sector in NI. The full response is available at Appendix 3. DFP cited a number of examples where the Systems Thinking approach has been successfully implemented through its Delivery and Innovation Division (DID). In DHSSPS these include:

- 86% service delivery improvement in wheelchair access across 60% of the NI wheelchair service; and
- a 60% performance improvement in the delivery of counselling services to victims of sexual abuse.

198. DFP also indicated that the Systems Thinking approach will extend to the Department for TEmployment and Learning (DEL) in the future in order to improve the quality of the service delivered to jobseekers across NI. Systems Thinking has also been applied by the Social Security Agency (SSA) through two Proofs of Concept in the Pension Service. It was also reported that benefits were realised in terms of a sustained increase in productivity and accuracy and through the delivery of efficiency savings. The Department also emphasised that PEDU utilises Systems Thinking tools during review work, although not with a view to embedding this approach within the culture of an organisation.

199. The Committee has also noted the recent "Total Place Initiatives" (TPIs) in England, which refers to schemes that take a "whole area" approach to public services, seeking to identify and avoid overlap and duplication between organisations.^[39] It is sponsored by the Department of Communities and Local Government and pilot schemes (for example in children's services, adult drug and alcohol misuse or homelessness) were introduced in April 2009 in thirteen different areas, which aimed to map the "total public spending in these areas and change the way services are provided by devolving control to those on the ground who actually deliver the services."

200. In December 2009 a report outlined some provisional conclusions from the pilots and noted that:

"Because we work in relatively isolated silos and are unsighted as to what others are doing we often misunderstand both the cost of public services and their efficacy. But if we take a systems approach to consider the connections between the silos and the services we might get a richer picture."^[40]

201. A final evaluation report on the TPI pilots was due to be drawn up in April 2010. The Committee would encourage DFP to consider this evaluation carefully and draw out any lessons learned which may be applicable here. More generally, the Committee is keen to see the wider application of innovative approaches, such as Systems Thinking, to improving the effectiveness of public services in NI.

Continuous Improvement in Management Practices

202. As evidenced earlier in the report, public sector leadership and management standards will be pivotal in increasing the efficiency and effectiveness of public services. This was a particularly strong theme in the evidence from CIPFA, who concluded that departments "need to ensure they have the necessary leadership and management skills to bring public spending into line with new priorities and new ways of working." In highlighting the relationship between good management practice and good performance, CIPFA pointed to a recent study of almost two-thirds of acute hospitals in England which demonstrated a strong correlation between management quality and better hospital outcomes across mortality rates and other indicators of hospital performance.^[41] Conversely, CIPFA also highlighted evidence of poor standards of financial management as being "contributing factors in the £7m deficit of Belfast Metropolitan College in 2007-08 financial year."^[42]

203. The Committee has placed a strong emphasis on the need to drive forward the financial management agenda across NICS, in addition to the need to ensure effective planning and management of capital projects. During the remainder of the current mandate, the Committee will wish to closely monitor the contribution of DFP in leading and co-ordinating the continuous improvement of management practices across departments and their related public bodies.

Optimal Resource Allocation

204. As outlined earlier, the good practice efficiency checklist, published recently by NIAO, has emphasised the importance of adopting a priority-based approach to budgeting and spending in terms of considering competing priorities and deciding where to target the limited resources available.

205. Related to this issue, on 20 January 2010, the Committee received a briefing from Assembly Research on "Methods of Budgeting" (see Appendix 5). It noted that, whilst public sector budgeting in NI, in line with GB, typically relies on the incremental approach, this method of budgeting can obscure an overall picture of performance for managers and Ministers. Zero-based budgeting, on the other hand, starts from the basis that no budget lines should be carried forward from one period to the next simply because they occurred previously. This process ensures that organisations provide business justification for each activity they undertake. Activities are then ranked in order of priority and this is where resources are focused.

206. The research paper outlined several case studies where the principles of zero-based budgeting have been applied. Whilst not without its own difficulties, these case studies illustrate that a phased implementation of a zero-based budgeting approach, following a full business case justification, can also have a positive impact on the measurement and accountability of performance. The research paper also outlined a number of alternative budgeting techniques including:

- Priority-based budgeting;
- Decision conferencing;
- Planning Programming budgeting system;
- Performance-based budgeting; and
- Participatory budgeting.

207. Arising from the Committee's previous interest in this area, DFP's Central Finance Group included a target in its 2009-10 Business Plan for at least 15% of departmental baselines to be reviewed and evaluated in that year. More recently, in a written response to the Committee, the Department indicated that 20% of Departmental Expenditure Limits are due to undergo baseline reviews which share characteristics of zero-based budgeting, though these are only to be used as an internal tool to help support DFP's challenge role. The Department also acknowledged that

there is no "one-size-fits-all" approach to budgeting and that the methods used will depend on the circumstances and context within which the organisation is operating.

208. In its evidence, ERINI saw merit in reviewing departmental baselines, as a method of allowing programmes to be tackled head-on to assess their effectiveness and whether they are still needed. ERINI said that public expenditure savings really come from a decision to modify, or drop, a major block of public spending, because it is no longer serving the purpose for which it was designed and that there was a certain amount of inertia in the public sector to keep doing things that have lost their usefulness, as the sector is not subject to the same competitive pressures as the private sector.

209. The Committee is of the view that, given the scale of the anticipated public expenditure pressures over the coming period, there is an onus on management in the public sector to utilise the methods of budgeting most suited to optimising the allocation of funds to public services.

Revenue Generation

210. In their submissions to the Committee on the Revised 2010-11 Spending Plans for NI Departments, ERINI and CBI were both critical of the Executive's ongoing decision to defer domestic water charges. ERINI commented that: "it is clear that the decision to defer water and sewerage charges has contributed significantly to the budget deficit"; while CBI contended that the current policy of deferral is creating additional pressures on the Executive's finances, and is impacting on the provision of other public service resources which could then be used to improve the competitive position of the local economy, and stimulate job opportunities. Both suggested that the option of increasing revenue from taxes and charges under the Executive's control should be seriously considered, with the possible options including, for example, increases in rates and MOT charges and introducing car parking charges for the public sector.

211. However, when questioned by the Committee on 11 February 2010, the Minister of Finance and Personnel was keen to stress that increasing revenues should not be introduced at the expense of maximising efficiency within the public sector. He suggested that, while there was still waste in the system that could be addressed, he was not of a mind to introduce a "safety valve" for departments by increasing revenues. This echoed his earlier view during the Take Note debate on the Review of 2010-11 Spending Plans, when he stated that:

"Rather than looking at raising revenue, our first option should be to consider how best to use the money that we have. If we conclude that we are making the best use of that money, we will have to raise revenue if we want to have more services." [\[43\]](#)

212. The Committee concurs that the first priority should be to maximise the impact from existing resources and believes that this attaches even greater significance and urgency to the pursuit of further public sector efficiency gains.

213. The Committee considers that the efficiency drive will need to be accompanied by an equally important focus on effectiveness in public service delivery. This will necessitate a range of business improvement measures across the public sector, including the consistent application of best practice in governance, management and budgeting, aimed at optimising the allocation and use of resources and raising the performance and effectiveness of public services. The Committee also notes calls for the Executive to consider revenue-raising measures to support public services. While the scope of this preliminary inquiry did not enable a detailed examination of these accompanying measures, the Committee believes that such issues will take on greater significance in this time of exceptional budgetary constraint.

[1] Notes on Measuring and Increasing Public Sector Efficiency; Economic Research Institute of NI; November 2009.

[2] http://news.bbc.co.uk/1/hi/northern_ireland/10144139.stm

[3] http://news.bbc.co.uk/1/hi/northern_ireland/10135573.stm

[4] Economic Research Institute of NI: The State of the Public Finances: 2010 and projections to 2014; February 2010

[5] Committee for Finance and Personnel, Minutes of Evidence (29 April 2009): http://archive.niassembly.gov.uk/finance/2007mandate/moe/2008/090429_budget.htm.

[6] Report on the Review of 2010-11 Spending Plans for NI Departments; http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_41_09_10R.html

[7] <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budget/bsp.htm>

[8] Official Reports of each of these plenary debates can be accessed at <http://archive.niassembly.gov.uk/record/hansard.htm>

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

[10] See HM Treasury press release http://www.hm-treasury.gov.uk/bud_bud09_press01.htm

[11] See DFP press release <http://www.northernireland.gov.uk/news/news-dfp/news-dfp-april-2009/news-dfp-220409-dodds-responds-to.htm>

[12] Committee for Finance and Personnel, Report on the Review of 2010-11 Spending Plans for Northern Ireland Departments, March 2010 http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_41_09_10R.html#2

[13] Committee for Finance and Personnel Minutes of Evidence (29 April 2009): http://archive.niassembly.gov.uk/finance/2007mandate/moe/2008/090429_budget.htm

[14] 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

[15] Article by Professor Arthur Midwinter, forthcoming in Public Money & Management 2010

[16] Committee for Finance and Personnel, Report on the Executive's Draft Budget 2008 – 2011, December 2007. http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_12.07.08R.htm

[17] Northern Ireland Audit Office, Improving Public Sector Efficiency – Good Practice Checklist for Public Bodies, Report by the Comptroller and Auditor General, 19 May 2010, p.4.

[18] Committee for Finance and Personnel, Report on the Executive's Draft Budget 2008 – 2011, December 2007. http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_12.07.08R.htm

[19] 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

[20] "Reflections on nine years at the helm, An open letter to my successor as Chair of the Committee of Public Accounts", Edward Leigh, The Sunday Times, 28 March 2010.

[21] <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/520/520.pdf> paragraph 18

[22] Northern Ireland Audit Office, Improving Public Sector Efficiency – Good Practice Checklist for Public Bodies, Report by the Comptroller and Auditor General, 19 May 2010.

[23] National Audit Office definition: http://www.nao.org.uk/what_we_do/other_specialist_expertise/efficiency/what_is_efficiency.aspx

[24] AQW 2742/10

[25] Northern Ireland Audit Office, Improving Public Sector Efficiency – Good Practice Checklist for Public Bodies, Report by the Comptroller and Auditor General, 19 May 2010, p.4

[26] "Reflections on nine years at the helm, An open letter to my successor as Chair of the Committee of Public Accounts", Edward Leigh, The Sunday Times, 28 March 2010.

[27] PAC Report: Report on Shared Services for Efficiency – A Progress Report, Sixth Report: Ordered to be printed
11 December 2008

[28] http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_19_08_09R.htm

[29] DFP Paper available at Appendix 3

[30] Improving public sector efficiency, Prepared for the Auditor General for Scotland and the Accounts Commission, February 2010. http://www.audit-scotland.gov.uk/docs/central/2010/nr_100225_improving

[31] Committee for Finance and Personnel, Report on the Executive's Draft Budget 2008 – 2011, December 2007. http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_12.07.08R.htm

[32] Briefing note on PEDU for Committee for Finance and Personnel, 11 November 2007.

[33] Committee for Finance and Personnel, Report on the Executive's Draft Budget 2008 – 2011, December 2007. http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_12.07.08R.htm

[34] Northern Ireland Assembly Official Report, 15 April 2008.

[35] Northern Ireland Assembly Official Report, 1 February 2010, p.333 col. 2

[36] Committee for Finance and Personnel, Minutes of Evidence, 27 November 2007.

[37] 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

[38] Report is available online
at: <http://www.communities.gov.uk/documents/housing/pdf/138058.pdf> (accessed 03 February 2010).

[39] www.localleadership.gov.uk/totalplace

[40] Grint, K: Total Place: Interim Research Report: Purpose, Power, Knowledge, Time & Space, December 2009

[41] Health Economics Data Group Working paper, York University, 2009.

[42] The Department for Employment and Learning (DEL), "An efficiency review into Belfast Metropolitan College (BMC)", 2009.

[43] Northern Ireland Assembly Official Report 9 February 2010

Appendix 1

Minutes of Proceedings Relating to the Report

Wednesday, 19 November 2008 Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
Jennifer McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jnr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)

Apologies: Peter Weir MLA.

10.08 am The meeting commenced in open session.

4. Progress on Implementation of DFP Efficiency and Investment Delivery Plans: Evidence from DFP

10.50 am Ms McCann left the meeting.

10.54 am Ms Purvis left the meeting.

11.12 am Mr McNarry joined the meeting.

11.27 am Ms McCann joined the meeting.

The Committee took evidence from David Orr, Corporate Services Director, DFP; Deborah McNeilly, Director of Finance Branch, DFP and Stephen Rusk, Finance Branch, DFP. The session was recorded by Hansard.

Dr Farry declared an interest as a member of North Down Borough Council.

Agreed: that follow up issues will be forwarded to DFP for a written response.

Wednesday, 16 September 2009

Room 152, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)

Peter Weir MLA (Deputy Chairperson)

Dr Stephen Farry MLA

Simon Hamilton MLA

Fra McCann MLA

Mitchel McLaughlin MLA

David McNarry MLA

Adrian McQuillan MLA

Declan O'Loan MLA

Ian Paisley Jr MLA

Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)

Kathy O'Hanlon (Assistant Assembly Clerk)

Karen Jardine (Assistant Assembly Clerk)

David McKee (Clerical Supervisor)

Apologies: None

10.07 am As notification had been received that the Chairperson would be late, the Deputy Chairperson took the Chair and commenced the meeting in open session.

9. Correspondence (received since 9 September 2009)

Due to a delay in the arrival of the witnesses for the first oral briefing session, the Committee noted the following correspondence:

- DFP – Monitoring of Efficiency Delivery Plans;

Agreed: that the correspondence will be copied to the other statutory committees as this highlighted the importance of continued scrutiny of departmental efficiency delivery plans.

Wednesday, 7 October 2009

Room 152, Parliament Buildings

Present: Mr Peter Weir (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Mitchel McLaughlin MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Jennifer McCann MLA (Chairperson)

10.06 am As notification had been received that the Chairperson would not be present, the Deputy Chairperson took the Chair and commenced the meeting in open session.

3. Matters Arising

Agreed: that the Committee will commission a briefing paper from Assembly Research on the issue of efficiency savings by departments, to include the identification of potential expert witnesses.

10.09 am Mr Hamilton joined the meeting.

10.10 am Mr McNarry joined the meeting.

Wednesday, 14 October 2009

Bryson House, Belfast

Present: Jennifer McCann MLA (Chairperson)
Simon Hamilton MLA
Fra McCann MLA
Mitchel McLaughlin MLA
Declan O'Loan MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)
Colin Pidgeon (Assembly Research)

Apologies: Dr Stephen Farry MLA
Adrian McQuillan MLA
David McNarry MLA
Ian Paisley Jr MLA
Mr Peter Weir (Deputy Chairperson)

10.08 am The meeting opened in public session.

8. Assembly Research Paper on Efficiency Savings

The Committee considered a paper by Assembly Research on efficiency savings.

Agreed: that the Committee will request written and oral evidence on efficiency savings from the specialists identified in the research paper.

Wednesday, 4 November 2009 Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Mitchel McLaughlin MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

10.09 am The meeting commenced in open session.

10. Committee Work Programme

Members noted that three specialists will provide oral evidence to the Committee on efficiency savings. Two further specialists have been agreed to provide written evidence.

Agreed: that the Committee will notify PAC of its invitation for the Comptroller and Auditor General, Kieran Donnelly, to give evidence on efficiency savings.

Members noted the responses from all government departments to Assembly Questions on the impact of efficiency savings on front line services.

Agreed: that this information is issued to the specialists providing evidence on efficiency savings.

Agreed: that, once the evidence on efficiency savings has been received, the Committee will consider providing a practical guidance note to all statutory committees on the scrutiny of departmental efficiency delivery plans.

Wednesday, 11 November 2009

Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
David McNarry MLA
Declan O'Loan MLA
Ian Paisley Jr MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

10.09 am The meeting commenced in open session.

6. Efficiency Savings (Evidence from Specialists)

The Committee took evidence from Victor Hewitt, ERINI.

Agreed: that the Committee will write to Victor Hewitt requesting a response to further questions arising from his briefing.

11.35 am Mr McCann returned to the meeting.

11.44 am Mr Paisley Jr returned to the meeting.

12.06 pm Mr Paisley Jr left the meeting.

12.16 pm Mr McNarry left the meeting.

12.17 pm Mr McNarry returned to the meeting.

12.18 pm Mr Hamilton left the meeting.

12.21 pm Mr Hamilton returned to the meeting at.

12.29 pm Mr O'Loan left the meeting.

Wednesday, 18 November 2009

Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Mitchel McLaughlin MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jr MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies Fra McCann MLA
Dawn Purvis MLA

10.02 am The meeting commenced in open session.

4. Efficiency Savings (Evidence from Specialists)

Mr Weir declared an interest as Chairperson of the Audit Committee. Dr Farry declared an interest as a member of the Audit Committee

The Committee took evidence from the following NIAO representatives: Kieran Donnelly, Comptroller & Auditor General; Eddie Bradley, Assistant Comptroller & Auditor General and Brandon McMaster, Director. The session was recorded by Hansard.

10.10 am Mr McNarry returned to the meeting.

10.14 am Mr McQuillan returned to the meeting.

10.34 am Mr Weir left the meeting.

10.37 am Mr Weir returned to the meeting.

10.42 am Dr Farry left the meeting.

10.47 am Mr Hamilton joined the meeting.

10.49 am Mr McQuillan left the meeting.

11.10 am Mr McNarry left the meeting.

Agreed: that the Committee will write to the NIAO requesting a response to issues arising from the briefing.

Agreed: that the Committee will also ask DFP to consider how the NIAO might play a more proactive role in the development and monitoring of departments' efficiency delivery plans.

1. Efficiency Savings (Evidence from Specialists)

The Committee took evidence from Professor Colin Talbot from the University of Manchester. The session was recorded by Hansard.

11.26 am Mr McNarry returned to the meeting.

11.29 am Mr Weir left the meeting.

11.34 am Mr Weir returned to the meeting.

11.51 am Dr Farry returned to the meeting.

Agreed: that the Committee will write to Professor Talbot requesting a response to further questions arising from his briefing.

12.02 pm Mr McNarry left the meeting.

7. Correspondence

The Committee noted the following correspondence

- DFP: Request for briefing papers on efficiency savings.

Agreed: that copies of written submissions on efficiency savings will be issued to DFP following consideration by the Committee.

- Minister of Finance and Personnel: Response to Mr O'Loan on the removal of Clause 4 of the Financial Provisions Bill.

8. Committee Work Programme

Members considered the current draft of the Committee work programme until February 2010.

Agreed: that the Committee will request a briefing from DFP officials on progress against the Department's Efficiency Delivery Plan on 2 December. The Committee also agreed to request that DFP provides a written briefing paper for that evidence session.

Agreed: that the current draft of the work programme be published on the Assembly website.

Wednesday, 25 November 2009
Room 135, Parliament Buildings

Present: Peter Weir MLA (Deputy Chairperson)
Simon Hamilton MLA
Mitchel McLaughlin MLA
David McNarry MLA
Declan O'Loan MLA
Ian Paisley Jr MLA

Fra McCann MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Jennifer McCann MLA (Chairperson)
Dr Stephen Farry MLA
Adrian McQuillan MLA

10.10 am As notification had been received that the Chairperson would be absent, the Deputy Chairperson took the Chair and commenced the meeting in open session.

8. Efficiency Savings (Written evidence from Professor Midwinter)

Members considered a written submission from Professor Arthur Midwinter, University of Edinburgh, to the Committee's current investigation into departmental efficiency savings.

Agreed: that, once completed, a copy of the report arising from this investigation is forwarded to the other statutory committees in addition to DFP

Wednesday, 2 December 2009 Room 135, Parliament Buildings

Present: Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
Mitchel McLaughlin MLA
David McNarry MLA
Adrian McQuillan MLA
Ian Paisley Jr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Jennifer McCann MLA (Chairperson)
Simon Hamilton MLA
Declan O'Loan MLA

10.10 am As notification had been received that the Chairperson would be absent, the Deputy Chairperson took the Chair and commenced the meeting in open session.

5. Departmental Efficiency Delivery Plan (DFP Evidence Session)

The Committee took evidence from the following DFP officials: Deborah McNeilly, Finance Director, Finance Division and Adrian Doherty, Finance Branch.

The session was recorded by Hansard.

Agreed: that the DFP officials will provide further information as requested by the Committee during the evidence session.

Agreed: that the Committee will write to DFP officials requesting a response to further questions arising from this evidence session.

Agreed: that the Committee will write to the Minister seeking information on how further efficiencies might be achieved from the rationalisation of government accommodation, including through the use of flexible working arrangements, such as "hot desking", homeworking and shared satellite offices.

10.51 am Mr McQuillan returned to the meeting.

11.27 am Mr McQuillan left the meeting.

11.28 am Mr McQuillan returned to the meeting.

11.32 am Mr McQuillan left the meeting.

11.34 am Mr McQuillan returned to the meeting.

11.45 am Mr McNarry left the meeting.

11.47 am The meeting was suspended.

11.50 am Mr Paisley Jr left the meeting.

11.52 am The meeting resumed.

11.52 am Mr McQuillan left the meeting.

9. Correspondence

The Committee noted the following correspondence

- **Victor Hewitt:** Response to issues arising from Efficiencies evidence session on 11 November 2009.

Agreed: that the response will be included in the evidence base for the Committee's investigation of this issue.

- **DFP:** Letter from Minister regarding role of NIAO in monitoring Efficiency Delivery Plans across departments

Wednesday, 9 December 2009

Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Mitchel McLaughlin MLA
Declan O'Loan MLA
Ian Paisley Jr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Peter Weir MLA (Deputy Chairperson)
David McNarry MLA
Fra McCann MLA

10.10 am The meeting commenced in open session.

8. Committee Work Programme

Agreed: to invite representatives from the Chartered Institute of Public Finance and Accountancy to provide an oral briefing as part of the Committee's ongoing work on efficiency savings.

Wednesday, 6 January 2010

Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Mitchel McLaughlin MLA
David McNarry MLA
Declan O'Loan MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

10.03 am The meeting commenced in open session.

8. Correspondence

- DFP: Letter from Minister regarding Accommodation Efficiencies

Agreed: that the Committee will request a briefing note on distances travelled to work by civil servants.

Wednesday, 13 January 2010 Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Mitchel McLaughlin MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

10.06 am The meeting commenced in open session.

5. Strategic Financial Pressures (Evidence from DFP)

Dr Farry declared an interest as a member of North Down Borough Council.

The Committee took evidence from the following DFP officials: Richard Pengelly, Public Spending Director, Central Finance Group, DFP; Paul Montgomery, Central Expenditure Division, DFP; and Adrian Arbuthnot, Supply Division, DFP.

The session was recorded by Hansard.

Agreed: a list of issues on Strategic Financial Pressures for forwarding to DFP for a written response in order to inform the Committee's forthcoming report on the Review of Spending Plans for NI Departments 2010-11.

10.38 am Mr Paisley Jr returned to the meeting.

10.47 am Mr McNarry joined the meeting.

10.51 am Mr Weir left the meeting.

10.53 am Mr Weir returned to the meeting.

10.55 am Mr Hamilton left the meeting.

10.59 am Mr Weir left the meeting.

11.04 am Mr Hamilton returned to the meeting.

11.09 am Mr Weir returned to the meeting.

11.15 am Mr Paisley Jr left the meeting.

11.20 am Mr Weir left the meeting.

11.26 am Mr Weir returned to the meeting.

11.38 am Mr Hamilton left the meeting.

11.39 am Mr Hamilton returned to the meeting.

11.40 am Mr McCann left the meeting.

11.47 am Dr Farry left the meeting.

11.55 am Mr McCann returned to the meeting.

11.56 am Mr McLaughlin left the meeting.

11.58 am Mr McLaughlin returned to the meeting.

Agreed: that the DFP officials will provide information as requested by the Committee during the evidence session.

Members noted that the Minister's statement of 12 January 2010 asked for the Committee to publish its co-ordinated Report on the Review of 2010-11 Spending Plan by the end of February and subsequently considered whether the draft timetable for completion of the report should be amended.

Agreed: that the Committee will endeavour to complete its report by its scheduled meeting on Wednesday 3 March at the latest, whilst recognising the need for all statutory committees to be afforded sufficient time for scrutiny.

The Committee also considered a draft minute to the Business Office seeking a "take note" debate on the Review of 2010-11 Spending Plans.

Agreed: that the minute will be submitted to the Business Office requesting that the "take note" debate be scheduled for 15 or 16 February 2010.

12.07 pm Mr McNarry left the meeting.

Wednesday, 20 January 2010

Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)

Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
David McNarry MLA
Declan O'Loan MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Mitchel McLaughlin MLA
Adrian McQuillan MLA

10.05 am The meeting commenced in open session.

5. Methods of Budgeting (Research Briefing)

The Committee received a briefing on an Assembly Research paper on Methods of Budgeting.

10.44 am Mr Weir returned to the meeting.

10.44 am Mr McCann left the meeting.

10.59 am Mr McCann returned to the meeting.

Agreed: that Assembly Research will provide further information as requested by the Committee during the evidence session.

Agreed: the Committee will forward the research paper to DFP for a response on the options available for improving budgeting methods within departments.

Agreed: the research paper will be included in the body of evidence for the Committee's forthcoming Report on the Review of 2010-11 Spending Plans for NI Departments.

8. Correspondence

The Committee noted the following correspondence:

- Northern Ireland Audit Office: Efficiency Savings in NI Department.
- DFP: Response to query on travel to work distances for civil servants.

Wednesday, 27 January 2010
Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Simon Hamilton MLA
Fra McCann MLA

David McNarry MLA
Declan O'Loan MLA
Mitchel McLaughlin MLA
Adrian McQuillan MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Dr Farry MLA

10.05 am The meeting commenced in open session.

4. NICS Shared Services Centre (DFP Briefing)

The Committee took evidence from the following DFP officials: Paul Wickens, Director of Shared Services Organisation, DFP; Patricia Corbett, HR Service Management Director, Corporate HR, DFP; John Crosby, Chief Executive, Account NI, DFP; and, Barry Lowry, Deputy Director, Shared Services Organisation, DFP.

The session was recorded by Hansard.

10.22 am Mr Hamilton joined the meeting.

10.36 am Mr McNarry left the meeting.

10.43 am Mr McQuillan left the meeting.

10.45 am Mr McQuillan returned to the meeting.

Agreed: that a list of issues will be forwarded to DFP for a response in order to inform the Committee's forthcoming report on the Review of 2010 -11 Spending Plans for NI Departments.

6. Efficiency Savings: Written Evidence from Chartered Institute of Public Finance and Accounting (CIFPA)

12.23 pm The Chairperson left the meeting.

12.23 pm The Deputy Chairperson took the Chair.

As the relevant witness from CIFPA was unavailable to attend the meeting, members instead considered a written submission.

Agreed: to include the CIFPA paper in the Committee's forthcoming Report on the Review of 2010-11 Spending Plans for NI Departments.

Wednesday, 10 February 2010
Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Mitchel McLaughlin MLA
David McNarry MLA

10.07 am The meeting commenced in open session.

6. DFP Response on Strategic Financial Issues

The Committee considered a written response from DFP on Strategic Financial Issues arising from the oral evidence session on 20 January 2010.

Agreed: that the response will be included in the evidence base for the Committee's forthcoming report on the Review of Spending Plans 2010-11 for NI Departments.

Thursday, 11 February 2010 Senate Chamber, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Mitchel McLaughlin MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA

In Attendance: Shane McAteer (Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Ian Paisley Jr MLA
Dawn Purvis MLA

11.20 am The meeting commenced in open session.

4. Review of 2010-11 Spending Plans for Northern Ireland Departments

The Committee took evidence from the Minister of Finance and Personnel on the Review of 2010-11 Spending Plans for NI Departments. The Minister was accompanied by Richard Pengelly, Public Spending Director, Central Finance Group, DFP and Michael Daly, Head of Central Expenditure Division, Central Finance Group, DFP. The session was recorded by Hansard.

11.53am Dr Farry joined the meeting.

11.53am Mr McCann joined the meeting.

11.56am Mr Hamilton joined the meeting.

12.27pm Mr McQuillan left the meeting.

12.29pm Mr McLaughlin left the meeting.

12.30pm Mr McNarry joined the meeting.

12.34pm Dr Farry left the meeting.

12.38pm Dr Farry rejoined the meeting.

12.41pm Mr O'Loan left the meeting.

The Committee noted a paper from the Confederation of British Industry (CBI) on its response to the Executive's Spending Plans 2010/11.

Agreed: that the paper will be included in the evidence base of the Committee's forthcoming Report on the Review of 2010-11 Spending Plans for NI Departments.

Wednesday, 17 February 2010 Room 135, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)

Mr Peter Weir MLA (Deputy Chairperson)

Dr Stephen Farry MLA

Mr Simon Hamilton MLA

Mr Fra McCann MLA

Mr Mitchel McLaughlin MLA

Mr Declan O'Loan MLA

Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)

Miss Karen Jardine (Assistant Assembly Clerk)

Mrs Kathy O'Hanlon (Assistant Assembly Clerk)

Mr David McKee (Clerical Supervisor)

Mr Kevin Marks (Clerical Officer)

Apologies: Mr David McNarry MLA

10.07 am The meeting commenced in open session.

4. Strategic Financial Issues (DFP Briefing)

The Committee took evidence from the following DFP officials: Mr Michael Daly, Head of Central Expenditure Division, Central Finance Group; and Mr Paul Montgomery, Central Expenditure Division, Central Finance Group.

The session was recorded by Hansard.

10.17am Mr Weir left the meeting.

10.19am Mr Weir returned to the meeting.

10.24am Mr Hamilton joined the meeting.

10.49am Dr Farry joined the meeting.

Agreed: that the DFP officials will provide further information as requested by the Committee during the evidence session.

8. Assembly Research Briefing: Systems Thinking and Public Sector Efficiencies

The Committee received a briefing on the Assembly Research Paper Systems Thinking and Public Sector Efficiencies.

Agreed: the Committee will forward the Assembly Research Paper to PEDU and the Minister for Finance and Personnel for a response on the issues raised, with the possibility of a follow-up evidence session.

Agreed: the Research Paper will be included in the Appendices of the Committee's Report on the Review of Spending Plans 2010-11.

Wednesday, 24 February 2010 Room 135, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA
Mr David McNarry MLA
Mr Adrian McQuillan MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)

Mr David McKee (Clerical Supervisor)
Mr Kevin Marks (Clerical Officer)

Apologies: Mr Fra McCann MLA

10.07 am The meeting commenced in open session.

8. Correspondence

10.27 am Mr O'Loan returned to the meeting.

The Committee noted the following correspondence:

- DFP: Follow up to session on Shared Service Organisation on 27 January 2010;

Agreed: to include the correspondence in the forthcoming report on the Review of 2010-11 Spending Plans for Northern Ireland Departments.

6. Review of 2010-11 Spending Plans for NI Departments: Consideration of Draft Report

12.08 pm The Committee moved into closed session.

12.12 pm Mr Weir returned to the meeting.

Members considered a working draft of the Committee's Report on the Review of 2010-11 Spending Plans for NI Departments, which includes a section on Strategic Finance Issues.

Agreed: to split the report in two, the first focusing on the Review of 2010-11 Spending Plans for NI Departments, which will be published to inform the Minister's decisions; and the second on Public Sector Efficiencies and Effectiveness, to be published later this year.

The Committee discussed the procedure that exists for drawing attention to opposing views when formally considering a Committee report; that is to include a reference in the main body of the report to the Minutes of Proceedings, which record amendments moved to the report but not agreed.

Agreed: that this approach could be applied when the Report of 2010-11 Spending Plans for NI Departments is under formal consideration.

Agreed: that the draft Report will be developed, taking account of points raised, and will be brought to the Committee for formal consideration at next week's meeting.

12.22 pm The Committee moved into open session.

Wednesday, 3 March 2010 Room 135, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA

Mr Simon Hamilton MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA
Mr David McNarry MLA
Mr Fra McCann MLA
Mr Ian Paisley Jnr MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Kevin Marks (Clerical Officer)

Apologies: Mr Mitchel McLaughlin MLA

10.07am The meeting commenced in open session.

8. Correspondence

The Committee noted the following correspondence:

- DFP: Strategic Financial Issues - Staffing Level Query.

The Committee noted that the correspondence is included in the evidence base for Report on the Review of 2010-11 Spending Plans for NI Departments.

Agreed: the correspondence will also be included in the evidence base for the Committee's forthcoming report on public sector efficiencies and effectiveness.

Wednesday, 24 March 2010 Room 135, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr David McNarry MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Mr Ian Paisley Jnr MLA
Mr Fra McCann MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Kevin Marks (Clerical Officer)

Apologies: Dr Stephen Farry MLA

10.09am The meeting commenced in open session.

4. Draft DFP Operational Plan 2010-11 (DFP Briefing)

The Committee took evidence on the Draft DFP Operational Plan 2010-11 from the following officials from DFP's Corporate Services Group (CSG): David Orr, Director of Corporate Services, CSG; Deborah McNeilly, Head of Finance Branch, CSG; and Colm Doran, Head of Business Planning & Corporate Governance, DFP.

10.30am Mr Weir left the meeting.

10.31am Mr Paisley Jr joined the meeting.

10.33am Mr Paisley Jr left the meeting.

10.33am Mr Weir returned to the meeting.

10.34am Mr Hamilton left the meeting.

10.41am Mr Weir left the meeting.

10.56am Mr Weir returned to the meeting.

10.57am Ms Purvis left the meeting.

10.58am Mr McNarry left the meeting.

11.02am Ms Purvis returned to the meeting.

11.04am Mr McNarry returned to the meeting.

11.07am Mr Weir left the meeting.

11.07am Mr Weir returned to the meeting.

Agreed: that the witnesses will provide further information as requested by the Committee during the evidence session.

Agreed: that, going forward, the Committee will consider written briefings from DFP on progress against the Operational Plan to identify key areas that members wish to examine in detail during subsequent oral evidence. This will ensure that the relevant Departmental officials are available to discuss these issues during oral evidence sessions.

5. Workplace NI (DFP Briefing)

The Committee took evidence on Workplace NI and the Draft Northern Ireland Civil Service (NICS) Accommodation Plan 2010 - 2013 from the following DFP Officials: David Orr, Director of Corporate Services, CSG and Philip Irwin, Head of Properties Division, CSG, DFP.

11.20am The Chairperson left the meeting.

11.20am The Deputy Chairperson took the Chair.

11.27am The Chairperson returned to the meeting and resumed the Chair.

11.48am Mr McCann left the meeting.

12.04pm Mr McNarry left the meeting.

12.07pm Mr Weir left the meeting.

12.11pm Mr Weir returned to the meeting.

12.11pm Mr McNarry returned to the meeting.

Agreed: that the witnesses will provide further information as requested by the Committee during the evidence session.

Agreed: the Committee will write to the Minister to request that he seeks an urgent decision by the Executive on the recommendations from Professor Sir George Bain's review of the location of public sector jobs, which will inform the development of the NICS Accommodation Plan 2010 - 2013.

Wednesday, 14 April 2010 Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Mr Fra McCann MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Jonathan Craig MLA
Mr Adrian McQuillan MLA

10.12 am The meeting commenced in open session.

5. Performance and Efficiency Delivery Unit (DFP Briefing)

The Committee took evidence on the PEDU from the following DFP Officials: Richard Pengelly, Public Spending Director, Central Finance Group; and Shane Murphy, PEDU.

The evidence session was recorded by Hansard.

11.10 am Mr Hamilton left the meeting.

11.34 am Mr McCann left the meeting.

11.35 am Mr Hamilton returned to the meeting.

11.39 am Mr McCann returned to the meeting.

Agreed: to forward a list of outstanding issues to PEDU for response to inform the Committee's forthcoming report on Efficiencies and Effectiveness.

Agreed: to write to each Statutory Committee to ask if their Department has considered employing the services of PEDU and if there would be a willingness in this regard; and to copy the correspondence to the Chairpersons' Liaison Group.

Wednesday, 21 April 2010 Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry (Deputy Chairperson)
Mr Jonathan Craig MLA
Dr Stephen Farry MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

10.07am The meeting commenced in open session.

6. Outcome of Review of 2010-11 Spending Plans for NI Departments (DFP Briefing)

The Committee took evidence on the outcome of the Review of 2010-11 Spending Plans from the following DFP officials: Michael Brennan, Head of Central Expenditure Division, Central Finance Group; and Paul Montgomery, Central Expenditure Division, Central Finance Group.

The evidence session was recorded by Hansard.

11.05am Mr McNarry joined the meeting.

11.18am Mr McCann left the meeting.

11.21am Mr O'Loan joined the meeting.

11.23am Mr McCann returned to the meeting.

11.24am Mr O'Loan left the meeting.

11.28am Mr Craig left the meeting.

11.31am Mr O'Loan returned to the meeting.

Following the evidence session, Members noted that the Committee will receive a briefing on the outcome of DFP's Review of the Executive's Budget Process 2008-11 at its meeting on 12 May.

Agreed: that, following the evidence session scheduled for 12 May, the Committee will proceed with part two of Stage 1 of its Budget Scrutiny Inquiry, which is to consider and respond to the findings of DFP's review. The Committee will also proceed with Stage 2 of the Inquiry regarding the capacity of the Assembly in budget and financial scrutiny.

Agreed: to invite representatives from the Scottish Parliament and the House of Commons Scrutiny Units and representatives from the NI Audit Office to give oral evidence to Stage 2 of the Inquiry.

The Committee will aim to complete both stages in advance of the summer recess.

11.41am Mr Craig returned to the meeting.

10. Correspondence

The Committee considered the following correspondence:

- DFP: Response to Assembly Research Paper on Systems Thinking.
- DFP: Monitoring of Efficiency Delivery Plans update.

Wednesday, 12 May 2010 Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

10.09 am The meeting commenced in open session.

8. Committee Report on Public Sector Efficiencies - Consideration of Draft Report

The Committee agreed that agenda item 7 would be taken next.

12.46 pm The Committee moved into closed session.

Members considered a working draft of the Committee's Report on its Inquiry into Public Sector Efficiencies.

Agreed: that members will forward comments on the draft Report to the Clerk by Friday 14 May and that the draft Report will be developed, taking account of points raised, and be brought to the Committee for further consideration at next week's meeting.

12.48 pm The Committee moved into open session.

Wednesday, 19 May 2010 Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry (Deputy Chairperson)
Mr Jonathan Craig MLA
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Fra McCann MLA
Ms Dawn Purvis MLA

10.04 am The meeting commenced in open session.

5. Committee Report on the Inquiry into Public Sector Efficiencies - Consideration of draft Report

11.58am As agreed, the meeting moved into closed session.

Members considered a working draft of the Committee's Report on its Inquiry into Public Sector Efficiencies.

11.57am Mr Hamilton left the meeting

12.02pm Mr Hamilton returned to the meeting

12.06pm Mr Craig left the meeting.

12.20pm Mr O'Loan left the meeting.

Agreed: that the draft Report will be amended, taking account of points raised, and will be brought to the Committee for formal consideration at next week's meeting.

12.26pm Mr McNarry left the meeting.

12.26pm The meeting moved into open session.

Wednesday, 26 May 2010 Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry (Deputy Chairperson)
Mr Jonathan Craig MLA
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA
Mr Adrian McQuillan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA

10.13 am The meeting commenced in open session.

4. Committee Inquiry into Public Sector Efficiencies - Consideration of draft Report

10.16am The meeting moved into closed session.

10.26am Ms Purvis joined the meeting.

Members considered a further working draft of the Committee's Report on its Inquiry into Public Sector Efficiencies.

Agreed: that the draft Report will be amended, taking account of points raised, and will be brought to the Committee for formal consideration at next week's meeting.

The Committee also considered a response from the Performance and Efficiency Delivery Unit (PEDU) following an evidence session on 21 April 2010, and responses from the other statutory committees regarding their department's use of the services provided by PEDU.

Agreed: that the correspondence is included in the evidence base of the Inquiry Report.

Agreed: that the Improving Public Sector Efficiency: Good Practice Checklist for Public Bodies, recently published by the NI Audit Office (NIAO), is included in the evidence base of the Inquiry Report.

Agreed: to call on DFP to advise the Committee on how the Departmental Board and the Governing Bodies of DFP's arm's length bodies intend to apply the checklist.

The Committee agreed the following draft motion to debate the report in plenary:

"That this Assembly approves the report of the Committee for Finance and Personnel on its Inquiry into Public Sector Efficiencies; and calls on the Minister of Finance and Personnel, in conjunction with Executive colleagues, to implement, as applicable, the recommendations contained therein".

Agreed: to request that the Business Committee considers scheduling the motion in plenary on Monday 21 June.

10.32am The meeting moved into open session.

Wednesday, 2 June 2010

Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr Jonathan Craig
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan
Mr Declan O'Loan

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr David McNarry (Deputy Chairperson)
Ms Dawn Purvis MLA

10.07 am The meeting commenced in open session.

4. Committee Inquiry into Public Sector Efficiencies - Consideration of draft Report

The Committee undertook a paragraph-by-paragraph consideration of its draft Report on the Preliminary Inquiry into Public Sector Efficiencies.

Agreed: that paragraphs 1-18 stand part of the Report;

Agreed: that paragraphs 19-33 stand part of the Report;

Agreed: that paragraphs 34-40 stand part of the Report;

Agreed: that paragraphs 41-55 stand part of the Report;

Agreed: that paragraphs 56-60 stand part of the Report;

Agreed: that paragraphs 61-75 stand part of the Report;

Agreed: that paragraphs 76-93 stand part of the Report;

Agreed: that paragraphs 94-104 stand part of the Report;

11.14am Mr McQuillan joined the meeting.

Agreed: that paragraphs 105-108 stand part of the Report;

Agreed: that paragraphs 109-116 stand part of the Report;

Agreed: that paragraphs 117-126 stand part of the Report;

Agreed: that paragraphs 127-139 stand part of the Report;

Agreed: that paragraphs 140-158 stand part of the Report;

Agreed: that paragraphs 159-166 stand part of the Report;

Agreed: that paragraph 167 stands part of the Report subject to amendment, including the addition of the following sentence to the end of the paragraph: "The Committee will wish to monitor progress in this area over the coming months".

Agreed: that the draft NICS Accommodation Plan and the Hansard of the evidence session on this matter will be included in the appendices to the Report.

Agreed: that paragraphs 168-187 stand part of the Report;

Agreed: that paragraphs 188-193 stand part of the Report;

Agreed: that paragraphs 194-215 stand part of the Report;

Agreed: that the Executive Summary, with minor amendments, stands part of the Report;

The Committee noted a response from the Committee for Social Development regarding its Department's use of the services provided by the Performance and Efficiency Delivery Unit (PEDU).

Agreed: that the correspondence is included in the evidence base of the Inquiry Report.

Agreed: that the Appendices stand part of the Report;

Agreed: that the extract of the unapproved Minutes of Proceedings of today's meeting will be checked by the Chairperson and included in Appendix 1;

Agreed: that the Report, as amended, be the Third Report of the Committee for Finance and Personnel to the Assembly for session 2009/10;

Agreed: that the Report on the Preliminary Inquiry into Public Sector Efficiencies be printed.

Members noted that, in line with normal protocol, a typescript copy of the Report will be issued to DFP and two typescript copies will be laid in the Business Office in advance of printed copies being made available.

The Committee agreed the following revised draft motion to debate the Report in plenary:

"That this Assembly approves the report of the Committee for Finance and Personnel on its preliminary Inquiry into Public Sector Efficiencies; and calls on the Minister of Finance and Personnel, in conjunction with Executive colleagues, to implement, as applicable, the recommendations contained therein."

10.31am The Committee moved to open session.

Appendix 2

Minutes of Evidence

28 November 2007

Members present for all or part of the proceedings:

Mr Mitchel McLaughlin (Chairperson)
Mr Mervyn Storey (Deputy Chairperson)
Mr Roy Beggs
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Ms Jennifer McCann
Mr Adrian McQuillan
Mr Declan O'Loan
Mrs Dawn Purvis
Mr Peter Weir

Witnesses:

Mr Des Armstrong
Mr Brendan O'Neill Department of
Mr Leo O'Reilly Finance and Personnel
Mr Richard Pengelly

1. The Chairperson (Mr McLaughlin): We now move to the evidence session on the performance and efficiency delivery unit (PEDU). We are joined by Mr Leo O'Reilly and Mr Richard Pengelly from the Department of Finance and Personnel (DFP), who are both very welcome.

2. Mr O'Reilly (Department of Finance and Personnel): Thank you, Chairman. We have sent you a brief note on the background to PEDU and its progress to date. We are still working on finalising the arrangements, consulting with various organisations and groups — including the Prime Minister's Delivery Unit at Whitehall, which might provide a model for PEDU.

3. The Minister of Finance and Personnel first highlighted his belief that there is scope in the system for such a unit as PEDU during a speech to the Chartered Institute of Public Finance and Accountancy conference in Newcastle in September. The conference's theme was living with

restricted resources — it was called 'Surviving the Big Squeeze'. With that in mind, the Minister believed that, as well as the structures that are in place to ensure good practice and value for money in the delivery and funding of services, there was scope for some additional organisation or unit that would serve effectively to create a focus on issues where there is concern about performance, value for money or efficiency. He wanted to ensure that such areas could be identified and become the focus of a period of analysis and review so that they could be resolved.

4. Nationally, such issues as hospital waiting lists, crime levels in areas of England and attainment in schools have become a focus for the Prime Minister's Delivery Unit. The initial approach has been, first, to reach a consensus that the issue needs to be looked at — and I stress that there needs to be a consensus between the Departments and the Ministers involved. Once that is achieved, a period of intensive analysis is undertaken to understand the facts behind the figures. The clear focus of this type of unit is on establishing what the problem is and where it is occurring, rather than decrying the problem or engaging in rhetoric about how awful things are in schools or how the level of crime on the streets is becoming intolerable. The next step is to establish what might be the causes of the problem. Once those are identified, action plans can be developed and targets set for addressing the issue or concern.

5. The unit takes an analytical, objective approach. It is not intended to be — nor would anyone want it to be — confrontational. They do not set out to investigate why individuals or groups are not doing their jobs properly. The causes of underperformance in the public sector are often complex, and there can be a vast number of factors feeding into why areas of the public sector underperform against the standards that the public, Ministers or elected representatives expect. Therefore, there is a need for a strong analytical approach.

6. It is also important to avoid creating a blame culture. Rather, the culture should be one of identifying problems, sharing them, and working with the Departments concerned to seek ways of resolving them. Ultimately, as in any part of the system, it is only the Departments and public-sector agencies with responsibility for a particular service that can address and resolve the problems.

7. Translating that into our local environment, we are still working through the detail. No particular personalities have been confirmed as yet to undertake this work. However, the broad vision for the unit is that it will probably be headed by an individual from outside the Civil Service — outside the public sector, even — with a proven track record of delivering organisational improvement and ensuring that organisational change happens in a productive way. That person might not be a household name; it could be someone who has worked in local government or in the private sector here or elsewhere in Ireland or in the rest of the UK.

8. We envisage that the unit will be staffed by individuals with strong analytical skills who can look at issues in an objective way and produce reports and analysis that support the organisations concerned. Additionally, and reflecting the point about engagement, we also envisage that for particular tasks, or particular areas of investigation, staff and individuals from the Department or organisation concerned will also be directly involved in the review of a particular area of concern. The focus will be on working in partnership.

9. We will also focus on targeting particular areas, rather than having too broad a focus. To take the point that I made earlier about street crime in England, analysis of that situation revealed that the problem was concentrated in a relatively small number of inner-city-areas. That meant that, rather than resources being spread across the entire system of policing in England, they were able to be focused on a relatively small number of areas. In that way, rapid results were achieved in reducing levels of street crime. Similarly in education, the process of focusing on particular areas is important. Although numbers have not yet been finalised, the unit will

comprise no more than 10 people at any one time; perhaps few less than that. Its resources will and should be limited, because it is not meant to add to the existing structures and bureaucracy in the system.

10. Questions have been asked about the likely relationship between this unit and the spending divisions in DFP, which also have a general mandate to monitor and report on the efficiency and effectiveness of public expenditure. We envisage that, when the unit focuses on particular areas that are the responsibility of particular parts of DFP, it will work closely with the DFP teams on the investigation of particular problems.

11. That is a broad outline of our current thinking on how the unit will operate. The Minister intends to confirm all the details of the work that we are doing by the time he makes his final Budget statement to the Assembly in January. We are happy to answer any questions from members of the Committee, or, more usefully perhaps, listen to any suggestions or concerns that the Committee may have.

12. Mr Weir: It may be that some areas that have not been entirely drilled down. I want to know how the unit will work in practice. You say that the unit will examine specific areas, rather than using a broad brush. Presumably, the unit could have a cross-cutting function in the sense that it could focus on one Department or on an activity that relates to a number of Departments. Is that correct?

13. Mr O'Reilly: Yes.

14. Mr Weir: How will the unit identify what topics to consider? Will it operate in broadly the same way as the Public Accounts Committee? Will it concentrate on one or two topics, or might many topics be considered separately at any one time? For example, will it focus on and complete one issue before moving on to the next?

15. Mr O'Reilly: Identifying topics for consideration will probably have to start with engagement between Ministers, as it is important to secure a consensus on the areas of concern. This Committee and other Committees will probably ask at some stage why performance in one area seems to be less efficient than in others, or why improvements cannot be secured in X, Y or Z. The initial stage will probably be a fairly wide trawl of views — particularly those of Ministers, Departments and Assembly Committees — to find areas of concern that can productively be considered to find the problem behind underperformance in a particular area.

16. On the question of a comparison with the work of the Northern Ireland Audit Office in its value-for-money reports, and with the role of the Public Accounts Committee, there are three points to make. First, the Audit Office reports are post hoc in that they tend to consider problems or difficulties that have occurred in the past or where there has been underperformance in a broad area. However, they do also make recommendations for better practice in future. The difference is that we envisage these studies being "within the system", in the sense that that they are within Departments and within the existing system. Secondly, the unit will engage directly with those involved in an issue to identify the nature and reasons for the problems and any solutions to them. Thirdly, the unit will ensure that a matter under investigation is focused and targeted, and it will conduct relatively short-term exercises: six months would be the absolute maximum.

17. If the unit's focus is to be kept relatively narrow, it should be selective in what it deals with and focus intensively on that, rather than engaging in a broad-brush programme that covers a wide range of topics.

18. Mr Weir: Say, for the sake of argument, that the unit starts its work on 1 January. It could be decided, after consultation with Ministers, that its focus for the first three months would be on hospital waiting lists. Once that had been completed, presumably another topic would be selected.

19. Mr O'Reilly: Yes.

20. Mr Weir: Will the unit's work be both qualitative and quantitative, rather than focusing simply on figures and whether targets are being met?

21. Mr O'Reilly: Yes.

22. Mr Richard Pengelly (Department of Finance and Personnel): As Mr O'Reilly said, the unit is a work in progress. Colleagues in the Prime Minister's Delivery Unit told us that when they looked at improving performance in education, for example, they seconded teachers and head teachers on to the team that was investigating the issue. It is not simply working by numbers or looking at the quantitative aspect; it is a matter of involving people who know the service and who are familiar with the needs of the client group. It focuses on those qualitative dimensions too, and we will bear that in mind.

23. Ms Purvis: When will the unit be up and running?

24. Mr O'Reilly: The work on refining its terms of reference and membership structure is ongoing. The Minister envisages that he will be in a position to set out the details to the Assembly and the Committees by the time that he makes his final Budget statement in January. We hope, therefore, that the unit will be under way by the beginning of February at the latest. We may have some people in place before that.

25. Ms Purvis: Why must the unit be led by an external figurehead? Is there no one in the Departments with the appropriate expertise?

26. Mr O'Reilly: There is expertise in the Departments, but there is a belief — based on experience — that this type of unit benefits from an external perspective. However, there might be suitable people involved in the wider public sector either here, in Ireland or in the rest of the UK. The intention is to bring in people who have some other perspective beyond the particular framework within which DFP, or civil servants generally, work. There is an advantage in bringing in someone who is able to bring experience and wider perspectives to the problems that are faced in the public sector.

27. Ms Purvis: Will the job be advertised?

28. Mr O'Reilly: A final decision has not been made on that.

29. Ms Purvis: Where will the small core of staff come from?

30. Mr Pengelly: We are still discussing that with the Minister, but, as the nature of the organisation is about delivering efficiency and delivery, his starting point is probably going to be to look at redeploying staff; this is not a job creation agency.

31. Mr O'Reilly: We envisage that there will be a small core of permanent staff who have analytical skills. "Permanent" does not mean long term; the positions will be for, perhaps, a year or two at the most. As Mr Pengelly said, PEDU will also second departmental employees or

professionals involved in the delivery of front-line services, such as teachers or health professionals, to work on particular exercises and pieces of work.

32. Ms Purvis: To whom will the unit be accountable?

33. Mr O'Reilly: In the first instance, it will report to the Finance Minister, but I am sure that he will want to ensure that its work is endorsed and supported by the Executive, and, ultimately, the Assembly.

34. Ms Purvis: Will this Committee have the opportunity to take evidence from PEDU?

35. Mr O'Reilly: I am sure that that will be possible.

36. Mr Weir: We do not want them evaluating us for performance and efficiency.

37. Ms Purvis: Do not even go there.

38. Who will identify the areas to be examined by PEDU?

39. Mr Pengelly: That process will need to be moved forward in the short term as we crystallise the arrangements for it. There are a number of different dimensions. With regard to efficiency, for instance, colleagues in DFP who work day to day with Departments could, at very short notice, produce a long list of areas in which there are good and bad performance. The more important aspects are performance and delivery, and the key starting point for the consideration of the Executive will be the draft Programme for Government and the 23 public service agreements — they are a manifestation of the key performance areas that are important to the Executive. That would be a good starting point for improving performance across the system.

40. Recent work carried out by Departments must also be taken into account. Not so long ago, Professor Appleby carried out a significant piece of work for the Department of Health, for instance, and the Bain Report was undertaken for the Department of Education. Should PEDU go in and look at how to crystallise that work, or should it start elsewhere, because those pieces of work have already been subject to a recent review? That is a discussion that we still need to have with Ministers.

41. Ms Purvis: Public servants often associate the word "efficiency" with job losses. What assurances can you give staff that this initiative is not just another chopping board?

42. Mr Pengelly: The unit is definitely about making services more efficient and releasing the resources for reinvestment within Northern Ireland; it is not about taking money out of Northern Ireland. The staff reduction targets under the "fit for purpose" heading in the Gershon efficiency review were pretty ambitious and caused great fear among public servants that there would be redundancies. Although we are on track to achieve those targets, experience has shown that there is flexibility in the system of more than 5%. The system has proved to be more dynamic than we thought. With the Programme for Government prioritising economic growth, the private sector will start to grow, and that will introduce more dynamism into the labour market in Northern Ireland. Therefore, we are confident that this will not take us into the territory of redundancies. It is about efficiency, flexibility and focus on service delivery.

43. Mr O'Loan: I take it that, in so far as anything can be considered to be permanent in this life, the unit will be a permanent body owned by the Department of Finance and Personnel.

44. Mr O'Reilly: I can only speculate, as the Minister is still working through the detail; but there is a case for placing an initial time limit on the body of, say, three years. The danger is that such bodies can become institutionalised and slowly morph into being part of the bureaucracy themselves, whereas part of their job is to ensure that the systems are delivering. It might be appropriate to set an initial time frame and then review the body's effectiveness.

45. Mr O'Loan: I said in yesterday's debate on the draft Budget that the Minister of Finance had suggested to the Minister of Health that he might like to avail of PEDU's services. That made me wonder where the activity comes from and how they relate to continuing departmental work. To what extent is it seen by Departments as an intrusion? If PEDU says that it will consider a particular issue, the first instinct, quite naturally, of Ministers and officials will be to say that it is theirs; that they have been working on it and do not want someone else coming in. Nobody should think that getting the relationships and responsibilities right is simple.

46. This idea has a great deal of potential, but, at its worst, it could descend into silliness and run away with trivial themes. It could start taking its themes from the front page of the 'Daily Mirror' or the 'Sunday World' or 'The Stephen Nolan Show'. The media play an important role in democracy, but they do not always focus on the right targets; there is a pack mentality in the media. The spotlight can turn on an issue and make it seem the dominant issue of our times, even though it may not be the most important issue. It may reflect something that is to the side of an important issue rather than homing in on the right thing.

47. Mr Weir: Are you looking for a spot on the 'The Stephen Nolan Show' tomorrow morning? I can see the headline:

"Assembly Member denounces show".

48. Mr O'Loan: There is a big issue about the identification of themes. Will they come out of Departments or Committees? That ties in with the issue of accountability, which Dawn raised. Who will PEDU be answerable to? Will its accountability be post hoc? Will we be reading its reports after it has done its job? There are also questions about how the Assembly and its Committees can raise issues for investigation by PEDU. There is a stack of issues to consider. The unit has a lot of potential, but there is also potential for it to grind to a halt and be seen to not be doing very much.

49. Mr O'Reilly: All those points are very pertinent; those are the very issues that we are considering at the moment. Part of the reason why we do not want to rush out a detailed statement on how the unit will operate is that we want to address some of the specific concerns that you have identified.

50. With regard to buy-in from Departments, Ministers and Committees, the simple fact of life is that if a Minister is not signed up to the idea of the unit's involvement in his or her Department, it will not work. If the civil servants or the officials or the employees of the organisation do not come on board, it will not work. They have the capacity to stymie any investigation. That is why there has to be an emphasis on identifying areas on which there is a shared agreement among Ministers, the Department of Finance and Personnel, and at least one, if not several, of the Committees of the Assembly that there is a genuine concern that some aspect of public-service delivery is not operating as well as it should do. The purpose of this is to focus on those areas. Rather than engaging in a rhetorical blame game about why things are not working, the unit will provide an objective analysis of the reasons why they are not working and of what might be done to address the problem. It will draw on both analytical work and, as Mr Pengelly said, the work and experience of people involved in the delivery of front-line services. The unit will also draw on input from elected Members of the Assembly and its Committees.

51. You are absolutely right that, if the unit came to be perceived as a negative influence that blamed people for things that have gone wrong, it would not get very far. It would rapidly run into the sand.

52. Mr Pengelly: The points are well made, and will be worth bearing in mind in our discussions with the Minister of Finance and Personnel and the Executive on the programme of work. As Mr O'Reilly has said, the unit will have only a small number of staff. It is therefore important that it should retain an absolute strategic focus on what it is trying to achieve. I made the point earlier about the links to the draft Programme for Government and the public service agreements. That is not to say that the unit will not — at times, within a strategic work programme — go into detailed elements. Mr O'Reilly mentioned an example that was given to us by the Prime Minister's Delivery Unit about regional crime units. There are 300 of them across GB; to improve performance across the board, the delivery unit focused on 10 or 15 units whose performance was appalling. It was an attempt to address strategic improvement in service, albeit at a low level of detail.

53. On the question of the media driving the agenda, there are other mechanisms, such as the Audit Office, to deal with particular problems. In addition, Departments have internal audit mechanisms. We have to look to those bodies for the main response to a situation, leaving the unit to maintain a strategic focus and lift performance in line with the Executive's overarching priorities.

54. The Chairperson: Will this unit take as its initial compass the 3% target that each Department has signed up to, given that, as we were told last week, those efficiency savings have been taken away from the baseline allocation, which means that any slippage at all will have a direct impact on the delivery of front-line services? Is it the role of PEDU to ensure that those slippages do not occur and that the efficiency targets are met on an ongoing basis, or will it concentrate on other areas of work?

55. Mr Pengelly: The starting point will be to look at the additional elements of work. All Ministers are signed up to delivering the 3% efficiency savings, and Departments are advanced in producing robust delivery plans, which will be published on the departmental websites alongside the final budgets. Therefore, there is a plan of action to deliver those, and it has been quality-assured by our colleagues in the Department of Finance and Personnel. That process of engagement and challenge will continue.

56. It is not anticipated that PEDU will initially get involved in the 3% efficiency savings, but efficiency savings beyond that might come onto the radar of PEDU. It is possible that, six or eight months down the line, a particular problem or some external factors might emerge — notwithstanding the robustness of delivery plans. At that point, Ministers might decide to ask PEDU to go in and do a short-term look at a piece of work to try to get the efficiency delivery back on target. However, that would only be in response to a problem. As things stand, PEDU will not be involved in the delivery of the 3% efficiency savings.

57. The Chairperson: You said that Ministers would ask PEDU to get involved. Do you mean one Minister or the Executive?

58. Mr Pengelly: The Minister of a particular Department could issue the call for help. There are two dimensions to the 3% efficiency savings. It is easy for DFP to tell a Department that it must deliver 3% efficiency savings and that there will be a problem with its budget if it only delivers 2%. We will be concerned about whether that 1% gap represents a gap in the delivery of public services, which individuals need and rely on. It is not a departmental issue: problems that impact on public services are an issue for everyone. Therefore, it is up to the Minister to identify a problem with delivery, and for the Executive to sign up to an immediate response.

59. Dr Farry: Is it anticipated that PEDU will operate on a statutory basis, or will the unit draw upon existing statutory powers? The audit process operates within a fairly robust legal framework. Furthermore, the UK's system of government is different from ours in that it is a single-party Government, and the legal structure is also different. It is much more cohesive; our Departments are free-standing units. As the Finance Minister reminded us yesterday, we have a four-party mandatory coalition. He may have mentioned that once or twice in his speech.

60. The Chairperson: It trips off the tongue.

61. Dr Farry: Will Departments be obliged to co-operate with PEDU, or will it be voluntary? Can anything be done within the system to address the problem of Departments resisting the involvement of PEDU?

62. Mr O'Reilly: There is no intention to put PEDU on a statutory basis; it will be part of the administration of the system, and that is part of its ethos. It is not intended that PEDU will become some overly bureaucratic system. The intention is to create a small organisation that is focused on improving results and helping to improve performance and efficiency in the public sector. Dr Farry's comments about the differing structures of Government in Northern Ireland and Whitehall are obvious — and highly relevant when seeking to take forward something like PEDU. A unit like this in Whitehall can draw upon the authority and power of the Prime Minister to secure results and benefit from his authority over his party colleagues — all of whom are in Government. There is no other party in Government, so that, to some extent, creates a different context for a unit such as PEDU.

63. We cannot translate the model straight across to our local context, because it would not work in our circumstances. That is why the emphasis must be on building consensus, particularly around the issues that need to be looked at. I suspect that, if each public representative in this room had five minutes to come up with issues of delivery about which their constituents were concerned, there would be at least 20 different areas. There will not be any problem with identifying topics, but, they have to be isolated and prioritised. Furthermore, Departments, Ministers and other bodies will have to be engaged and agree that the issue in question is of concern and should be looked at.

64. Dr Farry: With regard to the results that come from the process, how will that fit in with the three-year Budget? If the unit achieves results in the short-term within the time frame of that Budget, will the additional savings that emerge automatically go to the Department from which the savings arose, or will they be thrown back into the pot to be reallocated through a monitoring round?

65. Mr O'Reilly: The general principle in DFP is that reduced requirements and savings in the system should always go back to the Executive and they should decide how those should be used. That is a strong, basic principle for us. However, we are not pushing it as a cost-cutting exercise, which is why, in choosing the title the Minister wanted to include both the words "efficiency" and "performance". It is about making best use of existing resources rather than seeking to cut back on resources in a particular Department — it is more about securing performance.

66. You made a comment at the beginning about the unit "achieving results". We envisage that it will not be the unit but the people who are responsible for delivering the services who will ultimately achieve the results. Improvements will only happen if the people who are responsible for delivering the service can make them happen. The unit will simply seek to identify ways that that may happen, but the results will be achieved by the people on the ground who deliver the service.

67. Dr Farry: Finally, in order to wind up Mervyn Storey, I must mention the Deloitte report into the cost of division, which Mervyn thinks is my bedtime reading.

68. Mr Storey: I was just going to mention that.

69. Dr Farry: Yesterday, the Minister was keen to stress in his Budget speech that that is one of the areas that the unit will look at, in the short term. Could you give me an indication as to how quickly that work will begin, and the approach that it will take?

70. Mr Pengelly: As part of the initial scoping exercise, the Minister has asked officials to do a further analysis of the report. Large elements of the savings in the report fall to the Northern Ireland Office (NIO) through the law and order budget, and are outside our scope. Similarly, there are elements that fall to the local authorities. There are significant savings in education, many of which were addressed by the Bain review. It is important to understand where and when those parts might fall within the Executive's remit and factor that into the unit's developing work programme to the greatest extent possible. We need greater clarity about those issues.

71. The Chairperson: In relation to the comment about attempting to take that forward on a consensual basis, how will we know if the unit is worth its room? How do we measure that?

72. Mr Pengelly: One answer is that the success of the unit may be that you never hear of it again. One of the biggest achievements of the Prime Minister's Delivery Unit, if you were to drill down, was to work with the Department of Health in Whitehall to make massive improvements to waiting times and access to healthcare. However, if you did a Google search for Prime Minister's Delivery Unit and improvements to waiting times, I suggest that there would be no hits. All the credit went to the relevant Department, and, to build on earlier points, that is one of the key ways of ensuring that there is no friction between Departments and the unit coming in.

73. At an internal level we will want to understand the areas that the unit has looked at and the subsequent improvements; however, it will be in terms of how the unit has worked with the Department to facilitate the Department to capture savings and improvements. The National Audit Office publishes a measure that for every £1 that it spends, it saves the taxpayer £7 or £8. We do not want to be in that territory, as that creates tension between the unit and the Departments.

74. The Chairperson: If the unit puts to a Minister a recommendation that is not accepted, does the unit simply withdraw?

75. Mr Pengelly: It is difficult to know the answer to that question until we get there. Our sense, which may be naive but is influenced by the discussions that we have had with the Prime Minister's Delivery Unit, is that we will rapidly get into a scenario where everyone buys into it and works and pulls in the same direction to deliver those quantitative and qualitative efficiencies.

76. Mr Weir: A couple of points have occurred to me. First, the principal responsibility for the conduct of an internal review of a Department's activities lies with its Minister. PEDU operates under the authority of DFP: does that mean that the Minister of Finance and Personnel will be made aware of any blocking tactics by a ministerial colleague?

77. It may be that Ministers will want to embrace the opportunity to find greater efficiencies in their own Departments. There may be a strong consensus around the Executive table that a particular matter merited investigation. However, human nature dictates that some Ministers may occasionally recoil from the idea of an investigation of their Departments because it might lead to embarrassment or information being leaked.

78. Mr Pengelly mentioned the comparison with the Prime Minister's Delivery Unit. I am not entirely surprised that it enjoys a high degree of co-operation. If the Secretary of State for Health in England tried to block an investigation, the Prime Minister could remove him. In Northern Ireland, however, the same incentive for co-operation does not exist. That poses a number of problems.

79. The Chairperson: Would a Department retain any additional resources identified as a result of the work of the unit? Is that an incentive?

80. Mr Pengelly: As Mr O'Reilly said, the starting assumption is that if resource capacity is being generated anywhere in the system, the normal rule of thumb is that the Executive should decide where the best interests of Northern Ireland are served. We may reach a point at which some form of incentivisation is introduced. As we will discuss shortly, a similar situation may pertain in the case of the capital realisation task force.

81. The members of the Committee have made many valid points about the focus on efficiency. As we move forward, there may be a greater focus on performance and delivery. There is scope for conflict with regard to efficiency, because Ministers may feel that the unit is there to reduce their budgets. However, if the unit's purpose is to improve performance and delivery, the debate, without a review of the budgets, is about how to create a maximum level of public service within a relatively constrained public expenditure envelope. The debate may differ depending on the perception of the unit's work. As we move forward, the performance and delivery aspects may become much more material, compared to the efficiency aspect.

82. Mr O'Reilly: A member raised the possibility that a Minister might disagree with an investigation into his or her Department. Ultimately, if there is resistance or disagreement from a Minister, the work would not get very far, because the unit needs the co-operation of the area being examined. The difficulties caused by that lack of co-operation would have to be worked on at a political level.

83. Mr Storey: Other members have made many relevant points. I am concerned that we will have to pursue a consensus before PEDU begins its work. Once PEDU is established, do we go to the Executive and ask them to outline to Departments what efficiencies they must make, in light of PEDU's objectives? Given that we have a four-party mandatory coalition Executive, as we have been reminded, is that where the emphasis must remain? As Mr O'Reilly said, we cannot duplicate what has been done by the Prime Minister's Delivery Unit because of the nature of the arrangements here. At that stage, PEDU would have an idea of the areas of work that it would be engaged in over a period. A wealth of data has been produced over the past months and years that tells us of the inefficiencies that exist in a range of Departments.

84. There will be resistance from some of those — Stephen referred to the Deloitte report. We must face up to the fact that we are unfortunately doomed for having a five-sectoral educational system. However, we can still have massive savings within that system by doing things differently, but that will only be achieved if the Minister and the Department buy into that particular process. That would give us a clearer focus, because we do not want to end up with a situation where, yet again, we focus in on the things that we cannot do that we know will bring us efficiencies. We must focus on what we can do that will bring better efficiencies, so that they can be released to the enhancement of public services.

85. Mr O'Reilly: I am not sure that I can qualify that. Everything that the member has said is precisely right. It is unlikely that people will say that we should not improve waiting times, or turnaround times, or some other aspect of public services. Hopefully, it is self-evident that that is what is desired. Where the difficulties arise is how to do that and the best ways of doing that.

86. Sometimes there are fundamental disagreements as to what the underlying problem is. For example, a few years ago there was the issue of hospital waiting lists in Northern Ireland. However, there was a clear political will to address it, and it was clear that at a political level that it was not acceptable and would not be tolerated any longer. Once you have that momentum and agreement in the system, things can happen very quickly, as they did in that case. That is a good example, but the result was not achieved by anyone at the centre; it was achieved by the people on the ground delivering the service. It is important to build the consensus around the need to secure improvement in a particular area, but to try to do it by understanding why it is not performing, and identifying ways of addressing the problems, rather than by placing blame.

87. Mr Storey: If a need or efficiency were identified, but the Minister decided that the Department could achieve the efficiency in another way, you would still end up at the same destination, having achieved the objectives of PEDU?

88. Mr O'Reilly: Yes.

89. Mr Beggs: In principle, I support the concept, which has huge potential. We have been talking about a specialist team, fresh thinking, and drawing on knowledge of what has happened in GB in the Prime Minister's office, which may already have provided some lessons.

90. I support the idea of an independent outsider, in the style of Varney — someone who has done that in large commercial organisations, and can bring in fresh thinking. If that person could only deliver the proposals, that would help. Sometimes, a fresh approach is needed from someone who can walk in, see things differently and challenge the organisation by asking about performance and how delivery is achieved. It is important that that challenge is there.

91. It is vital that a blame situation does not arise. How can you ensure that it will be voluntary and for mutual benefit? There is a danger that conflict could exist, and the situation may then backfire with no one benefiting. How can that be avoided? I hope that it will be moved forward in a positive way as there is huge potential in helping Departments to meet their Gershon targets, which will be demanding.

92. With regard to the Prime Minister's Delivery Unit, how long has that been in place? You say that it has made a major input to the reduction in waiting lists; have those lessons already come across to Northern Ireland, and is that one of the reasons that we have had a reduction in our waiting lists? Have the lessons that were picked up in GB been passed across to Northern Ireland already, and are there other lessons that could be applied?

93. Mr O'Reilly: Richard will deal with the history and contribution of the Prime Minister's Delivery Unit. You mentioned that Sir David Varney might lead the unit, but I would like to see the contents of his forthcoming report before I comment on that.

94. Mr Beggs: It looks like he is providing analysis for the politicians to make decisions on.

95. Mr O'Reilly: We have been told that one of the characteristics that the leaders of these types of units should have is a high level of humility, and there are a number of reasons for that. If the unit or the individuals involved seek to become "the success story", that will immediately have a negative effect on the people who are delivering the services. They will feel that they are making all the effort, and other people are receiving the credit. Therefore, credit should always go to where it belongs — to the people who are delivering the services. It is important that the leaders of the unit do not become the story. Some people who have an interest in this sort of area might know who the head of the Prime Minister's Delivery Unit was, or is — and I suspect that very few people will know who it is now. Holders of such positions are not household names; they do not

appear in the media. Any media work is left entirely to the Ministers in the Departments. To be successful, therefore, it is important that PEDU will operate in that way.

96. Mr Pengelly: The Prime Minister's Delivery Unit was established in the early years of new Labour's Administration; I am not sure of the exact date. New Labour wanted to place greater emphasis on delivery. The Prime Minister's Delivery Unit has had success with the Department of Health in respect of hospital waiting lists. Where possible, lessons have been learned and transported to Northern Ireland. Colleagues from the Department of Health, Social Services and Public Safety liaise closely with their colleagues in the Department of Health in Westminster, but lessons learned from those experiences touch on another point that was mentioned earlier.

97. The focus of the unit is not so much about policy scrutiny; it is about operational delivery of that policy. Although we can learn lessons from Whitehall, the circumstances are different here. Our education system, for instance, is structured differently. Therefore, there is a limit to how far lessons can be imported. We need to take a fresh look at the structures in our delivery of operations. We still see strong value in that.

98. Mr Beggs: Have there been other experiences in the Whitehall unit, which could be applied but have not been brought across?

99. Mr Pengelly: We would encourage and cajole all Northern Ireland Departments to liaise more closely with their Whitehall counterparts and the local authorities in Great Britain that have responsibility for the delivery of particular services. We continually push them, and it is part of our challenge role to ask what lessons they have learned and to bring in any improvements in efficiency and delivery that have been made across the water. However, there is a limit to what can be done, because of the different structures.

100. The Chairperson: Especially with regard to securing confidential data.

101. Ms J McCann: I apologise for missing your briefing. Everybody wants more effective and efficient public services, but there are concerns, particularly around the issue of the 3% efficiency savings. Some people are concerned that the objective of achieving the efficiency savings targets will be to the detriment of social outcomes. On occasions when public services are told to cut back, services that are delivered by the community and voluntary sector are among those that are usually cut. They are the front-line services that make a difference and enhance the quality of people's lives. There is concern that the financial outcome will dominate, and not the social outcome. What are your thoughts on that? How will you convince people that that will not be the case?

102. Mr O'Reilly: The point that the member makes has been made directly, and indirectly, by representatives from the voluntary and community sector. There is a concern that the first thing that will be cut will be funding for the type of services that it provides, if Departments are under pressure. That has been relayed to me on quite a few occasions over recent years.

103. There are two ways to address that. Richard referred earlier to the drawing up and publication of efficiency delivery plans, which are meant to set out in detail how the 3% cumulative efficiencies will be delivered, which provides a basis for scrutiny by departmental Committees, who can go through them with individual Departments. Those plans also provide a basis for ongoing monitoring to ensure that what is meant to happen will happen and that there are no unintended adverse consequences for other sectors.

104. The other way to address that is through continuing monitoring and scrutiny, particularly by Ministers and relevant Departments, when there are allocations of funding. The best way to address that is for Departments to ensure that funding streams for voluntary and community

sector activities are built into departmental budgets, and published and profiled over a three- to four-year period. We have done a lot of work to try to provide the sector with greater security of funding, and longer-term funding streams. We are not entirely there, but we have done a substantial amount of work over recent years in seeking to work with the sector.

105. During a period of contraction of traditional funding routes, particularly the previous European structural funds programmes, which had a large segment of funds allocated to the sector, we worked with it on the challenge of redirecting its activities into delivering public services. There are areas where the voluntary and community sector is recognised as generally being better than other types of statutory agencies delivering services. Childcare is an obvious example, and in work with offenders, and young offenders in particular, it has been shown that voluntary and community organisations are more effective, for various reasons. It is important that the funding streams to those organisations continue.

106. The final way is that the organisations continue in the way that they have done in the past, both in initially raising concerns that they may have directly with the relevant Minister, and also with us in DFP. I am conscious of that because I have an engagement with one of the leading members of the voluntary and community sector soon to discuss the matter and the concerns at the moment.

107. Mr F McCann: To pick up on a point that Jennifer made, I know that a number of years ago the former Government initiated a series of percentage efficiency savings over a period of some years, which had a direct impact on the services that were delivered. I am concerned that we give recognition to the harm that the 3% efficiency savings may do to Departments. Can we reverse that? Will the finance be there to reverse any damage that may be done?

108. Mr Pengelly: Looking across the three years of the draft Budget, the position is that all the resources available to the Executive have been allocated, including the anticipated release of efficiency savings. If efficiencies are not delivered there will be no pot available to deal with that. There would have to be some form of intervention to address the failure to deliver.

109. Against that, and picking up on last week's points, we do not have a contingency fund. There is an in-year monitoring process, which gives some flexibility if the failure is due to external reasons or other factors. However, we will be driving hard with Departments to crystallise and deliver the efficiencies. I do not wish to be pejorative to our colleagues across the Civil Service — and I include DFP — but do we all believe that we are operating at efficiency levels at or in excess of 97%? We have scope to become more efficient and to release the money for reinvestment in front-line services, whether through the medium of the voluntary and community sector, or through the public sector.

110. Mr O'Reilly: At the previous meeting of the Committee, members raised the issue of overcommitment. The Minister wants to reduce the level of overcommitment precisely for the reason mentioned — to give the Executive and the Committees of the Assembly greater scope to examine issues as they arise, and deal with them by allocating the resources that are freed up accordingly.

111. Mr F McCann: What are the set-up costs of the unit? Does it have a budget, and should we expect that budget to grow as the unit grows?

112. Mr O'Reilly: We have not yet finalised a budget for the unit, but there will have to be an allocation of resources to allow it to do its work. The overall pot of resources will not increase, so it will have to be found from within existing funds, either from DFP or from other Departments. We do not anticipate or wish to see its costs growing. I am sure that this Committee and others will keep a wary eye on that.

113. Mr F McCann: The old saying is: who monitors the monitors?

114. Mr O'Reilly: The Committee does that.

115. The Chairperson: I hope that Hansard has captured the admission by Leo that there is fat in his budget.

116. It seems to me, on the basis of the information that we have been given, that there is some degree of overlap of function and effect between the role of DFP Supply and the performance and efficiency delivery unit. If there is scope in the budget, will PEDU examine the Department of Finance and Personnel, and the role of Supply?

117. Mr O'Reilly: Absolutely. Members have mentioned two potential interfaces — DFP Supply, and the Northern Ireland Audit Office. You are absolutely right, Chairperson. There is potential for an overlap of work, but that should not be a negative overlap, in the sense that the work of the unit complements rather than contradicts or cuts across the work of DFP Supply. We anticipate that when PEDU looks at a particular area, Supply staff would act as an additional resource to enable the unit to do its work properly.

118. The way in which DFP carries out its functions, particularly within the central finance group, is always under review, but I can say that it is specifically under review at the moment. Having come through the draft Budget process and six months of devolution, my colleagues and I are looking at whether our structures enable us to do our work in the best way possible. We may be able to come back to the Committee early in the new year to explain the changes that we propose to make.

119. The Chairperson: We would like to follow those developments. I am sure that you will be pleased, judging by the comments that have been made, that most members seem to view the unit as having potential. I have no further questions, but just before we close this session, I will remind members that the Minister has reaffirmed his previous offer to brief me and the Deputy Chairperson on the composition of PEDU. As his thinking advances, members will be content that we take up that offer and report back.

120. We will now move to the next agenda item, which is our discussion of the capital realisation task force. You are both starring in that, so perhaps you would like to stay in your seats.

121. Mr O'Reilly: The Committee already has some background information on the task force. I will not go through its terms of reference in detail again. As part of the work to be done between the draft Budget and the final Budget, and because of the difficulties that arose in identifying all of the areas in which Departments required additional capital infrastructure investment, the Executive agreed to a proposal from the First Minister, deputy First Minister and the Minister of Finance and Personnel to have a concentrated look at what assets might be available for realisation and thus enhance the capacity of the Executive and the Assembly to plan for a greater level of capital investment over the next few years.

122. The task force, which has been working intensively over the last few weeks, has engaged with all Departments and has already identified a range of potential areas and assets that might be realised for reinvestment. I can anticipate the questions that some members might ask — this is not intended to be a fire sale. The key concern is to ensure that, first, scope for asset disposal is identified, and secondly, that it is planned in an orderly fashion. By that I mean a proper programme of asset disposal over three to seven years. It is important that the planned disposal of assets is managed in a way that does not distort wider markets. Also, it is essential that one part of the public sector does not dispose of an asset that another part of the public sector might need in a few months' or a year's time. Important work must be done behind the scenes. If even

£100 million to £200 million could be anticipated from additional asset sales over the next three years — in the context of our anticipated annual budget of £1.6 billion — it would go a long way to addressing some of the concerns that Ministers and Departments still have about their capital allocations in the draft Budget.

123. Mr Beggs: I am glad to hear that the asset sales will not all happen at once. The value of the sales would be affected if attempts were made to sell all the assets at once. Will you, where necessary, be getting outline planning permissions so as to maximise value, rather than leaving developers with the opportunity to benefit? How will you encourage the better use of underutilised assets through interdepartmental co-operation or even exchanges within Departments? A classic example from my constituency of East Antrim is the park-and-ride at Carrickfergus railway station. That facility is at capacity while there is an underutilised Roads Service depot, but agreement cannot be reached between Translink and Roads Service to transfer the assets between two publicly-owned organisations for the benefit of the public. How will the Department encourage public organisations to exchange property so that the public benefits, rather than have needs remaining unaddressed? That issue affects traffic congestion, pollution and the quality of life for many people. Will Departments be required to consider issues such as that professionally?

124. Mr O'Reilly: Mr Pengelly is the DFP representative on the task force and has been involved in its deliberations to date.

125. Mr Pengelly: I had hoped to get away with that.

126. We are trying to trying to enforce a two-stage process on planning permission. The first stage is for Departments to identify an asset that is either underutilised, over-specified or surplus. We recognise that Departments have their day jobs to do; they are not estate agents in the business of selling assets. Therefore, expertise is needed centrally to deal with such issues, but the first stage is to get the assets from the Departments into central oversight.

127. The issues about planning permission and working with other Departments must then be considered. One of the big successes may not necessarily be the sale of assets, but the identification of pockets of land that are owned by the public sector and are, for example, good sites for the development of social housing, rather than having to purchase those sites on the market. We will examine issues relating to redeployment within the wider public sector, and planning permission. If a site has planning permission, will we get the best value by selling it this year or next year? We do not want to flood the market.

128. The immediate focus of the task force will be to draft a report by early December looking at the immediate Budget period and any surplus assets that might come into that. Better utilisation is an important issue for the report. You quoted a very good example: it is strange, because those are not even two massively different organisations. They sit within the same sponsor Department. The establishment of better links within and between Departments and across the public sector should be a key part of our work as we go forward.

129. Ms Purvis: I am concerned that this is not really a capital realisation task force: it is more a "selling the family silver" task force. Therefore, I welcome your comment that it is not necessarily about selling off assets. In my own experience in East Belfast, a former youth club owned by the education and library board was referred to the Department of Education and then went round the houses to see if it could be used by any other Department. At the same time, a community organisation was crying out for facilities. That process has taken almost a year, and the community organisation, which was interested in buying the property and retaining it for community use, has nearly lost interest in the whole affair. That situation should be examined in the context of cross-departmental work. The use of properties should be properly considered.

130. I also welcome your comments about land used for housing. I am being selfish again by talking about East Belfast in particular, where there is a real lack of public land for social housing. The onus has fallen on the community to identify closed public buildings in order to claim them back for the Department for Social Development to build houses. I will be interested in how that part of the task force unfolds.

131. Will resources that have been released be kept within departmental budgets? To soften the blow of the loss of public assets, will those resources be spent on front-line services?

132. Mr Pengelly: The answer is no. We discussed a similar point about Departments retaining the proceeds of investigations by the performance and efficiency delivery unit. That money would have to be referred to the Executive for their consideration. In the wake of the launch of the draft Budget and the associated investment strategy, social housing has been acknowledged and identified by many Members of the Assembly as the single biggest issue in relation to capital expenditure. In that context, it would be perverse if, for example, through the transport holding company, the Department for Regional Development sold off surplus assets when there is a clear need, expressed by the Executive, for capital for social housing.

133. Against that, we recognise that this work is difficult, and that it comes on top of the day job. We are asking Departments to think outside the box and examine new ways of working. Some form of incentive might be for the greater good, as long as some element comes back for central consideration. The Executive will have to focus on that issue when they receive the task force report from the Minister of Finance and Personnel. I do not rule any approach out at this stage.

134. Mr O'Reilly: The point is well made. People might be more reconciled to the concept if they knew what the proceeds of the sale were going to be used for, rather than hearing us saying that the matter is being referred back to the Executive for consideration. DFP is certainly open to proposals by Departments to retain the proceeds of the disposal of assets. We will look at such proposals on a case-by-case basis. People should know what happens to the proceeds of disposed-of assets.

135. Dr Farry: Are the proceeds from capital sales exclusively used for new capital projects, or are there any circumstances where a capital sale can be used for revenue purposes?

136. Mr Pengelly: It must all be used for capital purposes; that is a Treasury rule.

137. Mr O'Reilly: If it were not, it would be our rule.

138. Dr Farry: It is important, and I wanted to establish that we are rigorous in that respect.

139. Ms J McCann: I have the same concerns as I raised at the last Committee meeting — that assets will be sold off for purely financial reasons. In an era when efforts are being made to decentralise Government, public services that have been based in the community for some time will be taken away. For example, in my constituency of West Belfast a Housing Executive office, the Dairy Farm, has been there for 30 years. They have been told that they will lose that building, and that they will be redeployed in a more central location. That will result in staff cuts, and in local area partnerships losing the benefit of having someone there from a statutory organisation. I have no doubt that that will also happen to other statutory organisations. Face-to-face contact with people in the local community will be lost. My concern is that the main focus is financial, and those social outcomes will not be taken into consideration.

140. Mr Pengelly: That is a valid point that should be borne in mind as we go forward. We are looking at identifying assets that are mostly sitting idle or unused, as opposed to asking whether

a service is being provided in a property that, because of market reasons, might be valuable, an thinking "Let's sell it." The work that the task force is doing with Ministers is not in that territory.

141. Ms J McCann: Do you see that people think that that will happen down the road? You must convince people, because those things are already happening in the community, where statutory bodies provide a public service, and it is important that people be given guarantees. As Dawn says, if assets are taken then people must know where the resources will go. Those resources must go back into the community. People are taking the view that the Government are centralising again instead of decentralising and making services available in the community.

142. Mr Pengelly: To try to take a positive out of that — the sort of example that you quote is driven by the extreme pressures on individual Departments to release resources for investment, as all Departments are facing a range of pressures. The task force was created because we are aware that while there are many unused and surplus assets, it has been difficult to release them because of issues such as obtaining planning permission. If we can push on assets that are completely unused, or underutilised, pressure is taken off the need to think about those examples. However, I take the point, and we need to factor that in. We must bear in mind not to focus only on asset realisation, but also on face-to-face contact.

143. Mr O'Reilly: The member has identified genuine community concerns. I hope that, when the interim report is published in early December, its content will reassure the Committee and others about the scope and the areas that the task force has been looking at. Once you have the interim report you may have —

144. The Chairperson: When did you say that that was coming?

145. Mr Pengelly: It is due to go to the Minister in early December.

146. Mr O'Reilly: You may want to have other members of the task force here, in addition to Mr Pengelly, in order to go through those concerns when you have the interim report.

147. Mr O'Loan: Can we get an assurance that the proceeds of the recent sales of any NIO lands will remain in Northern Ireland and, preferably, stay with the Executive? Will NIO lands be looked at by the task force?

148. Mr Pengelly: The task force will look solely at assets that are being underused in connection with devolved services. With regard to the proceeds of any asset sales on the part of the Northern Ireland Office, I can say no more than what I know from the public expenditure framework: those proceeds will remain with the NIO, but I think that those decisions are for NIO Ministers at this stage.

149. Mr O'Reilly: It is on an ad hoc basis; the Treasury has not given the same sort of blanket guarantee as has been provided to the Executive. However, we anticipate that as and when responsibility for those functions is transferred to the Assembly and Executive, the same rules will apply to any further disposal of those types of assets in the future.

150. Mr O'Loan: So there is no guarantee that proceeds already realised will remain in Northern Ireland?

151. Mr O'Reilly: There is no absolute guarantee; it is a matter for the NIO and the Treasury to decide what happens to the proceeds from the disposal of particular assets associated with law and order functions.

152. Mr O'Loan: Is there any pragmatic work being done to ensure that proceeds already realised are staying here?

153. The Chairperson: There are examples of bases that have been practically sold back to us.

154. Mr O'Reilly: On the specific issue of military bases, if that is what you are asking about —

155. Mr O'Loan: No.

156. The Chairperson: It is an example of the range of options before us.

157. Mr O'Reilly: There is no general guarantee at present, because the matter is dealt with between the NIO and the Treasury; we do not have direct involvement.

158. Mr O'Loan: And the task force is not currently looking at NIO properties?

159. Mr Pengelly: The task force has been established by the Executive to look at devolved services. Devolved Ministers do not have the legislative capacity to ask the task force to look at NIO assets.

160. Mr O'Loan: We should be very conscious of that area of concern.

161. The Chairperson: There is a lot of work to be done there.

162. Mr F McCann: Further to Declan's comments, I received a letter a number of weeks ago about land owned by the Ministry of Defence. If it is sold, the proceeds go to the Treasury rather than the Executive. I fear that we will wake up one morning, and there will be nothing left to sell. When people talk about realising assets and looking at surplus land, it usually means that the land will be sold; that is one of the difficulties. Dawn mentioned social housing, and that relates to what we are talking about now. One can do more with land than simply sell it; for instance, deals can be made to build social housing. In areas of social need, particularly, there is a lack of playing spaces, playing surfaces and green spaces. There is a fear that land that is being sold that could be valuable in assisting communities to grow. Is that ever taken into consideration? Do things like this ever go out to consultation? Do the people involved ever look at how the sale of land in a community will impact on that community? Are the local people asked for their opinions?

163. Mr O'Reilly: Mr Pengelly will respond on the detail of what the task force is currently doing. It was not merely for the sake of semantics that the task force was called the "capital realisation" task force and not the "asset disposal" task force.

164. Mr F McCann: It depends what happens with it.

165. Mr O'Reilly: I appreciate that it is what it does, rather than what it is called, is what really matters. The reason for calling it the capital realisation task force was precisely because of the concern that it would be about selling off and getting rid of assets as quickly as possible. In fact, it is about making the best use of the capital assets that currently exists in the public sector. Sometimes, that can mean that assets are sold off, but it can also mean doing the very sorts of things that you are suggesting, such as using the assets for other purposes and achieving deals.

166. The Chairperson: When I hear about realising the best value or end use, I think back to work that the Public Accounts Committee has done recently in relation to the bundling of land for PFI contracts in the education sector. Will there be a baseline requirement that the planning

potential of any land be considered before either its disposal or reallocation to another Government priority?

167. Mr Pengelly: The first priority is to assemble the land that has the potential —

168. The Chairperson: Yes, to map what is potentially available.

169. Mr Pengelly: The first stage of that will not be to assess how much the land would be worth with planning permission. The first question will be: are there any organisations or public services that could usefully use the land to deliver priority public services? Only if that test is failed will we be in the territory of considering how much we could get by selling it, and whether planning permission would be advantageous. One of the points that DFP has particularly made to the task force is that the measure of its success is not in the value of proceeds from asset disposals; it is in the value of land that is used for alternative purposes. Some of the land may be disposed of, but if we free up land for use and save another organisation from buying a plot of land in five or six years —

170. The Chairperson: That is clear and, although it does not always happen, that is common sense and is what should happen. In fact, the Department should get the first bid but, in the event of a situation in which there is land that could be sold on to a third party outside the Executive's area of responsibility, will it be a requirement that the planning potential be assessed before the land is released to the market?

171. Mr Pengelly: We certainly want to consider the potential for planning permission, but that would also take into account the qualitative factors. I am not answering your question specifically, because each case is different and will be considered separately. The task force has discussed the possibility of cases in which, although we want to sell land to free investment, we might want to sell it with some form of restrictive covenants on it to protect the environment and the space. In different places, different approaches will be adopted.

172. Mr F McCann: When a decision is taken to sell land that may affect a community, is the community ever consulted? Earlier this month, a community project in Connswater received £23 million in lottery funding, and I fear that if the land had been under our control we would have been considering selling it. It boggles the mind that communities can see their assets being stripped away.

173. Mr Pengelly: That sort of issue has to be considered in the round with the management of the asset base. At this stage, the work is about identifying what capacity there is and how that is taken forward. Community dialogue and consultation need to be considered for individual assets, but there is not a black-and-white answer for when it will or will not happen.

174. Mr Weir: It is vital that, when there are sales of land, all the factors are properly considered to ensure that the sale gets maximum value. At both Public Accounts Committee level and other levels, there has been, at times, rightful criticism of Government agencies and Departments in their selling-off of land because they have not got the proper value for it. In particular, there is an issue from a social development point of view about the level of funding that is available. One of the criticisms that can be made at times is that the Housing Executive, for instance, has not always been the wisest at selling off bits of land. It has not always got the highest level of value.

175. The sale of some land in Dundonald was recently highlighted on the radio. Additional land was sold off on a secondary level, which, in the space of a year, was worth 30% more. The loss to the public purse was massive, as the proceeds could have been reinvested.

176. I want to pick up on the points made by Dawn and Jennifer. All of us will have some sympathy for the effects that things have on communities. There is also concern about centralisation — and not just in relation to land sales. Sometimes it is services as well. In my own constituency and in the neighbouring one, there have been problems with social security appeals tribunals. On the other hand, the sale of land is not just a question of swelling someone's bank account. The idea is to try to get the best possible return on an asset and to ensure that the proceeds are reinvested in services.

177. I appreciate that when assets are realised, the proceeds go into a central pool. However, a great deal of thought must be given to selling of this, because the regeneration of unused resources into direct public services is a good idea. Although the capital realisation task force should be the body through which the sale of assets is conducted, the realisation of that money should be announced separately, so that people can see where assets have been realised and can appreciate their tangible benefits. For example, if an announcement is made that £25 million has been raised through capital realisation, and, of that, £18 million has been put into social housing and £5 million into sports grounds — any maybe there is a slight degree of fiction within that — it is important, from a public relations point of view, to show the tangible benefits of realisation.

178. Ms Purvis: Are you doing public relations now too?

179. Mr Weir: No, I am just saying that even if an asset is not being used by a community, for whatever reason, and has to be sold off to a private third party, the realisation task force will carry a degree of community blame for that. The fact that the proceeds of that sale are going towards funding public services must also be made transparent.

180. Mr O'Reilly: We have not been as good at public relations and professional communications as we could have been. That is quite a straightforward statement to make. There has been a disjointed approach to asset disposal. Frankly, as Mr Pengelly said earlier, it is a difficult professional area. Departments are engaged in other important activities, and asset disposal is often regarded as a secondary activity. Therefore, the whole process is not managed as well as it should be.

181. One of the potential outcomes of the work of the task force could be to create an ongoing source of co-ordinated and professional support for Departments and agencies when they contemplate asset disposal. There have been instances in which assets have been disposed of, and very soon after it is realised that a much higher sale price could have been secured had the process been managed in a different way. We hope to avoid those difficulties in the future.

182. Mr McQuillan: I am not sure whether we are talking about some unused assets or all assets. At what stage do you envisage the task force engaging with the local community?

183. Mr Pengelly: There will be a longer-term, more comprehensive piece of work in the future. Initially, given the time pressures, the task force will scan the asset base of all Departments in an attempt to identify assets that are idle and not being used for any form of public service, in order to examine whether an idle asset will meet a future public-service investment need during the 10 years of the investment strategy, or whether it could be sold off and the proceeds used to meet needs. There is a second-order issue about better utilisation and deployment of assets.

184. For reasons that Leo outlined, Departments do not have expertise in securing planning permission — I am thinking about various bits of site assembly. The task force will want to put in place a central source of expertise for that process.

185. In relation to the issue of engaging with the local community about assets, we will look to the Departments to maintain that dialogue at local level.

186. Mr Beggs: At present, do the various Departments and agencies report only the unused assets? How do you ensure that you gather information to make you aware of underutilised assets? For example, a Northern Ireland Water depot that is not regularly used, but is occasionally used for storing large pipes may be said to be in use. How do you get that information if the agency or Department does not want to give it to you?

187. Mr Pengelly: There are a couple of ways. As part of the requirement to publish annual accounts that are subject to scrutiny and audit by the Northern Ireland Audit Office and presented to the Assembly, Departments must produce a balance sheets that are underpinned by a register of all assets, so that complete list, which has been audited on an annual basis, is a starting point. The ownership of assets is transparent.

188. The Chairperson: You know that the assets are there, but Roy's issue is whether the usage is essential and proper.

189. Mr Pengelly: The first stage is that there is a complete list of everything that is owned, some of which is evidently in use. The task force also uses Google Maps and aerial photography. For example, the task force has identified a plot of land used by a hospital that is sitting as a greenfield site, on which nothing has happened for years. It is on a balance sheet, but, as you say, it is part of larger hospital estate and no one knows whether it is being used or not, so the task is to match up all that information.

190. Mr Beggs: Do you need to engage with the community so that people can volunteer ideas, or are you satisfied with your process?

191. Mr Pengelly: That is a strong point, which I will take back to the task force.

192. Mr O'Reilly: The question also asked about what are categorised as underutilised assets. The asset, or building may be used but if the activity were moved two miles down the road, the building could be used for a much more productive purpose, which is a further layer of investigation that lies below simply saying that the asset is surplus and is not used for anything. Sometimes assets are used, but for purposes that are not ideal, or optimum.

193. There are specific examples, which it may be best that I do not quote here for commercial reasons, of stores being identified in particular locations that are considered to be "prime sites", for various reasons. There is no reason why such a store could not be moved two miles away to another location.

194. Ms J McCann: Are you talking about land as well as buildings?

195. Mr O'Reilly: Yes.

196. Ms J McCann: If the task force identified a piece of land in an unused area, and sold it to a private developer, how would you have any influence over what that private developer would put there, if the land were in a housing estate? Are there safeguards to prevent the developer from building apartments in the middle of a housing estate where people may not want them, for instance? Is there a built-in safeguard when you sell off assets to a private developer?

197. Mr Pengelly: The initial point is that if that surplus land is identified there would be contact with all Departments — the Department of Social Development may have a strong interest in

such land for social housing, or other purposes. As part of the process, there will be constant dialogue between Departments and the Planning Service, which would provide professional advice. There will be planning considerations at the point of any disposal. We do not rule out the possibility of selling land with some form of restricted covenant on it.

198. The Chairperson: Therefore you will address the stated priorities of the Executive or the Programme for Government before the land is put on the market.

199. Why are there so many members of the strategic investment board (SIB) on the task force?

200. Mr Pengelly: Perhaps one DFP mind is worth six SIB minds. The majority of SIB members on the task force are there to provide secretarial support. Furthermore, a couple of people have come in to work on short-term projects, and they are badged as SIB but they are not permanent members.

201. The Chairperson: SIB is represented by its chief executive officer. The make-up of the task force seems very in-house; have you considered whether its balance is right and whether there should be more external expertise?

202. Mr Pengelly: In the longer term, more external expertise will be required. There is a difference in what will be required for a piece of work that has to be completed by November — which is more like a scoping exercise — and the requirements for the 10-year planning period for the investment strategy. However, you have made a fair point on which further consideration will be required for the medium and longer term.

203. Dr Farry: There are not too many women on the task force.

204. The Chairperson: You beat me to it. This meeting is being reported by Hansard, so our comments are noted.

205. This session has overrun slightly, but it is an interesting discussion. What are the reporting arrangements for the task force? Will it be accountable to OFMDFM, DFP or the SIB? Which Assembly Committee will scrutinise its work?

206. Mr O'Reilly: The chairperson of the task force was appointed jointly by the First Minister, the deputy First Minister and the Minister of Finance and Personnel, so that will be the immediate reporting line. There will also be a further reporting line to the Executive.

207. Mr Pengelly: I think that the three Ministers who appointed the chairperson will be kept abreast of the progression of the task force.

208. The Chairperson: Which Committee will scrutinise the task force? Has that been catered for?

209. Mr Pengelly: It has not been catered for. However, given that those three Ministers have an interest, the scrutiny could be carried out by any interested Committee between the First Minister, the deputy First Minister and Finance and Personnel.

210. The Chairperson: Has that been prescribed?

211. Mr O'Reilly: No, but there is a working assumption that this Committee will want to talk to members of the task force when it produces an interim report. That will probably be early in the new year.

212. The Chairperson: I suppose that we will see the interim report soon. We could have talked about some of the emerging themes or priorities, but we will hear about those soon enough. We will write to you if any queries arise from Committee discussions. Thank you for attending.

213. We move to item six on the agenda — public procurement delivering best value for money. Leo O'Reilly is joined by some colleagues who are, I am sure, fed up waiting. We are running behind schedule, and for that I apologise.

214. From central procurement directorate (CPD), Department of Finance and Personnel, I welcome Mr Des Armstrong, director, construction advisory division; and Mr Brendan O'Neill, director of the policy and support division. I thank both of you for joining us. I invite you to address the Committee.

215. Mr O'Reilly: I will just make a brief opening statement — you have heard quite a bit from me this morning already. The director of the central procurement directorate, Mr David Orr, is unable to be here. He is national president of the Institution of Civil Engineers this year and had a commitment today in respect of that. Given the relatively short notice, he was unable to attend this morning.

216. Mr O'Neill and Mr Armstrong will set out the key issues relating to procurement in Northern Ireland, which include procurement policy, value for money, the draft Programme for Government and the draft investment strategy for Northern Ireland (ISNI). Before handing over to my colleagues, it might be useful to provide an update on progress made in the past few years in public procurement, as I understand that this is the first time that the Committee has engaged with the procurement function in DFP. Procurement forms a large part of the Department's responsibilities and activities in Government.

217. In May 2002, the Executive endorsed over 80 policy recommendations contained in a review of public procurement that had been undertaken at that time. Those recommendations related to the production of a revised procurement policy and the establishment of new institutional arrangements to take forward public procurement in Northern Ireland. There was also a focus on improving operational procurement processes and the integration of economic, social and environmental policies into public procurement.

218. The Executive — the procurement board at that time — agreed a target date of 31 March 2005 for the implementation of those recommendations, and during that time, all of the structures and recommendations were put in place, as envisaged by the original review team. Since 2005, the procurement board, which had been chaired in the previous period of devolution and is chaired now by the Minister of Finance and Personnel, included senior representatives of all Departments and external members. That procurement board has been engaged in a wide range of activities, which Brendan will outline. It has also been involved in monitoring the target of achieving £250 million of value-for-money gains in public procurement by 31 March 2008.

219. There have also been more detailed progress reports in implementing the review team's recommendations, and the procurement board's activities have been reported in successive annual reports, which have been published on the directorate's website. Copies are also available in the Assembly Library for Members.

220. In looking to the future, the procurement board is currently in the process of drafting its key targets for the next strategic planning period of 2011. That will take account of the draft Programme for Government and the draft investment strategy, both of which will underpin the public service agreement (PSA) targets. I will be happy to forward the strategic plan once it is available; the Committee may want to have another evidence session on that subject.

221. That is the general context and background. I will now hand over to Brendan O'Neill, who will speak about procurement policy, value for money and the draft Programme for Government.

222. Mr Brendan O'Neill (Department of Finance and Personnel): On behalf of the central procurement directorate, I thank the Committee for the invitation to attend this session and the opportunity to give members an insight into the work of the central procurement directorate and the public procurement process. As Leo has said, this is our first opportunity to meet the Committee.

223. The Northern Ireland Executive's legislative responsibility for public procurement extends to procurement covering all devolved matters carried out by contracting authorities, which are defined within procurement regulations, but are in essence public bodies. Those bodies include Departments, agencies, non-departmental public bodies (NDPBs) and local authorities.

224. Public procurement itself is guided by a clear definition of the term, which is the process of the acquisition, usually by means of a contractual arrangement after a competition, of goods, services and works.

225. It covers all types of procurement, both conventionally funded and more innovative types of procurement, such as PPP and PFI. The procurement process spans the whole life cycle from the mutual conception and definition of a need to the useful life of an asset or the end of a contract. The key aspect of the policy is the concept of best value for money, which covers not only value for money but allows for the inclusion, within the public process as appropriate, of social, economic and environmental goals — the three pillars of sustainable development.

226. Public procurement policy is governed by 12 principles, which are listed in the background note that was sent to the Committee. The Northern Ireland public procurement professionals strive to meet those principles. When the principles have been satisfied to an acceptable level, best value for money can be said to have been achieved.

227. Leo O'Reilly mentioned the procurement board. As well as comprising the 11 permanent secretaries, the Treasury officer of accounts, the director of CPD and two external experts, the board also has two observers, one from the Northern Ireland Audit Office, and the other from the strategic investment board. The second institution that governs public procurement is the central procurement directorate and the centres of procurement expertise. CPD was established after the review in 2002, and it supports the procurement board in the development and implementation of public policy. It also provides a centralised professional procurement service to the Northern Ireland public sector.

228. In addition to CPD, there are seven centres of procurement expertise. Those are: Roads Service and Northern Ireland Water, which covers infrastructure; the Regional Supplies Service of the Central Services Agency and health estates, which looks after the health sector; the Housing Executive, for the housing sector; education and library boards for education; and Translink for transport. In line with public procurement policy, all Northern Ireland Departments, agencies, NDPBs and public corporations are required to carry out public procurement by means of documented service-level agreements with CPD or the relevant centre of procurement expertise.

229. The third institution that governs procurement is the procurement practitioners' group. It comprises the heads of the centres of procurement expertise and provides direction to the centres in ensuring the integration of the procurement board's priorities and monitoring their delivery. That group meets twice a year under CPD direction. One example of the output of the group was the development of a methodology to calculate and report on value-for-money savings in respect of operational procurement activity. That methodology, which takes account

of guidance from the Office of Government Commerce, has been incorporated into CPD guidance and was approved by the Audit Office. The components of the methodology have been selected on the basis of being simple, robust and auditable. Application of the methodology across the public sector ensures a uniform approach to measuring the savings. The common principles and the specified processes also allow for aggregation of the data and details how we are achieving savings against the £250 million value-for-money target that was set by the procurement board.

230. Although each Department is accountable for its own budget, and how that budget is spent, the central procurement directorate and the centres of procurement expertise work with the Departments to assist them in obtaining best value for money and delivering their Programme for Government commitments through the application of our procurement policy and best practice.

231. A cross-cutting theme of the draft Programme for Government is sustainable development. CPD and the centres of procurement expertise have a key role to play in the drive towards the integration of sustainable development objectives in the procurement process, and by assisting public-sector bodies to embed the sustainable considerations into their spending and investment decisions.

232. One of the objectives of the Northern Ireland sustainable development strategy is:

"To make the Northern Ireland public sector a UK regional leader in sustainable procurement".

233. A key target in taking that objective forward is the production of a sustainable procurement action plan. CPD has been tasked with the delivery of this action plan by 31 March 2008. A draft of the action plan is due to be issued shortly to key stakeholders for consultation.

234. We think that public procurement will have a direct impact on the delivery of a number of supporting PSAs, in particular PSA 11, which supports the strategic priority of driving investment and sustainable development. That includes a number of targets that are linked to the development of the sustainable procurement action plan, and there is also reference to our work to encourage small and medium-sized enterprises to compete for public-sector business.

235. The second PSA, PSA 21 — enabling efficient Government — sets out three targets that focus on: obtaining value for money from procurement spend; increasing the level of Government spend through centres of procurement expertise; and increasing the capability of each centre of procurement expertise. Those three measures are under consideration by the procurement board as part of its strategic plan. That is a quick résumé of public procurement. I understand that we are short for time, but Des Armstrong may cover several areas in relation to construction.

236. Mr O'Reilly: Chairman, I suggest that Des focuses on the interaction between CPD and the investment strategy, and the achieving excellence initiative.

237. Mr Des Armstrong (Department of Finance and Personnel): With regard to the delivery of the investment strategy, over the last few years, we have worked on a key initiative for construction procurement, namely the achieving excellence for construction initiative, or achieving excellence, as we refer to it.

238. The achieving excellence initiative has been developed to improve the performance of Government as a construction client. The review of public procurement contained the recommendation that a Northern Ireland version of achieving excellence would be developed, and that work was undertaken by the Government's construction clients group. A group of senior

officials that represented all of the Departments undertook the task, and achieving excellence for Northern Ireland was launched in May 2002.

239. It is considered that the implementation of achieving excellence can deliver significant value-for-money gains from construction procurement. After a slow start, the lack of reporting on the initiative was criticised by the Northern Ireland Audit Office in its report 'Modernising Construction Procurement in Northern Ireland'.

240. The Departments are fully committed to the achieving excellence initiative, and central procurement directorate provides twice-yearly reports to the procurement board on progress against the initiatives. The procurement board has agreed that the initiative would be extended until March 2008 to support the delivery of the first phase of ISNI.

241. In relation to the impact on the investment strategy, achieving excellence requires Departments to focus on the following key, critical factors for success: the involvement of key stakeholders throughout the time of the project; an integrated approach in which design, construction, operation and maintenance are considered as a whole; consideration of issues such as design quality, health and safety and sustainability in projects; and to develop procurement contract strategies that ensure the provision of an integrated team of designers and contractors. Contracts will be awarded on best value for money and no longer on the lowest tender price.

242. The outcome of the achieving excellence initiative is to increase the capability of Departments to successfully deliver different sorts of projects. To further support the delivery aim, Departments are required to comply with policy framework for construction procurement, and that policy framework brings together a number of best-practice approaches and initiatives that are aimed at delivering best value for money and improving client/Department performance.

243. Mr F McCann: Forgive my ignorance, but I am not sure of the procurement procedure. There has been some discussion on procurement in the Committee in the past, but my impression of procurement is that it usually means putting work out to tender, forcing people into competition and giving the job to whoever can do it the cheapest. That always has a knock-on effect and an impact on the smaller businesses that are not in the position to apply for tenders. I raised the question of procurement at another Committee. In the area of construction, particularly, major companies that are in the position to tender, do so; they then get the job, take 15% off the top and subcontract it out to a smaller contractor. Is there any way to ensure that that does not happen, because it should not happen? Not only does it impact on the service, but it impacts on the quality of the work being delivered.

244. People are encouraged — as much as possible — to buy local. Is there anything in the contract to encourage local labour or the buying from local contractors and businesses, because that would also maintain local employment? That is particularly relevant now as, under European directives, contracts must be put out widely.

245. Mr D Armstrong: The achieving excellence initiative is designed to address the type of issue that you have raised. In the past, the industry has been driven by clients who take the lowest price — as Mr McCann said — without considering the standard of quality delivered. The achieving excellence initiative then moves away from the concept of taking the lowest tender to looking at how the contractor proposes to deliver the project and what sort of other added benefits he can deliver as part of the delivery process for the contract.

246. With regard to your comments on subcontracting, we have been in discussion with the local construction industry through the Construction Industry Forum, and we have agreed a code of practice for supply chains that take on board the 12 principles that we had outlined for public procurement, and added three more — the delivery of which the construction industry feels is

important to deliver the quality infrastructure and projects that we need going forward. One of those principles relates to how subcontractors are treated in respect of fair pay and terms and conditions, and consideration is also given to how the conditions of a contract will be passed down the supply chain from the client to the main contractor and, subsequently, to the subcontractors. Those issues can be addressed through the supply-chain management.

247. In addition to that, we are working with the construction industry group to look at a set of proposals that will address the three pillars of sustainability: social; economic; and environmental. Within the economic pillar, we are — through the construction industry group — looking at how opportunities for local businesses in the industry will arise. That will apply equally to new players from outside Northern Ireland, as European directives mean that tendering competitions must be put out widely.

248. Mr F McCann: Has any work been done to assess what impact the lumping of most of the contracts into one will have on local businesses?

249. Mr D Armstrong: The investment programme shows that we have not gone with the idea of a single contract.

250. Mr F McCann: Even the contracts put out by the Housing Executive do that.

251. Mr D Armstrong: It reduces the number of players in direct contract —

252. Mr F McCann: To one?

253. Mr D Armstrong: I am not sure of the detail of that, but the number of contractors is generally reduced. Those contractors then have to find a way into the supply chain, which is a reasonable place to be, as the client database shows.

254. Mr Storey: I will be brief: I appreciate this opportunity, because this is an important issue that we will want to come back to again. We are disadvantaged, unfortunately, given that one of the principles that we will use is legality. I say that for all the right reasons, given that we are tied into European directives. We have to face up to the fact that those directives put local businesses at a disadvantage.

255. I would like more clarity on the issue of framework agreements. There has been a great deal of discussion, for example, about the education and library boards. The size of some of the bidders has meant that local subcontractors, who have been used down through the years to supply and deliver good projects, will not be in the game at all, and will disappear. One company in my constituency that has carried out immense work for the education and library board sector is no longer at the table. The framework agreements contain elements such as major works, professional services, minor works and maintenance, and there are worries now that the latter two elements will be put together. People are telling me that they have serious concerns about where this is heading.

256. Mr D Armstrong: One of the issues is that the level of infrastructure expenditure has risen steeply over the past few years. Three or four years ago it was £676 million; the draft investment strategy forecast puts the latest figure well above £1 billion. The problem with that level of activity is that one can be made very busy by the tendering process. When single contracts are put out to tender, anything worth more than £3.5 million has to have European approval, which creates a lot of activity in the tendering process.

257. The advantage of the frameworks is that they produce a great deal of the procurement activity that is required by European law in advance of the client's requirements. That can shorten the project delivery time frame by up to eight months, compared to the normal process of going out for a designer and then back out again for a contractor. It produces delivery, but we do recognise that opportunities must be created within the supply chains for those contractors who have the experience in delivering the work, but have not been successful through the competitive process, which has to be transparent and legal.

258. Mr Storey: Do you not accept that these are crumbs on the table? We have moved to such a different way of achieving these objectives that offering the contractor a place on the supply chain is little consolation compared to the core project that they could have delivered had they not been restricted by the framework agreements.

259. Mr D Armstrong: The benefit is that the level of activity in that sector will increase dramatically. Therefore, experienced contractors and suppliers can find their way into the supply chain.

260. Mr O'Reilly: One of the main reasons for going down the framework contract route, particularly with regard to the education sector, is that in recent years there have been a significant number of delays, leading to significant levels of underspending on capital investment in schools. That problem had to be addressed.

261. We hope that these arrangements will result in a rapid escalation in spending on the ground for investment in schools. The money had been earmarked in the past, but it was underspent. Previously, we were able to carry that money forward but now that we are in a slightly different regime, delivery is important. That is part of the drive behind the framework contract arrangements.

262. Mr O'Loan: In your briefing paper, you say that:

"Northern Ireland Public Procurement Policy applies to all Central Government Departments, their Agencies, Non-Departmental Public Bodies and Public Corporations".

263. The policy identifies 12 principles, and I particularly want to mention "Fair Dealing" and "Integrity". Do you have a clear role in ensuring that those two principles in particular are observed throughout the public sector? If someone had concerns about a particular sphere of activity, how would they get something done about it?

264. Mr B O'Neill: The 12 principles are applied by the centres of procurement expertise in conducting procurement. There is a formal complaints procedure within the central procurement directorate and the centres of procurement expertise, should anyone wish to follow it, if they think that the principles or the processes have not been followed properly. However, we would expect that we could discuss and resolve complaints without taking them to the formal process.

265. Ms J McCann: Your briefing paper says that £5.6 billion of new infrastructure will be delivered over the next three years. The draft investment strategy says that social outcomes will be embedded in the procurement of major infrastructure. The draft Programme for Government talks about tackling disadvantage and poverty. The procurement of major infrastructure provides a perfect opportunity to do that. However, I am bit confused. You say that public procurement must, under EU regulations, be put out to a tendering process. Is it written into contracts that priority can be given to local companies if they fit the quality of service that is required? Is there anything written into contracts that says that local unemployed people should get the jobs that come from infrastructure projects? My experience of the major works on the Westlink, for instance, is that the jobs went to people from outside the area despite the volume of

unemployment in west Belfast. Those people need jobs as well, but how can the specific consideration of social outcomes in procurement processes be ensured? Can it be written into a contract, or is it merely an aspiration?

266. Mr D Armstrong: Those would be conditions of contract. In addition to the delivery of the hard infrastructure, there would be specific requirements within the contracts to address whatever issues are appropriate for the type of contract. We have run a pilot to consider how unemployed people can be brought back into employment through Government contracts, and that seemed to be greeted with a fair degree of welcome and success. That is a model that we would try to build on. For example, we have introduced requirements that all operatives must have at least basic, minimum health and safety training before they go on site. Contractors must have accredited health and safety management systems to work on Government sites. That has led a decrease in accident rates on Government sites relative to spending.

267. Apprenticeship is one issue where we could agree a requirement with the industry — £x produces one apprentice. We need to talk to the industry about the outworking of that, but we are engaged in that type of discussion.

268. Mr B O'Neill: Under European rules and regulations we cannot be specific about locus. We can use the contract to help the unemployed, or to create apprenticeships, but we cannot confine it to a local area, because the subject matter of the contract must relate directly to the social, economic or environmental objective that we are trying to achieve. The rules do not allow for local sourcing or local employment. Inevitably, the use of that concept to achieve the aim means that workers are quite often from the local area, but we cannot specifically restrict it to a local area in the tender documentation.

269. Ms J McCann: Can you make specific use of the Noble indices of social and economic deprivation? Can you factor that in when you consider employing people from those areas because they are the most disadvantaged, and are therefore the people that social outcomes in the procurement process should benefit?

270. Mr B O'Neill: No, we cannot be specific, and the terminology that we use must be general. We are not able to confine it to local areas.

271. The Chairperson: In the area of construction skills and trades, as part of the value for money concept we could examine outcomes, and whether the approach — creative and well-meaning as it is — results in the creation of employment or apprenticeship opportunities for local people. The outcomes could be monitored to see whether we are sufficiently focused in our approach.

272. Mr D Armstrong: One thing that we can ask for is an employment plan.

273. The Chairperson: You can ask for that?

274. Mr D Armstrong: Yes. You cannot draw around a clear area, either in Northern Ireland or a specific region of Northern Ireland. However, you can use contracts to create demand, and then help the contractors, through activity in local areas to make contracts known. A good example would be the work that happened at Coolkeeragh, where the contract was awarded to a company outside Northern Ireland, but the north-west marketing model was used. They were able to sell skills back into that contract. That type of activity creates a demand within contracts for that resource to be made available. It is necessary that other sectors come in, in order to provide the push and pull.

275. Mr B O'Neill: We also encourage corporate social responsibility in the contracting firms, and we can encourage and promote areas of specific need so that the contractor is encouraged by the contracting authority to try to address some of those areas, albeit outside of a condition of contract. We can use our influence to try to address that.

276. Mr F McCann: That is interesting. There have been horror stories on television about people who have travelled from other countries to work here, and about the rates that they are paid. Is there anything built in to those contracts to ensure that people are paid the proper rate?

277. Mr D Armstrong: We have been in discussions with the trade unions and the construction employers about an approach that would allow us to take the working rules agreement that applies across the construction industry and make the terms of payment within those rules a condition of contracts, which would create a level playing field where minimum standards would be applied with a contract.

278. The Chairperson: That assumes that the local construction industry will play the game as well.

279. Mr F McCann: You do see horror stories about how people are treated when they come in to work, especially the discrepancy in the rates of pay. Many people will not complain because they are totally reliant on the job.

280. The Chairperson: In your briefing paper you describe the efficiency savings and the value-for-money gains. I assume that there is also preparation for the ongoing target, particularly over the Budget period. When will there be a report on that?

281. Mr B O'Neill: Our procurement targets are set by the procurement board. We have submitted draft targets, similar to those included in the public service agreement, to the board, and the board is considering those. The procurement board is due to meet, hopefully before Christmas, in a subgroup, to set targets in time for the new financial year in April 2008. At the moment we are working through the £250-million-pound target, which takes us up to March 2008.

282. Ms Purvis: It is important that when any private business wants to do business with Government, it is lucrative for it to do so. It is important that Government maximises the value-for-money aspect for themselves and for the benefit of the community. In relation to tendering for contracts, you mentioned the three pillars of sustainable development. Are any, or all, of those three pillars conditional on entering into contracts, or are they merely encouraged outside of the negotiations for the contract?

283. Mr B O'Neill: The three pillars can be conditional on contracts, as long as the consideration that one wants to achieve is related to the subject matter of the contract. If, for example, you want to encourage apprenticeships and it is an electrical installation contract, you would be expected to require apprentices who are electricians, and not plumbers. There must be a relationship between the aim and the subject matter of the contract. That can be a condition of the contract.

284. Ms Purvis: How many contracts are conditional?

285. Mr D Armstrong: There are currently a number of conditions on contracts, particularly in the environmental area, in which there are requirements for contractors to produce waste-management plans and to consider recycling material on site. There are requirements for the design of facilities to achieve an excellent rating for environmental performance. The Department has already used conditions for contract in that way. We are considering increasing

the requirements and we are talking to the industry to agree a set of proposals to go forward with that will specifically detail social, economic and environmental issues.

286. Ms Purvis: In recent years, for example, DFP has been involved with the programme for change within the Civil Service, and some lucrative contracts have been negotiated. Can you find out whether any of those contracts were conditional?

287. Mr B O'Neill: Yes.

288. Ms Purvis: Jennifer McCann touched on the point that £5.6 billion of new infrastructure is planned over the next three years. I disagree with Jennifer about social need not being prioritised in the draft Programme for Government and the draft Budget.

289. I would be interested to find out the priority that is given to social, economic and environmental objectives in this £5.6 billion of new infrastructure. Saying these things is well and good, but I understand that delivering them is much more complex and difficult. I should like to see, through an open and transparent tendering process, the exact benefits in terms of social, economic and environmental objectives. I would appreciate some drilling down into contracts and what has been delivered, or what it is hoped will be delivered over the next three years through the £5.6 billion of new infrastructure.

290. The Chairperson: That brings the Committee meeting to a close. Dawn has referred to one issue, and there may be others that we will write to you about. Thank you for your time and patience.

291. Mr B O'Neill: It is our intention to organise a seminar on public procurement for MLAs. We held a similar seminar in 2002, which was successful. We are in discussion with the University of Ulster to draw up a programme, and we will be in touch with the Assembly to arrange an appropriate date.

292. The Chairperson: I am sure that that will be helpful, thank you.

19 November 2008

Members present for all or part of the proceedings:

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

Witnesses:

Ms Deborah McNeilly
Mr David Orr
Mr Stephen Rusk

Department of
Finance and Personnel

293. The Chairperson (Mr McLaughlin): The Committee will now be briefed by Department of Finance and Personnel (DFP) officials on progress on the implementation of DFP efficiency and investment delivery plans. We are joined by David Orr, director of corporate services; Deborah McNeilly, director of finance branch; and Stephen Rusk, finance manager. You are very welcome. I am sorry for the slight delay.

294. Members will find in their tabled papers a secretariat paper, the Department's submission for today's session, and copies of the efficiency delivery plan and the investment delivery plan. I remind witnesses and members that this session is being recorded by Hansard and that the usual health warnings in relation to mobile phones apply.

295. David, I ask you to initially focus on the efficiency delivery plan. We will open that up for discussion, and we will then move on to the investment delivery session.

296. Mr David Orr (Department of Finance and Personnel): Thank you. I will ask Deborah McNeilly, our finance director, to summarise the paper. We will then be happy to answer questions. Members will recall that Deborah and Jim O'Hagan were with the Committee in January 2008 to discuss the formulation of the efficiency delivery plan. This is a mid-year update on progress.

297. Ms Deborah McNeilly (Department of Finance and Personnel): The Committee will be aware that the Department is required to make total annual efficiencies of £14.8 million by 2010-11. Several areas have been targeted for realising cash-releasing efficiencies, and those are highlighted on the first page of the paper. They cover the recognition of costs that are recovered in respect of rate collection; maximising receipts and extending charges; realising potential savings from the rationalisation of accommodation; efficiency targets that have been set for Land and Property Services (LPS); and targeted GAE and staffing reviews across the Department.

298. The table on the second page of the paper provides a summary of the efficiencies for each of those measures and quantifies the amount of the efficiencies. Up until 30 September 2008, the Department made progress in relation to delivering its efficiencies. At that point, it recognised efficiency savings of £2.95 million. The detailed breakdown of how that is constituted is provided in table 3, which Committee members are asked to note.

299. The Department previously indicated that it would have significant difficulties in delivering the challenging efficiencies that are associated with 2009-10 and 2010-11. The outlook that is provided on page three, and which table 4 provides more detail of, indicates the areas that the Department is reviewing. Table 4 includes the efficiencies that the Department has designated as amber. Those relate to the increase in charging, given the difficult climate across the public sector and the wider economic environment.

300. The other area that we have identified as a risk that is associated with the delivery of efficiencies is against the accommodation-services efficiencies. Those have been challenging. We are keeping the delivery of efficiencies under close review, and we are exploring options in the event that we need to review our plan. I ask the Committee to note the update that has been provided. We are happy to take questions.

301. Mr Hamilton: This is an important matter for all Departments, particularly in light of the current climate and the realisation that the need to make efficiencies has increased. The efficiency delivery plan contains a table which shows that no savings will be made by Land and Property Services in 2008-09. Given all of the reorganisation that took place in late 2007 and early 2008, why were no efficiencies realised in Land and Property Services in this financial year? Part of the rationale for the reorganisation was that efficiencies could be made.

302. I am aware that fairly significant savings are expected in future; given some of the difficulties that that agency experienced, the plan seems to suggest that green status has been granted. I do not doubt that, and I hope that efficiencies can be delivered, but did the difficulties that were faced by that organisation make it difficult to realise efficiencies?

303. Mr Orr: I know that John Wilkinson appears before the Committee frequently. Members know that we are putting extra resources into Land and Property Services in order to deal with some of the issues that have been of concern to this Committee and to the Public Accounts Committee. Those resources are going in this year in order to deal with a number of issues, which means that savings will not be made this year. However, John Wilkinson has predicted that the planned efficiencies for 2009-10 and 2010-11 can be realised.

304. The Chairperson: Watch this space.

305. Dr Farry: I declare an interest as a member of North Down Borough Council. According to last year's finalisation figures, LPS imposed a 15% increase in collection charges on councils. Is there a sense in LPS that you are pushing for efficiencies from the top? Do the top-line figures that are presented to the Assembly deliver only a superficial picture of efficiencies? Are inefficiencies merely being passed through the system and back to customers — in this case, the district councils? What protection do the councils have against that? Many people in local government believe that the impact on councils of the 15% increase in collection charges, along with other problems that Land and Property Services has had, is a joke.

306. Ms McNeilly: The ongoing rating reform has meant that Land and Property Services has incurred significant additional costs in relation to the administration of rate relief. The increases that have been passed on to district councils represent a proportionate share of those administrative costs. I believe that the Committee has asked John Wilkinson for updates on his business action plan, and is monitoring that plan.

307. Dr Farry: What proportion of Land and Property Service's overall budget is billed out to district councils?

308. Ms McNeilly: The share of the costs recovered from district councils is proportionate to the level of district council income — the district rate.

309. Dr Farry: That, potentially, could be approximately 40%. Therefore, the overall cost of collection across the system would not be 15%; it would be something less than that, but it is still in high single figures.

310. Ms McNeilly: In relation to the increase for the previous year, the Committee will be aware of the additional resources that Land and Property Services had to deploy in order to enhance its capability to deal with the reform of rate relief. The need for those additional resources contributed to the increase in collection charges.

311. Mr O'Loan: You said that some of your efficiency gains will come from increased charging. That measure has amber status, which means that it is on track but also has associated risks. In what areas do you have the scope to increase charging? Where will increased charges apply? How realistic and justifiable is it to add extra charges in the current economic climate?

312. Mr Orr: An example of an area where there is scope for increased charging is the Central Procurement Directorate (CPD), which provides — and charges for — procurement services across the public sector, to the Northern Ireland Civil Service and beyond. CPD has undertaken a review of its charges to ensure that they properly reflect the cost of the service that it supplies. Another example is the Departmental Solicitor's Office (DSO).

313. Ms McNeilly: At a previous engagement, Committee members asked about charging for shared services. We are reviewing the proposals submitted by the shared-services centres on their hard-charging arrangements for their services. We are also conducting a review of overheads to ensure that they are properly reflected in the charges that are being implemented across the Department.

314. David Orr mentioned the actions taken by the CPD. CPD has improved efficiency by recouping income through an increase in the number of chargeable hours that its staff work. It has examined the services that it delivers, and it is reviewing activities for which it can introduce a charge. It is also conducting a review of its overheads to establish whether the efficiencies can be realised and how its costs are reflected in the charges. That is being fed through at a departmental level to contribute to the overall target.

315. Mr O'Loan: The increased charges from CPD, shared services and, possibly, some DSO work affect only other Government Departments. Therefore, although you are making gains, other Departments that are looking for efficiency savings are subject to extra charging, which means that there will be extra pain for them in proportion to the gain for the Department.

316. Mr Orr: That extra pain is balanced by the benefit that those Departments receive from the services that are provided. However, it is not only central Government that uses those services — for example, CPD does work for agencies outside the Northern Ireland Civil Service (NICS) and has, for instance, just procured the new headquarters for Waterways Ireland. However, I accept that most of the services are used by Government Departments.

317. Mr O'Loan: The Department has been fortunate in the recognition of costs recovered in respect of rate collection, which was explained to the Committee. That means that over one third of the Department's efficiency savings come from a book exercise. How easy was it to achieve your overall required efficiencies? What scope is there for further efficiencies in the longer term?

318. Mr Orr: I would not use the word "easy". The Department is on track to achieve its required efficiency savings in 2008-09, but that has required a lot of work and reviews of the constituent parts of the Department. The problems will come in 2009-10 and 2010-11, when the plan is to produce significant, additional savings; those will be very challenging. That is why on the last page of the mid-year progress report, the Department states that it must constantly review and monitor so as to realise new avenues of affecting efficiencies and to try to mitigate the risk. However, it is not easy.

319. Mr O'Loan: Following on from that, there is unhappiness regarding the whole public discussion of the issue. It is such an important issue that it is important that the public discourse be right. To what extent is the Department getting to the heart of efficiencies? Is the low-hanging fruit being got at, so to speak? Is the Department, in any meaningful way, altering radically the way that things are done in the public system?

320. Mr Orr: In the Department we are taking every opportunity to rationalise and streamline services. For example, in delivery and innovation division (DID) there has been a rationalisation.

321. In relation to staffing, the Department constantly examines headcounts, and while I want to make it clear that there are no plans to make staff redundant, when a post becomes vacant we question whether it is necessary to fill that post again. In that way we are reducing staff and keeping staffing levels to a minimum. There is a focus on that in the Department and at the departmental board.

322. Mr F McCann: Amber status has also been afforded to the planned savings for accommodation. Are those accommodation efficiencies reliant on the progress of Workplace 2010?

323. Mr Orr: They are in their totality. However, the Department has always planned to make rationalisations and efficiency savings in relation to accommodation before Workplace 2010 was planned. For example, there is currently a proposal to move staff from one building in Belfast and accommodate those staff members more efficiently in another building in Belfast. That move was planned outside the scope of Workplace 2010.

324. Mr F McCann: Will the review of public administration (RPA) Bain proposals for job relocation have any implications for the planned accommodation efficiencies?

325. Mr Orr: Those proposals have not yet been factored into these predictions as the Minister has indicated that he wishes to discuss them with his Executive colleagues, and we must examine how the Executive wish to proceed. However, it is more to do with the number of civil servants, across the NICS, who need to be accommodated, rather than exactly where they are accommodated. It is the number of and the space those civil servants occupy that are the determining factors.

326. Mr F McCann: There was a debate in the Assembly recently about the delivery of Supporting People, something that is essential to the services that the Assembly and organisations deliver. However, it was possible to make a forecast, even with an inflationary freeze, and, I think, to exclude efficiency savings. Through a process of monitoring, is it possible for the Department to get to the stage where it can tell that efficiency savings are starting to affect the services that it delivers?

327. Mr Orr: The Department is monitoring that area through things such as our customer service survey, which is ongoing at the moment, and through staff attitude surveys. In the individual programmes carried out by the Department, there are other service level agreement (SLA) targets to be monitored. However, the customer service survey is probably one of the primary means in which the Department monitors how the services that we are delivering are viewed by those who are receiving them.

328. Mr F McCann: Do you forecast that any particular services will be hit by efficiency savings?

329. Mr Orr: We aim to maintain services at the level that is required by the Programme for Government and public service agreements (PSAs). The focus is on making efficiencies, rather than on cutting services.

330. Mr McQuillan: What overall impact will suspension of Workplace 2010 have on the programme? Will that impact depend on how long it is suspended?

331. Mr Orr: When I came to the Committee in May 2008 to discuss Workplace 2010, I said that the possibility of the two best-and-final-offer (BAFO) bidders merging or coming under common ownership would be a significant problem. As you know, procurement was suspended at the end of October 2008. The initial impact of that suspension has been the inability to realise the £175 million receipt during the current financial year. Needless to say, we discussed that carefully with our colleagues in Supply who are able to manage that in the normal Budget process. Therefore, although there will be an impact in 2008, it will be manageable.

332. The ongoing impact depends on what happens in January 2009 when we review the situation. It is, perhaps, too early for me to predict what that impact will be. Suffice it to say that

we are taking the matter extremely seriously. We are concerned that we must ensure value for money.

333. Mr McQuillan: Do you have a plan B?

334. Mr Orr: We have a plan B. However, it is not fully developed. We are currently developing it while the main procurement is suspended.

335. Mr McQuillan: When will the Committee hear about plan B?

336. Mr Orr: We are happy to discuss plan B with the Committee at any time. I can outline it now if you wish.

337. Mr McQuillan: I am not sure whether we have time.

338. The Chairperson: We are jumping ahead of ourselves. Do you mind if we just deal with this section? I want to invite David to outline the investment plans. I know that you are a very progressive and forward-thinking person. I want to be satisfied that people's concerns about the efficiency-savings section have been covered. If there are no other comments, we shall move on.

339. David, you indicated in your briefing document that some of the projections may not stand up. Can you explain how that will be dealt with, particularly as the efficiency savings were taken out at the baseline? What will be the impact on service delivery and so on, of missing efficiency-savings targets?

340. Mr Orr: I think that you have answered the question. In order to be able to live within our budget, we must make efficiency savings. That is why there is so much focus on meeting efficiency savings. Our aim is not to cut services, but to make efficiency savings. That is the thrust of our work.

341. The Chairperson: You have reassured us that your focus is to deliver the target savings. I am interested in the composition of those savings. Without following Adrian's line on investment, presumably you have fallback or a plan B in case initial projections do not stand up?

342. Ms McNeilly: One difficulty with the challenges in 2009-10 and 2010-11, apart from the fact that money has been lost from the baseline, is that the Department must try to contain inflation. Therefore, the £14.8 million in 2010-11 is almost a headline figure, if you like, as regards what has gone out of our baseline.

343. Although the Department is focused to take that forward, the composition of efficiency savings can change. We are engaging with business areas in order to develop options on an ongoing basis. As regards the amber status and in light of Workplace 2010, we must revisit the matter with business areas in order to determine whether they can put additional options on the table for delivery of efficiency savings. That is how we propose to deal with the situation. Some review work has been carried out by business areas and adds up to levels of numbers for delivery in certain areas. However, those were generated to contain inflation. The key issue would be to review it again with business areas, particularly in light of Workplace 2010.

344. The Chairperson: I assume that the Minister will make his usual arrangements for reporting back to the Assembly. Will the Committee be briefed if there is any change in the profile of the efficiency savings?

345. Mr Orr: Absolutely. As I understand it, the Department comes on a routine basis to report to the Committee. We are happy to do that and to give any interim briefings that members may require.

346. The Chairperson: The report appears to take account of changes in circumstances already.

347. We will move on to the second part of your presentation. You have a heads-up on Adrian's question. I will come to him first to see if he is satisfied that you have addressed the matter.

348. Mr Orr: Deborah will take the Committee through the paper.

349. Ms McNeilly: The paper provides a summary of the Department's position as regards the investment strategy, where the Department has a significant role in the public-sector-reform pillar. It also has a role in sustainability, where its funding comes from the central energy efficiency fund and is passed out to a range of projects across other Departments.

350. The overall position that we are focused on is set out in table 1 and reflects the Department's capital budget going forward over the comprehensive spending review (CSR) period. During that period, the Department has a capital budget of £72.7 million. That is a change to the figures that the Committee has already seen. As part of the monitoring round in 2008-09, the Department secured additional allocations of £1.2 million for HR Connect. A small reduced requirement was passed back in respect of Account NI and, equally, some transfers came across to properties division to take forward welfare reform and employment tribunal accommodation projects.

351. Those adjustments to the 2008-09 period, which the Department is focusing on at the minute, are highlighted in the report, and we are happy to discuss them. The most significant issue that the Committee has discussed is the £175 million receipt from Workplace 2010, which was profiled into the current year. That was as a result of the ongoing suspension of the procurement, and that will not be delivered in the current year.

352. We are working with colleagues in central finance group on the monitoring round process to re-profile budgets and our input to the review of the investment strategy.

353. Mr McQuillan: Will that have an effect on efficiencies? It must have.

354. Mr Orr: I would like to draw a distinction between the principles of Workplace 2010 and the delivery mechanisms. The principles of Workplace 2010 — working in open-plan offices, shared printers rather than individual printers, and more efficient facilities-management services — will deliver efficiencies. Getting the Government estate away from individual single offices into open-plan working would reduce the space required by almost 30%, which is a significant amount. The question is how that can be delivered. As the Committee is aware, the procurement path that we have been following for that has been suspended. The prize is the principles, and that is what we want to achieve; the procurement is how we get there. The suspension has been a setback for those plans.

355. Mr McQuillan: What is plan B?

356. Mr Orr: We have suspended procurement until early in the new year, in the light of the continuing reports that the two bidders seek to come under common ownership. That suspension will allow us to consider the impact of the recent financial turmoil on project finance and property values. We must review the procurement options. That was done when the outline business case was produced, but the options must be brought up to date.

357. You are asking me what a plan B would look like. It would examine how we might deliver the Workplace 2010 principles, perhaps by using a package of conventionally funded procurements. Rather than selling the Government office estate to the private sector and renting it back, we might consider whether we could afford to carry out the improvements to that estate using conventional funding methods.

358. That is a plan B; it is an option that we must look at. I am not saying that we have abandoned the other procurement method. However, it is wise to have that option, against which we can consider the way forward.

359. The Chairperson: Has there been any suggestion of an options paper being developed? How soon will we see either the conclusion of the review of Workplace 2010, or a decision to move in another direction being made?

360. Mr Orr: I would be happy to brief the Committee when that decision is made or in January or February 2009, before that decision is made.

361. Mr O'Loan: Will you clarify some of the figures, Mr Orr, because I cannot make them add up? In the Department's investment delivery mid-year progress report, where it outlines the overall position, you say that the Department's capital investment quantum is £59.9 million. However, the three figures at the bottom of table 1 add up to approximately £72.7 million. Will you explain the gap?

362. Ms McNeilly: I apologise. The £59.9 million is the total investment that the Department has under the public-sector-reform sub-pillar of the investment strategy for Northern Ireland (ISNI). Additionally, the Department has £6 million, to which we have not referred in the first paragraph of the paper, and I apologise for that.

363. The Department's budget comprises the £59.9 million that is in our investment delivery plan, which was set out because of the public-sector reform. We have a further £6 million in another sub-pillar, which concerns sustainability. That brings our total to £65.9 million. The £72.7 million to which Mr O'Loan referred reflects the adjustments that have gone through during the year —listed in the bullet points on the following page — whereby we received additional funding of £1.2 million for HR Connect, £0.3 million for IT Assist and £0.5 million for NI Direct. In addition, £2.8 million was transferred from other Departments. Taken together, those amounts account for the largest proportion of the gap between the two figures and reflect in-year movement. I hope that that clarifies the matter.

364. Mr O'Loan: Yes it does.

365. You have explained plan B for Workplace 2010 and the efficiency issues around it. Just to be clear, can I assume that the lack of £175 million was going to be made up from Executive funds? Everything enters DFP, but it is not solely for the use of DFP, by any means. Was that funding pre-allocated?

366. Mr Orr: I do not think that it was earmarked that if we were to get £175 million from Workplace 2010 that that money would go to such-and-such a project. That was certainly not the case; it was for the Executive to use. We have been keeping in close contact with our colleagues in central finance group. They have been looking right across the NICS at the demand for capital funding this year, and at how best to manage the £175 million receipt, or lack of it, in the overall financial-planning exercise.

367. Mr McNarry: A £175 million loss to the Executive is anticipated, to the extent that the Department has drawn up a plan B. In the outlook for 2009-10 and 2010-11, in that particular

paragraph, the Department states that it is largely content; aside from capital pressures that arise from rates reform, NI Direct and the re-profiling — great choice of words — caused by the suspension of Workplace 2010. Will you explain why the Department is "largely content" with that; bearing in mind that no adjustments are being made across those two years? The Department must have access to a crystal ball to which I do not. That is probably because the Department has more information than I have. How will the Department fill the gaps that it has identified? How much are we actually talking about?

368. Ms McNeilly: Clearly, the £175 million that relates to Workplace 2010 is the most significant issue in the Department's capital position. With regard to the future capital expenditure of the Department, we have engaged with all of the business areas. They have been asked to indicate their position in respect of re-profiling the ISNI across the years. They have said that they are largely content with their budgets, as set. There are some small amounts of £100,000 or £200,000 that they want e-profiled from one year to another.

369. Mr McNarry: May I stop you? Are you saying that information that you have received from every Department —

370. Ms McNeilly: No, just from DFP business areas; we act only on behalf of our Department.

371. Mr McNarry: I see. Does that mean that your Department is content with its information?

372. Ms McNeilly: In respect of our business areas, that is correct; the analysis is that they are content.

373. In my summary, earlier, I jumped straight to Workplace 2010. Most business areas at 30 September 2008 were content with their capital profile until the end of the year. Within that, there are some significant milestones for HR Connect. A meeting will be held tomorrow about the timetable and roll-out of that. The Committee will be aware of that programme. Depending on the outworkings of that, we will have to review the position with regard to HR Connect until the end of the year. Any changes to the timetable could have the consequence of putting expenditure into next year.

374. Mr McNarry: Are you saying that no adjustments are being made to those profiles over the next two years?

375. Ms McNeilly: Yes, in 2009-10 and 2010-11. The HR Connect issue relates to year 2008-09, and depends on the outcome of critical decision points in relation to the next relief of HR Connect.

376. Mr McNarry: Are you confirming that the Department is not under pressure?

377. Ms McNeilly: At present, the business areas have indicated that they are content.

378. Mr McNarry: That is great and really good to hear. Thank you.

379. Mr F McCann: Has any equality proofing taken place in respect of the proposed restructuring and reduction of staff?

380. Ms McNeilly: With regard to staffing, the business areas manage that by looking at each vacancy as it arises. The Department has provided updates to the trade union side on those issues. The local trade unions have been engaging with the business areas on any proposals that they have.

381. Mr Orr: As I said at the outset, and I did not want to raise any concerns needlessly, we are not talking about staff cuts; rather we are talking about reviewing posts when they become vacant to ensure that they are needed. In that context, we have not done an equality-proofing exercise on posts. Individual posts will be reviewed, rather than making grand proposals to make sweeping staff reductions.

382. Mr McNarry: I am very grateful for the frank answers. In the light of what you have just said, am I correct in assuming that the delivery plan in the Department of Finance and Personnel's investment strategy for 2008-2018 is out of date?

383. Ms McNeilly: Yes, elements of it are out of date, including the Workplace 2010 change. The investment delivery plan was based on work done in January and February 2008 on planned actions at that time. However, it will have to be amended in the light of the ongoing review of investment.

384. Mr McNarry: When will it be amended? When will there be a rewrite on Workplace 2010 and any other issues that might arise?

385. Mr Orr: The outcome of the Workplace 2010 decision will be early in the new year, so the delivery plan will not be amended before spring 2009. Deborah, was this a central exercise running across all Departments? Is there a proposal to refresh that at various points?

386. Ms McNeilly: Yes, there are meetings scheduled across all Departments to discuss the investment delivery plan with the Strategic Investment Board and Office of the First Minister and deputy First Minister (OFMDFM) colleagues regarding the response to the wider review.

387. Mr McNarry: I am inquisitive by nature, so this is just on a need-to-know basis. Some people may have reached certain conclusions about the viability of the three-year budget. If the investment delivery plan needs to be rewritten, it might have a bearing on my thoughts about where we go with the budget and about discussions that we may have. My conclusion is that it is unravelling. You may have no comment to make on that.

388. The Chairperson: That is what I was about to say. The question of how the Minister, in the first instance, and the Executive respond to that is a question of what efficiency resources they can apply to the emerging holes.

389. Mr McNarry: It is unravelling bit by bit, and do not try to get away from it.

390. The Chairperson: We will see. Do you have any further comments?

391. Mr McNarry: No, but I am grateful for what I have heard.

392. The Chairperson: If we have any other issues, we will write to you. Thank you for your assistance this morning.

11 November 2009

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

393. 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.

394. 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.

395. 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.

396. 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.

397. 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.

398. 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.

399. 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.

400. 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.

401. 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.

402. 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.

403. 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.

404. 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.

405. 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.

406. 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?

407. 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.

408. 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?

409. 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.

410. 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?

411. 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?

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

413. Mr McNarry: Is it efficient or inefficient?

414. 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.

415. 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.

416. 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.

417. 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?

418. 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.

419. 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.

420. 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.

421. 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.

422. 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.

423. 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.

424. 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?

425. 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.

426. 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.

427. 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.

428. 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.

429. 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.

430. 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.

431. 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.

432. 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.

433. 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.

434. 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.

435. 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?

436. 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.

437. Mr Hamilton: "A courageous decision, Minister."

438. Mr Hewitt: That would be a courageous decision by a Minister, indeed.

439. 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.

440. 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.

441. 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.

442. 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.

443. 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.

444. 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.

445. 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?

446. 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.

447. 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.

448. Mr McNarry: That is not quite true. My wife worked in a typing pool.

449. Mr Hewitt: I am sure that she was the exception.

450. 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.

451. 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 of 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.

452. 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?

453. 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.

454. 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.

455. 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?

456. 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.

457. 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.

458. 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?

459. 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.

460. 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",

461. 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.

462. 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?

463. 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.

464. 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.

465. 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.

466. Mr O'Loan: Once we get our block grant —

467. Mr Hewitt: Once you get your block grant, you have your block grant. That is it.

468. 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?

469. 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.

470. 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.

471. 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.

472. 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?

473. 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 —

474. Mr McNarry: It is interesting.

475. 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.

476. 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.

477. 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.

478. The Chairperson: You spoke about prioritising particular areas. Hearing what you just said; would it 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?

479. 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.

480. 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.

481. 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.

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

483. 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 —

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

485. Mr McNarry: What did you say?

486. Dr Farry: We were still at work at that time.

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

488. 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.

489. 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.

490. Dr Farry: OK. I did not watch the programme last night, but I will watch the repeat tonight.

491. 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?

492. 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 C Series project at Bombardier, and that will add a further £20 million to the money that must be found next year.

493. 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.

494. 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.

495. 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.

496. 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?

497. 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.

498. Mr McNarry: Thank you.

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

500. Mr Hewitt: Yes, by all means, Chairperson.

501. The Chairperson: Thank you.

18 November 2009

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
Mr Brandon McMaster Audit Office

Professor Colin Talbot University of Manchester

502. 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.

503. Mr Weir: I declare an interest as Chairperson of the Audit Committee.

504. Dr Farry: I declare an interest as a member of the Audit Committee.

505. 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.

506. 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.

507. 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.

508. 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.

509. 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.

510. 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.

511. 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.

512. 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.

513. 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.

514. 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.

515. 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.

516. 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.

517. 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.

518. 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.

519. 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.

520. 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.

521. 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.

522. 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.

523. 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.

524. 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.

525. 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.

526. 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?

527. 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.

528. Mr Weir: Obviously, that is an evolving process and mindset.

529. 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?

530. 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.

531. 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.

532. 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.

533. 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.

534. 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?

535. 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.

536. 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.

537. Mr Donnelly: It would be interesting.

538. 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?

539. 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.

540. 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.

541. Mr McNarry: Are you accepting that argument about the shift in property values? Are you saying that that is a valid argument?

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

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

544. 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?

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

546. Mr McNarry: I do not mean that we are hoarding it, in that sense.

547. 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.

548. 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.

549. 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.

550. 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.

551. 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?

552. 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.

553. 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.

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

555. Mr McNarry: That is why I am trying to —

556. 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.

557. 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.

558. 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.

559. 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?

560. 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.

561. 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.

562. 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?

563. Mr Donnelly: To be fair, we have not subjected the DFP efficiency plan to that degree of scrutiny, so —

564. Mr McNarry: As a matter of interest, why not?

565. Mr Donnelly: Well, we have not subjected any of them —

566. Mr McNarry: Why is that?

567. 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.

568. Mr McNarry: OK.

569. Mr Donnelly: It is 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.

570. 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.

571. 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?

572. 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.

573. Mr McNarry: And you expect Departments to pay attention to what you go back to them with?

574. Mr McMaster: One would like to think that they would take heed.

575. Mr McNarry: Is there a principle in that?

576. 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.

577. Mr McNarry: Thanks. That is very good of you.

578. 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?

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

580. Mr McLaughlin: Just to tease that out, are you saying that it would not be appropriate to ask for your advice?

581. 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.

582. 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.

583. 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.

584. Mr McLaughlin: I perfectly understand that.

585. 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.

586. 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.

587. 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.

588. 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 corraling 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.

589. 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?

590. 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.

591. Mr McLaughlin: If the Minister were to invite you to assist, would you consider it?

592. Mr Donnelly: I would have to consider such a request carefully.

593. Mr McLaughlin: I suggest that we make that proposal.

594. Mr McNarry: We would have to discuss pay and determine the efficiency of that proposal.

595. 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.

596. 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.

597. 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.

598. 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.

599. Mr O'Loan: You said earlier that, in many cases, service delivery was not defined.

600. Mr E Bradley: It was not defined.

601. 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?

602. 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.

603. 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.

604. 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.

605. 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.

606. 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.

607. 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.

608. Mr O'Loan: I could say more on the subject, but I will leave it at that.

609. 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?

610. Mr Donnelly: That is a fair assessment with which I totally agree.

611. 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.

612. 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.

613. 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?

614. 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.

615. The Chairperson: Members have no further questions. Thank you very much for your time.

616. Mr Donnelly: Thank you.

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

618. Professor Colin Talbot (University of Manchester): Thank you. It is very warm in here; you would not want your witness to fall asleep.

619. Mr McLaughlin: As opposed to the Committee falling asleep?

620. Professor Talbot: I could not possibly say that.

621. 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.

622. 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.

623. Mr McLaughlin: This will be the best.

624. 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.

625. 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.

626. 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.

627. 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.

628. 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.

629. 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.

630. 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.

631. 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.

632. 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.

633. 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.

634. 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.

635. 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.

636. 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.

637. 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.

638. I hope that my overview has been helpful.

639. 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?

640. 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.

641. 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.

642. 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.

643. 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.

644. 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?

645. 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.

646. 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.

647. 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.

648. 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.

649. 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?

650. 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.

651. 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?

652. 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.

653. 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.

654. 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.

655. The second point relates to the efficiency agenda. One issue 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.

656. 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.

657. 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?

658. 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.

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

660. Professor Talbot: I will try to.

661. 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?

662. 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.

663. 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.

664. 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.

665. 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.

666. Mr O'Loan: We recently paid our firemen to sleep through the night, although there has been a change since then.

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

668. 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.

669. 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.

670. 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.

671. 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.

672. 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?

673. 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.

674. Mr McNarry: Were you remunerated in that role?

675. Professor Talbot: Yes.

676. Mr McNarry: I do not want to pry.

677. 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 —

678. Mr McNarry: Were there any other special advisers on the Committee?

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

680. 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?

681. 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.

682. Mr McNarry: Are there members from Northern Ireland on that Committee?

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

684. Mr McNarry: There you go.

685. 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.

686. 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.

687. Mr McNarry: Is it efficient for devolved bodies to retain reserves?

688. 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.

689. Mr Weir: Did they cut the wrong wire?

690. 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.

691. 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.

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

693. 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?

694. 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.

695. 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.

696. 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.

697. 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?

698. 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.

699. 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.

700. 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?

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

702. 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.

703. 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.

704. 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.

705. 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?

706. 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.

707. 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.

708. 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.

709. Mr McNarry: Does anyone know how much the structural deficit is?

710. 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.

711. Mr McNarry: They have China.

712. Professor Talbot: And they are a reserve currency, which we are not.

713. Mr McNarry: That was excellent. Thank you very much.

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

715. Professor Talbot: Please do.

716. The Chairperson: Will you forward your paper to the Committee?

717. Professor Talbot: Yes.

2 December 2009

Members present for all or part of the proceedings:

Mr Peter Weir (Deputy Chairperson)

Dr Stephen Farry

Mr Fra McCann

Mr Mitchel McLaughlin

Mr David McNarry

Mr Adrian McQuillan

Mr Ian Paisley Jnr

Ms Dawn Purvis

Witnesses:

Mr Adrian Doherty
Ms Deborah McNeilly Department of Finance and Personnel

718. The Deputy Chairperson (Mr Weir): I welcome Deborah McNeilly and Adrian Doherty from the Department of Finance and Personnel. Deborah, are you happy to go straight into answering questions?

719. Ms Deborah McNeilly (Department of Finance and Personnel): Yes.

720. Mr McLaughlin: Before I start, are you familiar with Professor Midwinter's paper?

721. Ms McNeilly: Yes. I got it this week.

722. Mr McLaughlin: It is an interesting paper in that it articulates the concerns of a number of members when defending, in particular, the need for efficiency drives in the current economic circumstances, especially in the context of the perception that output and services are suffering. The definition of efficiency savings is important for the Committee, and, I am sure, for everybody, including the Departments. My sense is that there may be confusion. If charges can be introduced, and if services are being highlighted by Ministers, perhaps in an attempt to manage the impact of top-slicing approaches, that will inevitably impact on service delivery.

723. For the purposes of the Hansard report, will you tell me what definition of efficiencies is being applied and is being used to guide Ministers and their Departments?

724. Ms McNeilly: From the correspondence, there is obviously a range of definitions of an efficiency, one of which is having the same outputs for less resources or more outputs for the same resources. That is perhaps one of the key definitions. There is also the definition of allocative efficiency, which is perhaps not as familiar as the first one.

725. Mr McLaughlin: Given that the Committee has a responsibility to focus on DFP, will you explain how DFP's proposals have been measured against those definitions and, if so, have they been validated and by whom?

726. Ms McNeilly: In an earlier presentation, David Orr mentioned examples related to moving from leased cellular office accommodation. For example, in the current year, DCAL and

properties division's move into the Causeway Exchange, which is a clear efficiency measure under our accommodation savings.

727. Where we can increase output with respect to chargeable hours or move staff from non-chargeable work to chargeable work — for example, in Central Procurement Directorate, where we already have a tradition of hard charging — we argue that that is a more efficient use of resources in delivering those services. If we can get more people on the ground, then charging would be a legitimate efficiency.

728. The Department has taken other actions. I know that there is a clear concern about whether the front line delivery of particular services has been impacted on. Our key area for savings was Land and Property Services (LPS). Its front line services have not been impacted due to the £500,000 worth of efficiency savings that it has had to deliver. Its efficiency saving has concerned rationalising what were four finance units across the four agencies; for instance, in HR support and in some of the common ICT support. That was a strong efficiency in that business area.

729. Mr Mc Laughlin: The Committee can accept that some of those examples address the basic principles or definitions of efficiency savings. However, developing and passing on a charging mechanism can hardly be said to be preserving outputs for the same inputs.

730. Ms McNeilly: It can be regarded as a displacement of the costs.

731. Mr McLaughlin: It cannot be regarded as a true efficiency.

732. Ms McNeilly: It is partly an economy measure for the Department; focusing on the reduction of our baselines and managing within a reduced baseline.

733. Mr McLaughlin: You are aware that Professor Midwinter has given evidence to the Committee. He stated that the DFP plan:

"is not an efficiency delivery plan, but a budget saving plan. The proposals are unclear on how savings will be delivered, and offer no baseline data on which to validate efficiency gains."

734. What is your reaction to that? That is fairly trenchant.

735. Ms McNeilly: It is fairly trenchant. The plan was prepared in line with the central guidance that was issued, and was subject to the same level of review. Professor Midwinter's report refers to accommodation savings as an economy. I argue strongly that that is an efficiency saving on the part of the Department. As to the comment on job losses in Land and Property Services, there is clear evidence that there has been a reduction of 17 posts because of the merger of the agencies, in the corporate services function, not in the front line services function. There are solid examples behind the savings that the Department is making.

736. Mr McLaughlin: Is there scope for the Department to make proper efficiencies that could not be disputed or challenged? The Committee is examining DFP, but I suppose the question can apply across the Departments: does the skills capacity exist to address the issue of efficiencies with respect to existing structures?

737. Ms McNeilly: We have recourse to a number of support services as well as the expectation that delivering efficient services is something that managers should be doing anyway. We also have recourse to units such as PEDU, which can come in and see what we are doing. Business areas across the Department have taken advantage of business consultancy services in the

delivery and innovation division to carry out process and organisational reviews. Some business areas have taken forward a number of such reviews and have implemented the recommendations.

738. There is an increased focus across the Department to continue to deliver the service because there are few elements in the service that DFP delivers that can be switched off. The Account NI system or various other aspects of business cannot be switched off. The key is to find ways to do things better.

739. The evidence that I have seen is that the focus from the departmental board, even in our recent planning, has been on improving processes and driving out efficiencies; it is not because we have an efficiency target to meet per se. We have a budget baseline that we have to live within and still deliver our service. That is where the position gets much more difficult, particularly moving into next year. A lot of effort has been made by all parts of the Department. Additional resources and skills are available to the Department and business line managers if required.

740. Mr McLaughlin: Unquestionably, it is very challenging, and you are correct to point out that things will get worse and more challenging. What incentives and sanctions exist for individuals in order to ensure that the efficiency agenda is embedded? How is the approach inculcated?

741. Ms McNeilly: It should be an integral part of budget management, and perhaps there has been too much focus on managing the budget. Each board member has a target to live within the budget baseline, and manage service delivery in that context. We also have customer survey work to determine whether there are any issues or detrimental impacts. Occasionally, the agency undertook separate customer surveys. There is, therefore, a twin-strand approach. A key issue is to deliver the service and focus on PSA and Programme for Government targets. Those are monitored by the board on a quarterly basis and are subject to scrutiny.

742. Mr McLaughlin: How are the overall baseline efficiencies calculated?

743. Ms McNeilly: Departments are issued with central guidance on what to include or not include with regard to what the centre wants to measure. We follow that guidance, part of which may be, for example, to exclude non-cash costs.

744. Mr McLaughlin: Is that process arbitrary, or is it negotiated and agreed?

745. Ms McNeilly: The figures come to each Department from central finance group.

746. Mr McLaughlin: How are the figures affected by, for example, surrenders, or pressures that emerge in subsequent monitoring rounds?

747. Ms McNeilly: They would not be looked at retrospectively. The figures are set at the time they were announced in January 2008.

748. Mr McLaughlin: And that becomes the datum point?

749. Ms McNeilly: Yes. The figures were set at that time, and the budget was taken off the Departments at that time. Departments may have got allocations as a result of reductions in, for example, Department A. However, the figures are set at that time, and that is the reference point.

750. Mr McLaughlin: The Committee has been informed that there are significant risks attached to approximately half of the efficiencies to be achieved from 2009 to 2011. What is the Department's position on future efficiencies, and how is that being managed with regard to the targets at risk?

751. Ms McNeilly: The key target at present involves the accommodation side of the services. A robust review of all accommodation services expenditure was carried out to see what savings can be made and whether people can live within their baselines. More generally across the Department, there is an ongoing engagement process to see how it can live within its baseline next year and deliver on its commitments. That was subject to several series of reviews over the past few months in the context of living within the 2010-2011 baseline.

752. The Department has had plans in place to mitigate and manage within its baseline next year. We are now awaiting the outcome of the considerations of the wider block grant position to see whether there will be a further impact on us. However, there is still significant focus on the priority that the Department is to continue to try to meet those savings, and, ultimately, live within its baseline.

753. Mr McLaughlin: Are those reviews examining more short-term responses to the post-Workplace 2010 project other than looking for variations on the theme of the open-plan working environment concept, such as working locally, using telecommunications clusters, and generally cutting down on the expense of travelling to accommodation that is not up to standard?

754. Ms McNeilly: I am not sure what progress there has been, or the strategy that exists at present, on home working. The IT system will allow it. Certainly, the latest information that I have is that a policy is being developed in liaison with corporate HR. I am not sure what stage it is at.

755. Mr McLaughlin: That is what I am getting at.

756. Ms McNeilly: I am not up to date on that.

757. I know that business areas, when considering how to rationalise their accommodation, which is driven by business needs, are also looking at things such as hot-desking. For example, in our valuation service's regional offices, there are opportunities for that because valuers and some staff are out of the office quite a bit. Instead of the traditional situation in which everyone has a desk, they are looking at hot-desking in order to consolidate accommodation.

758. The key is to try to do such things with the resources that we have and take advantage of opportunities that are affordable. Clearly, at the moment, there is uncertainty about next year's baselines and the impact that will have for the planning period. Therefore, it is difficult for us to plan ahead on that aspect.

759. Mr McLaughlin: The Committee should follow up on that matter, Chairperson. Pressure on the overall budgets means that other opportunities need to be found. The Bain report, which the Minister has suggested may be set aside, actually addresses hot-desking and having clusters in other locations.

760. The Deputy Chairperson: We shall certainly come back to that issue.

761. Mr McLaughlin: I suggest that we write to the Minister. I believe that he would be interested to know that there may be other opportunities to find efficiencies.

762. The Deputy Chairperson: Are Members happy that we write to the Minister with that suggestion?

763. Members indicated assent.

764. Mr McQuillan: I want to discuss the reform programmes. Why has expenditure for finance, human resources and ICT been excluded from the baselines?

765. Ms McNeilly: When the efficiency delivery plan was being developed, it was agreed with central finance group that those areas would be excluded from the baseline, in the context that savings that relate to them should be treated separately in line with savings in the wider programmes. Therefore, for example, if an efficiency can be made as a result of one of the reform programmes, whether it is Account NI, or whatever, all of that was to be taken on that side. It was to prevent double counting. All Departments were asked to take those costs out of the baselines for the purposes of efficiency savings.

766. Mr McQuillan: Would it not have been more challenging if they had been left in the plan?

767. Ms McNeilly: Yes, it would have been more challenging as regards numbers. However, at that stage, the impacts of those services were still crystallising. Detailed benefits delivery plans were being developed, for example, by the reform delivery unit. Work is still ongoing as regards reform delivery benefits realisation packs for all Departments and driving the efficiencies through.

768. The reform delivery unit, which is now sitting in the shared service organisation of DFP, has a role to drive out and monitor the efficiencies that are delivered by the reform programmes and support Departments in their realisation of efficiencies. However, at that point in time, it was excluded due to the fact that there was a major strand of work on that aspect.

769. Mr McQuillan: You mentioned shared service. How are efficiencies being measured there? Will there be any proof of that?

770. Ms McNeilly: The reform delivery unit has developed benefits realisation packs to enable monitoring of efficiencies and measures associated with the reform programmes. Information at present, for example on IT Assist, is that it will cost £1,200 per user, as opposed to a benchmark in GB of £1,700 per user. Benchmarking activities are ongoing with regard to the realisation of efficiencies. There are various streams of work. It is a detailed area of work, for which a specific resource has been set aside in the reform delivery unit to take that forward. SROs also have responsibility to roll out detailed benefits realisation packs to Departments.

771. Although there is the bigger project to make efficiencies, each Department has its own work to do. I am expected to make efficiencies in finance division by reducing the number of staff and reporting back to the reform delivery unit through the reporting mechanism. That work is ongoing. The key thing about the plan in 2008 was that it was recognised that a good reason for putting the reforms in a different stream was that some of the quantitative and qualitative benefits would not be realised until the post-CSR period. That reflects moves to implement and stabilise. I know that Account NI has a plan to drop its current number of processing staff post-stabilisation. It is an ongoing process.

772. Mr McQuillan: Will you provide the Committee with some of those plans?

773. Ms McNeilly: I can check to see if there is an update from the reform delivery unit.

774. Mr McQuillan: DFP efficiencies are delivering more and better outputs, but the plan does not provide any output measurements. How do you plan to measure those?

775. Ms McNeilly: It would be in tandem with the delivery of our PSA targets and departmental targets, and whether those are being met, the areas of weakness, and the reasons for those weaknesses. That is how we measure outputs. There is a customer survey to underpin all of that in relation to outputs that relate to customer satisfaction.

776. Mr McQuillan: Have those customer surveys been done?

777. Ms McNeilly: A customer survey was done last year, and another has recently been completed for the current year. I am not sure what the results are yet.

778. Mr F McCann: Are the mechanisms for carrying out customer surveys reviewed on a regular basis?

779. Ms McNeilly: Our customer survey is carried out in liaison with NISRA. We take advice from NISRA on the nature of the questions and the sample selected, and NISRA then pulls together the data, including percentages and measurements, and will benchmark that data against other organisations if possible. I know that the staff satisfaction levels are benchmarked. We have professional support from NISRA in compiling the survey.

780. Mr F McCann: Are the surveys carried out face to face, by post, or by phone?

781. Ms McNeilly: A dual approach was used for the current survey. I may be confusing the staff survey with the customer survey, but there were certainly phone calls made, and email surveys in some cases.

782. Mr F McCann: The delivery plan states that the plan will be reviewed and updated as necessary. The current version is the same as the one considered by the Committee in 2008, and includes actions to be completed from as early as February 2008, but no confirmation that those have been completed. What is the mechanism for reviewing and updating DFP's efficiency delivery plan, and why has it not been updated since it was put in place in April 2008? Why is the Minister still not informed of progress 20 months later?

783. Ms McNeilly: Progress has been passed to the Minister through the half-yearly updates that we provide, but I accept that the plan has not been updated; it should have been.

784. Mr F McCann: Are there plans to do that?

785. Ms McNeilly: Yes. We hope to have it updated by the end of January 2010, because by that stage we will also have a view on the implications of next year, and will therefore also be able to update the plan for 2010-2011, taking account of the Budget and our position then.

786. Mr F McCann: Will the Minister be kept fully aware of that?

787. Ms McNeilly: Yes, it will have to be referred back to the Minister.

788. Dr Farry: I will move on to efficiencies and administration, as mentioned in your report. DFP is expected to achieve efficiencies in administration spend of £15.7 million from 2008 to 2011; however, the reform programmes have been excluded from that figure. What would the administration efficiency savings targets have been if the reform programmes had been included?

789. Ms McNeilly: I do not have numbers for that. I can arrange to get you a number.

790. Dr Farry: What was the rationale for excluding the reform programmes?

791. Ms McNeilly: Some of those savings were to be realised in the post-CSR period, but there was a significant, separate strand of work on the efficiency delivery associated with the reform programmes. That has been taken forward by the reform delivery unit. At that time, there were two strands of work, and that is why it was not included.

792. Dr Farry: How are administration costs in the reform programmes monitored, checked and challenged?

793. Ms McNeilly: Business cases were developed for the reform programmes, and the senior responsible owners (SROs) for each of the reform programmes were required to monitor and update in line with their spend. There is also an oversight board, or there was until last month, which was monitoring baselines that were issued by the Department's previous permanent secretary to the various reform programmes in January and February 2008.

794. The reform programmes were, therefore, monitored against those baselines and the explanations for variants, such as whether there has been a delay. That is the context. The oversight board also has external members who are involved in challenges.

795. Dr Farry: DFP has reclassified expenditure to administration spend in previous monitoring rounds, so was the efficiency target met in 2008-09, and are we still on course for the current year?

796. Ms McNeilly: The efficiency target for DFP was issued on the baselines for January 2008. You are right to say that there has been reclassification since then. My understanding is that all those efficiency targets are amalgamated into the Northern Ireland block level and that the central finance group will allow a Department to reclassify resource to administration if it has headroom in the overall Northern Ireland total to do so. Therefore, if our Department is allowed a reclassification, presumably another Department has dropped expenditure. That is how the overall total is monitored centrally.

797. Individual targets for Departments are based on baselines for 2008, and central finance group will permit reclassification if that is in line with its management of the overall Northern Ireland block level.

798. Dr Farry: What is the underlying rationale for those reallocations?

799. Ms McNeilly: That is largely to do with the transfer of functions and the delivery of shared services becoming DFP's role. Transfers are being made to DFP in other resource, and we need to spend money on administration. However, we are not actually spending any more on transfers. For example, when a Department that has front line services, such as DSD, has its money reclassified, it will try to give that to us, but it will be in the wrong category.

800. Dr Farry: The Committee has heard expert evidence about the controls to limit administration expenditure being circumvented by the reclassification of administration expenditure and the use of consultants in particular. Is there evidence of that happening in DFP?

801. Ms McNeilly: New guidance was issued on the use of consultants with effect from 1 April this year. That guidance is aligned to the Treasury guidance, and it makes the position clear that all external consultancy work should now be treated as administration. Prior to that, external

consultancy was treated as other resource; however, that has now been tightened up. In past years, we would have reclassified administration to other resource, but that is no longer the case. The new guidance clarifies that position.

802. Mr Paisley Jnr: I wish to discuss efficiency measure 1 "Increase Charging". What were the key findings of the review of income generation across DFP?

803. Ms McNeilly: As part of the review, we have got information from all the business areas, and there is a degree of disparity between the approaches being taken by some of the business areas. We have been liaising with the business areas to ensure that there is a common approach to common customers, because some of the practices have been developed over time. We also have a draft charging policy that we are sending out to our business areas for consultation. That is very much a policy-based approach.

804. The wider issue for us is the amalgamation of the shared services into the new shared services organisation, the stabilisation of those services and driving out the costs of the shared service organisation. That is the one key area in which a joined-up charging approach needs to be developed. That is a key strand of the work now that the organisation has been established. That will be a key piece of work once all the services have been amalgamated in the next three months,

805. That is the biggest strand of work. However, we have not been able to take that forward, because we wanted to wait until the shared service organisation was in place, so that it could find out what its overheads were, how it wanted to restructure management and what efficiencies it wanted to make in contract management, before we would pull all that together and send out a formal plan on that element of charging. However, that is only one element of charging across the Department.

806. Mr Paisley Jnr: What charges have been revised or introduced, and who is being charged?

807. Ms McNeilly: Business areas have reviewed their charge-out rates. The review of hourly charge-out rates has been carried out by the business consultancy arm of the delivering innovation division. Central Procurement Directorate's charges are reviewed on an ongoing basis in the light of —

808. Mr Paisley Jnr: Do those charges increase?

809. Ms McNeilly: They can increase, but the overall total — the total income line — can depend on the chargeable hours worked. If those increase, income can be increased in line with targets.

810. Mr Paisley Jnr: Is any income being generated by the private sector, or is it all public sector money that is being moved around?

811. Ms McNeilly: There are various strands of income. There is income from the private sector, but, in general, that would come from front line services such as registration. The CPD is a key source; it provides services to the Departments as well as to other public bodies, such as councils or hospitals, for which charges are made. However, the Departments and the other bodies are not tied to buying services from the CPD; they can go to the wider marketplace, if they so wish, in order to seek greater value for money.

812. Mr Paisley Jnr: What is the percentage share of private sector income?

813. Ms McNeilly: I am not sure about the different rates that are chargeable.

814. Mr Paisley Jnr: Can you give us an indication of how much money is being generated by the private sector as opposed to the public sector?

815. Ms McNeilly: I do not have those figures with me.

816. Mr Paisley Jnr: Can you get them for us? The new policy was to be implemented in April 2008. What additional income was generated between 2008 and 2009, and what is expected in future years? Do you have projections?

817. Ms McNeilly: I do not have figures for increased income generation over the period. Income is generated through better charges, more chargeable hours, increased service delivery and increased demand. We can provide members with the high-level figures for last year's income as opposed to the income for the previous year; those figures are in our accounts.

818. Mr Paisley Jnr: Were you able to conduct a free review? Were there any upfront costs or expenditure involved?

819. Ms McNeilly: We utilised a resource that we had. We used the services of a contract member of staff who was doing some other work for us in the division and filling a post that we were unable to fill.

820. Mr Paisley Jnr: That was a good bit of efficiency.

821. Ms Purvis: I want to ask about efficiency measure 2, "Accommodation". Efficiencies in accommodation will be made from what you describe as "fit for purpose" staff reductions. Those staff reductions of just over 2,300 were met by March 2008. To what extent has the number of employees changed since those reductions were achieved?

822. Ms McNeilly: I do not have the numbers, but I understand that there has been an increase. Workplace 2010 was going to be a key driver in obtaining better use of space and reducing the amount of space that was occupied in order to generate savings. In the absence of that programme, our properties division has taken opportunities to move staff into open-plan accommodation. One of the key actions in the current year has been to take staff out of leased accommodation in Interpoint and River House and relocate them to open-plan accommodation at Causeway Exchange. They have moved into a smaller footprint.

823. It is difficult to manage the office estate down in circumstances in which staff numbers have been reduced in small increments. Unless a whole building is being relocated, it is hard to drive numbers down. However, when leases come up for renewal, the properties division has taken the opportunity to move people into open-plan accommodation and rationalise the estate, and that is an ongoing process.

824. Ms Purvis: What does the baseline of £76.2 million in 2007-08 refer to?

825. Ms McNeilly: That would have been the properties division's net baseline at that point.

826. Ms Purvis: What accommodation efficiency savings have been achieved to date? Have savings been made on leases?

827. Ms McNeilly: Savings have been made on leases and on the associated rates costs. Also, there has been some outsourcing of services, such as non-core-hours security. As a result of Workplace 2010, there has been a reduction of staffing levels in properties division to manage the office estate. That division has an ongoing strand of work to better streamline all those

aspects. It continues to take that work forward, particularly in the light of the expected difficulties in future budgets.

828. Ms Purvis: Do you have a figure for that?

829. Ms McNeilly: I do not have figures for the individual items.

830. Ms Purvis: Have you a total for the efficiencies?

831. Ms McNeilly: In total, the division has taken forward a basket of measures. The key thing is for it to live within its baseline. It has not had that £2 million and it has managed without it.

832. Ms Purvis: You said that, with this efficiency, the plan will lead to better-quality accommodation, and you spoke of open-plan accommodation. How do you measure the quality of the accommodation?

833. Ms McNeilly: The movement of staff to Clare House and Royston House and recent Department of Culture, Arts and Leisure moves have been reviewed. Staff who have moved have been surveyed, and the data is used to assess whether the outcomes have improved, whether work has improved and whether staff morale has risen. Various studies have been conducted.

834. Ms Purvis: They are staff attitude surveys?

835. Ms McNeilly: Yes. It is that sort of information.

836. Ms Purvis: What about increased productivity?

837. Ms McNeilly: That is very hard to measure. That is recognised in the reports that have been provided. In the past, the reports have been made with the assistance of the Northern Ireland Statistics and Research Agency (NISRA) to give them a statistical perspective.

838. Ms Purvis: The efficiency delivery plan mentions that some upfront costs might be involved in achieving accommodation efficiencies. What are those costs?

839. Ms McNeilly: The upfront costs in achieving efficiencies, in any type of move from cellular accommodation to open plan, lie in managing it within the baseline. They include fit-out costs and costs involved in the relocation of staff from one building to another.

840. Ms Purvis: Was the expenditure in Workplace 2010 included in those upfront costs?

841. Ms McNeilly: To some extent. The pilot schemes at Clare House, Royston House and Lesley Exchange were included in those upfront costs.

842. Ms Purvis: How were those costs affected by the decision not to proceed with Workplace 2010?

843. Ms McNeilly: The Clare House and Lesley Exchange moves were made in previous years, and, therefore, their costs had already been accounted for in the Workplace 2010 budget for those years. That expenditure has already been incurred.

844. Mr McNarry: The Committee has a note from the Department that says that it is not currently in a position to provide a paper on the progress of efficiency delivery and that it is preparing its position to advise the Minister. Can we take it that the plan is complete?

845. Ms McNeilly: In the financial year 2008-09, the Department has lived within its baseline and has delivered the efficiencies required. It has reported that to the centre.

846. Mr McNarry: So the plan is complete?

847. Ms McNeilly: It is a three-year plan. In the current year, our primary monitoring of it is a part of the integral financial monitoring across the Department as to whether business areas have lived within their baselines, which have already been reduced. The other part of it will be in the context of customer surveys to see whether there has been any decline in the level of services provided.

848. Mr McNarry: What is the problem then, in providing a paper in DFP's progress in efficiency delivery to date?

849. Ms McNeilly: In the current year, our customer survey was completed only two weeks ago. The data has not come through from that either.

850. Mr McNarry: I understand that. When will the Department be in a position to advise the Minister?

851. Ms McNeilly: I am not sure of the timescale for reporting back on the customer survey. If the previous one is anything to go by, that detail may be available in the new year.

852. Mr McNarry: So if the Minister wants to put major things right, he might have time to put them right?

853. Ms McNeilly: There are no major issues on customer service coming from the business areas in light of the Department's efficiency delivery plan.

854. Mr McNarry: That is good to hear. With regard to efficiency measure 3, "Land and Property Services", how was the baseline of £21.4 million, against which efficiencies have been measured, calculated?

855. Ms McNeilly: That would have been the net baseline, held in baselines at that point, for the agency.

856. Mr McNarry: So, on the net baseline —

857. Ms McNeilly: Clearly, due to the monitoring rounds and income generation, there will have been changes from a baseline that dates back to 2007-08 — historic figures.

858. Mr McNarry: Where does it sit, currently?

859. Ms McNeilly: The baselines for each business area will change at each monitoring round depending on what transactions it puts forward —

860. Mr McNarry: Do you review the targets as the monitoring rounds change?

861. Ms McNeilly: No. Those targets have been set and our reference point for reporting back to the sector —

862. Mr McNarry: So, is what you have just said to me relevant or irrelevant?

863. Ms McNeilly: Sorry, it may be potentially irrelevant but additional information.

864. Mr McNarry: Is the baseline set?

865. Ms McNeilly: The baselines that we have to report back to the centre are on the total savings of £5.7 million, £10.3 million and £14.8 million. Those baselines were established on the basis of the 2007-08 figures.

866. Mr McNarry: So the targets are only relevant to those baselines?

867. Ms McNeilly: Yes, and the focus is on those headline numbers.

868. Mr McNarry: So you can do what you like after you have established the baselines. As long as you concentrate on those, it does not matter what comes in in the middle. Is the target of only £1.4 million in efficiencies over three years from the merger not easily obtainable?

869. Ms McNeilly: When the efficiency delivery plan was drawn up, it was recognised that LPS was a new agency and that it would take some time for it to realise savings. That was recognised in those targets at the time.

870. Mr McNarry: Is it not easily obtainable?

871. Ms McNeilly: In the current year, LPS has made the saving of £0.5 million in relation to the consolidation of its corporate services and its HR and finance support services. It has made that saving now, so that will roll forward to next year. It is a saving that has already been made. Therefore, it will have to find an increment of £0.4 million next year.

872. Mr McNarry: We are not talking about large sums of money.

873. Ms McNeilly: Not in the context of the overall budget for the LPS, but the target recognises the difficulties of bringing the four agencies together.

874. Mr McNarry: So, the LPS has had all the help and assistance that one could expect, and it has not been pressurised too much?

875. Ms McNeilly: In the development of the plan.

876. Mr McNarry: Were there upfront costs involved in the merger?

877. Ms McNeilly: There may have been some sort of additional project staff costs. However, the large majority of the work to bring together the finance units was done by the existing staff who were managing those areas.

878. Mr McNarry: So you are saying that, whatever the upfront costs were, they were not significant and that is why they are not specified?

879. Ms McNeilly: Yes.

880. Mr McNarry: Efficiency measure 4 relates to staff reductions. We set baselines back then and we stick to them, and it does not matter about monitoring or anything else that is going on — any new information — we will stick to those and that will be our target. In that context, will the back pay settlement that is being agreed with the Civil Service force additional staff reductions and redundancies?

881. Ms McNeilly: The back pay element of the equal pay settlement has, I understand, two aspects, including the compensation-type payment. We are liaising closely, as are other Departments, with colleagues in central finance group and corporate HR. We understand that they are trying to seek central funding so that Departments will not be impacted adversely because of that. Departments will have to find the resources to pay for ongoing costs, so there might be consequences for them in having to live within a baseline and meet increased ongoing costs.

882. Mr McNarry: Are you saying that we should at least acknowledge that the efficiency plan has taken no account of what we have been talking about?

883. Ms McNeilly: No; it would not have been taken into account.

884. Mr McNarry: Furthermore, as a consequence of the equal pay settlement and, moreover, due to the ongoing cost that might hit the Department, are staff redundancies a prospect?

885. Ms McNeilly: I cannot comment for other Departments; however, in light of the wider pressures on the Northern Ireland block, the Department of Finance and Personnel has been reviewing plans for, in particular, 2010-11, and we have put options forward to the Minister for his consideration. The impact of the equal pay settlement is being considered in the round, and it is included in those numbers. At this stage, we cannot say how much of that will filter through to staffing levels.

886. Mr McNarry: I fully understand that there is a risk that a document can go out of date. This document seems to be going rapidly out of date, even before the Minister has considered it. Perhaps you might suggest that it be brought up to date, because that could save an awful lot of trouble and bother in trying to factor in issues as they arise. Having been a draftsman, I appreciate how difficult that could be.

887. Ms McNeilly: The delivery plan, if that is what you were referring to, has been approved by the Minister. It is the update that he has yet to see.

888. Mr McNarry: It is the fluidity of the situation that worries me. How was the £24.8 million baseline calculated?

889. Ms McNeilly: It was calculated using the net baseline for each departmental business area, such as the Central Procurement Directorate, the central finance group and the corporate services group. The baseline calculation takes account of the net running costs of each business area.

890. Mr McNarry: How much do we need to read in to those baselines to see where they are now in real terms?

891. Ms McNeilly: The baselines change as we move through each financial year and monitoring round.

892. Mr McNarry: I understand your position, Deborah. You have been very helpful. Were staff reductions made to achieve efficiency targets?

893. Ms McNeilly: There has been serious focus throughout the Department on efficiencies and rationalisation, not least in respect of the plan as well as in preparation for 2010-11. There were five reductions in the Senior Civil Service, two of which were in corporate human resources, one was in central finance group and there were two others. The reduction of a grade-3 post is

planned in the central finance group. There has been a suite of reductions at all grades throughout the Department.

894. Mr McNarry: So, in accordance with the plan, the reductions have come about through natural wastage and redeployment?

895. Ms McNeilly: They have been achieved through natural wastage and redeployment.

896. Mr McNarry: Are you sticking to that? Is that all that has caused those staff reductions?

897. Ms McNeilly: All the Department's business areas have been cautious about filling posts. Almost every post that becomes vacant is reviewed to see whether it is still required and whether the work could be done differently and better. In addition, there has been extreme caution about filling the posts because 2010-11 is going to be much more difficult. Nevertheless, the reductions have come about through natural wastage and redeployment.

898. Mr McNarry: You used the phrase "extreme caution". Are there high risks in saying, as you have done, that no upfront costs are anticipated, assuming that natural wastage and redeployment is realised?

899. Ms McNeilly: If you are asking whether there is a risk of redundancies and the upfront costs that would result from them, I would say that, based on liaison with corporate HR, there is no risk of that.

900. Mr McNarry: The efficiency delivery plan makes the sweeping comment:

"No upfront costs are anticipated assuming staff reductions can be realised through natural wastage and redeployment."

901. Is it your position not to move from that, even while moving extremely cautiously?

902. Ms McNeilly: Reducing staff numbers is being done through redeployment and natural wastage.

903. Mr McNarry: That is fine. I am content that that position is stuck to and that no other factors come into it, because some people are rather anxious about their jobs.

904. Efficiency measure 5 is the recognition of costs recovered from rates collection. I know what your answer will be, but how was the baseline of £12.5 million calculated?

905. Ms McNeilly: When the Rate Collection Agency was a single agency, it pulled those costs out.

906. Mr McNarry: Did the Department carry that forward?

907. Ms McNeilly: The costs of the former Rates Collection Agency have been amalgamated into LPS.

908. Mr McNarry: Was the target for 2008-09 achieved?

909. Ms McNeilly: Yes.

910. Mr McNarry: The target of saving £4.4 million was achieved?

911. Ms McNeilly: Yes; that amount of income was realised.

912. Mr McNarry: Are any costs involved in charging councils for rate collection?

913. Ms McNeilly: Costs are involved in carrying out segmental analysis in the review of expenditure in business areas. The staffing levels that the agency uses involve ongoing costs.

914. Mr McNarry: How significant are the costs?

915. Ms McNeilly: They are not significant.

916. Mr McNarry: Deborah, you deal in multi-million-pound figures.

917. Ms McNeilly: It is not as though 10 members of staff are involved; the work is carried out as part of one post.

918. Mr McNarry: Are any charges related to those costs?

919. Ms McNeilly: There is a legislative basis for the methodology of working out the charges for the services that are delivered by the rating side of LPS. That legislative basis is followed in working through the charges and determining what the councils can be charged.

920. Mr McNarry: That is helpful; thank you.

921. Mr McLaughlin: I wish to determine that efficiency savings are being achieved, either through more output for the same input, or through the same output for less input. There are genuine reasons to be concerned about whether that maxim is being applied across the board. I have rehearsed that argument and recorded my concerns. Is our nerve, in a sense, standing up to the challenge of the invest-to-save concept? Is that programme still being rolled out across Departments?

922. Ms McNeilly: To my knowledge, there is no separate funding available for which we can bid in order to invest to save. Therefore, we must realise any opportunities that we have, for example to make savings through accommodation, within existing baselines. It is very difficult to invest to save in light of the constraints.

923. Mr McLaughlin: If we can characterise, or at least criticise, the Department's efficiency plan as being based on increasing charges and cutting staff, does that mean that we have subliminally set aside the investment or the necessary freeing up of resource that would allow it to invest to save? Has that option disappeared off the table?

924. Ms McNeilly: The key area is accommodation services, which had project-type expenditure in the past. In determining how to spend their budget, they are asking themselves how they can work more efficiently, and they are looking at what will drive down costs and eventually lead to savings.

925. Mr McLaughlin: I am looking for reassurance that there are proposals on the table.

926. Mr McNarry: Go on, Deborah, give him reassurance.

927. Ms McNeilly: I can only talk about the proposals on the table in DFP and the way that its business areas are managing their budgets. As regards accommodation services, they are managing their project-type spend, which they would have traditionally used, to invest so as to

realise savings. For example, if two leases are up for renewal, and I can put more people into one building, I will use my project money to invest in that building. Therefore, the proposal is on the table in that context. However, to the best of my knowledge, no invest-to-save budget or programme is available.

928. Mr McLaughlin: Therefore, we could discover in a year's time that the response across the board as a result of the pressures that have emerged is that invest-to-save has been virtually abandoned.

929. Ms McNeilly: There is a difference between a central pot that may have existed in the past, when there were certain central initiatives, and Departments trying to find how to work more efficiently and knowing what they can afford to put up front for investment in managing their budgets within the constraints.

930. Mr McLaughlin: The point that I am driving at, and to which I have given you a couple of opportunities to respond, is that whether the Department is alive to the possibility that there could be a retreat from that approach and that it will do its best to encourage other Departments to continue to look for those opportunities, despite the pressures that are emerging.

931. Ms McNeilly: We can pass that concern to central finance group.

932. The Deputy Chairperson: It is important to ensure that the Department is on its toes.

933. Ms McNeilly: It is for DFP. With respect to other Departments, that would be a key message for central finance group.

934. The Deputy Chairperson: That brings the session to a close. I thank the officials.

13 January 2010

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 Fra McCann

Mr Mitchel McLaughlin

Mr David McNarry

Mr Adrian McQuillan

Mr Declan O'Loan

Mr Ian Paisley Jnr

Ms Dawn Purvis

Witnesses:

Mr Richard Pengelly
Mr Paul Montgomery Department of Finance and Personnel

935. The Chairperson (Ms J McCann): I welcome Department of Finance and Personnel (DFP) officials Richard Pengelly from the public spending directorate central finance group, Paul Montgomery from the central expenditure division and Adrian Arbuthnot from supply division. I invite you to make some brief comments, after which members will ask questions.

936. Mr Richard Pengelly (Department of Finance and Personnel): I will be brief, because I am sure that members are keen to ask questions. The Minister's statement yesterday outlined most of the detail on this issue. Since the Executive and the Assembly endorsed the three-year Budget in January 2008, there have been some changes to the overall position, most notably the subsequent deferral of the introduction of water charges and the wider change in Departments' spending performance, which has been the focus of much attention from this Committee. That has helped to improve performance across Departments. Moreover, the equal pay issue has had an impact. Those are the three big issues.

937. Our Minister concluded that the issues were sufficiently material that, rather than let them fall to be addressed as part of the in-year process, some proactive steps needed to be taken in advance of the year. That has resulted in an overall adjustment of £370 million. A lot of that involves moving money about among Departments. The overall adjustment is 0.1% of the block in current expenditure and 1% in capital. The important point is that in 2010-11, public expenditure — the money that flows on to the streets of Northern Ireland — is planned to grow by 2.8% on the figure for this financial year. Therefore, public expenditure is still growing despite the difficult times. That will hopefully pay dividends by delivering high-quality public services and driving economic growth, which is the key priority of the Executive.

938. Mr Weir: One of the innovative measures in yesterday's statement was the invest to save fund. Will you flesh that out? There is not a great deal of flesh on the bones at this stage. How is that intended to work? Obviously, there will be a central pot of money. However, will it then be a question of Departments making bids and saying that if they get £2 million here they could actually unlock £15 million through a different route? Will you give us a bit more detail?

939. Mr Pengelly: The definitive detail will be subject to Executive agreement. However, I can talk about our Minister's thinking on the proposals. As we head into a constrained public expenditure position, we need to take some additional costs out of the system. The reality is that taking costs out sometimes requires an upfront investment, particularly if we are to reduce the size of some organisations, leading to redundancy costs. Redundancy costs typically have a three-year pay-off. However, an upfront payment to reduce the number of staff will bring annual payroll savings. In the Chamber yesterday, the Minister quoted the example of agriculture and said that a couple of million pounds of investment could head off the possibility of a £30 million problem in terms of any new adjustment.

940. The Minister is inclined to write to his Executive colleagues asking Departments to table bids against the £26 million fund, but any bid must clearly articulate its payback. It is intended that the fund will be sustained over a period of time. For every pound that a Department takes out, it must clearly indicate how it will repay that to the fund. That repayment can take place over more than one year, because it may take a few years for Departments to repay the upfront investment. The invest to save fund will continue over time, and it may be enhanced during the next Budget period if there is good uptake of it during the first wave and if it drives real value by reducing costs.

941. Mr Weir: The fund has a limited pot of money. Will Departments be in a position to act as middlemen? Could the invest to save fund have broader criteria so that it could be used, for example, in the reform of local government? We are talking about big amounts of money for that. It has been said that there will be a range of upfront costs for redundancy packages for chief executives. However, reducing the number of people in those posts will mean that the councils will start to recoup money. Some decisions will be taken outside local government level. Is there openness? Can a Department become a facilitator for the invest to save fund, as well as being directly involved itself?

942. Mr Pengelly: Absolutely. There has not been specific thought about what should be ruled in or out, but that mechanism could work. In many ways an invest to save fund is like a bank making money available through a normal banking facility. A private sector organisation that is thinking of restructuring its normal course of business can secure a short-term loan or overdraft facility from its bank to cover the upfront costs on the basis that the organisation will deliver cash savings to allow it to repay its debt in the future. Departments and public sector bodies do not have the ability to go to the bank, so the invest to save fund puts that facility in place. The one caveat is that district councils do have the ability to secure loans from banks. Unlike central government Departments, councils can borrow from the market for restructuring costs.

943. Mr Weir: I thought that a lot of the issues with borrowing powers were tied in with getting sanction from central government and, consequently, were tied in with central government.

944. Mr Pengelly: The borrowing powers are subject to central government approval. However, a government Department that borrowed would score directly against the Executive's spending power. If a district council borrowed, there would not be an impact on central government spending power. There is just an oversight role. I am not suggesting that that situation would not happen; it is just another consideration.

945. Mr Weir: I appreciate that. You said that the issue at this stage is the Minister's thoughts on the invest to save fund; the idea still has to go to the Executive. What sort of timescale do you see for the establishment of the fund?

946. Mr Pengelly: We need to speak to the Minister on the back of his announcement yesterday. Our advice will be to contact Departments very quickly so as to commission bids and bring them back to the Executive.

947. Mr Weir: To see what the level of potential interest is.

948. Mr Pengelly: The fund is intended to help deliver savings in 2010-11, so it is important that Departments are clear on what money is available and how they can use it as soon as possible.

949. Mr O'Loan: I support the invest to save concept, and it is very good that we are doing that during a difficult time for spending. I asked the Minister yesterday whether the proposed fund is just for presentational and how real it is, but I did not receive clarification. It is extremely important that there is absolute clarity on the meaning of the figures.

950. Spending pressures are £367 million in total, and, once the £26 million for the invest to save fund is added, are equivalent to 2.6% of planned current expenditure and 10.2% of capital investment. I understand that to mean that the total money available to Departments is being reduced next year by £367 million.

951. In 'The Irish News' today, there is a table entitled "Departmental Cuts in Government in Stormont Spending", which details the cuts in current expenditure and capital investment. The table shows that the cut to the Health Department's current expenditure will be £92 million and that the capital cut will be £21.5 million. I cannot find that table in your 'Review of 2010-11 Spending Plans'.

952. Your document quotes quite different and lower percentages. It says that the actual effect will be a reduction of only 0.1% in current expenditure to £9 billion and of only 1% in capital investment. The only departmental table that is provided in your document tells us that the current expenditure budget for the Health Department has increased from £4,273 million to £4,298 million — an actual increase. A small reduction in the capital spend is mentioned. Explain

in layman's language whether we are right to think that the total amount of departmental spending is being reduced by £370 million. What other talk is going on in the document?

953. Mr Pengelly: I will do my best to answer that, but the issue can be quite complex.

954. Mr O'Loan: It ought not to me; it should be very clear.

955. Mr Pengelly: From our perspective, there is some advantage in the issue being complex.

956. The easiest illustration of the point is to take the position with water charges. The overall pressure due to deferred water charges is £213 million; about £120 million in current expenditure and £93 million in capital investment. That means that the Department for Regional Development faces an additional pressure of £213 million. Therefore, £213 million has to be taken off other planned spending to address that pressure. In overall terms, that has a zero impact, because, if it was funded just through reductions in other Departments, the spend of other Departments would be reduced by £213 million and the spend of the Department for Regional Development would increase by £213 million, because the pressure was supposed to be funded externally. In overall departmental expenditure terms, that has a net zero impact.

957. There are other issues with regard to health that I will come to in a moment. The table on page 26 of the spending plans review document shows that the total additional savings were £243 million. Against that, there were allocations, primarily to the Department for Regional Development, but also to the creation of the invest to save fund, which come to £157 million. There is some churn within the £370 million gross adjustment, but some of that is being allocated to other Departments. The net effect of that is the very small reduction in overall terms.

958. The other component which is particularly significant for health relates to technical changes and is also shown on in the table on page 26 of the review document. Health has benefited from a technical change of £116 million. We can write to the Committee to explain the situation in more detail, but it relates primarily to a change in the treatment of pension costs. That means that the Treasury is giving us additional spending power to deal with that issue. That is why health expenditure seems to increase over the period in current expenditure terms. It is due to that technical change. In a sense, however, it is still more public expenditure scoring against Departments, and that is why there is an anomaly whereby there is a gross reduction of £370 million — 2.4% current and approximately 10.4% capital — is only 0.1% current and 1% capital in overall terms.

959. Mr O'Loan: I am just using health as an example. The Minister is faced with a situation in which he has something like £100 million less to spend. It is as simple as that.

960. Mr Pengelly: The Health Minister?

961. Mr O'Loan: Yes.

962. Mr Pengelly: Yes. That is a fair summary of the situation with regard to the Health Department.

963. Mr O'Loan: I do find that strange.

964. Mr Paul Montgomery (Department of Finance and Personnel): He has to make savings of £100 million. His budget, because of the additional budget cover provided for technical changes, has actually increased. There is a subtlety there.

965. Mr O'Loan: Is the table presented in your document a more truthful reflection of things? Does the Health Minister have more money to spend?

966. Mr Montgomery: His budget has increased, compared with what is set out in the previous budget document.

967. Mr Pengelly: It depends on how we focus on the measurement. Simply put, the figure is bigger because of technical changes. To be absolutely fair, the technical change reflects that a certain activity that was recorded at a certain value will have to be recorded in future at a bigger value. Although the number is bigger, it does not put any more money into the Health Service for the delivery of healthcare.

968. Mr O'Loan: The question, across all Departments, is what money is available to allow Ministers to do their job and deliver their departmental targets.

969. Mr Pengelly: In those terms, the reduction is £92 million and £21 million.

970. Mr O'Loan: That is the reality.

971. Mr Pengelly: Yes, but the reality of the Minister's view is that, in the context of a budget of over £4 billion, there is scope for additional efficiency savings. That means that although the amount of money that is spent will be reduced, it will not necessarily have a one-for-one impact on the provision of healthcare.

972. Mr O'Loan: How he responds to that becomes a matter of management. There has already been a succession of efficiency savings, and we are saying that the response to that may be that there will be others. We have bottomed this out to some degree. I still find the presentation of the table in your document to be strange, but the reality is that there are departmental cuts of the order of £370 million.

973. Mr Pengelly: They are reductions.

974. Mr O'Loan: They are reductions in the money available to the Departments, which is a cut in their budgets, of the order of £370 million.

975. The £100 million for the Civil Service equal pay claim is mentioned on page 19 of your spending review document. It is worded as follows:

"This is offset by the £100 million in additional current expenditure which was negotiated with the UK Government in late 2008."

976. My recollection of how that £100 million was talked about was that £100 million had been made available to deal with a number of pressures, not just equal pay. Part of it was extra borrowing, and part of it came from money that was brought forward. I do not see how money can be brought forward any more, because this is the final year of a three-year round. I might be wrong, but I thought that we had already availed ourselves of some of that facility. An extra £100 million was certainly not put into the Northern Ireland block to deal with the equal pay issue. Is it a question of seeking permission to borrow a total of £100 million and using that entirely to address equal pay?

977. Mr Pengelly: The agreement, which was made in November 2008, referred to bringing forward capital expenditure from 2010-11 to 2009-2010. At that time, it was anticipated that the equal pay issue would crystallise in the current financial year. The likelihood and expectation

now is that it will crystallise in 2010-11, so the £100 million facility will amount to using some money that was allocated for capital in 2010-11 to address the current expenditure pressure of equal pay.

978. The consequences of that for capital expenditure have been built in to the adjustments for 2010-11. Of an overall forecast cost of equal pay in the region of £160 million, £100 million has already been provided for, so the adjustment that will be needed in 2010-11 is the residual amount of £60 million. None of that package has been used to date.

979. Mr O'Loan: None of the £100 million has been used? What form does the £100 million now take? Is it increased borrowing?

980. Mr Montgomery: There is £71 million comes from reinvestment and reform initiative (RRI) borrowing and £29 million from the use of capital.

981. Mr O'Loan: To achieve the savings that have been talked about, are we into an arena of having an embargo on promotion and recruitment and measures such as pay freezes? The document does not seem to refer to that, but I hear elsewhere that that is part of the thinking.

982. Mr Pengelly: We have commissioned inputs from Departments on that, because pay costs are clearly a significant component of overall public expenditure. Something in excess of 50% of total current expenditure ultimately manifests itself as public sector pay through the health and education sectors. Therefore, we are looking at the scope for containing that expenditure, and that will include looking at pay, recruitment and promotion embargoes, but no decisions have been taken on that yet. We are looking at the numbers that would be associated with that, and, more importantly, what the implications would be. Although a promotion freeze would save money, it could make delivery of the core public services impossible; certain vacancies must be filled. We are looking at that issue in detail, but we must proceed with caution.

983. Mr O'Loan: One Department could not do its own thing on that; a joint response would be required.

984. Mr Pengelly: The Executive have asked for more information, and an Executive discussion will take place on that specific issue.

985. Mr O'Loan: Is the thinking from DFP that that is a significant element of dealing with the pressures for next year?

986. Mr Pengelly: That thinking is prevalent across the Executive; all Executive members recognise that pay is a significant component.

987. Mr O'Loan: Are we talking about a public sector pay freeze for next year?

988. Mr Pengelly: No decisions have been taken. We are trying to understand the position and what the implications of any approach would be. It will be for the Executive to reach a conclusion on that, but no conclusions have been reached.

989. Mr O'Loan: Are you having discussions with Departments along those lines?

990. Mr Pengelly: We are not having discussions with Departments. We are analysing the position, which will be brought to the Executive for them to take a view on how they wish to proceed.

991. Mr McQuillan: Is there an audit trail between the Departments' budget lines that provides evidence that the efficiencies saved in the 2008-2011 Budget are being reinvested in front line services?

992. Mr Pengelly: The main audit trail for that is that the efficiencies that Departments were charged with delivering in the 2008-2011 period were removed from them and the Executive allocated that money to other Departments. The money has already been removed and allocated and is being spent by other Departments. We are not asking Departments to deliver savings and reinvest them. The money was taken from Departments, and that is the clearest demonstration that that has happened.

993. Mr McQuillan: There is still no guarantee that the money has been reinvested in front line services. Departments could use that money, when it is reallocated, for anything.

994. Mr Pengelly: In late 2007 and early 2008, the total efficiencies across the three-year period were removed from departmental baselines and were looked at by the Executive, in conjunction with the money that came out through the national spending review and through the Barnett consequentials. That formed an overall pot of money, which the Executive then allocated to Departments, based on the bids presented. However, it was not kept in two discrete areas, through which some bids were financed through efficiency savings and others through Barnett consequentials. The money was removed and it was allocated to front line service improvements. It is very difficult to get an absolutely clear linkage, but, at the macro level, we could clearly demonstrate that allocations were funded by that.

995. Mr McQuillan: This paper went through the Executive, and all the Ministers agreed to it. However, yesterday, after the paper was introduced to the Assembly, I found it very strange that it seemed as though the Minister of Health did not know anything about it. He seemed to be very shocked about losing £100 million of spending.

996. Mr Pengelly: As regards the discussion that took place at the Executive; obviously, I was not present at that meeting, so I am not privy to the discussion or the points that were made. However, our Minister is clear that he has published a set of proposals that he took to the Executive, and he has Executive agreement to publish those proposals and to consult on that basis.

997. Mr McLaughlin: My question on end-year flexibility came a bit left of field to the Minister yesterday, but it was not my intention to ambush him. I know that he had to engage in some rapid consultation. Did he get the figures right?

998. Mr Pengelly: Clearly, I am reluctant to criticise him.

999. Mr McLaughlin: It is not a criticism. He did not have his notes with him, and, in fairness, he indicated that he would come back to us on the matter.

1000. Mr Pengelly: As members will appreciate, the problem with end-year flexibility is that it can be quite complex, because there are many different ways that we can analyse the end-year flexibility and come up with different figures. I think your question was about how much end-year flexibility is available at the moment. That is a difficult question for me to answer without putting some supplementary questions to you. With respect to previous underspends by Departments, there is a pot of money that sits in Treasury that is marked against the Northern Ireland Executive. The separate question is how much of that money has Treasury agreed that we can draw down annually. Then, as we move forward, that gets topped up by subsequent underspends.

1001. We talked briefly to the Minister yesterday, and we are in the process of putting together a comprehensive analysis of the EYF position. He is planning to write to you with that information in the next few days to give you full clarity. You will then be able to see all the different components and how it is made up. You can get back to us if you want further clarity on that.

1002. Mr McLaughlin: It would be prudent to wait on that analysis, so I will not press that issue any further. In respect of the asset management capital realisation, when will the central asset register be available? It has been recommended for some time now.

1003. Mr Pengelly: There is a national asset register, which was produced a number of years ago, and it has been through two or three iterations. I cannot remember when the last register was produced, but it was a UK-wide publication that covered all the devolved Administrations.

1004. Mr McLaughlin: The task force was asking for that, and it was doing so in respect of how the register was built into the Programme for Government and receipts being projected into the expenditure programme.

1005. Mr Pengelly: The initial work that Ed Vernon led in respect of the realisation task force was reported in late 2008. The First Minister and deputy First Minister invited Ed back to provide an update report, and my understanding is that he presented it to the First Minister and deputy First Minister a month ago. They are currently considering how to roll that forward in the light of the changed circumstances since November/December 2008. He has made some subtle tweaks to the report, but there is no fundamental change in respect of the original approach. However, we hope to engage with colleagues in OFMDFM on the issue fairly soon. We see that as a significant component. We are dealing today with marginal adjustments to the 2010-11 position. The next big strategic exercise that we face concerns spending plans for 2011-12 and beyond.

1006. Mr McLaughlin: Exactly, and that is what I am leaning towards.

1007. Mr Pengelly: We have a real sense of urgency that that needs to be fundamentally embedded into the process. We must look at how we manage our capital base, make best use of it and dispose of, or recycle, the bits that we do not need.

1008. Mr McLaughlin: There are two issues arising, one of which is the loss in receipts. Even though market conditions have changed so dramatically and detrimentally, is any ongoing consideration being given to releasing some of the assets to the market in a graduated way in order to generate revenues?

1009. Mr Pengelly: The assets —

1010. Mr McLaughlin: In his statement yesterday, the Minister seemed to indicate that no consideration had been given to that in the past two years and that there will not be any consideration given to it next year. To me, that seems to indicate that there is no proactivity.

1011. Mr Pengelly: There are two different levels to the issue, and you are focusing on what I see as the more important and strategic approach. At the moment, all assets belong to individual Departments of some shape, size or description. Therefore, they can be looking at assets that are under-utilised, or unutilised, and think about disposing of them. In some cases, Departments may think that the market is at such a low point that it is better to let assets sit for a period of time. In other cases, they may conclude that it is better to sell assets and take the money now rather than waiting for two or three years only to see a relatively small increase in their value.

1012. Mr McLaughlin: It is that calculation that I want to look at now. Is the cost of retaining the assets factored in, and, if so, who factors it in? For instance, how does the Executive take a strategic decision that strikes a balance between the potential to realise revenues now and the cost of waiting until the market improves?

1013. Mr Pengelly: At the moment, decisions with respect to value for money are for individual Ministers.

1014. Mr McLaughlin: Is there any strategic Executive approach to the issue?

1015. Mr Pengelly: Not on a case-by case basis. Moving forward, the intention, which came through in the report, is that we need to take a more holistic view, not so much about what we do with individual assets, but, more importantly, that we should consider bundling together assets, from different Departments, that border one other. There is also an issue about whether the Executive needs to secure planning permission before assets are disposed of to the market. We also need to make sure that Department A does not sell an asset in year 1, only for Department B to seek to buy it back in year 3 or year 4 because it needs it for a particular piece of business: that would merely allow a property developer to make money in the interim. We want to embed that key point into the process.

1016. Mr McLaughlin: Is that an argument for having a centralised approach?

1017. Mr Pengelly: It is, and that is the work that we are doing at the moment. We hope to have it firmly in place as we move forward with developing plans for 2011-12 and beyond.

1018. Mr McLaughlin: Does that mean that there is an ongoing exercise to identify, and keep an up-to-date register of, surplus property that is owned by the Departments across the spectrum? Is there some kind of independent mechanism that will inform Ministers or departmental officials?

1019. Mr Pengelly: As part of the review, considerable work done was done to identify those assets. It was not done across Departments; it focused primarily on Departments with big asset bases. Moving forward, we want to do that on a comprehensive basis across all Departments and to update the record regularly. The value of such an approach is not so much in individual Departments knowing what they have as in the entire block knowing exactly what is there and providing greater management of it.

1020. It is very much a work in progress. The report is with the two Ministers, and there are recommendations to put infrastructure in place underneath that will take responsibility for the management of that programme of work. That will help to ensure that it is done properly and with the full engagement of Ministers in the Office of the First Minister and deputy First Minister and the Executive.

1021. Mr McLaughlin: Does that indicate that, for a combination of reasons, there may not be any investors who are prepared to take the assets on at this point in time? Is it safe to assume that that is not a factor in calculating how to respond to pressures; in other words, that the Executive or individual Departments will not try to offload some of the surplus assets?

1022. Mr Pengelly: It has not been a significant factor in the present consideration for 2010-11. Some of the issues with respect to 2010-11 have arisen because the disposal of assets has not taken place at the pace anticipated when the plans were set. The Executive are obviously reluctant to try to address the problem —

1023. Mr McLaughlin: The baseline calculations are now totally awry.

1024. Mr Pengelly: Yes; however, against that, there are some signs of recovery in the property market. It is very early to be getting too optimistic about that, but, as we move into 2010-11, although there are no coherent plans based on figures, the Executive have left some capacity on the property management side, on which we will keep a strong focus.

1025. As we move into 2010-11, greater signs of recovery will ease the position and provide greater scope for additional investment. Therefore, the issue has not been completely ignored, but we have recognised the risks of trying to quantify it too precisely at this early stage.

1026. Mr McLaughlin: In facing into the next Budget, as opposed to working out the existing one, is there an opportunity to recast the entire capital assets realisation process, which, I assume, will stay in place?

1027. Mr Pengelly: It will.

1028. Mr McLaughlin: Will the projected receipts reflect the real world costs? It will be seen whether property will ever return to the same level, so that exercise must be conducted.

1029. Mr Pengelly: Yes, all that will be revisited and that will be a substantive and early piece of work in the next process.

1030. The Chairperson: You mentioned a "more strategic approach" to that issue. In relation to the Minister's statement to the House, the booklet 'Review of 2010-11 Spending Plans for NI Departments' submitted to the Committee by the Department, refers to efficiency savings involving: "a reprioritisation of the spending allocations between departments"

1031. being done on a more targeted basis. Who is setting those targets? Within them, how can we be assured that front line services or Programme for Government targets are not affected?

1032. Mr Pengelly: The key evidence base for the targeted savings was inputs by individual Ministers to our Minister. That was followed by a round of bilateral meetings with each member of the Executive to talk about the position from the individual Minister's perspective and what the issues were in his or her Department. That allowed our Minister to propose to the Executive how to target the reductions across Departments. That proposal was put to the Executive and agreed as the basis for this public consultation. Thus, there was inclusive dialogue; first, between the Finance Minister and each individual Minister, and then in a round-table discussion at the Executive.

1033. The Chairperson: Did other Ministers have an input into setting those targets?

1034. Mr Pengelly: Yes, absolutely; through both bilateral engagement and collective discussion.

1035. The Chairperson: Has some sort of evidence-based inquiry been carried out to show that targets will not affect front line services or the Programme for Government?

1036. Mr Pengelly: That is almost the next stage. The targeted reductions — for Health, 2.1%, and DETI, 2.2% — are based on the bilateral engagements, which very much dealt with strategic positions for Departments on some key issues. That was debated by the Executive.

1037. The next stage is for individual Ministers to take the issue that is specific to their Department and consider how they will deliver on that issue in the context of that Department.

As reflected in the booklet given to the Committee, our Minister has written to all his colleagues asking for detailed information on how savings will be delivered to be published on the departmental websites. We see that as the key evidence base for the consultation process, along with the dialogue with individual Assembly Committees and this Committee's overview of that process, which will come back to the Executive before a final decision is made.

1038. Mr Farry: To pick up on the latter point; did the Ministers suggest what was achievable in their Departments, or was that determined by the Finance Minister, based upon more informal soundings with the Ministers?

1039. Mr Pengelly: It started with the key question posed by the Finance Minister to all Departments asking how they would deliver savings of x% and y%. Some Departments answered by agreeing to deliver savings in certain areas but said that the only way to deliver more would be to stop particular services. That would be untenable for public service provision. So, it is about getting that information from all Ministers and, based on that, —

1040. Dr Farry: I note that you said x% and y%. I do not necessarily expect you to tell us what x and y were, but were they the same for each Department?

1041. Mr Pengelly: They were the same in all cases. We set the saving targets higher than the total that we would need, because that technique gives us a bit of wriggle room: taking less from one Department means taking more from others.

1042. Dr Farry: How do you factor in the fact that some Ministers will enter into the spirit of the process more generously by being upfront about what is achievable, while others may play games, hold back, and portray a more pessimistic position about what is achievable in their Departments?

1043. Mr McLaughlin: You assume that they will all play games.

1044. Mr Pengelly: I will deal with the question conceptually. Otherwise, it will be suggested that I am encouraging Ministers to act in such a way.

1045. Dr Farry: I am not pointing a finger at anyone.

1046. Mr Pengelly: In effect, that is where I and my colleagues from the Department of Finance and Personnel come in. Our day job is to have detailed interaction with Departments and understand them. For instance, Adrian Arbuthnot leads our health team. On a daily basis, he undertakes detailed dialogue with Health Department officials. He understands its programmes and policies and how it is delivering services, although I am not trying to say that it is Adrian's fault.

1047. Dr Farry: We are glad to have him with us. He is a key person in government.

1048. Mr Pengelly: Our Minister had a bilateral meeting with each Minister to get his or her view, and, during internal discussions with our Minister, we factored in our sense of where the Department was on efficiencies, programmes and new policies. That allowed the Minister to form his view and to table a proposal for the Executive. Subsequently, in open discussions in the Executive, individual Ministers have an opportunity to rebut such proposals.

1049. Dr Farry: Will the revised spending plans be subject to a vote in the Assembly, or will they be picked up in the forthcoming Budget?

1050. Mr Pengelly: Ultimately, they will be subject to a cross-community vote in the Assembly.

1051. Dr Farry: The matter will therefore, in effect, be treated as a Budget revision.

1052. Mr Pengelly: Yes.

1053. Dr Farry: The difficulty with the figures on pages 26 and 27 of the 'Review of 2010-11 Spending Plans for NI Departments' lies in the difference between resource and cash accounting. A layman thinks in cash terms, whereas, as officials, you think in resource terms, so it is difficult to get a clear picture. In simplistic terms, the key comparison to make is between the published 2008-2011 figures and the savings. However, on a stand-alone basis, the draft revised spending plans do not give a true picture of the cash challenges that Departments face.

1054. Mr Pengelly: One would need to brigade the additional savings and allocations together. I think your point is that you could nearly set the technical changes to one side.

1055. Dr Farry: As regards allocations, that is almost exclusively water charges in both cases against the two DRD figures.

1056. Mr Pengelly: It is, but there are some additional allocations to the Assembly, the invest to save fund, DETI and DFP.

1057. Dr Farry: I missed the detail of your answer to Declan's question about the source of the money for water charges. It will not come from any Department, and those two figures considerably distort the overall impression of where things are going. Will you clarify where the money will come from?

1058. Mr Pengelly: As regards water charges, the money is coming off all 11 Department and is going to the DRD. The money will still be spent; it will just be spent in a different place than was originally planned.

1059. Dr Farry: Where do you see the money coming from, with respect to savings?

1060. Mr Pengelly: In current expenditure terms, the saving of £243 million, one of the components of that figure is the impact of water charges. That comes off all Departments. In effect, it is being shifted into the DRD; although it will not reduce the overall spend by Departments.

1061. Dr Farry: When the Budget was first struck in 2007 for 2008-09 and, subsequently, when the decision was taken to continue funding water charges, it was understood that there would be current and capital investment in water services in 2010-11. The expectation was that that money would be raised through water charges.

1062. Mr Pengelly: As regards 2010-11, the assumption was that two thirds of that cost would be raised from charges; one third in this current year and two thirds in —

1063. Dr Farry: So, the goalposts have shifted in that sense, because a decision was taken, for political reasons, to defer water charges further, which means that that money has to be found elsewhere?

1064. Mr Pengelly: Yes.

1065. Dr Farry: That money, therefore, comes from Departments. If that distorting aspect is removed, particularly from the capital end, we are talking about a 10% decrease across the board. I could understand an argument about how those efficiencies could be made in current expenditure through administration costs. However, there comes a point at which one is talking about cuts in services, even at times when administration is part of the service; especially if it interacts with customers. With respect to capital, in particular, the decision, in essence, is that certain projects will not go ahead.

1066. Mr Pengelly: We certainly do not accept that. I will use a pretty crude example: if, in January 2008, when the Executive agreed the plans, a person decided to build a house in 2010-11, they would have set aside a certain amount of money to build it. I suspect that if that person tries to build that house in June 2010, they would spend significantly less money than they had set aside. Construction prices have fallen fairly significantly since the plans were set. Inflation, generally, has fallen. Land acquisition costs have fallen materially. A very significant component of the Executive's planned capital investment is in those sorts of areas. Therefore, it is not beyond the realms of possibility that we will be able to deliver the same volume and quantity of projects that were planned, but that they will be delivered at a much lower cost. It is a change in how much will be spent; it is not necessarily a change in activity.

1067. Dr Farry: So, you are optimistic that there will be no loss of departmental projects because, on the capital side, you will be able to deliver the original plans? That is critical for the construction industry. I appreciate that not everything involves construction, but a key element of the plans do.

1068. Mr Pengelly: Obviously, I cannot give a complete guarantee that that will happen. As regards the figure that we have looked at, we are, by nature, optimists in the Department of Finance.

1069. Dr Farry: With respect to current expenditure, the Minister is making the point that administration costs can carry the burden of efficiencies. How long can we keep squeezing out more and more money from the administration pot without having an impact on front line services?

1070. Mr Hamilton: Until they squeak.

1071. Mr Pengelly: When we talk about efficiency, I am not sure that we restrict that to administrative efficiency. That is important. Perhaps I could ask Dr Farry a question: as a member of the Finance Committee and in your scrutiny of the Department of Finance, if we are looking at one or two percentage points in efficiency savings, would you be confident that I am operating at something in excess of 99% efficiency?

1072. Dr Farry: Personally? I think extremely highly of you.

1073. Mr Pengelly: In contextual points —

1074. Mr McLaughlin: Could your organisation improve on that figure?

1075. Mr Pengelly: Since the late 1990s, public expenditure has been through the most buoyant period of growth that I suspect that any of us will ever experience. However, when there are massive increases in public expenditure, organisational inefficiencies tend to become embedded. We have been at the efficiency game for three or four years now, and we have made some inroads. Organisations are becoming more and more efficient, and many deserve huge credit for the strides that they have taken.

1076. Each additional pound of efficiency savings is becoming harder to generate. We are not there yet, and there is further to go. However, the first stages of efficiency tended to be a broad brush approach, such as everyone having to become 3% more efficient. We needed to become smart at that, hence the targeted approach. Some organisations have more scope for efficiency than others. More importantly, many programmes and policies that Departments are operating have been there for many years and are now in a completely different political and economic context. There are efficiencies to be had when we ask radical questions about whether a programme still fulfils a need and whether the money could be better used elsewhere in the context of a re-shaped policy.

1077. Dr Farry: I am certainly more comfortable with a review of policies, which would determine which are most relevant today, than base assumptions on what took place in the past.

1078. I am concerned at the simplistic approach that some people take in thinking that more and more can be squeezed out of administration. Policy delivery requires management, and people require management. One might ask whether someone sitting at a reception desk in a hospital is part of administration or is providing a front line service. One might say that that person provides a front line service. Sometimes, the impression can be given that this task is easy and that it is all about squeezing administration harder and harder without touching public services. However, it is often a grey area.

1079. My final question relates to invest to save. You spoke about the payback period stretching over a period of years. Is that within a three-year budget cycle, or can it span budget cycles?

1080. Mr Pengelly: No definitive decision has been taken. There is no reason, in view of the budgeting framework, why it could not extend beyond the budget period. A £26 million fund would be a valuable addition. Depending on the amounts involved, the payback period might be a key factor for the Executive. If the choice is between one Department borrowing from the fund and offering a two- or three-year payback and another Department offering a seven- or eight-year payback, the Executive will probably take the quick win. Payback time would influence what is allocated, but there is no reason why extending it beyond the budget period cannot happen.

1081. Dr Farry: It strikes me that one invest to save project is the RPA. I declare an interest as a councillor. Does the potential to deliver RPA feature within the 2010-11 framework, or is viewed as being a 2011-onwards issue to be addressed?

1082. Mr Pengelly: The change will fall in 2011 and beyond. It has not been ruled out; it is not specifically provided for in 2010-11, but we acknowledge that to deliver the changes in 2011 and beyond there may be some need for investment and spend in that period. I certainly would not rule out access to the fund on that basis.

1083. Dr Farry: I assume that it has not been covered in DOE budgets.

1084. Mr Pengelly: No.

1085. Dr Farry: So, it would have to be as the need arises.

1086. Mr Pengelly: Yes.

1087. Mr F McCann: Paragraph 3.22 in the consultation document 'Review of 2010-11 Spending Plans for NI Departments' refers to expected slippage in two major projects planned for 2010-11: "which are broadly equivalent in value to the anticipated shortfall in receipts".

1088. What projects are being referred to, and what is their estimated value?

1089. Mr Pengelly: The projects are: Royal Exchange, which is worth £110 million; and waste management, DOE, which is £180 million in total.

1090. Mr F McCann: What are the implications for those projects?

1091. Mr Pengelly: At the moment, the discussion around those projects at the Executive has been to clearly acknowledge that both are viewed as being of fundamental importance. The Royal Exchange project is a very significant development in a part of the city centre, which the Executive accepts, unanimously, is in dire need of redevelopment. The reason for slippage in the project is that the developers, site assembly and other aspects have been slow to progress. So, it physically cannot happen in 2010-11. The intention is that that project should, and will, go ahead in future years.

1092. Similarly, as regards the DOE waste management treatment project, there are issues about advancing it. Therefore, I am differentiating clearly between a review of the need for the projects, as opposed to logistical issues with delivering them. Both are viewed as being important projects that will happen in future years.

1093. In a more benign environment, in which the Treasury had not changed the rules on end-year flexibility, the easy thing to do would be to say that, if the projects do not happen in 2010-11, whatever money was allocated in 2010-11 will not be spent, but will automatically be carried forward into future years and spent as the projects roll out. Treasury end-year flexibility rules do not now allow that to happen.

1094. If we underspend by almost £300 million — if that is simply not spent in 2010-11 — that money will be returned to the Treasury and will sit there until some time in the future when the Executive can negotiate access to it.

1095. A better approach, as we have outlined, is that when money is available but cannot be spent on those projects, it should be spent on other things in the interim. That will relieve other pressures, thereby allowing us a way to restore money for those projects in future years. That is the best way of managing the issue in the context that the Treasury has determined for us.

1096. Mr F McCann: Has the Minister for Social Development asked for the money from the Royal Exchange project to be reallocated to other projects in her Department?

1097. Mr Pengelly: No.

1098. Mr F McCann: We heard earlier that money that is surrendered, or slippage, is used in the next financial year, and is not guaranteed in future years. What are the long-term implications for the Royal Exchange project?

1099. Mr Pengelly: During recent discussions around the Royal Exchange project, it was accepted that the project is of fundamental importance. There are no spending plans for 2011-12 and beyond, so it is difficult to say with certainty, in the normal run of events, that something that does not happen in one year will happen in another budget process.

1100. The difference in this context is that a 10-year investment strategy has been signed off by the Executive. Both those projects were embedded and approved by the Executive within the investment strategy. I see the only issue as being one of timing rather than whether the projects

happen. Other issues will have to be factored in as we progress the strategic budgeting process and the investment strategy for 2011-12 and beyond.

1101. Mr F McCann: There are no guarantees, in other words?

1102. Mr Pengelly: There cannot be guarantees until the Executive formally conclude. I certainly cannot give guarantees on behalf of the Executive, but they have clearly committed to the two projects as part of a 10-year investment strategy. I can see no reason why those projects should not proceed, albeit at a slightly slower pace than was originally envisaged.

1103. Mr Hamilton: I fear that I am becoming more like Fra, and viewing these sessions as an extension of the Social Development Committee.

1104. How will the equal pay claim affect the Civil Service in general, specifically the Department for Social Development (DSD) and its various agencies? There is a section in the review document about the equal pay claim and its payment, but there are obvious ramifications in the longer term in terms of increased pay. How has that been factored into the review of expenditure plans? I know that this is only for one year and that the impact will go beyond that, but what work is being done for the incoming year and beyond?

1105. Mr Pengelly: The equal pay claim has two components. There is the back pay element, because there is six years' back pay, and then there is an adjustment to salary scales, which means that there will be a recurrent cost going forward. The element up to and including the end of the 2009-2010 financial year is being addressed as a central pressure. That component of £160 million has been factored in to the review.

1106. The annual cost going forward is an issue for Departments. That is part of the normal cost of running a Department; it is just an increase in payroll costs. If departmental budgets for payroll costs were to be adjusted, it would be done on a pro rata approach within Departments. Money would be taken from Departments and returned to them on the same basis. It is seen as an issue for Departments.

1107. Mr Hamilton: I should have said that the reason I raise the point from a Social Development perspective is because of the higher numbers of those affected by the equal pay claim and subsequent adjustments. It probably has a more significant impact on that Department than it would on others. In the Social Security Agency, the workload of staff is also going up, and that is the context in which I raised that point.

1108. There is also the issue of the pre-Budget report briefing. Have the Executive taken the decision that Barnett consequentials are being used generally to offset, or has any suggestion been made by any Minister that some of the Barnett consequentials be used for similar schemes to that which they were created for or from which they were derived on the mainland? I am thinking specifically of the boiler scrappage scheme. Has there been any proposal or thought on that at an Executive level, or, as in the past, has it been decided that those funds will go into a central pot and used to address pressures?

1109. Mr Pengelly: Just before I come to that, on the contextual point that you made about the impact of equal pay on DSD, I should record that the impact on DFP in proportionate terms is pretty similar. That is particularly the case with Land and Property Services, which has a very significant number of staff at those grades. I would have been shot when I got back to Rathgael House if I had not made that point.

1110. Mr Hamilton: You are allowed to go back now.

1111. Mr Pengelly: With respect to the pre-Budget report, the Barnett consequentials for 2010-11 were fairly limited — approximately £7.7 million in total. The process for considering the 2010-11 position had already started, and that was obviously dealing with a reduction. The view taken was that the £7.7 million should be used to slightly reduce the level of reduction being applied to Departments, rather than set aside as a separate fund. Therefore, replicating issues such as the boiler scrappage scheme will be left to individual Departments.

1112. One of the key points of what the Executive are proposing for 2010-11 is the reduction of levels of overcommitment to zero. We will talk about the annual monitoring round later, but there has been a steady decline over several years, from a period of intense buoyancy, when a lot of money was being allocating in each round to deal with difficult pressures that had emerged in Departments, to the last couple of years when the main issue has been about managing the overcommitment. That is partly because departmental spending performance has improved; we are not in the territory of significant underspends. In that context, the Department feels that reducing overcommitment to zero will get us back to a more stable basis and allow us to create some greater flexibility in the course of the year to address pressures.

1113. If DSD wants to think about introducing a boiler scrappage scheme, there will be an opportunity to table a bid for that in-year. The expectation for 2010-11 is that there will be more capacity for the Executive to respond to such issues than has been the case over the last couple of years. In overall terms, the amounts associated with such a scheme would be fairly marginal.

1114. Mr McNarry: You said earlier that you were not at the Executive meeting when those decisions were taken. Which officials accompany the Minister to Executive meetings?

1115. Mr Pengelly: Executive meetings are just for Ministers.

1116. Mr McNarry: Are there no officials at the periphery of those meetings?

1117. Mr Pengelly: No.

1118. Dr Farry: The head of the Civil Service attends.

1119. Mr Pengelly: Yes, in his capacity as secretary to the Executive. At the specific Executive meeting when those proposals were concerned, there was no DFP official in the Executive room.

1120. Mr McNarry: Or outside the room?

1121. Mr Pengelly: I was there outside the meeting, but I was not in the room.

1122. Mr Hamilton: If they are not inside the room they must be outside the room, unless they are in some sort of twilight zone.

1123. Mr F McCann: Or in a bubble.

1124. Mr McNarry: What is your point?

1125. Mr Weir: By definition, if someone is not inside the room they must be outside it.

1126. Mr McNarry: I was trying to establish how far outside the room the officials were.

1127. Mr Weir: Perhaps they should bring a tape measure to Executive meetings.

1128. The Chairperson: Can we please give David the space to ask his questions?

1129. Mr Hamilton: I am going outside.

1130. Mr McNarry: It may actually hit someone one day why I was asking that question, but we will leave it where it is.

1131. In response to Adrian's reasonable question and your answer to it, is it factual that the Health Minister was ill on the day of that Executive meeting, and that he sent in a strong letter of resistance to the reduction of his use of money?

1132. Mr Pengelly: I am not sure whether I would want to comment on the state of an individual Minister's health. You asked me if it is factual that he was ill, and I am clearly not in a position to offer a factual opinion.

1133. Mr McNarry: Are you aware that he sent a letter in on the basis that he was ill? I am not asking you to give a medical opinion, but did he state that he was ill?

1134. Mr Pengelly: Sorry —

1135. The Chairperson: If I may intervene, David, that is a question for the Minister to answer, not the officials.

1136. Mr McNarry: The official responded to Adrian's question, which was a good question. I am trying to bring an element of fact to the situation.

1137. Dr Farry: Was Reg Empey ill?

1138. Mr Pengelly: I am happy to record the facts as I know them. In advance of the Executive meeting, a letter came from the Department indicating that the Health Minister was unwell and unable to attend the Executive meeting. In that letter, he outlined his views on the Executive paper. From memory, I think that letter was sent to the Finance Minister and copied to all Executive colleagues. The letter was received in advance of the Executive meeting; as I said, I was not part of that meeting, so I do not know how the discussions took place during it. The records of the meeting show that agreement was reached on the proposals that were tabled by my Minister. That allowed the basis for the Minister's statement to the Assembly yesterday.

1139. Mr McNarry: No vote took place.

1140. Mr Pengelly: I cannot comment on that.

1141. Mr McNarry: I was not there either, but that is my understanding.

1142. The Health Minister says that he will raise the issue at the next Executive meeting. It is unfortunate that that was said yesterday following the Finance Minister's statement and that he and the Health Minister aired their differences in public, but the Health Minister said that he will raise the issue at the next Executive meeting, and that is an important issue. Is the Committee to take it that yesterday's statement is written in stone?

1143. Mr Pengelly: I am trying to be careful not to cover areas that are outside my remit. The Finance Minister presented a paper to the Executive, and that paper was considered on 17 December 2009. Executive agreement was reached on that paper, and one of the points of agreement that the Minister was seeking was on the reductions as a basis for a statement to the

Assembly on 12 January 2010, which would launch a period of public consultation. That was agreed and has happened. I cannot speculate, but the Executive may consider that the next time they meet and decide on an alternative. The Executive have primacy, but they have already taken the decision to launch the public consultation on that basis.

1144. Mr McNarry: That is why I asked whether the statement is written in stone. Correct me if I am wrong, because I am looking for some answers. The Department of Finance and Personnel is involved in bringing together Departments to the Executive, where the Ministers who were in attendance agreed to the paper and the Minister's statement. Did the Health Minister, or his Department, make a reasonable case to your Department to challenge the £100 million reduction? If so, did your Department decide to rebut that case, or was the decision taken by the Executive in his absence?

1145. Mr Pengelly: Any and all decisions about public expenditure allocations or reductions are matters that are solely for the Executive. That is the only body with decision-making powers. The role of my Minister is to make recommendations and proposals to the Executive for consideration and approval or rejection. My role is to provide advice to him. Based on our knowledge —

1146. Mr McNarry: Can I stop you there? Was your advice to deduct £100 million from the health budget? Did your Minister make that case to the Health Minister based on that advice?

1147. Mr Pengelly: It would not be fair if I were to talk in an open forum about my advice to the Minister or about the Minister's advice to the Executive.

1148. Mr McNarry: What are you here for?

1149. Mr Pengelly: I am here to explain decisions that have been taken by the Executive.

1150. Mr McNarry: Are we not allowed to scrutinise your decisions and advice? I am only asking whether you advised the Minister to deduct £100 million from the health budget.

1151. Mr Pengelly: I am not sure that my advice has any value or meaning. The reality is that the Executive's decisions are what matters.

1152. Mr McNarry: You are paid well enough that your advice should have value, meaning and respect in the Committee.

1153. Mr Weir: Surely the advice that civil servants give to their Minister is, ultimately, confidential. It is not appropriate to query individual advice.

1154. The Chairperson: Members need to be careful with their line of questioning and comments. Members should have the space to question officials. However, they must decide whether that questioning is inappropriate or appropriate. If it is not appropriate — and I have been advised that it is not — I will have to say that. I want to give members as much space as possible to ask those questions

1155. Mr Pengelly: I have mentioned specific advice to the Minister. Is the question about the case that the Department of Health makes about its position?

1156. Mr McNarry: At some point, a proposition was made to reduce the Health Department's budget by £100 million. That had to then be discussed with the Health Department. What feedback did you receive from that Department apart from the Minister's letter? You said that

one of your jobs in the Department is to talk to your opposite numbers in other Departments. I am trying to determine at what stage the Department of Health made the case with you or your officials on the prospect of its budget being knocked back by £100 million. Obviously you accept that the Department is not going to roll over on that. What was the Department's case? It was either a fait accompli that the £100 million was written in a tablet of stone, or else the Department made a poor case.

1157. Mr Pengelly: Once a proposal is circulated in draft format to all Departments, they respond with their cases against it. It is difficult to say whether any Department made a more compelling case against the proposed reduction. In an isolated case-by-case analysis, virtually every Department, if not all of them, makes a strong case about the importance of what it does. At the end of the day, we are dealing with Departments that are in the business of delivering important public services. That is certainly true for the Department of Health. However, it is also true that all other Departments deliver valuable services to people, often vulnerable people who are in dire need of additional money. Although an individual Department's case may be compelling, it is not about considering them in isolation. The reality is that the Executive had to apply reductions to square a difficult position.

1158. Mr McNarry: I am trying to say that the reduction was £100 million at the beginning. It was not £80 million that went to £100 million, and it did not come down from £150 million to £100 million. I am trying to establish whether there were negotiations when the advice was given to the Minister to come up with those chops. Was that Department told to take it or leave it? There is no flexibility; this is what we are putting to you as one of a number of Departments. However, I will concentrate on the Department of Health. Was the £100 million negotiable?

1159. Mr Pengelly: Everything is, by definition, negotiable until the Executive take a final decision. We start by trying to quantify the extent of the problem at Executive level. It was approximately £367 million.

1160. Mr McNarry: I understand that somebody pointed the problem out to you a long time ago and that you did not believe it. I am not interested in the problem; I am interested in how we deal with it.

1161. Mr Pengelly: Once we quantified the overall problem we then began a process to deal with it, which included seeking inputs from Departments at official level, having substantive dialogue at official level, having ministerial bilateral meetings and exchanging ministerial correspondence. A draft Executive paper was then circulated, and Ministers had further opportunity both to comment in writing in advance of an Executive meeting and then in open discussion. There were quite a number of discussions about the issue at Executive meetings. The position was always fluid throughout that process, up until 17 December, when the Executive agreed the proposal as the basis for public consultation.

1162. I emphasise that it is a proposal by the Executive for public consultation. In that sense, it remains fluid. The Executive will not take final decisions on it until March, when they will lock down the firm expenditure plans for Departments. The public consultation and the consultation with this and other Assembly Committees is still part of that fluid process.

1163. Mr McNarry: I am glad of that.

1164. The Chairperson: On what information do you base your analysis that that amount is what is needed?

1165. Mr Pengelly: In relation to one Department?

1166. The Chairperson: In relation to what you are expecting of any Department.

1167. Mr Pengelly: It is based on a number of factors, including the knowledge that we in DFP accumulate through our day-to-day business and specific dialogue with Departments. We also commissioned a specific input from each Department as to the position in the Department, how the Department would effect a series of reductions if applied to it, and how it says it would deal with an issue. That is supplemented by bilateral discussions between the Finance Minister and the relevant Minister. There are a number of components. It is not a mathematical formula enabling us to churn in some numbers into a machine and get a definitive answer. There is a heavy degree of subjectivity and analysis at both ministerial and official level.

1168. Mr McNarry: Do you take the point that we are here in this Committee — I realise that I cannot push you as much as I would like to — and you have said that all those efforts have been made to prevent what happened yesterday, but they did not prevent what happened yesterday. What happened was a public row between two Ministers of the Executive about the statement and the money. That is now going to run until 2 March, which is when the Minister wants a report back from us. That is why I am asking whether the proposal is written in tablets of stone. If the Minister is saying that he needs £400 million, are we saying that he is getting it? Are we going to be entertained with "McGimpsey had some concessions; he is giving up £60 million instead of £100 million, but whatever else is needed is being taken from the Departments of some other Ministers."

1169. Mr Pengelly: Both my Minister and the Executive see the value of the consultation process, which remains fluid. The concern that my Minister articulated yesterday is that when he goes into periods of external dialogue and consultation he tends to get a series of messages that he should not take so much from Department X or Department Y. That is understandable, but he would see it as a valuable input if he received a report back suggesting a different way of doing it, and that would be tabled by him for the Executive to consider. It remains fluid.

1170. Mr McNarry: Does he have alternatives?

1171. Mr Pengelly: This is the proposal that the Executive have endorsed. That is now progressing through the Assembly structures and the consultation.

1172. Mr McNarry: Then yesterday's row was about nothing.

1173. The Chairperson: Mr Pengelly is not here to answer questions about yesterday's row, but I can understand the point you are trying to make. What analysis and information is the proposal based on?

1174. Mr McNarry: I appreciate your position, but I still think that you are being shielded.

1175. The Chairperson: I am conscious that Dawn has been waiting, Peter.

1176. Mr Weir: I just want to check a couple of factual points. I will not take Mr Pengelly into any difficult territory. For clarification, the position regarding health in this Budget, roughly speaking, £100 million out of the £370 million — which amounts to a little more than a quarter, about 26% or 27%, is that right?

1177. Mr Pengelly: Yes.

1178. Mr Weir: And is the overall share of the Budget given to the Department of Health above or below 50%?

1179. Mr Pengelly: It constitutes about 48% of current expenditure; in capital expenditure it is a bit lower. The best way that we can illustrate the degree of skewing is to split current and capital expenditure. If we took a straight, pro rata reduction off every Department, it would be 2·4%. The reduction for Health is 2·1%. The average for all other Departments, to compensate for that, is 2·6%. Therefore, our Minister's position is that some protection has clearly been afforded in recognition of Health.

1180. Mr Weir: If the £370 million reduction was pro rata, would something around £150 million or £170 million have come off Health?

1181. Mr Montgomery: The overall figure would have been about £140 million or £150 million.

1182. Mr Weir: No one wants to see any degree of cuts, so Health would, at least proportionately —

1183. Mr McNarry: You are coddling. You are kidding.

1184. Mr Weir: Sorry, I am dealing with the facts, David, and the reality is that it is clear that Health has received less of a reduction, in percentage terms, than any other Department.

1185. Mr McNarry: Oh percentages, yes, percentages.

1186. Mr Weir: Health has a much bigger budget. Clearly, we are not in a position to cut £100 million out of some of the other Departments.

1187. Mr McNarry: You are doing very well. You did not take £150 million or £100 million off —

1188. The Chairperson: I cannot hear —

1189. Mr Weir: Hold on a second. Let me clarify the factual position. The Executive meeting has been mentioned, and I accept that the Minister of Health was ill that day. I am happy to take his word for that. He clearly was not there. Does the Department of Finance and Personnel have any indication of whether anybody else was missing during that meeting?

1190. Mr Pengelly: I am not aware of anyone else missing it.

1191. Mr Weir: I think that we are aware that the Minister for Employment and Learning was at the meeting.

1192. Mr McNarry: The Ulster Unionist Minister; is that the point that you are trying to make? Leave the politics out of it, Peter.

1193. The Chairperson: I must intervene. It is not the officials' place to tell members what Ministers were at an Executive meeting and what —

1194. Mr Weir: With respect, I am simply asking a factual question.

1195. The Chairperson: We stopped it the last time, so —

1196. Mr Weir: All right, can I ask a slightly separate question then? The decision to support this Budget was taken by the Executive as a whole, leaving aside who was or was not there. Is that correct?

1197. Mr Pengelly: Yes, that is my understanding.

1198. Mr Weir: And I understand, because I think that there was some reference to a vote not being taken, that, for procedural purposes, a vote is taken in the Executive only when there is a division; is that also correct?

1199. Mr Pengelly: I must confess that I am not that familiar with the procedures.

1200. Mr Weir: However, the understanding is that the Budget, leaving aside the issue of who was missing or present, was agreed by the Executive as a whole, and we are not aware of anybody dissenting from that decision. Is that correct?

1201. Mr Pengelly: Yes.

1202. Mr Weir: OK.

1203. Mr McNarry: No one is disputing that.

1204. The Chairperson: Dawn Purvis has been waiting patiently, and I am going to bring her in now.

1205. Ms Purvis: Does the Department refer to efficiency delivery plans when it advises Ministers on making cuts to their budgets?

1206. Mr Pengelly: We do so as part of our supply role. It may be helpful for Adrian Arbuthnot to speak in a moment about our day-to-day engagement with Departments. However, the supply role is the real point of interface between the Department of Finance and other Departments. Departments publish efficiency delivery plans, and colleagues in supply will look at them on a regular basis. That informs the overall supply perspective on a Department's state of efficiency — how well it is performing on delivering previous efficiencies. That can be a double-edged sword for Departments. If they are delivering on targets easily, we will congratulate them on a solid performance, but there is a risk that we might think that delivery was a wee bit too easy.

1207. Ms Purvis: I want to draw that out a wee bit, because you did issue guidance to Departments on efficiency delivery plans. Did that guidance stipulate exactly which savings would be allowed as efficiencies?

1208. Mr Pengelly: I cannot remember. We issued that guidance a couple of years ago. I think that we tried to define, in broad terms, what we saw as efficiencies, but I am not sure that it was completely prescriptive.

1209. Ms Purvis: Do you think that that guidance needs to be reviewed?

1210. Mr Pengelly: I think that as we move into the next process in 2011-12 and beyond, we will certainly refresh all guidance. We intend to produce comprehensive guidance on all components.

1211. Ms Purvis: You made the point about when a Department does well in delivering efficiencies. The Committee raised concerns that some Departments may deliver efficiencies better than others. DFP undertook to do a review of the comparative impact of efficiency savings on different Departments. Have you carried out that review?

1212. Mr Pengelly: I was not aware that we had undertaken to do such a review.

1213. Ms Purvis: It is in the Committee's report on the Executive's draft Budget. The Department undertook to review the situation with respect to the comparative impact: in other words, that some Departments do well in delivering efficiencies and maybe others do not do so well. Have you looked at that overall?

1214. Mr Pengelly: We continue to monitor how well Departments are delivering efficiencies.

1215. Ms Purvis: Is that done centrally?

1216. Mr Pengelly: Yes, we do that twice a year. We collate information on Departments' target efficiencies, how those are being delivered, whether the efficiencies have been delivered or whether they are on track for delivery, and what the risks are.

1217. Ms Purvis: How do you validate whether efficiencies as opposed to cuts are being made? Do you depend on Departments' information to do that?

1218. Mr Pengelly: Yes. Ultimately, money is being taken off Departments, and they have set out their efficiency plans. In many ways, we look to the Committee structure to ensure that there is a healthy debate. We ask Departments to publish their efficiency delivery plans, so that their respective Committees will apply oversight and scrutiny on that point.

1219. Ms Purvis: Therefore, is your role to centrally monitor Departments' efficiencies by looking at figures as opposed to front line services?

1220. Mr Pengelly: Yes.

1221. The Chairperson: Are there any more questions?

1222. Mr McNarry: I have just one more question. The Minister said yesterday and previously — and I was glad to hear him say it — that he was encouraging the Committee and individuals to initiate a debate on what he was talking about yesterday.

1223. Mr Hamilton: Which we have done.

1224. Mr McNarry: Pardon?

1225. Mr F McCann: The Minister was talking about the Committees.

1226. Mr McNarry: He was talking about a debate, and I am certainly up for a wider debate, hopefully, in the House.

1227. The Chairperson: I am going to speak about whether the Committee should propose a motion for debate after we have finished talking to the officials.

1228. Mr McNarry: OK.

1229. The Chairperson: Richard, paragraph 3.24 of the 'Review of 2010-11 Spending Plans of NI Departments' states: "the net impact is that the Executive faces an overall public expenditure pressure of £367 million".

1230. Will you provide the Committee with information about that in a table, because that statement does not really give us the detail that we could be given?

1231. Mr Pengelly: Yes.

1232. The Chairperson: Also, will you elaborate on what the technical changes mean? It will make it simpler for us when we are doing our report.

1233. Mr Pengelly: Yes.

1234. The Chairperson: Thank you, Richard.

20 January 2010

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 Fra McCann
Mr David McNarry
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Michael Daly
Mr Paul Montgomery Department of Finance and Personnel
Ms Joanne McBurney

1235. The Chairperson (Ms J McCann): I welcome Michael Daly, head of central expenditure division; Paul Montgomery, central expenditure division; Joanne McBurney, central expenditure division; and Fiona Hamill, Treasury Officer of Accounts. I invite you to make some brief remarks before we go to members' questions.

1236. Mr Michael Daly (Department of Finance and Personnel): Thank you, Chairperson. We are here to brief the Committee and take questions primarily on the review of in-year monitoring arrangements. The Minister provided a paper to the Committee before Christmas. It is fairly straight forward in that the report deals mainly with the short-term recommendations that we will implement. That is not to say that there will be a further review of in-year monitoring in the longer term. However, a lot more has to happen. Rather than go through the paper in detail, I am happy to take questions on it.

1237. Mr F McCann: What flexibility do Departments have for addressing pressures from existing budgets rather than relying on the in-year process? What scope exists for providing further flexibility in that regard?

1238. Ms Joanne McBurney (Department of Finance and Personnel): Currently, Departments are allowed to retain any de minimis reduced requirements; that is amounts below £500,000. For anything above that amount, Departments are free to move money within spending areas, which is the level that the Budget document is published at. However, they must have DFP approval to do so.

1239. Movements crossing the spending areas shown in the Budget must go to the Executive if they are above £500,000. Departments are allowed to move money between spending areas if

they can provide evidence that it is a proactive management decision that they have made to slow or stop spending in one area in order to meet a pressure arising in another area. The Executive then approves those as part of the in-year monitoring rounds.

1240. Mr F McCann: The same bids for the same items come up in every monitoring round. Does that show a lack of understanding of such a bid, or its importance? If a Department bids for assistance, it is obviously because it attaches a high level of importance to its request.

1241. Mr Daly: The member touched on the answer. When a Department bids, it is for something that it considers that it cannot meet from its existing resources and it looks to the centre to provide that room to manoeuvre. However, when the Finance Minister makes his recommendations, the Executive have to look across all of the bids that are in. It is inevitable that, although some bids are very important for a given Department, in the overall package put forward in that monitoring round, a lot of those bids will be of lower priority. Hence, the Department will submit that bid again at the next monitoring round, and, if it fails again, it will continue to submit it.

1242. That is one of the weaknesses in the monitoring round that we have spelt out in our paper. It is almost a disincentive for Departments to try to deal with some of those issues internally, because there is always an expectation that they might get lucky at the next monitoring round, so they keep putting in the same bids. Departments will sometimes feel that by taking any steps to address a bid in-year will compromise their chance of getting any further assistance for the monitoring round. That is really about it, it is a combination of those two effects. Unless we have been given the wrong information, a lack of understanding of the bid will not be the reason for it failing, it will be that, in the overall assessment, the bid is deemed to be of a lower priority within the available resources for distribution in that monitoring round.

1243. Mr F McCann: When the Department of Finance and Personnel sees the same bid recurring, does it tell the relevant Department that it is the fifth or sixth time that the bid has been submitted and that it would be better met from within the Department's existing budget?

1244. Mr Daly: The normal challenge role from my colleagues in Supply division would be to bottom out those issues with the Department and try to press it to fund the bids internally. However, if a Minister believes that the bid must go to the centre that is where it comes.

1245. Ms Purvis: Paragraph 1.4 of the paper submitted to the Committee by the Department of Finance and Personnel states that:

"A further issue in terms of the broader financial management agenda"

is, ultimately, to move to a focus on output and outcomes. Did the review find that there was not sufficient focus on outputs and outcomes?

1246. Mr Montgomery: We have noticed that the in-year monitoring process focuses on funding requirements, as opposed to what is delivered. The general perception is that the focus was on the amount of spending that was needed, as opposed to what was delivered and whether there was a better way to deliver than calling upon Executive resources.

1247. Ms Purvis: Was the weakness found in the present monitoring round process the extent to which funding needs do not consider outputs, funding comes first?

1248. Mr Montgomery: It is not that we do not consider outputs. It is simply that the information is either not available in respect of the Programme for Government or that a lot of targets are

not particularly output based and fail to meet the smart criteria — specific, measurable, agreed and realistic.

1249. Ms Purvis: Would one way of looking at that be to include the PSA or the Programme for Government targets in bids?

1250. Mr Montgomery: Yes, that is where it is at.

1251. Ms Purvis: Paragraph 1.4 also states that moving to an outcome-focused:

"will be dependent on departments having adequate management skills".

1252. Is there a skills gap? If so, what is it?

1253. Ms Fiona Hamill (Treasury Officer of Accounts): A strengthening of the financial skills that exist in Departments is required. The Committee will be aware that the Civil Service has come through a radical period of reform over the past 15 years, and there has been a move from a basic cash-base system to a sophisticated financial system. In the initial years, Departments focused heavily on traditional accounting skills.

1254. As that has bedded in, we have recognised that we need to develop the business support financial skills in Departments and the ability to robustly and radically challenge the financial requirements that are coming through Departments. We are working on that and looking in detail at how we can build up those skills. We have recruited one cadre of accountants who have a specific set of skills, and we need to broaden those skills. We also need to develop non-professional skills within Departments. We are working on that programme. We have developed new training, and we will continue to do so over the next couple of years, within the context of the financial environment into which we are heading. We cannot develop high-cost training programmes, because Departments will not have the resources to send staff on hugely expensive exercises. However, we need to start to develop. We want to make financial skills instinctive and ensure that every part of a decision goes through a Department, rather than as it is now, where, it could be argued, the decisions are floating up round the finance function and senior staff.

1255. Ms Purvis: It is a crucial and intense piece of work. In the previous session, Mr O'Loan talked about improving communication between Departments and the Department of Finance and Personnel. If those skills exist in Departments, that communication will be improved.

1256. Ms Hamill: That is correct.

1257. Ms Purvis: Paragraph 2.3 of the report refers to the approach adopted by Whitehall Departments. They keep a reserve in their initial budgets to meet emerging pressures. Is Whitehall or Northern Ireland's system most effective? Is the same approach taken in other jurisdictions?

1258. Mr Daly: I do not know the position in the other jurisdictions, but Mr Montgomery might come in on that. The general feeling around the system at the moment is the question of whether to have monitoring rounds. If we do not, and the Executive want to be in a position to meet emerging pressures, as I said last week, there are two ways to do so. First, we could scale back on the existing programmes, or, in other words, cut Departments to meet that. Secondly, we could hold back a contingency fund at the start. The difficulty with holding back a contingency fund is that, from the outset, there is available expenditure which is not delivering services. It is a question of how much to hold back and how long it should be held back for. Do

you take £50 million or £100 million and hold it back for the entire year? Or, do you start to work it out of the system as you approach the end of the year? If you opt for that, what do you do if you get to the end and something happens?

1259. From talking to officials in other Departments, as part of our ongoing look into the future on the issue, the balance seems to be towards monitoring rounds as a good way to do this. However, as we have discussed at the Committee already, as financial management skills improve and as budgets become tighter, the degree of room in which to manoeuvre that will emerge in monitoring rounds will make it more difficult.

1260. Therefore, we have not made a final decision, but that is the key question: whether to deliberately hold back money that could be better used on the ground. To date, the Executive's view has been to get the money out on the ground or, in respect of using the overcommitment, get more on the ground and work the overcommitment out of the system by the end of the year, rather than what would, in effect, be an undercommitment.

1261. Ms Purvis: Given that there has been a trend towards lower levels of underspend and the need to remove the overcommitment provision, do you think that Northern Ireland is likely to move towards the Whitehall model?

1262. Mr Daly: I do not have a view on that, because I can see disadvantages in it. As I said earlier, it means taking a sizeable amount of money out of the system at the start of the year.

1263. Mr Hamilton: Before reading the paper, I thought that there was a need for a radical reform of the in-year monitoring process. I thought that it could be effective at times, but, at other times, far from effective. By reading the paper and balancing both arguments, I see that it is far from perfect, but we need something like that to continue. You can tinker around the edges to try to make it more effective, but at this time something largely similar to what is there is probably best.

1264. I know that there are process issues and that Departments feel that when they finish one monitoring round, they are into another. There are communication issues, issues with Committees and issues with the scrutiny or, sometimes, the perceived lack of it. There has been criticism that monitoring rounds do not allow for fundamental changes, that bids must be within certain parameters and that it is difficult to adapt to big issues that fall outside the Programme for Government.

1265. Most of the criticism in the past number of years has been that people have perceived that the system is ineffective because it does not allocate large amounts of money. That view does not stack up with the figures because, in the past two years, over £1 billion has been allocated. Most Assembly Members' view of the monitoring rounds is characterised by the past few rounds, which have not redistributed much money. There are many positive reasons for that such as better management of existing resources by Departments and good financial management. Moreover, there are bad reasons such as the fact that pressure on Departments has meant that they must spend all their money. The fact that the Health Department has first call has put pressure on the amount that can be distributed.

1266. However, the biggest problem is overcommitment. If overcommitment is reduced to the point where it does not exist, I assume that more money will be available to distribute. Without that overcommitment, an additional several hundred million pounds could have been allocated through monitoring rounds in the past couple of years. Although I do not know the budget for future years, I presume that that is still the case. If the overcommitment issue is addressed, there will be more money to redistribute. That might tackle that perception that monitoring rounds are not effective because they are not distributing money.

1267. Mr Daly: That is the expectation. We met the Committee last week to discuss the December monitoring round. The prime objective is to reduce the overcommitment to a manageable level. If overcommitment is zero in future years, when resources are declared surplus at a monitoring round, they will immediately be available for redistribution rather than being the first call on an overcommitment.

1268. Mr Hamilton: That is part of the problem; DFP has to store money for winter to tackle the problem and is not giving it out. MLAs and Departments say that the process is no good because they do not receive any money.

1269. Mr Daly: That is it; when an overcommitment is set at the start of the year, there may be a perception in some areas that nothing further happens. However, I assure you that colleagues work actively throughout the year to reduce the overcommitment to zero by the end of the year. That is a difficult process, because one must anticipate the outcome of the next monitoring round and, therefore, a prudent level to get to now. The only information available is the historic information, which, as we know, is not necessarily a good predictor of the future because the scenario changes all the time.

1270. Mr Hamilton: There has been a lack of understanding of the severity of that problem and the difficulty that it poses for in-year monitoring. I hope that, when it is gone, there will be no problem.

1271. Ms Purvis: Given that lower levels have been allocated in recent monitoring rounds, is there a risk that Departments will build that into their budgets so that it is not possible to be sure of the baseline as a true figure? They might feel that, because less money is being allocated, they need to hold onto it and store a wee bit more.

1272. Mr Daly: There is always a suspicion that Departments might be attracted in that direction. However, the other side of the public spending directorate is our supply colleagues. Part of their job is to scrutinise and challenge Departments on their budget position on an ongoing basis. If there is any slack in the system, they try to get a good understanding so we can ensure that those reduced requirements are surrendered at monitoring rounds. That is the purpose of the programme of baseline reviews that they are taking forward at the moment.

1273. Mr Weir: My contribution is more of a comment than a question. An examination is under way to ensure that we get the processes and strategy right.

1274. Looking at the last handful of monitoring rounds, I appreciate that over the last couple of years the public sector has been in a very different position financially as a result of the recession. I welcome the progress that has been made to date. Looking at it in the longer term, I feel slightly guilty about it. For my sins, I was a member of the Finance Committee during the first Assembly. I remember that monitoring rounds at that stage returned, on a quarterly basis, tens of millions of pounds that had not been spent. There was not a proper control over this in the Departments. I do not know whether you were DFP officials at that stage, but on each occasion when those sums, of vast and embarrassing proportions, were up for reallocation because they could not be spent, there was always an alibi or excuse from the DFP officials, to the effect that that quarter was a unique occasion, or the sum excessively high; yet, curiously, the following quarter, it tended to be something not dissimilar. Whatever further work there is to be done, it is good that we are in a process of continuous improvement. A few adjustments should still be made, but we should acknowledge the fact that processes are massively better, both from the point of view of the Executive and the DFP. They ensure that there is a focus on spending money as originally intended.

1275. Mr O'Loan: Thank you very much for your report and useful investigation. I want to say a number of things to which you may or may not want to respond, and they include a degree of questioning. My starting point is that we should have a more in-depth review of the Budget on an annual basis. Had we done that over this three-year period, there would be fewer issues to discuss during the monitoring rounds. If we take an overview of how finances have been handled and the public perception of that, it does not look good. It does not look like a well-managed process; it looks too much like flying by the seat of one's pants. We see mountains ahead, and we must adjust the aircraft to dodge the peaks: that kind of thing. Not every media report is accurate and I do not claim that every politician is accurate either.

1276. Mr Daly: This is being reported by Hansard.

1277. Mr O'Loan: Nonetheless, there is a problem there. I was glad that you exceeded your terms of reference, which were simply:

"to improve the contribution of the in-year monitoring process".

1278. You discussed whether we should abandon the process. I do not agree that you can abandon it. With respect to the previous speaker's comments, there has to be such a process. To allow every Department to hold onto what money it gets and to allow it, when a programme disappears, to absorb the funds in some other activity, does not allow sufficient examination of relative priorities. There has to be such a system. However, I do not think there is sufficient scope for dealing with contingencies. The reserve system, the mechanism for making allocation, the decision of what tests one uses and when that test is applied in-year: all need more thought. The present situation creates very difficult situations and bad perceptions. One will always hit the doldrums such as swine flu, the redundancies at Bombardier and the major issue of carving £370 million out of the Budget for next year.

1279. I have one or two other thoughts. You talked about removing the June monitoring round. You said that its primary function was dealing with EYF. However, if one prepared the annual Budget better, would not EYF be clear at the outset? That issue should be taken out of the equation, and then, eventually, the idea of removing the June round might be considered.

1280. I worry about the amount of money that comes up late in the year, around February, when it may be late to reallocate it well. In the previous session, we talked about the culture between DFP and other Departments. Is the information coming from Departments? Do they flag up the fact that there is a potential problem and that they may not be able to deliver, or does it suddenly arrive on DFP's plate that they are declaring it as a reduced requirement? If so, that is not satisfactory.

1281. We talked in the previous session about zero-based budgeting. I do not have a lot of faith in the idea that we are capable of performing all the analysis required for zero-based budgeting. I wonder if you need an independent review of departmental performance on some sort of selective basis. I am staggered that the report states that bids that are made in monitoring rounds are not assessed against Programme for Government targets. I would have thought that that was absolutely fundamental for prioritisation. Therefore, my overview is that the issue should by no means finish here. We need to give further consideration to the quality of the process and bring a lot more into that debate on the issue of trying to create some reserve to deal with contingencies.

1282. Mr Daly: As I said at the outset, these are the short-term, more immediate recommendations, which we will implement. However, there is an acknowledgement that as we move forward and financial management ability and systems improve, we will have to return to the scenario. I will not try to pick up on all the points that you made because there was quite a

bit there. However, with regard to the June monitoring round, ideally it should be a technical round, which deals with small issues rather than major reallocations. However, in practice, that is not always the case. Last year, there was the deferral of water charges and next year we will have to deal with capital receipts. However, all things being equal, that is what it should be.

1283. As regards the EYF point, although we will know in advance the overall profile of drawdown of EYF, as was the case with the 2008-2011 budget, not all EYF was allocated at the outset. Therefore, there is still a decision to be taken as you move into the year.

1284. In respect of the linking of Programme for Government targets to in-year monitoring bids, that is something that we have in place at the moment.

1285. Ms McBurney: We ask Departments for information on the impact that any bid, reduced requirement or proposed linkage between spending areas will have on their Programme for Government targets. However, you are saying that we need to take that a bit further in the review and have better output-based measures to allow us to develop that, rather than not doing it at all. It simply needs to be developed further.

1286. Mr Daly: I take the point about zero-based budgeting, because its starting point must be whether we even need to bother doing it, so, for example, do we need to have schools or hospitals. Clearly, we cannot simply say that we are not going to have those facilities. Therefore, to a certain extent, programmes on current expenditure will change at the margins, but that marginal change should be related to changes in output and not just a roll forward and something for inflation. However, as regards an independent review, that is the purpose of the baseline review that colleagues are involved in. Selected areas where our colleagues in supply will try to get in beneath the budgets will improve their challenge role to try to ensure that that independent challenge is provided to assist in the improvements in value for money, delivery of output, sufficiency and that sort of thing.

1287. The Chairperson: The Committee has been trying to get a sense of how the review of the 2008-2011 process will inform any future Executive budgeting process. Can the Department offer an indicative date of when it is going to set out its proposals for a future process?

1288. Mr Daly: As the Minister pointed out, we had intended to have the review of the generic budget process done last summer, but, for various reasons that I will not go into now, it was delayed. At the moment, the small team that was working on the review is actively working on the 2010-11 revised budget process.

1289. Once we get that out of the way, my intention is to get that done very quickly. I appreciate that the Committee wants to take delivery of the final position, as it will help inform the arrangements in the Assembly, and although I cannot give an indicative date I hope to have it completed in March 2010. However, before it can be done the 2010-11 process must be completed.

1290. Ms Purvis: A recent Public Accounts Committee report considered the alignment of the PSA in the Programme for Government. Given the focus on outputs and outcomes, are the existing financial systems in Departments and Account NI sufficiently aligned with PSA targets and indicators to provide the necessary management information on inputs, outputs and outcomes?

1291. Ms Hamill: I can speak to Account NI on that issue. However, all Departments now work off the Account NI financial system, which has been built to map across and provide output for the CED systems from financial accounting to public sector spending. How that information is mapped to specific PSA targets is the responsibility of individual Departments, but the system is certainly capable of doing it.

1292. Ms Purvis: The outworking of that remain to be seen.

1293. Ms Hamill: It does.

1294. Departments are really only new owners and developers of the Account NI system, but they will learn the system and how to make it work. I was the director of technical implementation on the programme, and I am confident that it is competent enough to handle that in the medium to long term as Departments learn their requirements and become able to specify their requirements.

1295. The Chairperson: Thank you.

27 January 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr David McNarry
Mr Adrian McQuillan
Mr Declan O'Loan

Witnesses:

Mrs Mr Barry Lowry
Patricia Corbett Department of Finance and Personnel
Mr John Crosby
Mr Paul Wickens

1296. The Chairperson (Ms J McCann): I welcome Paul Wickens, director of the shared services organisation; Patricia Corbett, director of service management; John Crosby, chief executive of Account NI; and Barry Lowry, deputy director of the shared services organisation.

1297. I remind everyone that mobile phones must be switched off as they can affect the recording of the session, which is being covered by Hansard.

1298. I ask the witnesses to provide a brief introduction, which will be followed by questions from Committee members.

1299. Mr Paul Wickens (Department of Finance and Personnel): As the Committee is aware, I was appointed as the director of the new shared services organisation in August 2009. Since then, my focus has been on setting up the new organisation and migrating all the relevant reform programmes and projects into a transitional organisation by the end of 2009. The shared services organisation came into operation on 1 January 2010.

1300. In the transitional period, my immediate priorities have been to ensure that there has been no disruption to customers, to resolve any residual implementation issues and to establish new governance arrangements. As outlined in the briefing paper, a governance model has been endorsed by the permanent secretaries group and advised to the departmental board, and I am aiming to have those arrangements up and running by the end of March 2010.

1301. A key focus in moving forward will be to build customer confidence and to ensure that we make best use of the skills, experience and technology in the organisation to deliver a faster, simpler and more responsive service to our customers.

1302. The Chairperson: Thank you. The Committee will now move straight to questions.

1303. Mr Weir: Thank you for your presentation. It was unlike some of the presentations that the Committee receives in that it was very succinct.

1304. The concept of shared services means different things to different people. Is the focus of the organisation to be frontward facing from a customer interface point of view, or is it principally about sharing and co-ordinating services at a back-office level?

1305. Mr Wickens: The initial focus will be very much on the back-office functions. The six shared services that have come into the organisation are HR Connect, Account NI, IT Assist, the Centre for Applied Learning, Network NI, and Records NI. Those are back-office functions that serve the internal staff of the public sector. It is anticipated, and the business case made reference to the fact, that other services, such as NI Direct, could be brought into the organisation in the future. Such services are more customer-facing. However, there are no short-term plans to do that.

1306. Mr Weir: When I think of shared services, the examples that I have seen, particularly across the water, tend to focus on providing a one-stop shop that offers a range of services to the public. From what you have said about the internal side being concentrated on, that seems to be some way off. Have you looked at the way that shared services operate in the Republic or across the water — in Scotland, for instance — where there have been a number of initiatives of that type?

1307. Mr Wickens: Yes, I have. I have a background of working in that area, but I have also spent some time looking at best practice, not just within these islands but further afield. That has initially involved looking at the back-office functions. I am well aware of the kind of capabilities that we would like to drive towards on the front-office side, but that is not in my remit at this point. It remains within the remit of the Department.

1308. Mr Weir: We are all aware that one of the accusations often thrown at government in Northern Ireland is that there is a lack of joined-up thinking. To some extent, shared services are, from a cross-departmental point of view, supposed to start to tackle some of those problems. One thing that concerns me is that at times there is a dislocation between central and local government. Has there been any indication of sharing information on processes with local government or some way that there could be a degree of buy-in?

1309. It strikes me as being twofold. In relation to the internal mechanisms, shared services in some shape or form must be high on the agenda of local government. I suspect that local government will be looking to see what can be learned from the experiences of central government on how sharing human resources, IT, etc is best done. If you have not done so already, I urge you to try to open a dialogue with local government on that.

1310. In relation to the more customer-focused side of shared services, what tends to operate in other parts of the UK is that there are centres that involve a range of central government services and various agencies but that are also tied in with local government. It may well be that a person is sorting out their social security problems in one part of the building, while a member of their family is getting a dog licence, or whatever it happens to be, in another part of the same building. Has there been any contact with local government? If not, I urge you to open up a dialogue.

1311. Mr Wickens: There is contact on a number of fronts. All the contracts that we have in place and the six shared services that I currently have responsibility for have been set up in such a way that any part of the public sector in Northern Ireland could potentially participate in them. However, we have structures in Northern Ireland that are different from the structures that exist across the water. I have looked at the model in Ayrshire, where there is a good example of a one-stop shop; one building that a person can go into and participate as a consumer of those services. We have had dialogue with the Health Department, which has set up its own business services organisation. I have had regular meetings with the chief executive of the health shared services organisation to talk about its journey forward. I have not yet had any direct dialogue with local government.

1312. Mr Weir: I am conscious that, both with the Minister and within local government, there is an active conversation about the concepts of collaboration and shared services, and whether those should be based on the model of a business services organisation or one of collaboration from the ground up. It seems odd that that conversation may be taking place in a vacuum when work on shared services is ongoing at the level of central government. At the very least, the lessons that you are learning about what to do, what not to do, and how to do it could provide information and experience of great value to local government in considering the most appropriate way forward, and may even put different opportunities on the table that are not there at present. That is more of a comment than a question.

1313. The Chairperson: A big driver of the shared services programme was the need to make efficiencies and the fact that gains could be made in that area. Have any efficiencies been made, and how have those been measured?

1314. Mr Wickens: The shared services organisation was established only three or four weeks ago. You will be aware of the history of the different individual shared services. My initial approach will focus more on the effectiveness of the shared services. I want to spend the first period improving the effectiveness of services such as HR Connect and Account NI, rather than just focusing on achieving efficiencies. It is the old two-dimensional thing: efficiency is one dimension and effectiveness the other. In the short term, the onus is on me to drive effectiveness upwards, because we have most opportunity to do that. I will then look towards what efficiencies can be achieved.

1315. The reform delivery unit has also been moved into the shared services organisation. Its remit is to help the services that I am responsible for and the Departments to realise potential benefits and efficiencies. Part of my role will be to work with that unit to establish a benefits plan for the shared services organisation (SSO). We have not done that yet; we are just starting the journey. A benefits plan is in place for each of the individual services — for example, HR Connect has a benefits plan, as does Account NI. We are working through those plans and have seen some of the benefits, which have been reported to the Committee previously. However, I have yet to create an efficiency plan for the SSO, and I will then look at the opportunities.

1316. One of the business case drivers for creating the SSO was to look at the opportunities for collaboration, sharing and efficiencies. Between now and April 2010, I will be looking at the functions that are common across each of the shared services. The corporate services and business support functions currently exist in separate pockets in each of the services. We will be looking at bringing those together for efficiency gains. However, my initial focus will be on the effectiveness side of things.

1317. Mr McLaughlin: I am a strong supporter of the shared services concept, particularly if it leads to one-stop shop facilities being rolled out across the region.

1318. I will follow on from the questions about efficiency and effectiveness. Last year, the Committee received information about a significant spike in the number of complaints received by HR Connect in the spring of 2009. We learned that more than 600 complaints remained outstanding on 6 May 2009. What is the current number of complaints outstanding against HR Connect, and how many have not been dealt with within the prescribed 10-day period?

1319. Mrs Patricia Corbett (Department of Finance and Personnel): You are quite correct that HR Connect had a real issue with complaints last year, which peaked at 1,200 complaints in March 2009. That very high number of complaints was difficult for us, and it led to the unfortunate situation in which we were unable to respond within the 10 days that we had established as part of the complaints process. I am content to report that there has been a significant change and that the trend has been downward month-on-month. In December 2009, the figure was sitting at 169 complaints. None are sitting outside the 10-day response time.

1320. Mr McLaughlin: That is excellent. The Committee received an explanation that pay over the holiday period was one of the issues that caused the spike. Can we expect that that will not be repeated this year, and that lessons have been learned?

1321. Mrs Corbett: Yes, the lessons have been learned. We carried out an analysis of the complaints that were received and looked at the root causes. Some of those were to do with payments related to temporary promotions and other such issues. We have made changes to the processes to improve the service to customers so that the grounds for those particular complaints have been removed.

1322. Mr McLaughlin: I find that reassuring. The Committee recognised that a major change management process was underway and that it provided a huge challenge. Therefore, it is good to hear such positive feedback.

1323. Last week, the Committee heard that HR Connect had identified capital slippage of £2.8 million for the current financial year due to delays on the part of the contractor. What is the current situation?

1324. Mrs Corbett: The current situation in relation to spend is that we are still within our budget. However, there is a capital slippage. We have surrendered some of the capital, and we will have to bid for it again in 2010-11 and have that matched. The payment process ensures that we pay the contractor only when all the milestones have been delivered, with the purpose of incentivising delivery and ensuring that the contractor is not paid before all of the criteria are met. This has been a complex and complicated programme, with an ambitious level of change in delivery. Therefore, we have been robust in signing off any capital payments to the contractor. As members are aware, we have suffered delay. We have a programme of implementation covering the next year to complete that, and during that period a number of milestones are to be met by the contractor.

1325. Mr McLaughlin: Can you confirm that the contractual arrangements include the necessary leverages or sanctions if there is a failure to deliver?

1326. Mrs Corbett: Yes.

1327. Mr McLaughlin: You said that you will have to bid in the in-year process for 2010-11. Given the pressures that we can anticipate, what are the implications for SSO if those bids cannot be met?

1328. Mr Wickens: We have been in discussion with our central finance function to advise and appraise it. We are not anticipating any issues, but nothing can ever be guaranteed.

1329. Mr McLaughlin: You have not answered my question. There are no guarantees; so, what are the implications if the bid is not met?

1330. Mr Wickens: We believe that the bid will be met.

1331. Mr McLaughlin: You still have not answered my question, which is a straightforward one. If the bid is not met, what are the implications? If the money is not there, what happens?

1332. Mr Wickens: We will revisit it at that time and see what the options are.

1333. Mr Weir: I think that you should be interviewed outside Hillsborough Castle.

1334. Mr McLaughlin: We need a party spokesperson — you would be good at that. [Laughter.]

1335. The Committee may be less than satisfied with your response. However, rather than putting you on the spot, we will follow it up in writing. Let me say that I am trying to support you in doing your job.

1336. The Committee has completed and is about to sign off on a major review of the procurement process, which drew our attention to many issues. One specific issue that I became aware of and brought to the attention of the Committee concerned a local company that runs a very successful business in assembling IT and computer equipment. It is not a branded international company. It has had huge difficulty in selling its award-winning equipment to the government in the North. Generally, in view of the evidence produced to our inquiry, we think that potential suppliers in our own region have difficulty finding an open mind or an effective point of contact in government, through which their systems can be assessed on an objective basis for potential use in the wider Civil Service. How will IT Assist work? It is in the interest of us all not only to get the best IT equipment but to encourage that type of local expertise and to develop it in the interests of the wider economy.

1337. Mr Wickens: I spend quite a bit of time taking meetings with representatives from different IT companies. My background is in the IT sector in Northern Ireland, and I may well know the company to which you refer. I am not sure, but I may even have met with its representatives. I have been taking a number of meetings with local representatives.

1338. The challenge is that we are in a tight set of economic constraints. We have shared services, with fixed parameters around that. It would be nice to bring other things into that, but we cannot go out and buy things on a whim. However, we give local firms the opportunity to present us with ideas and to challenge some of our thinking by asking whether we have thought about doing things differently. We have given them the opportunity to do that, and we will continue to do so.

1339. Mr Barry Lowry (Department of Finance and Personnel): We are bound by European legislation, and we must compete through the Official Journal of the European Union. The issue with IT Assist is scale. We have 18,500 customers. If we change one fifth of the PCs every year, that requires a contractor with the capacity to provide more than 3,000 computers in one year. That presents a greater opportunity for the more high-profile companies. The companies that are contracted to IT Assist all have a local presence and employ people locally. As I am sure you know, Eircom set up premises in Northern Ireland and is now a major employer in the IT industry here on the back of getting the Network NI contract. So, opportunities do come out of the IT Assist procurement process.

1340. Mr McLaughlin: I will not go into the detail of individual cases as that would not be appropriate, but the conundrum is that there are examples of companies that export and sell abroad but cannot sell to the local Administration. Some of those companies receive international excellence awards, and they can sell internationally but not to our government. That issue may have some cultural implications. We are entitled to expect that people would be prepared to be open-minded about local enterprise.

1341. Mr Wickens: I agree. Having been on the other side of the fence trying to penetrate the public sector, I know that it is a challenge. There are two sets of opportunities. One is for proof of concept pilots, where that is possible, through our colleagues in the delivery and innovation division. We tend to involve them in our meetings with company representatives. The other opportunity, which we strongly encourage smaller companies to take advantage of, is to meet and team up with the lead suppliers in each of the major shared services. Those are major, long-term projects. As we change policy, procedures and the way in which we do things, it will generate change control. That is a positive rather than a negative side of change. That may spin off opportunities for the smaller company. So, we have brokered some introductions to the larger suppliers and suggested that the smaller companies speak with them about potentially finding a way in through that route. There are ways of getting in, and those are the two main ones.

1342. Mr McLaughlin: Thank you, and best wishes with the SSO concept.

1343. The Chairperson: The Programme for Government also makes reference to the way in which public procurement could be used for the benefit of the economy. That is an important point.

1344. Mr McNarry: Before I ask some general questions, can you tell me who is responsible for supplying equipment to my constituency office?

1345. Mr Lowry: It depends on how it is procured. The Assembly is responsible for supporting Members at constituency office level and within Parliament Buildings, so it depends on the contracts that the Assembly has set up. I believe that the Assembly tends to use the same contracts as the rest of the Northern Ireland Civil Service, which are the PC/printer framework agreements.

1346. Mr McNarry: Does the SSO have any say on that?

1347. Mr Lowry: No, the SSO is not currently contracted to support the Assembly. The Assembly has its own internal ICT support function.

1348. Mr McNarry: I would be pleased if you could take a message back to them: the equipment that they supply is lousy. It simply does not work and is unreliable. If you are thinking of taking up any of that equipment and giving it to some other unfortunate souls, then take that as a danger warning.

1349. Mr Lowry: We have a close working relationship with the Assembly ICT support staff —

1350. Mr McNarry: They must not be telling you the whole truth and nothing but the truth.

1351. Mr Hamilton: Are you pressing the right buttons, David? [Laughter.]

1352. Mr McNarry: If I was pressing any buttons, it would be blowing up. [Laughter.] It is not me doing it, but it always seems to happen at an urgent time.

1353. The briefing paper states that the aim of your organisation is:

"to establish arrangements for managing shared services that will ... enable the specific skills and expertise in, for example, contract and supplier management, to be deployed more efficiently and effectively."

1354. That suggests that there is room for improvement, and I think that we all agree that it needs to be more efficient and effective. Can you explain which specific skills and expertise you are talking about?

1355. Mr Wickens: When I wrote the briefing, I had in mind that the individual shared services, all of which started at different times and different places, are the subject of separate procurements and individual contracts that are running for separate periods, and we are now trying to bring them together into one organisation. In the major services, such as HR Connect and Account NI, there is a contract management team and a service management team in each individual silo of services. The opportunity exists to bring them together and help them to collaborate. That is not a criticism of what is there today; it is seeing an opportunity to combine best practice. For example, Account NI could learn something from HR Connect, which, in turn, could learn something from IT Assist. In the future, we should perhaps create a contract management team that is responsible for all those bodies.

1356. Mr McNarry: Does getting to that point involve procurement policies?

1357. Mr Wickens: No, it does not. A lot of this should be invisible. It should take place behind the scenes, without disruption to the customer. Effecting change in the shared services organisation is a purely operational issue.

1358. Mr McNarry: That seems reasonable. I apologise because I have to leave soon; other things are happening at the moment. Is the Account NI system sufficiently aligned with the Programme for Government and PSA targets and indicators to provide the necessary management information on inputs and outcomes going forward?

1359. Mr Wickens: I will ask John to say something more specific on that. However, on a general level, the two biggest areas of opportunity for improvement — there are always areas for improvement — involve the 10-day prompt payment time and the management information. At the moment, we are focusing specifically on the quality of management information and how we produce it. That has fed its way up through the various governance structures that are already in place. We have taken some specific actions to review what we can do to make that better. It is recognising that.

1360. Mr John Crosby (Department of Finance and Personnel): Account NI provides a set of tools, and all Departments now have the same toolset for managing finance, making payments and managing procurement. As a result of us bringing that all together under one foundation, better information on spend on certain items or with particular suppliers will be available to central agencies such as the Central Procurement Directorate. The final two Departments went live in July 2009, so we have not had a full year of operation yet. We are basically a toolset that Departments can use to deliver on their obligations.

1361. Mr McNarry: Can you produce any evidence that, to date, your actions are having a positive impact on forecasting and monitoring by Departments? How might your system facilitate the use of alternative approaches to budgeting, such as zero-based or performance and output budgeting? Are you there yet?

1362. Mr Crosby: We are not there just yet. However, we will develop a consistent basis of financial information on what is happening in all Departments. That is not readily available or available centrally.

1363. Mr McNarry: Are you worried about being blamed somewhere down the line because the system is wrong? We cannot get enough information out of this Department at the best of times. At least you are talking to us. Other officials sit there and tell us nothing. Are you confident that this system will allow this Committee and other Committees to say to officials directly that a system is in place and they no longer have excuses? When will I be able to tell them that they cannot make excuses or pass the buck down the line?

1364. Mr Wickens: We are still at a very early stage of the journey; that is perhaps not the answer that you want to hear.

1365. Mr McNarry: It is not.

1366. Mr Wickens: I understand that. We have to get a full year's operation under our belt. We have still to get some of the residual implementation issues ironed out in some areas. We continue to talk to our colleagues in finance to understand what they require of us on the budgeting and forecasting side. There will always be the opportunity to change some aspects. We achieved contract performance point only when we signed off delivery in October and November 2009. In that respect, we are at a very early stage.

1367. Mr Crosby: There are two elements to forecasting. Forecasting is driven by what is happening in a Department and its business pressures and the direction in which the customer-facing services that it is delivering are heading. We can provide quality information on what has happened in the past to help inform the future. The business direction that a Department takes is outside our remit.

1368. Mr McNarry: We must improve on forecasting, because it is so important. You could not run a business without being able to forecast. You might get it wrong or you might get it right. I wish you well with your work. I am impatient — if you are more efficient, you might do it in nine months rather than 12 months. I note that you are nodding. Does that mean that you will do it in nine months?

1369. Mr Wickens: I am thanking you for your best wishes and hoping that we will be more efficient.

1370. Mr McQuillan: I want to concentrate on HR Connect. You said that there are 169 complaints outstanding. Will you give us a flavour of those? I know that they have been replied to within the 10-day response time. When the system went live, our constituency office was inundated with complaints about HR Connect.

1371. Mrs Corbett: You are absolutely right. It was a rocky time for all of us when the payroll went live in November 2008, because there were so many nuances around the terms and conditions for payroll for civil servants. Translating those into a new IT system, training staff in the Departments, and training our employees on how the new solution would work and how the shared service centre would operate was a very complex task, and we went live with a "big bang". We were dealing with 27,000 civil servants at once, and some things did not work. We wholeheartedly admit that.

1372. There are still elements that we are improving, and we seek to continue to improve. The bulk of the complaints related to payroll, and that continues to be the case. We have received complaints about some other services. I do not have the breakdown on that, but I can get that

information for the Committee. The final point of escalation for any complaints that are not dealt with satisfactorily by the shared service centre is me. Those have been few and far between. Only four or five complaints, all of which related to payroll, have been referred to me in the past few months, and they have all been resolved.

1373. I can understand why employees got so frustrated with the process and made a complaint. They were not getting the responses or the answers that enabled them to understand why the issue had arisen. It took time for us to work with the shared service centre staff to explain why our policies work the way they do and why somebody was overpaid. If the service overpays somebody, our policy states that we must recover that. Most employees who have been overpaid do not like that money to be recovered. We had to go through all those details.

1374. I must say that the situation has settled down considerably. When we last gave evidence to the Committee, we reported that we were imposing abatements on the contractor for failure to deliver on the payroll. The payroll service is now reaching a level of high satisfaction and achieves 98.5% accuracy. Obviously, our target is 100%, but the threshold is 99.9%, so we are very close to that.

1375. Mr McQuillan: So the situation really has improved.

1376. Mrs Corbett: Yes.

1377. Mr McQuillan: Paul, I want to ask you about efficiencies. I know that the SSO was set up to create a one-stop shop. However, surely you had one eye on efficiencies while you were doing that. I am a bit alarmed to hear you saying that there is no plan in place to create efficiencies. Have you looked at that at all?

1378. Mr Wickens: Let me be clear: I am focusing on effectiveness as the biggest driver. It is incumbent on us to continue to focus on improving the effectiveness of HR Connect and the other services. We have the reform delivery unit, and we will be creating a specific benefits realisation plan for the whole of the SSO. We will then look at efficiencies in that context. I am not saying that we are not going to have efficiencies. However, if you were to ask me which of the two is the more important, I would say effectiveness first and then efficiencies.

1379. Mr McQuillan: I agree with that. However, I would prefer it if you had a plan in place at this early stage that will allow you to create those efficiencies.

1380. Mr Wickens: We have a workshop planned to plan the planning of the benefits.

1381. Mr McQuillan: Therefore, the plan is at the planning stage.

1382. Mr Wickens: Yes.

1383. Mr McQuillan: I look forward to hearing how that is going.

1384. Mr O'Loan: The three areas that I was going to ask about have been touched on already, but I wish to ask a bit more about them.

1385. Like Mitchel, I support the move towards a shared service, and I think that we can get, and probably have got, better service at a lower cost. However, I am unclear about what the superstructure contributes and, indeed, why it is necessary at all. The six areas of work are all very different. For example, the work of Account NI is very different from that of HR Connect. What will putting in an extra tier of management contribute? John Crosby, who runs Account NI,

is here with us. If he is doing his job, he will be looking at the quality of the systems and IT mechanisms and, on his own initiative, setting out to make comparisons with, and to learn from, other organisations in the Northern Ireland Civil Service and elsewhere. What size is the superstructure at the head of the organisation? What extra benefit does it contribute?

1386. Mr Wickens: I am the difference; I am the one additional head. The Department released another grade 3 post and created this grade 3 post. Therefore, as far as the Department is concerned, the net impact is zero. The overhead, though I would not call it that, is one role.

1387. Over the past couple of months, I have been looking at the three distinct areas that exist: finance services, HR services and IT services. Combining into those three common areas provides us with an opportunity. Currently, there are three separate and distinct services in the IT services area: IT Assist, Records NI and Network NI. We would move those three services to be under one head of IT services. Account NI would be the one finance service under a head of finance services. A head of HR services will incorporate HR Connect and the Centre for Applied Learning. There are synergies already, but that is only stage one.

1388. Rather than saying that Account NI can do its own things in its own way and sort out its own problems, we have talked about synergies in contract management and the opportunity to lift units out and to gain efficiencies as well as benefits from that: that is stage two. There are also opportunities in the area of service management. We have separate service management teams in each of the three distinct areas. We have three separate help desks. We have talked about the concept of a one-stop shop that faces outwards through NI Direct. I want to work towards the concept of a one-stop shop that faces inwards. At the moment, people have to phone one number with an IT query, a different number with a HR query, and another number with an account query. Each of those three areas has a separate team, with resources and technologies underneath that.

1389. There are areas that we can look at over the short to medium term in which we can drive really good efficiencies as well as effectiveness. Best practice in the rest of the world, in the private sector primarily but also in some aspects of the public sector, is to create a mixed tier of multifunctional shared services organisations to give synergies and opportunities. It is not an overhead. It is an opportunity to drive out efficiencies and to increase effectiveness in what we can deliver.

1390. Mr Crosby: We are making the move to shared services with the staff that we have already. We are bringing in people from the three existing streams. In Account NI, I have staff members who are involved in central services such as communication and dealing with freedom of information requests and providing support for IT and personnel. I have premise managers, for example, who look after the building. Barry and Patricia also have staff doing those things. One team could do all that for all of us, and we could release people from those central back-office functions to help support front line services. It is about redeploying people, creating a better balance and cutting the organisation's overheads.

1391. Mr O'Loan: I accept what you say.

1392. I welcome what was said about the level of complaints about HR Connect. What is HR Connect's reputation now throughout the Civil Service?

1393. Mr Wickens: There have been a number of customer and staff surveys in relation to HR Connect. The reputation of HR Connect was severely damaged at the time when the level of complaints was a lot higher than it is today. It is unfortunate that some of those surveys, which were based on the reputation at that time, did not report until near the end of the year. We

continue to see an improvement in reputation, but we recognise that there is a long way to go, particularly on the HR Connect side of things.

1394. I have told the permanent secretaries group that my theme for the year is around customer experience, which includes effectiveness. Improving my customers' experience of the services that I deliver must be this year's number one theme. Specific plans are in place to address that and to communicate to staff what we are doing and, more importantly, what we are not doing. A new piece of technology is often expected to be a panacea. It is important that we tell people that there are some things that we will not or cannot do. We are revisiting that to drive increased reputational opportunities for us.

1395. Mr O'Loan: There were teething problems as each wave of Departments and agencies joined Account NI. What progress has the Department made in smoothing out all of that? Will you be more specific on how the 10-day payment is being managed? Do you have any figures on that?

1396. Mr Wickens: About 55% of payments are being made within 10 days. I would like to see that proportion be increased.

1397. Mr O'Loan: That figure seems unsatisfactory.

1398. Mr Wickens: We have specific plans in place to look at what we, as an Account NI service, can improve, and what we can do to help Departments improve what they do, because there is also a lot of departmental responsibility. Simply having a new system and an Account NI service does not automatically mean that all the work and pain is taken away from Departments. Work remains to be done on their side.

1399. We have also been spending quite a bit of time communicating outwards to suppliers, because we find, for example, that 70% of incoming invoices are still directed to Departments. We need them to be sent to the Account NI service. There is a major opportunity to increase and improve that process, and we are working with the Departments, suppliers and the Institute of Directors to do so. John Crosby will pick up on the other part of the question.

1400. Mr Crosby: It is important to recognise that the 10-day payment target is very challenging. Account NI was designed and resourced to meet the statutory 30-day payment terms. That is what we were in the business of doing. Account NI was set up to take payment terms so that public money was better managed. That all happened pre-credit crunch, when, traditionally, the public sector was not taking payment terms. Given 30 days to pay, a private organisation would typically make a payment close to that limit, rather than right away. As Paul has said, there are three elements involved: the way that suppliers have adapted to the new processes, the way that Departments have adapted, and our bit of the process. 10 days does not allow much time between supply and payment.

1401. It is also important to remember that we do not pay every invoice that is sent to us; invoices must be properly authorised, approved and so forth. There are very often issues around that, particularly if the invoice that we receive does not match the original purchase request. It is easy to match an invoice for the purchase of three tables at £100 each, because the invoice will match the items. However, where there are variations between the invoice and the original purchase request — for example, someone has added carriage or postage and package that was not authorised at the outset — extra processes are involved to account for those variations and to get them approved.

1402. A lot of purchasing is quite complex, particularly in the Departments that have recently joined Account NI — the Department of Agriculture and Rural Development came in on 1 April

2009 and the Department of the Environment and Department for Regional Development in July. For instance, a purchase may involve a load of stones, the cost of which cannot be provided until the lorry has been on a weighbridge. There are variations, and processes must be gone through to make sure that what we are being asked to pay is approved by the Departments.

1403. As Paul said, we are working our way through that with suppliers through the CPD website, with the Institute of Directors, which had a "business clinic" article in last night's 'Belfast Telegraph' that advised suppliers how best to get their invoices paid quickly, and with our own resourcing to maximise that.

1404. Mr Wickens: It may reassure the Committee to know that I have met all the Departments individually to discuss all the services. Furthermore, I have chaired the last three meetings of the finance directors group to understand the way in which the finance directors operate and to pick up the specifics for Account NI. Indeed, it is encouraging to see the proactive contributions that finance directors from 11 disparate Departments make. There is a good working environment, and they are very much on top of the issues. They want to work with Account NI to hold us responsible from that side of the fence, and the arrangement is working quite effectively.

1405. On the 10-day payment, there is an element of debate about whether checking and approval times should be part of the process. We are being deliberately severe on ourselves because, otherwise, we cannot drive up excellence. Therefore, in the short term, we will continue to measure on the basis of all the parameters, including the checking and approval part of the process, which may not be what other sectors here or across the water would do.

1406. Mr Crosby: We could present a much higher figure if we excluded disputed invoices or invoices that had not been sent to the right place or had gone to a Department before coming to us, but, given that the process is new for everybody and that we want to drive out the issues in order to get to the heart of them, we have chosen not to do that.

1407. Mr O'Loan: We should recognise that fact. You have dealt with the teething problems issue that I asked about.

1408. Mr Crosby: I will pick up on that in a bit more detail. Wave 1 was due to go live in November 2007, but it was delayed by a month. It was with stabilising wave 1 that we had the teething problems. In spring 2008, we decided not to proceed with wave 2 as planned on 1 April 2008, but to defer it until July 2008. After that, the rest of the waves came in on time. The contractor met all contractual responsibilities in October 2009, which was the contract performance point. So, we have the tools.

1409. Mr O'Loan: David McNarry asked about Account NI's strategic contribution to the budgeting process. As I understand it, you contribute base information, but the more strategic budgeting issues are not your purview, and it is for others to take that information and use it as they will.

1410. Mr Crosby: Yes, that is right.

1411. Mr Wickens: It is also for us to work closely with the policymakers. Obviously, policy will dictate what we deliver, but there is an opportunity for us to work with the policymakers and to influence that policy. Sometimes, a small policy change can make a big difference to delivery, without compromising things.

1412. Mr Crosby: Some of the information that Account NI will produce will improve procurement further down the line because that information will be better. It is difficult for the Central Procurement Directorate to know who the major players are or what the major spend is

at present, because all Departments have different charts of accounts, so the information on how much we are spending on, for example, stones is not readily available.

1413. Mr O'Loan: If you were asked to distinguish in your accountancy system between what is or is not front line spending, could you do so?

1414. Mr Crosby: Yes, in so far as we record expenditure according to how Departments code it.

1415. Mr O'Loan: So, it depends on how Departments code it.

1416. Mr Crosby: Yes. It is coded against the budgets.

1417. Mr O'Loan: For instance, is the person who manages appointments in an out-patient facility deemed to be a front line resource?

1418. Mr Crosby: That is a question for the budget holders and those who allocate money to Departments.

1419. The Chairperson: Thank you very much for coming along. The detailed discussion was helpful.

11 February 2010

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 Fra McCann
Mr Mitchel McLaughlin
Mr David McNarry
Mr Adrian McQuillan
Mr Declan O'Loan

Witnesses:

Mr Sammy Wilson The Minister of Finance and Personnel
Mr Michael Daly
Mr Richard Pengelly Department of Finance and Personnel

1420. The Chairperson (Ms J McCann): I welcome Minister Sammy Wilson, Richard Pengelly and Michael Daly.

1421. Several pieces of correspondence are included in the Committee packs for members, including the Minister's statement to the Assembly on the review of the 2010-11 spending plans, the accompanying consultation paper and a copy of the response from the Confederation of British Industry (CBI) to the spending plans. Are members content to include that paper, which we did not receive in time for yesterday's meeting?

1422. Members indicated assent.

1423. The Chairperson: Minister, perhaps you could make a few opening remarks, and I will then open up the meeting for questions.

1424. The Minister of Finance and Personnel (Mr S Wilson): My introductory remarks may be a bit repetitive, but they set the scene. We have gone through the spending plans a couple of times in the Assembly, and I know that the Committee has gone through them with officials, too.

1425. On 12 January 2010, I set out the Executive's proposals for the review of the 2010-11 spending plans. Although in the previous two years the Executive have been able to address emerging pressures through the in-year monitoring process, last summer, I took the view that the amounts involved for 2011 were simply too large and that early intervention was needed. For that reason, I initiated the review of the 2010-11 spending plans.

1426. The Executive face a large number of pressures and easements next year. The main issues are water charges, the level of overcommitment and the equal pay claim.

1427. The original funding applications to the Northern Ireland Departments for 2011 were based on domestic water charges being in place next year. However, following an agreed deferral by the Executive in November 2008, charges will not be introduced in 2010-11. That will save the average household around £400 next year. However, the net cost to the Executive will be £119.7 million in current spending and £93.3 million in capital investment.

1428. The planned level of overcommitment for 2010-11 was £60 million, down from £100 million in 2008-09. In light of the progress that has been made — I am glad to see Departments spending their full allocations — it was decided to reduce the level of overcommitment to zero. That is not a failure. It should be regarded as a success in so far as Departments can now look at the Programme for Government (PFG) and the commitments that they have made in it and, rather than underspend, spend in accordance with the programme. The result of that is, of course, that we cannot rely on an overcommitment at the end of the year. However, the good news is that, if we reduce the level of overcommitment, we will have greater scope to address emerging pressures as part of the in-year monitoring process, because we will know that we do not have to look to end-year overcommitment.

1429. The formal proposal on the equal pay claim was made to NIPSA in November 2009. It was overwhelmingly accepted, and my officials are consulting on the logistics. We hope that payments will be made as soon as possible. There is a gross cost to the Executive as a one-off payment, which is expected to be in excess of £160 million. We put down that it would be within the range of £155 million to £170 million, and I explained why there cannot be a definitive figure at present. That will be offset by the £100 million of support that was negotiated by Nigel Dodds in 2008.

1430. Other minor figures are outlined in the review of spending plans booklet, but the total cost of all the pressures and easements facing the Executive will be £217.1 million in current spending, which is 2.4% of the 2010-11 Budget, and £149.9 million of capital investment, which represents 10.2%. That is lower than the level of funding left unspent by Departments at the end of 2005-06, when there was a £378.1 million underspend. Although a large amount of savings will be reallocated to other public services, there will be only marginal changes in the overall level of planned spending in Departments. The tables in the booklet provided to members show that the net impact on total capital spending is minimal.

1431. Capital receipts was the one area on which the Executive agreed to defer formal consideration until the 2010-11 in-year monitoring process, and that was because of continuing volatility in the property market. Slippage is expected in the Royal Exchange project, which falls under the remit of the Department for Social Development (DSD), and in the waste management

project, which falls under the remit of the Department of the Environment (DOE). That slippage is expected to provide enough scope to offset most, if not all, of the shortfall in receipts.

1432. The other element in the Budget was the invest to save fund. Although there were immediate issues to address, I am also critically aware of the public expenditure constraints that the Executive will face in coming years as the Government seek to reduce borrowing to a more sustainable level. Although the position remains unclear, the most likely outcome for the Executive is flat cash, or, to use the Prime Minister's term, 0% growth — I am not too sure how you get 0% growth — in current spending and a reduction in capital spending.

1433. In response to that, I established a £26 million invest to save fund to provide Departments with upfront investment, which is often needed to deliver savings. To date, about 60 proposals have been received from Departments. Those will be assessed on the amount of savings compared with upfront costs, and on quality and deliverability. We have to make a judgement on those, and I will announce the details of the allocations to Departments from the invest to save fund when finalising the revised plans for 2010-11.

1434. The Executive examined a range of alternatives to achieve the savings required for 2010-11, but the only realistic option was to reduce existing budget allocations to Departments. In order to maintain the maximum delivery of front line public services, the Executive agreed to a targeted approach, with the Department of Health, Social Services and Public Safety (DHSSPS) having the lowest percentage savings target for current expenditure at 2.1%, and the Office of the First Minister and deputy First Minister and the Department of Culture, Arts and Leisure (DCAL) having the highest at 5%. I am sure that you will understand, Chairperson, that that will be dead popular with my party colleagues who are Ministers in those Departments, but the decision was based on sound judgement and on the information available.

1435. In deciding upon the level of savings for each Department, consideration was given to the broad range of contextual factors, which included evidence of inefficiency and spending performance in recent years. The Departments were also asked to provide an indication of the actions that they would take to deliver an upper limit of savings. That formed the basis of the initial recommendations to the Executive, which were subject to significant discussion among Ministers and special advisers before we arrived at the proposals that were agreed on 17 December by the whole of the Executive.

1436. Inevitably, there will be calls for one Department or another to be asked to deliver a lower level of savings or, perhaps, none at all. However, that would require additional savings to be made in other Departments. The main call has come from DHSSPS, but, given that the other Departments account for only 50% of the Budget, it would not have been practical to impose all of the changes on that 50% of the Budget. That was simply not a workable solution.

1437. As far as the consultation process is concerned, I hope that the Committee will appreciate the need for the final revised spending plans to be in place before the start of the new financial year. As I have already put on record, I would have much preferred the entire process to have been completed before Christmas. Unfortunately, however, that means that there is only a limited time available for consultation with the Assembly, although a number of interesting points were made during the take note-debate on Tuesday.

1438. To facilitate the process, I have published a consultation document that sets out the changes in the public expenditure context and the Executive's proposed response. I have also asked my Executive colleagues to publish further details on how they intend to deliver the additional savings that were proposed by the Executive for their respective Departments. During the take-note debate, I said that I was disappointed with the lack of progress in that respect. I

have written recently to Ministers to remind them of the importance of transparency in the consultation process.

1439. I am most grateful to the Committee for the role that it plays in putting forward its views on the Executive's spending proposals as well as in co-ordinating the responses from other Committees. I understand the difficulty that the Committee has in co-ordinating the responses if the other Committees have not yet received the necessary information from their Ministers. I also appreciate the logistical challenges that are involved. I would be most grateful for a response from the Committee by the end of February — I hope that you will keep members in to get that done, Chairperson — or as soon as possible afterwards in order to allow the Executive to consider fully the views of the Assembly.

1440. Before I take questions from members, I must stress that the draft revised plans at Executive and departmental levels are only proposals at this stage. I do not believe that my ministerial colleagues and I are all-knowing in respect of every single aspect of the work of Departments and the impact on the people of Northern Ireland. Therefore, we are open to any suggestions as to how savings could be made in a different way to that which is being proposed by our individual Departments. I am most interested to know whether the Committee has any views about which Department, or Departments, should be asked to deliver more savings in order to reduce the amount that is required of another.

1441. There is also the question of reducing the level of overcommitment to zero and the invest to save fund. Does the Committee think that the Executive should go further, given that that would require further savings to be made? Those are some of the issues on which I would certainly be pleased to hear the Committee's views. For the rest of this meeting, I am quite happy to take questions. I hope that, if I do not have the answers, my officials will.

1442. The Chairperson: Thank you very much. The Committee has heard evidence that there should be a more strategic approach to efficiency savings. The people who are in the most need in our communities should not bear the brunt of those efficiency savings. Front line services should not be affected. The Committee has heard evidence from witnesses that, rather than top-slice budgets within individual Departments, a more strategic approach should be adopted. That is the view of the Committee, too.

1443. The Minister of Finance and Personnel: I am pleased that the Committee endorses the approach that we have taken. We do not want to top-slice because it is not strategic in any way. There is some difficulty. The only instruction that we can give to individual Ministers is that we have adopted a strategic approach at Executive level; it is up to Ministers to respect those judgements at Executive level by ensuring that savings are directed, as far as possible ? it may not always be possible ? to areas that do not affect front line services. They could consider more innovative ways for Departments to do that.

1444. We can provide the top-level strategic guidance, but it comes down to Ministers. Committees can probe Ministers' plans to ensure that they do not simply go for the headline-grabbing cuts, as some of the more cynical ones might decide to, or for options that they know the Committee will refuse to accept, hence creating pressure that cuts should be made in other Departments. That is a departmental management problem, and it is the Committees' job to probe to ensure that Ministers do not behave in that way.

1445. Mr McLaughlin: You are very welcome. At the outset, I want to say that this is a very challenging exercise; the Minister has made a fair fist of it. There is no point in picking at it unless we have the feedback from the other Departments. There may be some issues.

1446. The Minister made a valid point about getting advice and assistance from the Committees, and he mentioned innovative ideas. In an ideal world, that type of synergy might exist. We might be moving in that direction, but these plans were prepared during the maelstrom of negotiation and questions about whether we were facing an election. It would not be surprising if some people were keeping their powder dry and if we have not seen the colour of their money. You, as Minister, had to take the lead and make decisions, and that is exactly what you have done. It is now up to Departments to respond. I hope that, when developing our composite response, we will have the benefit of detailed consideration from individual scrutiny Committees. It is a collaborative process, inherently at least, but it does not always work out that way.

1447. I will talk about process for a moment. During the take-note debate on spending plans, I said that there needs to be more access to achieve that type of collaboration and ownership in the budgetary process. People do not have the information and are driven back into partisan perspectives. That does not make it easier to identify innovative responses to challenging economic circumstances or come up with mature and well-considered arguments because there may be a need to challenge ministerial proposals. That could be entirely valid but, more often than not, a partisan or party political perspective impinges on the process. The Minister should seriously consider how the Budget process can be opened up to the Assembly and when that can happen. In the timeline that has been outlined, we will struggle to provide an adequate consultation process. We will do our best, and the other Committees will respond to the deadline that we have had to impose. However, it is not the best approach.

1448. The performance and efficiency delivery unit (PEDU) is a very good idea. I am concerned that we have not sold its benefits to individual Ministers. PEDU can bring expertise and assistance to those Ministers, within their own autonomy and departmental operational authority. Departments should be open their hearts as well as their books to PEDU; that message has not been delivered. That would help the Assembly to respond adequately and in the best way to the ongoing economic challenges in the period ahead.

1449. The Minister of Finance and Personnel: Thank you for your remarks about the process. As I said, I do not regard the proposals that I bring forward and the judgements that we make as all-knowing because, of course, I cannot be on top of the detail and issues of every Department. That is why the entire exercise — the Executive making a decision, it going out for consultation to the Committees and the Finance Committee collating the responses — is very important.

1450. I understand your point that that takes time. One of the reasons why I first took the paper to the Executive in September was to try to allow for a longer process. The last thing that I wanted was to make a statement in January and to have a report by the end of February. I take the point that the member has made. I am not going to blame anybody, but this paper did not get to the Executive for three months. For that reason, there was a delay in the whole process. Through the Agreement at Hillsborough Castle and the working group that has been set up, we are trying to find out how we can get papers through the Executive more quickly so that the kind of work that Committees need to do can be done and so that we do not end up with some Bills being given accelerated passage when they should not be — as has happened with some Bills in the past. In that way, we can avoid having a truncated process for this very important issue, which should be the subject of a lot more debate.

1451. I hope that, in providing information, we have been as transparent as possible in outlining the pressures that we face and the easements that are available and that we have explained how we intend to deal with those issues. I hope that we have explained that if we are not dealing with some issues now, we will deal with them later. I hope that we have explained that we have delayed dealing with some issues, such as capital receipts, because of the volatility of the market, and so on, but that we are fairly certain that we can deal with them as part of the in-year monitoring process. I also hope that we have explained that we felt that we had to take

the approach that we did because in-year monitoring would no longer be a suitable vehicle for dealing with the level of pressure that we were experiencing.

1452. If there are requests for other information, I am more than happy to consider them so that the debate can be as full as possible and people can take ownership of the Budget. There is no point in people saying that they are not happy with the Budget because they did not feel that they had enough information on which to base decisions or enough time to judge it. In the document that we have produced and the figures that we have given previously, we have tried to paint as honest a picture as possible and to give the details behind it. If additional information is requested, we will respond where we can.

1453. The member mentioned PEDU, and I am, in fact, sold on the idea of it. When I was Minister of the Environment, I was one of the first Ministers to use PEDU. At that stage, the Planning Service was taking a lot of stick for not delivering and for not meeting all the targets for either major, minor or intermediate projects. We were in the process of carrying out some planning reforms. Some measures were already in place, such as the streamlining of planning applications at local government level. I genuinely wanted to see how we could make the Department more efficient. I viewed PEDU's involvement as being of benefit to me rather than a threat. To my mind, if I could deliver a more efficient planning service, it would mean kudos for me and the Department.

1454. Sometimes having an independent pair of eyes to look at such matters can be valuable. In the case of the Planning Service, it proved valuable. When Nigel Dodds was Finance Minister, he did the same with the Land and Property Services. It, too, had been the focus of a lot of criticism, and, again, PEDU was brought in to carry out a review, and the service is now working through a programme of actions. I believe that a review of the actions taken is due at the end of the month.

1455. So, I have seen the benefit of PEDU's work in two different Departments. When Ministers told me that they were finding it difficult to meet the efficiency savings being asked of them, I suggested that they bring in PEDU. I made that offer to the Health Minister in November or December last year, and he has not taken that offer up, although I do not know why.

1456. One of the reasons why I resisted the motion that some of my colleagues tabled about imposing PEDU on Departments was that I wanted to sell the benefits of PEDU. I want Departments to welcome PEDU in, rather than have them feel that PEDU is being imposed on them because they have been bad or have failed to do the job that a Minister or a Department is meant to do. That will continue to be my approach. However, all I can do is make the offer to Ministers. I would like them to look at the impact that PEDU has made. It can be seen immediately with the Planning Service, which has now improved its delivery on major, minor and intermediate applications; it met its targets for the first time in the whole PFG period. That may be the way to sell PEDU. I would be more than happy if the Committee, or Committees, could encourage Ministers to use PEDU. Ministers should not see PEDU as a threat, which is why I have resisted imposing PEDU on Departments.

1457. Mr Weir: We can all speculate as to why some Departments seem reluctant to use PEDU. There may be some suspicion among Ministers who feel that it would challenge their carefully cultivated sense of victimhood or martyrdom. That may be speculation, but we should find better ways of doing things. We should all try to ensure that we get value for money and the best possible quality of service. Sometimes people look at PEDU as being useful only in an economic or money-driven situation. However, sometimes it is about the way in which things are being done and about improving quality.

1458. Minister, you indicated that you are seeking specific proposals from Departments as to how they will allocate their budgets. What is the timescale for that?

1459. The Minister of Finance and Personnel: We need a report from the Committee by the end of February. Therefore, this Committee probably needs to get reports from each Committee by the end of next week, as it will probably take the Committee a week to deal with them.

1460. Mr Weir: Some issues were mentioned consistently throughout the take-note debate on the spending plans — with a few honourable exceptions where some Departments were concerned. Although I appreciate that there was a delay in getting things to the Executive, every Department must have know the ballpark figures in September, because no one saw an alternative route. It is frustrating, both for the Committee and individual Assembly Members, that, in the case of a lot of Departments, we are looking at blank pages where their plans should be.

1461. Individual Assembly Members see the rough cut of the Budget as being a fair attempt to spread the pain and the tough choices around. However, it is more difficult to assess what impact the Budget will have on individual Departments. During Question Time in the Assembly, some Ministers were asked about its impact on their Department's capital budget, and Members were told that they are still making up their minds. That makes it difficult to get a broader picture of the individual departmental budgets and to work out whether Ministers' assessments are right.

1462. I welcome the invest to save fund. It appears to be a sensible initiative. How was the figure of £26 million arrived at and is it felt to be an adequate amount? Are there any incentives for Departments to put forward proposals? I appreciate that there have already been around 60 bids for that funding.

1463. It is often said that Northern Ireland Departments are somewhat risk averse. At times, Departments in Northern Ireland can also be change averse, and, unless they are pushed into things, they tend to sit back and feel that the way that they work is largely all right. It must be ensured that Departments that seek to maximise the benefit to the public through measures such as the invest to save fund are incentivised rather than penalised.

1464. Are there practical constraints that explain why the level of expenditure on the invest to save fund should be capped? For example, if we had 100 good ideas that could save a large amount of money but would require a certain amount of investment, would those face practical limitations? Is there any sense that there would be flexibility that would allow people to come forward with properly worked-out suggestions that would lead to considerable savings in the long run? I would hate a rigid position to be taken and for suggestions not be looked at because they do not fall into the top categories. That might result in an opportunity being missed. Can you explain more about the invest to save fund?

1465. The Minister of Finance and Personnel: I shall go through the points that you made. You are correct to say that PEDU is not only about seeking out areas where money can be taken out of budgets; it is about performance and delivery. Sometimes, that means simply looking at the ways that things are done, and that does not necessarily have to involve costs, nor does it mean that money will be taken from budgets. The whole idea is that, if things are done better, more can be delivered for the money that has been allocated in the Budget.

1466. Perhaps there is a misunderstanding that PEDU involves officials from DFP going to Departments to try to find ways of reducing spending in order to take money off them. In fact, PEDU is intended to help Departments to deliver even more with their budgets and to deliver more efficiently. As Mitchel said, that is one of the arguments that should be put forward in

selling the merits of PEDU. It is not a matter of finding ways of cutting Departments' budgets but about helping them to produce more from their budgets.

1467. I am a bit disappointed that Departments have not produced spending plans. Normally, those are included in the spending plans booklet, but, when we made the decision on 17 December 2009, Ministers were not able to produce those figures. Therefore, it was decided that the information would be provided by individual Ministers when they went to the relevant Committees.

1468. The decisions that were made on 17 December did not come as a shock to Ministers. I cannot remember the exact dates, but, during and perhaps before November, my officials were talking to Departments' finance officers. I then met each Minister and gave them a worst-case scenario. The scenarios that I presented to them involved figures that were well in excess of what was finally taken off them, except in the cases of the one or two Departments from which we took the maximum amount. I asked each Minister to outline how they would take x amount off their budget if they were required to do so. I asked which projects they would save money from.

1469. Therefore, Ministers had an idea of the maximum figure that could be taken off their budgets, and they had also had long discussions with me about how they might deliver that. I had to respond to some of the suggestions that Ministers made by telling them that it had to be a serious exercise, not a cynical one. Nevertheless, Departments were aware of what might result from the review, and, therefore, there is no excuse for the information on spending plans not to have been provided to the Committees. To be frank, if the Assembly is to work properly, and if Committees are to scrutinise their Departments properly, that information must be available to them.

1470. You asked where the figure of £26 million for the invest to save fund came from. Given the constraints that existed and the savings that had to be made, I had to judge what the maximum was that we could afford, and £26 million was the figure that I came up with. If members think that the invest to save fund is a brilliant idea and that it has much more scope, maybe one of the Committee's proposals will be to push Departments a little more to make savings so that there is a bigger fund to satisfy the number of applications that have been made.

1471. I am not sure about the value of the 60 applications that have been made to date, but Departments that are looking ahead will see that the scheme is a valuable tool and resource for them. All Departments know that their budgets next year will not be more generous than they were this year; their budgets will be much more constrained, so now is the time to start looking for savings.

1472. You made a point about incentivising Departments, and that is what the £26 million fund is for. Very often, Departments are change averse because it will cost them money to make changes. We are saying that we will remove part of that constraint by making money available for bids that Departments submit to effect change. Therefore, we are giving Departments an incentive and are trying to make them less change averse. All Departments have to face the fact that, regardless of whether they are change averse, change will be required because of what we are told will be the budgetary position after the next election.

1473. Mr Weir: Could we give Obama a run for his money?

1474. The Minister of Finance and Personnel: Yes we can. [Laughter.]

1475. That was the reason behind the £26 million fund. The fund is probably too modest. I had a very good discussion with the Agriculture Minister, who made some very positive suggestions

on how she could save considerable sums in forthcoming years if some money was made available to her.

1476. We will have to look at all the applications and, given the limited amount of money, assess their upfront costs, the speed at which they can be delivered and the amount of saving that they can make. Those judgements will have to be made, but it will not be easy to make some of them. Given the level of applications, some Ministers will be disappointed.

1477. If the Committee thinks that invest to save is a worthwhile exercise, I would be interested to hear whether members feel that we should go back to Departments to suggest that they make greater savings to increase the size of the invest to save fund.

1478. Mr McQuillan: I also want to ask about the invest to save fund. Minister, I thank you for coming to the Committee and being so open and honest with us this morning.

1479. What criteria will you use to decide which of the 60 projects to run with? You said that you had meetings with each Minister to let the Departments know what the cuts would be so that they could have their say. Some Ministers seem to have accepted that, but others have jumped up and down and made very public their feelings. What did those Ministers say to you in your private meetings with them? Did they say that they would accept the cuts, or did they say that they could not live with them under any circumstances?

1480. The Minister of Finance and Personnel: The exercise that I engaged in was to ask Ministers where they would make the savings if they had to. No Minister, at that stage, said that he or she did not believe that savings could be made. Some Ministers came with a list, which we looked at, and it was quite clear that that list was political. I am not going to say which Ministers did that. However, the lists were designed to make me blanch, shake at the knees, and say that I could not possibly make cuts to those Ministers' Departments because the public consequences would be too high.

1481. I emphasise that I am not the one who is doing this to any Department: it is an Executive decision. The Executive fully endorsed the paper that was put forward, and a collective decision was made. Almost all Ministers made suggestions. One or two who did not went away after our conversation to look at what their Departments could do. Ultimately, that is something on which Committees must hold Ministers to account. Ministers cannot be allowed to get away on that one. If the Budget is agreed, the Ministers and the Departments are obliged to fulfil the wishes of the Assembly and the Executive and to work within the budgets that they have. Therefore, sensible engagement is better than Ministers burying their heads in the sand.

1482. We will look at three things around the invest to save fund. First, we will look at how much a Department is asking for. Secondly, in relation to that amount, we will look at the savings that the Department projects will be made as a result of that and over what period of time. Thirdly, we will judge whether the Department's project is deliverable or whether it is fanciful. A Department cannot simply claim that if it gets a certain amount of money it can save another amount. Those are areas in which we will make a judgement. The quicker the payback period, the better; however, a Department may propose a longer payback period for a project that is much more deliverable, will have longer-lasting and more beneficial consequences, and will help that Department to meet a target as laid out by the Executive. If that is the case, that project may be given priority over another. To a certain extent, the exercise cannot be objective. There will be a degree of subjectivity.

1483. Mr McQuillan: Which Departments have put in bids, or is it too soon to say?

1484. The Minister of Finance and Personnel: There are 59 proposals from eight Departments. The Departments that have not put in any returns so far are the Department for Employment and Learning, the Department for Social Development, and the Office of the First Minister and deputy First Minister. All other Departments have put in a number of bids. Some Departments have even put in bids for more than the total sum of the fund, and I will be having a chat with those Ministers to find out whether they would like more money to be taken out of the Budget this year and more savings imposed on Departments so that we can increase the invest to save proposals.

1485. Mr O'Loan: Thank you, Minister. I have a number of questions to ask, and perhaps you can deal with them en bloc. At the outset, I do not want to cause any offence.

1486. The Minister of Finance and Personnel: Of course you do. I would be disappointed if you did not. [Laughter.]

1487. Mr O'Loan: What difference does a Minister make in this situation? It seems that there has been a steady approach to making the £370 million cuts. With the exception of the invest to save idea, which I will come back to later and which I support, that seems to have been done very much on a technical basis. There has been a "Civil Service" approach to the business. I wonder whether you regret not having a more fundamental rethink of the budgetary position at an earlier stage when the economic downturn hit. Having political participation in that would have been very binding on the Assembly and the Executive. It would have helped to re-establish priorities, and may have prevented recent crises.

1488. Looking beyond the next financial year, has the case for Northern Ireland's needs been presented to the Treasury? Furthermore, has the Minister any knowledge of the Treasury's thinking on the 2011-14 Budget, and have any plans been made? The planning for next year should have a strategic focus and a feel of how those plans will mesh with the plans for the following three years.

1489. The Minister also said that two capital realisation projects have been dropped: the Royal Exchange project and the waste management project. Obviously those projects are important and will need to be carried out in the future. What is the Minister's thinking on those issues?

1490. Peter Weir asked the question that I wanted to ask about the invest to save fund. Where did the figure of £26 million come from, because it seems to have been snatched from mid-air? I support the concept of that fund, and I feel that more money should be put into it, even at the expense of other things. Does the figure of £26 million indicate that the Minister already has some projects that he believes will be winners?

1491. The invest to save fund is problematic in that the payback period will sometimes be long, and political courage is required to put money into something that will not pay back for quite a long time. I was shocked to discover that the average expenditure on tobacco per household in Northern Ireland is 80% above the average. Therefore, although a great deal of work has been done, more needs to be done to reduce tobacco consumption here. The payback for health will be colossal, but it will not be realised for a considerable time. I am not sure whether the Department of Health, Social Services and Public Safety has highlighted that fact, but it indicates that payback can take a long time, particularly in the area of health.

1492. Finally, the Minister has detailed a cut of £150 million in capital expenditure, which equates to 10% of that budget. That cut must mean that a large number of capital projects, which were anticipated to go ahead next year will now not go ahead, causing a great deal of grief, particularly in the construction sector.

1493. The Minister of Finance and Personnel: I will go through the questions that you have asked one by one.

1494. You asked whether the Department simply adopted a technical approach to the process. I hope that the approach was not seen as technical, because that would have meant imposing a pro rata cut on each Department. We have not done that. My Department has sought to target the cuts. The Departments that have had the lowest reductions — with the exception of the Department of Health, Social Services and Public Safety, which, because of the issues around health, has received the lowest reduction — are those which have traditionally supplied the infrastructure for a sound economy and support for industry. However, everyone will make the case that individual Departments play some economic role. Indeed, Barry McElduff recently made the point that the Department of Culture, Arts and Leisure (DCAL) was hit fairly hard, yet there is a role for arts and leisure in the generation of economic growth.

1495. I am aware that Mr O'Loan constantly raises the question of why there has been no fundamental review of the Budget, but we are where we are with that. Furthermore, as I said in my introductory remarks, I took the view that the context had changed so much that we could not deal with the issue through normal in-year monitoring, hence the Department undertook the review.

1496. We are still working to the Programme for Government that the Assembly laid down. Therefore, any review of the Budget had to be carried out in the context of the agreed programme. We are in its third year. Of course, there will be an opportunity to fundamentally review the Programme for Government and Budget for 2011-12 onwards. I reject the allegation that we simply took a technical approach.

1497. As far as representations to the Treasury are concerned, we are in constant touch about the economic situation in Northern Ireland. Due to the possibility that some of those decisions will be political, I have also taken the opportunity to speak to Conservatives about the budgetary position in Northern Ireland and to make the case on the basis of need.

1498. In trilateral and quadrilateral meetings, both the Welsh Minister and I have spoken to the first secretary of the Treasury about the way in which money is allocated. The House of Lords Committee indicated that the level of need is greater in Wales and Northern Ireland. Under the current Barnett formula, we have probably not been as well treated as Scotland and England. That conversation has also taken place.

1499. I must say, however, that that is a double-edged sword. I am worried that, when the Barnett formula is opened, there is no guarantee that we will come out well. And the end of the day, it is a political decision. That is one reason why we have not only raised the issue of need, we have said that there should be some independent adjudication when there is a conflict between what the Treasury says regions such as Northern Ireland are entitled to and what we believe we are entitled to, so that it does not simply come down to a decision that is made by the Treasury. It is a bit unfair that the Treasury is the final decision-maker as well as the adjudicator.

1500. Both the Welsh Minister and I are aware that opening that Pandora's box could actually be to our disadvantage; hence the need to look at how decisions are made when there is conflict or difference of opinion. That discussion has taken place and will be ongoing. I am not sure how often trilateral and quadrilateral meetings will be held. We have raised the matter and will continue to do so.

1501. As regards capital projects that we will probably use in in-year monitoring — the Royal Exchange and the strategic waste-management programme — you are quite right: whether we

use those projects to offset receipts that we do not get next year, they still have to go ahead. The Royal Exchange is an important regeneration project for central Belfast. We cannot escape the waste-management project because we have an obligation to meet recycling targets, etc. That is based on the fact that, although receipts will not be forthcoming this year, we know that they will eventually be found, because we will not be in the doldrums that we are in at present. Those capital receipts can be realised in the next year.

1502. The waste-management project is spread over three years. Therefore, it is not as though all the money must be found next year if it is used to write off a receipt that we do not have: it can be spread over a three-year period.

1503. My understanding is that a great deal of money for the Royal Exchange is for vesting property. When the project goes ahead, receipts will come in from it. Therefore, the cost of vesting will be recouped from private developers. That should not be an issue. That is why we are fairly comfortable about it. However, we will wait and see what happens in the property market; hence we are leaving it to monitoring rounds.

1504. How will we deliver on important projects with a 10% cut in the capital budget? The member is quite right: this is not about just money; it is about schools, hospitals, roads, etc. Again, given the downturn in the construction industry, some low tenders are coming in, for example, on schools. Last August, I went to Whitehouse Primary School after it was burned down, and I spoke to officials there about the cost of rebuilding. They could not believe some of the tender prices, because, in a much more competitive market, we are getting 10% to 20% discounts on some capital projects. It is a keen market, so although less money is available, we hope that we can deliver the same number of projects as a result of that downturn.

1505. Contract prices might have been much higher two or three years ago because there was plenty of work around. Now, public sector work, which accounts for 54% of total spending in the construction industry in Northern Ireland, can attract lower tender prices. As a result, we can deliver more projects. Many of the projects are now going out to tender, and the tender returns that have been received so far indicate that the market is keener. Therefore, I am not so sure that the 10% cut in the capital budget will be as big an issue as the member suggested.

1506. If I missed a question, I apologise.

1507. Mr O'Loan: I asked about the long payback period for the invest to save scheme. It is important that projects get support even if they have a long payback period.

1508. The Minister of Finance and Personnel: As I said earlier, a number of criteria will be used for invest to save proposals. To be frank, given the pressures that we will face with budgetary constraints over the next two or three years, there probably will be a bias towards projects that will have a quicker return, because the savings will have to be made quickly. However, as we are looking at a combination of upfront costs, the amount of return from the spend, and the way in which Departments show that they can deliver on proposals, we might conclude that we should consider some projects with a longer payback period. Sixty projects have been proposed so far, and they seek more than three times the amount of money available. Given that sort of choice, we will have a good range of projects to consider.

1509. Mr Richard Pengelly (Department of Finance and Personnel): Smoking prevention was the example that was used. That goes beyond normal financial invest to save measures. It highlights the importance of cross-departmental working. Health promotion budgets are sitting in the Health Department and at local authority level. In that example, better joined-up thinking between health, education and local authorities would allow better use to be made of the money

that is available. Additional investment is not necessarily needed. That is a key example of the need for better and smarter ways of working, as distinct from pure additional investment.

1510. The Chairperson: You spoke about budgetary constraints and using money more wisely. The Committee recently completed a report on public procurement. The report is embargoed, so I do not want to go into the subject in detail. However, given that local and central government spend £3 billion each year on public procurement, is there scope for Executive discussions about using public procurement more strategically to help the economy and realise social outcomes?

Has much thought been given to that in respect of the Budget, for instance?

1511. The Minister of Finance and Personnel: Every six months, I chair the procurement board. Do not forget that it is not just the Department of Finance and Personnel that has procurement responsibilities.

1512. The Chairperson: I am talking about at an Executive level.

1513. The Minister of Finance and Personnel: There are centres of procurement expertise (COPEs) across all Departments, and they are qualified to carry out procurement within their respective Departments. The procurement board tries to take a strategic approach and bring all the Departments together to look at procurement issues. As far as I know, the procurement board has Executive endorsement. It is a more practical place to address some of the issues that you quite rightly identified in order to ensure that we get the most out of procurement and that we have the right rules for procurement — it is where they are already addressed. We want to look at how we ensure, within all the rules and regulations, that we do not disadvantage local firms in the procurement process and how we make that process as easy and as cost-effective as possible for them. Some firms have told me that they have spent a lot of time on, and made a big resource commitment to, a large project, and we have sought to find ways to avoid firms having to duplicate that work each time they make a tender. Again, that saves firms money and makes it more efficient for firms to do the job. It also saves us money in that we do not have to evaluate fully, from beginning to end, every tender application. Therefore, work is going on to try to address the kind of problems that you are talking about.

1514. Dr Farry: I apologise for arriving late to the meeting, but I was being interrogated by some of the Minister's colleagues about parades.

1515. The Minister of Finance and Personnel: I hope you are not going to have an illegal parade in Bangor.

1516. Dr Farry: Do not start me.

1517. Mr McLaughlin: Perhaps there will be yellow banners.

1518. Dr Farry: Moving swiftly on, I have two main questions. Continuing on my political kamikaze run, my first question is about water charges and the recent comments from the Economic Research Institute of Northern Ireland (ERINI) and the CBI, although the CBI's comments were perhaps less explicit. We heard from them that all the burden in trying to balance the books in the short run is being addressed through reductions in spending as opposed to any increases in revenue. Bearing in mind that things may get worse in the next comprehensive spending review (CSR) period, how sustainable is our current approach to addressing public expenditure in Northern Ireland?

1519. Secondly, at what stage do we bite the bullet and accept that we will have to look to increasing revenue and shifting the debate from whether or not we increase revenue to how we do it and how fairly the system to manage it can be put in place? People have pointed out that there are opportunity costs arising from lost opportunities. The deferral of water charges and the freeze on the regional rate tend to benefit those who are better off in society, although I accept that there are issues in the margins. Those approaches are regressive, whereas there is a less obvious dependency on public services that may not be there if cuts are made.

1520. The Minister of Finance and Personnel: You mentioned a political kamikaze run, but I think there is a more realistic debate around the development of revenue raising. You are probably right that the Assembly and Executive are a bit behind public opinion on the matter, but it would be unfair to say that we do not try to raise revenue. I had my fingers burned when, as Minister of the Environment, I increased planning charges by an average of 20%, and, even though they had not gone up for four years, I found that the Committee simply refused to accept them. In the end, reductions were made. Now, of course, complaints are made about the deficit in the Planning Service.

1521. You are quite right: perhaps there has not been the maturity around some of those issues that the public expects from us. I want to ensure that we make the most effective use of the money that we raise at present. There is a judgement to be made about whether there is still waste in the system that we need to address. We want to avoid giving Ministers a safety valve so that they feel that they do not have to make any hard decisions in their Department because they can simply load the burden onto the public. Until we convince the public, and until I am convinced, about that situation, there will always be a reticence about introducing charges.

1522. Having said that, there will be pressures because we are coming to a time when we will find that the amount of money coming from Westminster is to be reduced. We know that that will happen; it simply a matter of quantifying the amount, but we cannot do that at the minute because nobody will tell us. Neither the Conservative Party nor the Labour Party will tell us anything until after the election. However, they are giving all the right hints about the direction in which they are going. That will put pressure on us, and it is inevitable that we will have to look at that issue.

1523. The cost of water and sewerage is increasing because of EU requirements. It is not a case of asking, as I would love to on many occasions, what role the EU has in dictating to us what to do. Because the Government at Westminster signed up to many of those directives, penalties and fines will be imposed if the requirements are not met. Westminster has made it clear that the fines will be paid by the people who have broken the terms of the directive and caused the fine to be levied. A massive investment programme is needed to deal with some of the pollution issues, especially around sewage disposal.

1524. So far, the Treasury has allowed us technical changes to the way that the accounts are treated. People have asked about that in the past. It remains to be seen whether, if we continue to resist imposing water charges, all of those technical changes will stick or whether the Treasury will start charging us VAT or whatever, which will increase quite significantly the cost of water. All of those matters need to be considered in the future.

1525. It will not be a case of there not being water charges this year and then there being water charges next year: they will be phased in. That will create a financial burden on the Executive anyway, depending on how long we decide to take to phase them in. Initially, however, the Minister for Regional Development has to deal with water charges; they are his responsibility. He has to bring a proposal to the Executive, the Executive will make a decision and that decision will then have to be endorsed by the Assembly. That is when the Assembly will have to show the kind of political maturity that was talked about.

1526. The issue will be dealt with in that context. It would be much easier to sell it to the public if they felt that we are not squandering the money that we already raise from them.

1527. Dr Farry: That is certainly a fair point. You have rightly accepted that it is far too simplistic to talk about cuts in administration being a bottomless pit versus actual cuts in services. Instead, you stressed the importance of re-examining priorities in Departments; keeping what is important and perhaps letting go of what is less important.

1528. To take that to a new level, I have recently been looking at public expenditure statistical analyses (PESA), which are published by the UK Treasury. They compare the level of spending in each of the UK regions across the different sectors. In some areas, the variances in Northern Ireland from the norm are quite significant. There are some very large differences in overspend, and there are other areas in which we underspend. I accept that, since devolution, we in Northern Ireland set our own priorities, but there is a case for examining those figures and asking whether those distortions are justified in the particular circumstances of Northern Ireland or whether they are inefficiencies that have built up in the system over time.

1529. Departments here could benchmark how they spend money compared with Departments in other UK regions; for example, they could compare the spend on health. My impression is that, compared with the UK average, we underinvest in mental health services but our health budget has an overprovision in capital at the expense of direct service provision. Perhaps that benchmarking could better guide us as to where we could reprioritise.

1530. The Minister of Finance and Personnel: The Nuffield Trust's recent report on healthcare systems deals with some of the issues you raise. As regards bureaucracy in the healthcare system, other areas across the UK have reduced levels of administration, whereas our rate has increased from 70% to 170%, which is higher than the rates in other parts. I would expect Committees to ask Ministers to justify why there is such a difference in spending per capita here compared with other parts of the United Kingdom.

1531. When we looked at how Departments might be targeted, we took into consideration a range of issues, such as the amount of money that was available in the past, the implications for the Executive's top priority, evidence of inefficiencies and contractual obligations. We used figures such as those for the levels of underspend in specific areas in previous years and the amount of resources that had been made available to Departments, because there may have been a lot of growth in previous years and opportunities to take money back. A host of issues was involved, and we looked for potential inefficiencies. Those kinds of figures give some guidance on that.

1532. Mr F McCann: I will be brief. I thank the Minister for coming this morning. I apologise for being late, but I was at another meeting.

1533. Minister, you may have touched on some of these points, but, at the start of the process, I was under the impression that efficiencies or savings were not meant to impact directly on front line services. I sit on the Committee for Social Development, and it has received only the broad headings and no detail on the impact that cuts will have on the Department's ability to function. The Committee has announced almost £14 million of cuts. From what I gather, that will affect regeneration in communities, housing and, perhaps, maintenance. It will also hit the Social Security Agency and may impact on its ability to run itself effectively, especially its front line services. When Ministers put those issues to you, do you raise concerns about how they may impact directly on front line services?

1534. The Minister of Finance and Personnel: As I explained earlier, in the run-up to the review of spending plans, officials spoke to finance officers in each of the Departments to suss out

information. Obviously, we already had some information on Departments. I then met Ministers, and, in preparation for those meetings, I presented Ministers with maximum cuts for their Departments and asked them how they would facilitate them. They told me that money would have to be taken from one thing or another. That led to a discussion about why one measure was chosen over another and whether another measure could be chosen to avoid any impact that was likely to result from the first choice. Those were the kind of discussions that we had.

1535. Ministers from the member's party are anxious about the matter as well. I cannot go in and paddle through Departments' budgets. Ministers will jealously guard their independence in making their decisions. However, I can give them some pointers about what they can do, based on my Department's assessment of their budget. Some of them looked for areas where they could make reductions without cutting front line services, but, as I said earlier, others treated it as a fairly cynical exercise and brought me a list of horror stories. The implication was that I could not cut their budget, because it would result in bad news stories appearing on the front page of the 'Belfast Telegraph'. That was a cynical move, and it was disappointing that there were such responses.

1536. DSD took part in that exercise. We were aware of the sensitivities of some of the projects in which DSD was involved. DSD had a reduction in its budget of less than the average. Had we imposed the average cut on DSD, the reduction would have been almost £2 million more than it was. After our discussion, we were cognisant of the kind of pressures that existed, and we took the appropriate action.

1537. I cannot direct Ministers to put the cuts or the reductions to certain budget heads; that is the responsibility of the relevant Minister. However, I hope that Committees question Ministers closely about the alternatives that they looked at before they reached their conclusions about what they would do with the various reductions.

1538. Mr F McCann: That is the difficulty. Sometimes we are at a disadvantage, because we might be close to the debate, but we still do not know where cuts are to be made. We could guess, based on the information that we have been given. However, on the basis of what we have guessed and the scant information that we have been given, it seems that the Budget will have a dramatic impact on some aspects of delivery in DSD.

1539. The Minister of Finance and Personnel: The recent Savills report on the Housing Executive reported that some of the Housing Executive's housing stock is over-maintained. I do not want to get into the nitty-gritty of that, because it is not my responsibility to say that Ministers should do this or that, but even a report that was commissioned by the Department indicated that there is scope for directing savings in a different way to how the Department is currently directing them. There would be a fair amount of resistance if I were to start dabbling in each Minister's budget. In any event, Ministers should know their Departments better than I do.

1540. Mr Hamilton: I apologise for being late to the meeting. My question relates to what Fra said, and it might elicit a similar answer. I sit on the Committee for Social Development with Fra, and I see things that I am sure are replicated elsewhere. Following discussions with Departments and agreement on the level of reductions that they are to receive, the Departments take that reduction and pass it on fairly crudely. For instance, if a Department's reduction, or adjustment, is 2.5%, the Department passes that on crudely at 2.5% to every agency or budget line that they have.

1541. Recently, we took evidence on efficiencies. Experts from academia and elsewhere pointed out that that is a crude device that does not tackle real efficiencies that could be made at a central level. In fact, it probably insulates the bureaucracy and administration that exists in many Departments and allows the responsibility for making efficiencies to be passed on. If you pass on

that responsibility from the central bureaucracy in Departments, you are passing it on to areas in the front line that are going to feel the hit a bit more, although that is not to say that they should be exempted. What is your view on that passing on ? passing the buck almost ? of the responsibility for making efficiencies from the centre of Departments to elsewhere?

1542. The Minister of Finance and Personnel: At a strategic level, we decided not to opt for pro rata cuts. I hope that that thinking filters down through Departments and that Ministers respond in the same way when considering parts of their Departments. Stephen Farry raised the matter earlier, and it is a very low priority in my programme for the Department and even in the targets in the Programme for Government. Should reductions not be made in a certain area rather than simply be made right across the board? Ministers should be involved in that exercise, and Committees should hold Ministers to account for it.

1543. As I said earlier, my one regret in the whole exercise is that, although the Executive received the paper in September, a final decision was not reached until just before Christmas. An earlier decision may have given Committees a bit more time to probe the issues that have been mentioned. Nevertheless, since January, there have been opportunities for Committees to do that, and I hope that they will use the time to do so as best they can. Given that the process involves re-examining the Budget, I wanted to ensure that there was time to do that. Unfortunately, that has not happened.

1544. The Chairperson: I do not want to keep you any longer because we have overrun, and I am concerned that we will lose our quorum shortly. Thank you all for coming along.

1545. Just to give an indication of the timetable, at the moment, seven Committees have indicated that they are unhappy with the feedback from their Departments on the spending review. We will try our best to work through the responses that we have already received. DFP will have sight of those submissions before the report is produced. We are working under that constraint at the moment, but I hope that we will be able to conclude the report within the timescale. The Committee will discuss those submissions next week. That is the timetable.

1546. With the Committee's agreement, we can consider other ways to examine the situation. For instance, revenue-raising powers may be already there. As I have said previously in the Assembly and in the Committee, greater fiscal powers in the North might help us to secure more investment in the longer term. To see how useful such powers might be, we need only look at how the Treasury rules have delayed measures such as credit union legislation, which would be very beneficial to the whole economy, particularly in providing investment in areas of disadvantage and need. We have also looked at windfall taxes and the increase in fuel prices. As a Committee, we will consider revenue-raising options that are within the power of the Executive and the Assembly. However, I also hope that the Executive are having conversations at the moment about following the Scottish example to bring fiscal-raising powers to the Assembly and the Executive.

1547. Thank you very much for coming along; we will work to the timetable as much as possible, using the information that we have.

1548. The Minister of Finance and Personnel: I appreciate that. I would like to have the Committee's report by the end of February so that it can inform the paper that will go to the Executive in early March. This is not just a paper exercise; we seek the views of the Assembly, and the Committee is the channel for those views. I would appreciate it if the report could be done on time.

17 February 2010

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 Fra McCann

Mr Mitchel McLaughlin

Mr Declan O'Loan

Ms Dawn Purvis

Witnesses:

Mr Michael Daly
Mr Paul Montgomery Department of Finance and Personnel

1549. The Chairperson (Ms J McCann): I welcome Michael Daly, head of central expenditure in central finance group, and Paul Montgomery from the central expenditure division of central finance group. If you would like to make a few opening remarks, we will then go to questions.

1550. Mr Michael Daly (Department of Finance and Personnel): Thank you, Chairperson. We do not have a lot to say. We have provided the Committee with answers to the questions it posed. A lot of them were discussed during the oral evidence session, and, where appropriate, we have expanded on those answers. What we have to say may be a bit repetitive given the previous oral session. We are happy to take questions.

1551. Mr McLaughlin: You are very welcome. We are all looking forward to another long session after yesterday's late-night plenary sitting.

1552. In its response to the question on the focus on targeted savings, the Department explained the methodology used for determining various percentage savings across Departments, which included bilateral engagement between individual Ministers and the Finance Minister followed by a collective discussion at Executive level. It also described how, in the take-note debate, the engagement took account of budgetary pressures and areas for potential savings in the Departments.

1553. The outcome of that engagement was supplemented by information from DFPs ongoing contact with departmental finance officials. Given the methodology, as it has been explained, what information or evidence exists to justify the final percentage savings that were proposed among the Departments and upon which the Assembly and Committees can make their informed judgement? How do you arrive at those figures?

1554. Mr Daly: I will ask Paul to comment on that in a moment, but it is difficult for me to give you precise answers to questions about particular Departments because we have to take into account a wide range of factors, many of which are based on ongoing scrutiny of Departments by our colleagues in DFP Supply. There is no precise formula that we can input into the system, crank a handle and produce a figure of 2.1%. A lot of it is subjective, and is done on the basis of detailed discussions with the respective Departments. The Minister has pointed out to the Committee and in the Chamber that he has had discussions with other Ministers.

1555. Mr Paul Montgomery (Department of Finance and Personnel): We also had inputs from Departments as supplied by the director of public spending. He asked Departments how they would deliver savings of X% on current expenditure, and Y% on capital. That information also

fed into the overall assessment made to the Finance Minister and recommendations to the Executive, which were followed up with discussions with the Executive.

1556. Mr McLaughlin: We have seen the situation. It seems to me that the process and methodology are inclusive and transparent; presumably, one can establish the various stages that culminated in an agreed proposition, or what, on the face of it, should have been an agreed proposition. However, we have had the spectacle of Ministers saying that they do not accept, or will not implement, the proposals, and that seems to fly in the face of the incremental and progressive nature of the engagement. The expectation is that what emerged from the process would have been a common position.

1557. Mr Daly: I cannot speak for individual Ministers who may not be prepared to engage in the process. However, by and large, most Ministers and the Finance Minister would have preferred not to have to make any reductions in expenditure. That amount of money had to be taken out of the system and reallocated to maximise the delivery of public services next year. I do not think that Ministers are happy about it, but they are prepared to get on with it, and are, for the most part, publishing how they will do so on their websites. That is the reality of the public expenditure context that we are working in.

1558. Mr McLaughlin: Therefore, there is not an objective. There are no Ministers in the room at the moment, but I can understand that a Minister would resist pressure on his or her spending programmes. I also accept your comments about the money being brought out of the system for reallocation because of the pressures that had emerged; one cannot stick one's head in the sand. Really, it is a process of engagement. I presume that there is a degree of objectivity in respect of the overall financial analysis that would be available. Is this just part of the price that has to be paid? Do we just have to put up with the more parochial responses when it comes to the domain of individual Ministers, even though there was a process involved?

1559. Mr Daly: Again, I cannot comment on individual Ministers' positions: that is for them to do. The nature of the process is to try and take as much as possible into account and introduce as much objectivity as possible. However, a lot will be subjective: there will be opinions; and Ministers will have formed conclusions from their bilateral discussions with the Finance Minister and through Executive meetings. As I said at the outset, this is not an exact science whereby we can simply put in a lot of factors, turn a handle and watch the numbers come out.

1560. Mr McLaughlin: The public will not be able to follow the detail of this matter, but they will know that the quality of the service that they are receiving is different from what they were receiving previously, if efficiency savings turn into cuts. Is that the area of imprecision that exists? What are described by the Department, perhaps coyly, as savings can either be efficiencies, which means that we will have the same output for less input, or are, in the view of officials, unavoidable cuts, because there has to be a response to the reduced circumstances.

1561. Mr Daly: The overall levels of reductions required are unavoidable, because we are living within a fixed budget. However, it is for the individual Ministers to decide how to implement those reductions. The expectation is that they will attempt to do so through improved efficiency and reduced bureaucracy. However, at the end of day, it may well be that they will have to cut back on certain services. We have discussed the nature of efficiencies with the Committee before. Efficiencies can be technical, in that we reduce the costs of the inputs to get the same output. However, there comes a point when we move into the area of allocative efficiency, which, I think, we mentioned in our response. That means that we have to ask whether one service is providing a bigger contribution to the desired outcome than another and, therefore, that we could move to other areas. The final decision on how that is to be done is for the Ministers to decide.

1562. Mr McLaughlin: The Committee received expert evidence from Professor Arthur Midwinter, and I am sure that you are familiar with his comments. He suggested that the implications of the additional efficiencies would be a reduction in the rate of growth, as opposed to a reduction in the current baseline, and will not require savings from existing programmes. In other words, he suggested that the agreed baselines were unaffected by the additional efficiencies. If the impact of the £123 million is a reduction in the rate of growth in 2010-11, arising from reduced Barnett consequentials in that period, why is it being included in the £367 million savings on existing baselines? Is there some sleight of hand going on?

1563. Mr Montgomery: No. The 2010-11 plans were based on a certain level of the block grant, which was an increase on the block grant for 2009-10. What the Barnett consequentials from the efficiency savings from Whitehall Departments are doing is make the increase in the block grant less than it otherwise would have been. The difficulty was that we had already allocated the block grant to Northern Ireland Departments. Even though the block grant was increasing, we had to adjust our plans, because they were based on a previous level of block grant.

1564. Mr McLaughlin: Do you accept that the reduction was in the rate of growth, as opposed to the previously established baseline? It is an important distinction.

1565. Mr Montgomery: It is a reduction compared to the previous 2010-11 position. However, it represents an increase on the 2009-2010 block grant.

1566. Mr Daly: Yesterday in the Assembly, the Minister made the point that, moving from this year into next year, the Budget will still increase, although when referring to the Department of Education he accepted that the increase is not as high as might have been expected. Nevertheless, it does represent an increase. Perhaps that is the point that is being made here.

1567. Mr McLaughlin: The baseline is still unaffected by a reduction in the projected rate of growth. You might have expected and prepared for that. The growth rate has been reduced rather than the baselines. Is that not right?

1568. Mr Montgomery: No. The £122.8 million relates to the block grant, it does not relate directly to the spending plans of the Northern Ireland Departments. In the original Budget, we allocated money to Departments based on a certain level of block grant for 2010-11. As a result of decisions taken by the Treasury, the block grant is being reduced, and, because we allocated money based on the previous value of the block grant, we incurred a pressure of £122.8 million. Although the block grant is increasing, the increase is less than we planned for, which gives rise to the pressure that we must address.

1569. Mr McLaughlin: Professor Midwinter's position, which he stated very bluntly, is that this reduction in the rate of growth would not require any savings to be made from existing programmes that had previously been agreed and financed, because those baselines would be unaffected. It is future growth that will be substantially reduced.

1570. Mr Montgomery: The simple fact is that the money was allocated based on the previous level of block grant, so, although funding will increase, the increase will be less than we expected. Therefore, we will need to make an adjustment against plans.

1571. Mr McLaughlin: Did Professor Midwinter get it wrong?

1572. Mr Montgomery: He is right to say that the block grant to the Executive will increase, but the fact that it will increase by less than we previously planned for and settled with the Treasury

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1573. Mr McLaughlin: I do not think that that was what he said. He is saying that there is an agreed allocation, and that baselines have been established across all spending Departments. He indicates that the imposition by the Chancellor of further efficiencies affect only the projected growth rate, not the baseline. In other words, the Chancellor did not take money out of the original allocation. Professor Midwinter queried why existing and improved spending programmes should be affected. What is affected is the ability to spend at the predicted level going forward.

1574. Mr Montgomery: It depends on what he meant by the baseline: if he was talking about the baseline that was established in 2009-2010, then that will be unaffected; however, if he meant the 2010-11 baseline, then that will be affected. Our baseline block grant for 2010-11 will be reduced by £122.8 million, net, of course, of the additional Barnett consequentials that we were awarded. Nevertheless, as a result of the £5 billion of additional efficiencies that Whitehall Departments are expected to achieve, the 2010-11 block grant will be reduced by £122.8 million.

1575. Mr McLaughlin: I do not have the figure in my head, so remind me about the Barnett consequentials that will be set against the £122.8 million.

1576. Mr Montgomery: Those amount to £86.5 million on current expenditure and £9.1 million on capital expenditure.

1577. Mr McLaughlin: Leaving a deficit of —

1578. Mr Montgomery: £26 million.

1579. Mr McLaughlin: We are looking at a headline figure of £123 million, which people are saying is a challenging figure.

1580. Mr Montgomery: By itself, it is a £122.8 million reduction. However, other measures announced by the Treasury mean that the net impact on the overall block grant will be significantly reduced.

1581. Mr McLaughlin: Thank you. I am not sure I got the answer I was looking for.

1582. Mr Weir: This issue has been raised with the Minister. We have received feedback from the other Committees, and, to produce a report, we must collate those views. The Committees raised concerns about the slowness of their respective Departments in establishing an internal budget. I understand that Ministers guard their autonomy, but what can DFP do to expedite the receipt of departmental spending plans? The Finance Minister said that he would write to the other Ministers to try and force the pace, so that the spending plans arrive earlier. Given the problems, particularly those that have arisen this year with respect to a lack of response from other Ministers, is there an initiative that could be looked at for next year to try and ensure that, at least, draft spending plans of other Departments are received at a slightly earlier date?

1583. Mr Daly: You have almost started to answer the question yourself. The Minister said that it was his intention for us to have been at this point some time last year. All that he can do to speed up the process is to impress that need on his Executive colleagues. As he said, he has written to them. Rather than delaying the process, he published this document without their inputs in the hope that they would then take the opportunity to put it on their departmental websites. He does not have any authority over the other Ministers to demand this or to impose sanctions on them. We rely very much on him making representations to them and the Committees doing their best to get the information. In the future, it would help if we could start to make progress on the Budget process much earlier, but it is a difficulty.

1584. Mr Weir: I appreciate that this will not solve the problem, but is there not a statutory point by which Departments have to submit a budget plan? For example, if Department X has an agreed budget of £300 million, I presume that that Department cannot constantly go into the future with a blank page and keep the details to itself. Is there a point at which even the internal part of a budget has to be at least notified, even if it is not approved?

1585. Mr Daly: The Budget Bill that the Assembly debated yesterday provided the Vote on Account that goes into the first part of next year. Before that runs out, there will have to be a Main Estimate to deal with the issue, so it has to be sorted out by that time. However, it would be ideal to get that sorted out this March so that the Departments have that in place before we go into next year.

1586. Mr F McCann: With respect to localised efficiencies affecting the efficiency of the wider public sector, the Committee received expert evidence highlighting that risk. Will DFP assure the Committee that individual Departments do not claim efficiency savings that are not counter productive in relation to the wider system?

1587. Mr Daly: I do not have too much to add to the answer that was provided. Ultimately, it is the responsibility of Ministers to put their efficiency delivery plans in place. DFP's guidance, which has been shared with the Committee, states that Departments should not shift costs to other Departments and should not put in place so-called efficiencies that cause a real detriment to public services.

1588. Departmental colleagues, as part of their ongoing engagement with Departments during the development of their plans, will challenge them and encourage them to make improvements towards genuine efficiencies. However, there is a major role for Committees and external stakeholders, because it should not be forgotten that plans are published, to try and bring pressure to bear on the Departments. However, as I have said, it is ultimately the responsibility of Ministers; it is not DFP's responsibility to approve the plans.

1589. Mr F McCann: I know that you say that there is a responsibility on Committees, but they are scrutiny Committees, and, at the end of the day, Ministers do not have to listen to what they say. That has been fairly clear in some instances. If there is a clear sign that some of the efficiencies are having a detrimental effect on front line services, is there any mechanism in place that will allow the Executive to intervene?

1590. Mr Daly: I am not sure whether there is a particular mechanism that allows our Minister to make a proposal to the Executive. Perhaps, if a Department considers a measure to be novel or contentious, the relevant Minister could insist that such a change is brought to the Executive. That would be the only real mechanism.

1591. Mr O'Loan: I will ask a few questions about the invest to save scheme. Will you give us further detail on the assessment criteria and guidance being given to bidding Departments? Is the focus on short-term savings? Where do longer-term efficiencies fit into the plans? Can you tell us anything about the timeframe for bids and project delivery? What is the scope for cross-departmental initiatives?

1592. Mr Montgomery: The primary focus of the invest to save proposals is on helping Departments achieve savings in the short term, which is the 2010-11 financial year, essentially, and in the expected next Budget period, which runs until 2013-14. That is when savings will be made primarily. We want to ensure that Departments deliver the savings, so there are practical difficulties in going beyond those time frames. Departments can say that they will deliver so many savings in the next decade or so, but it is difficult to ascertain whether they will actually do

so. Given the expected medium-term public-spending problems, that will be the main focus of the assessment of Departments' delivery of savings.

1593. Mr O'Loan: Can you give us detail on the assessment criteria and the guidance being given to bidding Departments?

1594. Mr Montgomery: We have asked Departments to set out the cost of each proposal that they put forward and to outline the level of savings that they expect to make over the next four years. We have asked them to detail the actions they will take to deliver the savings. We have also asked them to detail the key risks of delivering those savings. Our main focus in assessing the proposals is to ensure that the projected savings can be delivered. There must be realism, because there is no point in us allocating money for invest to save proposals that will not deliver savings.

1595. Mr O'Loan: Are longer-term efficiencies being prejudiced against? I am not convinced that that is wise.

1596. Mr Montgomery: We are looking at where the pressure is at the moment and where it will be in the next three years.

1597. Mr O'Loan: We need long-term, strategic thinking too.

1598. Mr Montgomery: Due to the vagaries of the public-finance environment going forward, we have to address the pressures that we face in the medium term.

1599. Mr O'Loan: What is the timetable for bids and decisions on bids?

1600. Mr Montgomery: All of the bids have been received and are being assessed. Recommendations will be made to the Executive as part of the finalisation of the revised 2010-11 spending plans.

1601. Mr O'Loan: Did you receive any cross-departmental bids?

1602. Mr Montgomery: No.

1603. Mr O'Loan: That might have something to do with the fact that there was not enough time for such thinking, and it indicates a weakness in the process.

1604. Mr Montgomery: I must correct myself. A joint bid was made by the Department of Agriculture and Rural Development and our colleagues in Land and Property Services.

1605. Mr Daly: That was in relation to the CAP disallowance, which the Minister mentioned in the Chamber yesterday.

1606. Mr Montgomery: It concerns mapping. The issue is that we are facing disallowance adjustments to our EU funding because of perceived errors in measurement in the past. It is a matter of improving the measurement techniques to reduce the chance of the disallowance being applied in future years.

1607. Mr O'Loan: That probably pitches across departmental working at a fairly technical level, as far as the LPS involvement is concerned. It is not like addressing a common or shared problem in a way that involves real or joint activity, which might be a richer arena.

1608. Mr Montgomery: If there were cross-departmental working, it should be evident. It should not be affected by the timetable for this process. It should be taking place on an ongoing basis. If the exercise is ongoing, it should not be a precursor to doing this.

1609. Mr O'Loan: Can I ask about PEDU? Your reply states: "it is difficult to point to any hard evidence of the effectiveness of PEDU, other than the views of departments".

1610. That is part of your response, and I know that the quotation is taken slightly out of context, but it presents your position fairly. What performance targets exist in respect of PEDU? To what extent are those being met?

1611. Mr Daly: As the Minister said, both to this Committee and in the Chamber, PEDU does not have a major programme of work that its performance can be measured against. One of the problems that the Minister faces is that there is a lack of willingness by other Ministers to invite in PEDU.

1612. As to PEDU's performance, this is the best response we can offer. Rather than set out the number of savings that PEDU delivered, the emphasis has been very much on Departments claiming the success. PEDU is a resource to be brought into Departments to assist them. PEDU was set up on the basis that it would assist Departments to deliver their own improvements.

1613. Mr O'Loan: As you say, we discussed this usefully in the Budget debate yesterday. What are seen as the options for developing the role of PEDU and achieving an increased take-up of its services by Departments?

1614. Mr Daly: We have no particular options at present. There seems to be unwillingness among Ministers to invite in PEDU. The Minister has offered its services on a number of occasions. He highlighted a particular offer in the Chamber yesterday in relation to the Department of Health, Social Services and Public Safety. Departments are reluctant to invite in PEDU, and I do not know why that is.

1615. Mr O'Loan: If we are to take the concept of public sector reform seriously, this needs serious thought. PEDU started as a very good idea, but it has not really lifted off. The problem that it was trying to address — serious strategic and structural change in how we perform public service — still remains to be tackled. It may involve moving PEDU outside DFP so that this sort of issue does not arise. There needs to be serious thinking about this; I suspect it is perceived as a threat.

1616. Mr Daly: I agree.

1617. Mr O'Loan: That has to be addressed.

1618. Mr Daly: No doubt the Minister will give some thought to the future of PEDU.

1619. Mr Hamilton: I want to ask about asset management and capital realisation. At the start of this Assembly term it was decided that finance could be had by realising the income that could be derived from unused or underutilised assets. We, obviously, understand why that that has not achieved everything that people had hoped it would: it was not simply about selling land and investing the money received, it was about better management of our assets. DFP and OFMDFM seem to have a role to play in this matter. Will you point out where the split is? Where does responsibility lie?

1620. In addition, why is there the apparent delay in the establishment of a central asset register across the public sector? That is as important an issue in many respects, because it allows one to better manage and better realise assets.

1621. Mr Daly: The short answer to why there is a delay in the establishment of the assets register is that it is the responsibility of OFMDFM. Our Department's responsibility, working together with OFMDFM, is in the public expenditure management side of the business. The detail of asset management is the responsibility of OFMDFM, working with the Strategic Investment Board (SIB). There are two distinct responsibilities, but obviously it is very important that they work together.

1622. Mr Hamilton: Why is that responsibility with OFMDFM? Has that always been the case, or was a decision taken to give that responsibility to OFMDFM rather than DFP because of that linkage with SIB?

1623. Mr Daly: Historically, the responsibility has been with OFMDFM because of SIB. There have been suggestions that DFP should take on that responsibility, but at the moment DFP is responsible purely for making sure that the public expenditure side of the business is properly managed and controlled. The professional expertise in relation to asset management is in OFMDFM working with SIB.

1624. Mr Hamilton: Finally, the Department's response refers to the ePIMS (electronic Property Information Mapping Service) database. To what extent will that cover the wider public sector, including arm's-length bodies, rather than just Departments?

1625. Mr Daly: Again, that is the responsibility of OFMDFM. I am not sure to what extent that will operate beyond the Departments, but we can check that up and get back to you.

1626. Ms Purvis: I want to ask about the Department's answer in relation to equal pay. You have shown how the £100 million is made up, but the cost of the claim is estimated at £155 million to £170 million. Is it the case that, ultimately, the Executive will be responsible for funding the full cost of the claim, given that it is made up from RRI borrowing, reallocation of capital expenditure and baseline savings? Is it right to describe it as additional current expenditure?

1627. Mr Daly: Yes. There are two aspects to the equal pay issue, as the Committee will know; dealing with the arrears of pay and the one-off settlement costs, and the issue of pay going forward. The latter will be a matter for individual Departments. We can say that the arrears of pay represent additional current expenditure because, although all of the payments are actually capital spend, the flexibility agreed with the chief secretary allows the Finance Minister to draw down unused borrowing and provide additional borrowing powers, and re-profile capital expenditure, so that it will be converted to current expenditure on an exceptional basis in order to make the payments. It is additional current expenditure.

1628. Ms Purvis: So the Treasury's accounting rules have been bent to allow you to do that?

1629. Mr Daly: The Treasury has allowed that flexibility in relation to this issue on an exceptional basis.

1630. Ms Purvis: As regards the implications of the financial package for policing and justice; obviously, you could not provide a definitive answer because of the ongoing discussions between the NIO and the Treasury. What is the outcome of those discussions?

1631. Mr Daly: They are still ongoing; I have no other information on that.

1632. Ms Purvis: Have you any idea when this Committee will be consulted on the public expenditure plans for devolution of policing and justice?

1633. Mr Daly: I would certainly not expect that to happen before a decision is taken to devolve policing and justice powers to the Executive. At the moment there are ongoing consultations, as you know. At the moment it is not a devolved matter.

1634. Ms Purvis: Do you expect it to happen post-devolution?

1635. Mr Daly: I do not have a precise date, but I would not expect it to be in advance of a decision being taken to devolve powers. That decision has not yet been taken.

1636. Ms Purvis: It would be best if we were consulted on the expenditure plans in advance of devolution of those powers.

1637. Mr Daly: As I said, I anticipate that there will be no consultation in advance of a decision to devolve powers. However, the date that we have been given for devolution on the current plans is 12 April, but a decision will be taken before that.

1638. Ms Purvis: Speaking hypothetically, providing that everything goes ahead for 12 April, will the Committee be consulted before that?

1639. Mr Daly: That will be necessary. If devolution were to take place on 12 April, a Budget Bill would have to be passed, followed by a process of engaging with the Committee and the Minister taking Supply resolutions and Estimates and a Bill to the Assembly. That would have to happen before the date for devolution. I am not sure at what point we could engage with the Committee on the detail of that, given that no decision has been taken.

1640. Ms Purvis: It will be sometime between 9 March and 12 April.

1641. The Chairperson: I want to go back over some of the issues in the future Budget process. We have been pressing for the establishment of a formal process of agreeing future Executive Budgets, and that has also been discussed in some of the Assembly debates. Can I have an update on the progress on that? Will you also give the Committee an idea of the completion date of the review of the 2008-2011 process and an indicative date for bringing forward proposals for the way ahead?

1642. Mr Daly: Is that for the review of the Budget process?

1643. The Chairperson: Yes.

1644. Mr Daly: As the Minister confirmed yesterday in a response to you, Chairperson, our primary focus is to get the arrangements for 2010-11 out of the way. However, in parallel with that, we are trying to bring that to a conclusion so that we can get it to the Committee as soon as possible. I cannot give you a definitive date, but it will be no longer than is absolutely necessary. Paul and I are working on that to try to get it expedited as quickly as possible.

1645. The Chairperson: With regard to the Civil Service staff numbers and accommodation efficiencies, the 'Fit for Purpose' document published in 2004 set a target to reduce staff in the Civil Service by 2,303 by 31 March 2008. The Committee was advised that that target had been achieved. However, a press notice last October from the Statistics and Research Agency stated that the full-time equivalent of Civil Service staff numbers increased by 2.9% between 1 April 2008 and 1 April 2009, which is 660 staff. Will you explain that increase in relation to the

efficiency drive? To what extent has the overall Civil Service staffing structure been critically reviewed? Has that review taken place and if so, how did it happen? Does that increase in staff numbers make it more difficult to achieve the accommodation efficiencies that were set out in the 'Fit for Purpose' document?

1646. Mr Daly: I am afraid that I do not have any of those details with me today. I will have to take that question back to the Department and refer it to my colleagues in central HR. I was not aware that that issue would come up.

1647. The Chairperson: Will you come back to us on that?

1648. Mr Daly: Yes.

1649. Mr McLaughlin: I have a supplementary question. I am trying to get my head round the reason why you are looking for efficiencies or reductions in the baseline. The three-year Budget was based on the CSR that was carried out in 2007. Are you saying that you had calculated and anticipated the Barnett consequentials for that period and that that was built into the baselines, and that is why the baselines have to be revisited?

1650. Mr Daly: No. The original Budget allocations set out in the Budget document 2008-2011 are based on the settlement at that time. However, as one moves through the process there will be adjustments as a result of Barnett —

1651. Mr McLaughlin: And new pressures?

1652. Mr Daly: Yes. In 2008, when the Budget was established, Departments had built in plans. We are getting back to the earlier point about whether it is a reduction in growth or a cut. They would have built in plans that are increasing each year. However, when the £120 million reduction comes in, that has to come off those plans, which is why you arrive at a situation where, as Paul said earlier, the Budget for this year is set at a certain level, and next year it will be higher. Nevertheless, because of the reductions, it will not be as high as it might have been. However, there is no way to anticipate Barnett consequentials in advance of Chancellors making announcements. I do not know if that explains it.

1653. Mr McLaughlin: Thank you for your patience, but I have not got my head round that. Perhaps we can follow this up. I need to think it through. It seems to me that we had a settled baseline position. The Chancellor introduced new efficiencies on top of those that were identified at the beginning of the process and which had to be built in at that point. Therefore, we have a new pressure to which the Minister must respond: fair enough. The question is that if it was a reduction in growth, how did that impact on the baseline? I have asked you the question, and you answered it. I will study the answer, because I do not understand your explanation.

1654. Mr Montgomery: The baseline — the block grant for 2010-11 — has been reduced because of the £122.8 million. Therefore, we have a pressure, and that is the reason.

1655. Mr McLaughlin: The Chancellor introduced a new efficiency tariff, which was, effectively, a reduction in the anticipated rate of growth. He did not say: "I gave you money in 2007 and I am taking it back in 2010", because that, in simple economics, would explain why the baseline was affected. He did not do that: it was the rate of growth that he impacted on. Therefore, I do not understand why we are making savings, or are reverting to the baselines, to take account of what is, in fact, a future impact.

1656. Mr Montgomery: In the CSR, the Chancellor gave us, for example, £600 million — I do not know the precise figure. We took that money and gave it to Departments. He is now saying that instead of £600 million, I will give you another £500 million. However, because we have given out the money to Departments, we are getting only £500 million when we were expecting £600 million, which gives rise to a spending pressure for us.

1657. Mr Daly: It is a spending pressure on what Departments planned to do.

1658. Mr Montgomery: Even though we are getting more money — it is an increase in funding compared with our baseline in 2007-08 — it is less of an increase in funding, and, therefore, less than what we had planned for. In the settlement, we were told that we were getting, for example, £600 million, but because that is not what the Chancellor will now give us because of the efficiency savings, we have a spending pressure and need to adjust the spending plans.

1659. Mr McLaughlin: You have been very patient, and so has the Chairperson, so I will leave it at that. I asked you about the Barnett consequentials, which, although they did not mitigate against the new efficiency savings that are being imposed by the Chancellor, had an ameliorating effect. We are talking about a global sum of £123 million that had to be adjusted.

1660. Mr Montgomery: The net impact is that the block grant, because of the changes in the pre-Budget and Budget reports, is £27 million lower than we had expected when we got the CSR settlement in October 2007.

1661. Mr Daly: That is as a result of Barnett consequentials and additional efficiencies.

1662. Mr McLaughlin: OK — actually, it is not OK, but I am punch drunk at the moment.

1663. Mr Montgomery: We would love to be able to show you how the block grant has changed over time. However, the difficulty is that the block grant does not change just because of the Budget; it changes as a result of technical issues, and they tend to swamp additional Barnett allocations. However, those technical changes do not have any impact on spending power. We could try to give you a table showing how the block grant has changed.

1664. Mr McLaughlin: I thank you for your help.

1665. The Chairperson: Thank you very much, Paul and Michael.

11 March 2009

Members present for all or part of the proceedings:

Mr Mitchel McLaughlin (Chairperson)
Mr Simon Hamilton (Deputy Chairperson)
Dr Stephen Farry
Mr Fra McCann
Mr David McNarry
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis
Mr Peter Weir

Witnesses:

Mr Richard Pengelly Department of Finance and Personnel

1666. The Chairperson (Mr McLaughlin): We move to the scrutiny of the performance and efficiency delivery unit (PEDU). I refer members to the Department's briefing paper. Mr Pengelly will make some introductory remarks.

1667. Mr Richard Pengelly (Department of Finance and Personnel): I will not say very much, Chairperson. The work that PEDU has done can be divided into a couple of main areas. A formal delivery review of planning has been undertaken, which we touched on earlier. The development of a performance management framework in partnership with OFMDFM is also very important. In many earlier sessions, we have talked a great deal about the focus on a strategic cross-cutting Programme for Government with public service agreements. Our view is that the targets that are embedded in the Programme for Government require a mechanism to hold Departments and their Ministers to account for their performance against those targets.

1668. That is not just about accountability; it is also a key mechanism by which to drive performance. If Ministers, officials and Departments know that they will be subject to some tough conversations with the First Minister and the deputy First Minister, that creates an incentive. Incentives on Ministers tend to flow rapidly through the Civil Service.

1669. That framework had not been agreed by the Executive. In its absence, PEDU undertook some light-touch work to look at progress against PSAs. I am happy to say that at their meeting on 5 March, the Executive signed off on the performance-management framework. We will now try to add some teeth to the detailed logistics of that work in order to try to bring it back. In general terms, we envisage a system whereby there will be some form of regular accountability meetings at which we will get updates, take a specific look at PSA and PFG goals and commitments, look at progress and have some sort of dialogue at ministerial level about the rationale and understanding for that.

1670. Those are the two main elements. I know that another element will be of particular interest to the Committee. Last night, Minister Dodds issued a press release in which he announced that there will be a PEDU review of Land and Property Services (LPS) to look at capacity issues. Work has started on the detailed logistics of that during the past few days. We are still working with the Minister to agree formally and finalise the detailed terms of reference of the report. I am sure that the Minister will want to share that with the Committee. Those terms of reference are not finalised yet, although, hopefully, they will be in the next couple of days.

1671. The Chairperson: Therefore, in its own way, that work with LPS is a type of pilot. Will it be informed by last week's endorsement of the project-management framework?

1672. Mr Pengelly: We want to look at the nature of the work in LPS to gain an understanding of the challenges and issues that it faces. In many ways, we want to look at the organisation's capacity — as regards its people, resources, skills and infrastructure — to deliver the objectives and targets that the Minister and, indeed, the Executive have placed on the agency. Our work is focused on capacity-type issues.

1673. The Chairperson: Yes, although it will not be the light-touch review that you mentioned. It will have a different context.

1674. Mr Pengelly: No. We have established a team that is based in LPS. It will be there for eight weeks with a view to report back to the Minister in early May. That is the end point. It will be a full-time piece of work.

1675. The Chairperson: That is a welcome announcement.

1676. Mr Hamilton: I certainly welcome the LPS review and the performance management framework. Until now, PEDU went into an organisation, did a specific task, and left. However, as you will know, Richard, the Prime Minister's delivery unit had success from its ongoing process of review and constant scrutiny of delivery of targets. Unless there is that scrutiny, the level of delivery that is required will not be achieved. Efficiencies will not be achieved either. There is always concern that if a Department or part of a Department sees PEDU coming in, doing its work, then going out the door and producing its report, that will be it — it will not come back again. The fear factor, which is important, will be gone. It is quite useful to have an ongoing process.

1677. You mentioned that you have a team in LPS at present. What are your resources in respect of PEDU? I was aware from previous conversations that you would establish a team, but that it would not be huge. What sort of numbers do you have? Have you drawn in people who have particular specialisms from elsewhere to do specific jobs, who will then return to their previous posts? What is your current system for managing resources?

1678. Mr Pengelly: As regards PEDU, four full-time staff, besides me, are dedicated to the unit. The nature of the specific LPS review is slightly different to that of any work that we have done before because it focuses on capacity and strategic issues. We have, therefore, brought an external person in to lead that piece of work who has previously worked in the Home Office's police standards unit. He worked directly in the Prime Minister's delivery unit. I suspect that he may be known to some members. He worked on the review of the Assembly Secretariat, which was a similar type of review because it looked at strategic capacity to manage and deliver organisational objectives. Therefore, there are five people on the team.

1679. In addition, we have two colleagues on full-time secondment from LPS to contribute to the work, because we want to achieve buy-in and a sense of ownership. Therefore, in effect, the team consists of seven people who work full time on this particular study. There was a similar situation as regards our work on Planning Service; we had two full-time members of Planning Service staff to work on the study. That is our normal approach.

1680. Mr Hamilton: I realise that it is not part of your actual team, but there is also a ministerial advisory panel. Has it been meeting? Has it made any suggestions about the type of work that the unit should be engaging in?

1681. Mr Pengelly: We have regular discussions with the advisory panel, which comprises Frank Cushnahan and Dennis Licence. We have some dialogue with them. What we are doing with the LPS work — and this is an area that we have to work on — is to try to formalise the role of the advisory panel and to have a regular stocktake meeting with it. The Planning Service project was a new type of work; we were thrown into it with an eight-week timetable in which to complete it. With the benefit of hindsight, one of the issues that we could have handled better was our engagement with the advisory panel in order to get some external perspective.

1682. Given the nature of the Planning Service work, I do not think that either of the individuals on the panel would have any concerns or issues about the work that we completed. They did have a legitimate concern in that they would have liked to have been a bit more closely involved in it.

1683. The two panel members met our Minister and had a good discussion about our strategic approach, the direction in which the unit is going and the work on the LPS. We are working on that engagement and getting better at it as we go forward.

1684. Mr Hamilton: Just to clarify a point, PEDU is not allowed simply to say that it will examine a Department; that must be agreed with the Minister of that Department. That poses a problem. Maybe you can answer my question in the context of the performance management framework and how that might allow the unit to be more widely involved.

1685. The two pieces of work that have been done so far were done at the invitation of the relevant Ministers, who asked you to examine a particular issue. However, there has been, for example, recent controversy about efficiencies in the Health Service — I will stay away from the politics — and about the trusts identifying efficiency savings that many people would identify as cuts. There is a difficulty in distinguishing between efficient operational management and simply cutting front-line services. You require the invitation of a Minister to examine such issues and identify efficiencies other than those that have been proposed. You cannot just walk in and do that. Will the performance management framework resolve that, or will it look specifically at targets?

1686. Mr Pengelly: PEDU has no legislative basis. It builds very much on our experience and on discussion that we have had with people such as Sir Michael Barber on the way in which the Prime Minister's delivery unit worked. Having worked previously in the Northern Ireland Audit Office, I am particularly keen to ensure that there is clear air between our respective roles. PEDU is fundamentally about helping organisations to deliver the targets and objectives that have been imposed on them by the Executive. It is not a matter of doing a cold-blooded critique of their performance and reporting and subsequently criticising them. The Audit Office does that very well, and we do not need to try to replicate what it does. That is why we are very keen on partnership working. We work with organisations. That is why the model for PEDU will not involve it producing reports.

1687. The conclusion of our work on the Planning Service was that we made recommendations, and Planning Service responded by producing a detailed action plan on how it would fix its problems. Planning Service has taken that plan away and owns it; we do not own it, nor have we published it. It is all about partnership working, and it is fundamentally important that we work with the Departments.

1688. The performance management framework that has been agreed by the Executive does not specifically mention PEDU. That will be an issue as we develop our methodology. Speaking personally, because the Executive have not got to this level of detail, I would like to see some sort of accountability meeting at which the First Minister and deputy First Minister and, maybe, the Finance Minister would sit across the table from another Minister to discuss a particular PSA target.

1689. Where performance is not rising to the expected level, the debate and dialogue should be about understanding why that has happened, and what the Department's plans are to address and fix that. Maybe that meeting would result in some sort of agreement between the four Ministers that PEDU, as an intervention tool, could sit with the Minister in question and help his or her Department to achieve its target. It is not about holding Departments to account: it is about working together to achieve a shared objective. The partnership approach is of fundamental importance to that.

1690. Mr Hamilton: I agree; that is ideally how you would want to see things moving, but I can understand equally how, in the system that we have, that would not be as easy to achieve as it would be in Whitehall, for example, where an all-powerful Prime Minister dictates such matters. There has to be a partnership approach here.

1691. Mr Pengelly: It is more difficult, but from the work that we did with the Planning Service, the one thing that I took great heart from was that our Minister and Sammy Wilson met, and they were very pleased and impressed with the piece of work that had been delivered to them.

1692. A couple of weeks after that, I happened to be at the regular meeting of permanent secretaries to give an update on the work of PEDU. The permanent secretary of DOE told his contemporaries that it was a tough examination and that his Department had been asked some very difficult and probing questions, which, in many ways, was painful. However, he also said that he would whole-heartedly and unreservedly recommend that every Department goes through that process, because DOE had definitely achieved better transparency in what it was trying to do and how it thought that it would get there.

1693. That sort of endorsement is welcome, and I think that we need to build up a track-record of credibility and of helping Departments to achieve their targets, rather than critiquing and making life difficult for them.

1694. Mr Hamilton: Hopefully, that confidence will develop over time. I used the example of health efficiencies, and no doubt there are others, but it is useful to see the unit, not as a threat, but as an assistant, and to keep the politics out of it. At the end of the day, delivery of efficiencies is important to all of us.

1695. Mr Pengelly: As regards the point that you make about efficiencies, I was working through some papers yesterday. As you know, we are looking at reviewing the generic Budget process. One of the issues that has come from that is that where Departments are required to deliver efficiencies, we can try to get some better, earlier sight of their proposals as to how they might deliver them and get a more meaningful dialogue between that Department and both its Assembly Committee and the wider Assembly. That may be a stronger way to address the efficiency issue, rather than having an ad hoc unit speak to the Assembly. That piece of work will be coming before the Committee in the near future.

1696. Mr Hamilton: Thank you. I am sorry for hogging the Committee's time.

1697. Dr Farry: Your past in the Audit Office is all coming out today, Richard.

1698. I will focus on the PSAs, and I will bring the Audit Office into that. The report stresses the analysis and the assistance that PEDU is providing to the Departments. It is very much about looking at the existing PSAs, and trying to identify the areas in which performance may fall short of what was anticipated. Can we take that a step further and ask you what consideration you have given to the recent Audit Office report, 'Public Service Agreements: Measuring Performance', in which concern has been voiced about such issues as the accuracy of baselines, and the clarity of what the PSAs are asking for — is that something that you will consider? Who will take up the concerns that have been raised by your former boss, the Comptroller and Auditor General?

1699. Mr Pengelly: In our update to the Committee, we mentioned that our Minister wrote to his Executive colleagues on 7 January. In the absence of formal Executive agreement of the performance management framework, we wanted to do some work on measuring progress against PSAs. However, given that the PSAs that we are currently working to were only enforced from 1 April 2008 — because 2008-09 was the first year of that — our first intervention looked at the position around October/November.

1700. Rather than focus on performance against the PSAs, which are six months into what are, in some cases, five- and six-year targets, and given the normal time lags in getting data, we thought that a better approach was to look at how they are planning to deliver: to look at their

delivery framework and baseline data. As our Minister's correspondence pointed out, we found the same issues that the Audit Office found: there was lack of clarity about what the baseline position was and what measures Departments needed to focus on to understand whether they were moving in the right direction.

1701. Our Minister wrote to his colleagues in the Executive, outlining those generic issues. The DFP spending teams are engaged bilaterally with Departments in order to make those points. Hopefully, that issue will now progress to the formal mechanism under which it will be subject to OFMDFM scrutiny and will be given more teeth. DFP continues to support that.

1702. Dr Farry: Does DFP intend to work with Departments to clarify PSAs? With the benefit of hindsight, a year after those PSAs were originally drafted, is it time to clarify what they mean and to let others know? I am not sure whether I can recall some of the examples to which the Audit Office report referred, but concerns were raised about definitions, or the lack of them, and what was actually meant.

1703. Mr Pengelly: The answer to that question is yes, but that is a piece of work that OFMDFM is looking at as part of its mid-year review of the Programme for Government.

1704. That touches on a point made previously. In the current absence of collective Executive agreement to embrace PEDU, I want to be careful that the only thing that PEDU does is look at PSA targets that have been agreed by the Executive. That is because nobody can dispute that there was unanimous agreement on those PSA targets. I do not want to go in and say, "The PSA target said x, but it would be nice if it said y, so let us work on that." Concentrating on the agreed PSA targets keeps DFP away from any debate about the propriety of that work.

1705. Dr Farry: I appreciate your reluctance to open up a wider political debate. I am thinking more of areas in which a lack of clarity about what is meant by something can be corrected with the Departments. An example may be clarifying what is meant by "obesity". I do not believe that the Department of Health stated clearly what was meant by that; therefore, if a starting point is not known, how can performance in tackling obesity be measured?

1706. Mr Pengelly: That goes back to the establishment of a baseline. We have made the generic point in ministerial correspondence. Spending teams under my control are making that specific point in relation to individual PSAs. That will be one of the key points that will be raised at ministerial level once we get into the formal scrutiny of PSAs. The foundation on which scrutiny must be built is clarity about a baseline position, about what we want to achieve and about the ways in which success will be measured. Dr Farry made a strong point.

1707. Mr O'Loan: This discussion is very interesting. Overall, I am disappointed in PEDU's progress. I started off as a big fan and approver of the whole idea, because it very much fitted in with public-sector reform, about which I will say more in a moment.

1708. I have a specific question about the advisory panel. I looked again at the statement made by the then Minister of Finance and Personnel, Peter Robinson, who told the Assembly:

"I have already secured the involvement of Sir Michael Barber, Frank Cushnahan and Dennis Licence as members of the ministerial advisory panel." — [Official Report, Vol 29, No 6, p247, col 2].

There was a clear indication that the advisory panel would grow beyond that. You now seem to refer, essentially, to it having two members, although you later mentioned that Sir Michael Barber had some involvement. However, you indicated that he was not a standing member of the panel, which now seems to consist of only two people. Will you clarify that?

1709. Mr Pengelly: I am sorry. I may have inadvertently misled the Committee on that point. The advisory panel is made up of three individuals. The Minister's original statement did not convey a definitive intention to grow the panel, but he did not want to rule that out in case a specific area of work required an expert external view that was not represented by those three members. However, there was no intention to expand the panel beyond the three members.

1710. Sir Michael Barber is part and parcel of that panel. I talked about the two members because, in addition to Sir Michael Barber being a member of the ministerial advisory panel, the Department has been doing some work with him that specifically draws on his experience as head of the Prime Minister's delivery unit. In the course of that work, I have had monthly conference calls with Sir Michael, during which we talk about the Department's approach and methodology. When I talked about Frank Cushnahan and Dennis Licence, I meant that they had not been as fully involved. I should have made the point that Sir Michael is involved in a monthly dialogue and that we are securing his views and expertise. However, all three people are on the advisory panel.

1711. Mr O'Loan: I am not looking for bureaucracy for the sake of it — far from it. However, judging by his statement, the nature of the panel seems to have altered contrary to the Minister's original intention. The active group of officials is very small compared to the size of the task of attempting a serious, major initiative in public-sector reform — for that is what is needed.

1712. I am keen on such reform because I feel that there is enormous scope for it. The potential benefits are colossal. It could free up resources, which we could use to help the most needy; facilitate achievement of our strategic objectives; and help to shift spending from consumption to investment, development of infrastructure, skills and people — all the good things that we have been talking about.

1713. I do not see much evidence of that kind of thinking in public-sector reform. Efficiency savings are not viewed in a positive light, and that is not a good attitude. Some efforts at efficiency operate at a very low level. There are across-the-board cuts, which are levelled throughout whole Departments: and it is left to individual managers to deliver them. That is done instead of taking a strategic oversight and — instead of taking a welcoming attitude to efficiencies — people often take a begrudging attitude. Managers implement efficiencies because they are forced to do so, and if they were not forced, they would not do it at all. That is fundamentally wrong.

1714. All the work that you have done is good, including the review of the Planning Service and the light touch — which now is changing to a full review — on the Land and Property Services. I was particularly interested in what you said about the management system and the PSAs. That kind of strategic work is particularly important.

1715. However, I do not think that we see enough strategic work; we do not see enough culture-change throughout the public sector. There is not enough political leadership to facilitate that. The political system often displays resistance in support when managers want to change things. We must take some of the responsibility for failures of the political system when it places obstacles in the way of a very necessary project.

1716. Mr Pengelly: I will steer clear of your comments on political leadership.

1717. With respect to the resourcing of PEDU, I agree that, ultimately, we want and need a bigger unit. My longer-term aspiration is that we will not need this unit forever; we will complete the job and we will all get better at it. My vision for the unit is that we should grow it, so that it will have a set complement, but all those seats will not always be filled. It is important that we bring in people from other Departments and the wider public sector and let them work

intensively for eight or 12 weeks on a specific delivery review, learning tips, techniques and best practice about focus on delivery and public-sector reform. They will then return to their home organisation, taking those lessons with them, and they will promulgate them throughout the Department.

1718. The difficulty at the moment is that we did a piece of work on planning, and now we are doing a piece of work on the Land and Property Services. I do not have a ready supply of additional studies. Ideally, I would like to run two, three or four studies in parallel. However, because of the points that we have already discussed, I am still waiting for the flood of invitations and requests for help from other Departments. That does not concern me much at this stage, because if we can deliver two or three good pieces of work that are genuinely accepted by the host organisations as adding value, Departments will begin to open up and invite us in. I have had some discussions with other Departments, and I would like to think that, as time moves on, we will be able to grow the unit and bring in more people.

1719. I have also had some preliminary discussions with some of the local accountancy firms on the basis that, in the future — without any commitment — it might suit us to take from such a firm a secondee who has a particular skill-set that could be brought to bear on our work. I told those firms that I would not expect to pay much, if anything, for that secondment, because the experience would go on the individual's CV and make him or her more marketable. However, that is the way we work.

1720. Dr Farry: The public sector cannot compete with the private-sector salaries.

1721. Mr Pengelly: Unfortunately not.

1722. Mr Weir: Not even in the Assembly.

1723. Mr McQuillan: Earlier, you mentioned the review of the Planning Service. Can you update us on that? When can we expect to see changes for the better at the front line?

1724. Mr Pengelly: I will talk you through the logistics first, and then I will address performance.

1725. The piece of work that was completed at the end of November 2008 was time-limited to eight weeks. The chief executive of the Planning Service and I attended the ministerial sign-off meeting. I presented the findings and recommendations from our piece of work, and Cynthia Smith, the chief executive of the Planning Service, responded by presenting an action plan.

1726. In a sense, there were some similarities to the Audit Office process in that we agreed what the issues were and what we would say before the process began. The Planning Service accepted that and developed an action plan on how it would respond to the recommendations. I saw the action plan before the meeting, because I wanted to finish the meeting by informing the two Ministers whether the plan would work from the PEDU perspective. I said that it was a good response, but that there were some areas in which we could probably do a bit more; however, as an initial response, it would get us working towards improving planning.

1727. It was agreed that the two Ministers would meet again around 6 April 2009 to formally review progress and the change in performance. My folk are currently undertaking an interim update report on the Planning Service and evaluating how it is delivering the action plan. The signs are very positive.

1728. As I mentioned earlier, we do not produce reports. The findings were the list of recommendations and the action plan from the Planning Service. My understanding is that the

DOE has presented the findings to the Committee for the Environment. We told the DOE that we would not publish the findings, but that we do not mind if it wants to publish them. I did not want the host organisation to think that we would go out and tell tales. That is the agreement. Our Minister is very keen that we do not publish anything, but there has been some scrutiny of the individual findings.

1729. At a generic level, we held a couple of sessions in which we brought rank-and-file staff from the Planning Service into a room and asked them what they thought was wrong and how they thought that those problems could be fixed. We were hugely impressed by the flood of ideas that we received and the commitment that was demonstrated.

1730. At times, the whole strategic management of the organisation in relation to operational delivery could make better use of that enthusiasm and commitment. The clear evidence from the interim report is that that is happening. Not unexpectedly, there has been a slight dip in performance since we held those sessions. I say not unexpectedly because we asked the staff to focus on the complex, long-standing backlog of cases. They are getting rid of those, but, by necessity, they take longer to process.

1731. If the Planning Service makes the progress that it seems to be making on the action plan, I am absolutely convinced that we will start to see real improvement in relation to planning-application times by April or May 2009. The organisation certainly accepts that, and there is no reason at all to doubt it. It was a very good piece of work.

1732. Mr McQuillan: If there is no improvement, will you go back to the Planning Service again?

1733. Mr Pengelly: Absolutely. We will undertake a formal review. I think that, on 6 April, the two Ministers will expect us to tell them about an improvement in performance. If there is no improvement in performance, I suspect that they will invite us to go back to the Planning Service immediately and evaluate ways in which we can build on that action plan. However, I am confident that we will see an improvement.

1734. Mr McQuillan: You said that no report was produced about the Planning Service, but can we expect to see a report on Land and Property Services?

1735. Mr Pengelly: The Minister has not yet agreed PEDU's terms of reference in relation to what he wants as an output — whether it will be something similar to the Planning Service solution. However, LPS is slightly different because it is a DFP issue, whereas the Planning Service work was done for a different Department. The Minister is considering the terms of reference and the output that he wants at the end of the process.

1736. Mr McQuillan: A report on Land and Property Services would be a good way to show how that work is taking place and what the benefits are. Earlier, you said that there had not been a rush of Ministers knocking down your door. Have there been any invitations at all from any other Departments?

1737. Mr Pengelly: I have had some discussions with the permanent secretary of the Department of Health, Social Services and Public Safety. However, for us to investigate that Department, the permanent secretary would have to clear that with his Minister.

1738. No substantive discussions have taken place on particular areas of concern, although a few permanent secretaries have said that they want to think about useful pieces of work that could be done; they want to have that dialogue at ministerial level. I believe that there is a growing acceptance that PEDU exists to work in their best interests and to help them to do what they do on a daily basis.

1739. Mr McQuillan: I am encouraged by what I hear.

1740. The Chairperson: I am not arguing against the voluntary nature of a co-operative approach, but when the Minister announced the establishment of PEDU in April 2008, he said that it would be tasked with identifying efficiencies over and above the efficiency delivery commitments that were made for 2008-2011. Does PEDU's voluntary and co-operative approach dilute that goal, and if it does not, has PEDU identified any efficiencies over and above the agreed efficiency delivery projections?

1741. Mr Pengelly: PEDU's starting point was about building collaboration with Departments and gaining wider acceptance. If I were to arrive at a Department's door, saying that I was there to help it become more efficient, the door would probably be slammed in my face pretty quickly, because —

1742. The Chairperson: Your Minister put you in that box, did he not?

1743. Mr Pengelly: I might say, "I am here to help", but Departments hear, "I am here to cut your budget". In the early stages, we are working to get a sharp focus on delivery and achieving targets. Improved efficiency will be a natural consequence of that. For example, for the Planning Service to hit its targets, given the resources that it has, it must process applications more quickly. That is a better and more efficient use of resources. Indeed, given the current market conditions and the decline in the number of applications, the Planning Service will require fewer resources. That will free up resources.

1744. At the moment, the efficiency agenda exists as a strong by-product of the work that we are doing on delivery. Efficiency is in our title, so we must look at that. We have not done that specific work. That issue will crystallise in 2010-11, and we are all aware of the Chancellor's comments in his pre-Budget speech, in November 2008, about requiring £5 billion in additional efficiencies at UK level.

1745. The plans for 2008-2011 will be an issue when Mr Dodds goes to Edinburgh tomorrow to meet the Finance Ministers of Scotland and Wales and the Chief Secretary to the Treasury. Our Minister is very keen to achieve more efficiencies on the basis that those savings will be recycled back into front line services in Northern Ireland, rather than being handed back to the Treasury. That is where PEDU will have a key role; we will try to increase and extend those efficiencies.

1746. The Chairperson: Recently, the Committee specifically considered the HR Connect project. It is clear that it is having teething problems connected to performance. We asked the Minister to consider involving PEDU in order to help resolve some of those issues. We recognise that, as with LPS, those were massive projects, and that people were asked to accomplish quite a lot within tight timescales, so it is not unsurprising that issues have arisen. Has any consideration been given to PEDU taking a look at HR Connect? Is that a feasible area of work for PEDU?

1747. Mr Pengelly: The Minister has not yet given any consideration to that matter. My colleagues in the Department, who discussed that issue with the Committee, alerted me to the fact that it had been raised. They are working on some advice for the Minister on that matter. My initial views were that such a review of HR Connect was not necessarily what PEDU was meant to do; it is meant to help Departments to focus on PSA targets. Having said that, the Minister wants to see the sort of improvements that we all aspire to on the matter of HR Connect.

1748. Ultimately, it is for the Minister to play it whatever way he wants. Given that we are all part of the DFP family, he might look at other options. A formal PEDU review may not be necessary; we could move a couple of PEDU staff across to HR Connect in order to shine a

spotlight on the matter. A wide range of options is open to the Minister, and we will work with him in whatever he wants to do.

1749. The Chairperson: We wrote to you last week to request an update on the result of PEDU's work to date with the intention that members would be informed for today's meeting. That request was made at short notice, and I accept that we did not give you much turnaround time. I appreciate the information that you have provided for us today, but will you follow up this discussion with a report that will give us some indication of the future programme and the timescales involved?

1750. The Committee is very supportive of the issue in general, because it will help to roll out the efficiencies and to deliver the public service agreements. It is in all of our interests that that is done in the most collaborative way possible, and the whole process benefits if we provide support for Departments. I would appreciate it if you could give the Committee a follow-up report.

1751. Mr Pengelly: Yes, absolutely.

1752. The Chairperson: On behalf of the Committee, I thank Richard for his assistance this morning. Good luck.

24 March 2010

Members present for all or part of the proceedings:

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

Witnesses:

Mr Colm Doran
Ms Deborah McNeilly Department of Finance and Personnel
Mr David Orr

1753. The Chairperson of the Committee for Finance and Personnel (Ms J McCann): I welcome David Orr, director of corporate services in the corporate services group (CSG) of the Department, Deborah McNeilly, the head of the finance branch in CSG, and Colm Doran, head of business planning and corporate governance. Please make some brief opening remarks. In particular, please explain any changes between the 2009-2010 business plan and the draft 2010-11 plan, as some of the objectives and targets appear to have been changed or dropped.

1754. This session is being reported by Hansard. I remind members, witnesses and those in the Public Gallery that all mobile phones must be switched off as their signals interfere with the recording equipment.

1755. Mr David Orr (Department of Finance and Personnel): Good morning Chairperson and members of the Committee. Thank you for allowing us to appear before the Committee today.

1756. We are here to discuss the Department of Finance and Personnel's draft operational plan for 2010-11. It has been seen by the Minister, who is generally content with it. We want to discuss it with the Committee, and we are happy to take questions on its various elements. In answer to your question, Chairperson: this year, we have tried to concentrate on the key strategic issues facing the Department, such as financial management; people management, including sick absence; data security; and customer services, which is the delivery of the shared services that the Department provides to other Departments. Therefore, there are fewer targets in the draft high-level plan. However, that does not mean that targets have been dropped; many have been included in the directorate-level plans that are being finalised, and we will send those to the Committee as we did last year.

1757. Indeed, many of the detailed actions that we undertake are included in the various action plans; for example, CPD is developing an action plan in response to the Committee's review of procurement practice, and there is an action plan on data security. We are not dropping actions; we are focusing on the key strategic issues.

1758. Mr O'Loan: Thank you for coming before the Committee. I could ask questions on many issues, but I will just pick one or two and leave the rest for other members.

1759. Our old friend PEDU, which you tell us is to be used to drive higher levels of performance and efficiency, was described in last year's business plan as the accepted mechanism through which Departments can be helped. Have you dropped that idea? Is PEDU currently being used as the accepted mechanism for driving efficiencies across Departments? Have you made any progress with the fundamental issue concerning PEDU, which is that it can only operate by invitation, and therefore does not seem to be proving very effective across the board? Looking to the future, there are heavy question marks over how PEDU will be used.

1760. Mr Orr: As I understand it, this is the wording that is used in the PSA. We are not moving back from supporting PEDU. Ministers are accountable for the effectiveness and efficiency of their Departments, and PEDU is one tool that they can use to assist them in that task. Officials are due to brief the Committee on PEDU on 14 April, and members may well be able to explore that matter in more detail with Richard Pengelly then. However, from the point of view of the business plan, we have kept the reference to PEDU being one of the tools to drive higher levels of performance and efficiency.

1761. Mr O'Loan: With respect to workplace accommodation, we all know the history of Workplace 2010. The Department has stated that it is still committed to the principles of Workplace 2010 and to getting a modern Civil Service estate, which is something that I am also committed to and supportive of. Why are there no objectives for that this time around?

1762. Mr Orr: I will speak about that in the next session; but in summary, the termination of Workplace 2010 was a significant issue, and members know why it was terminated. We have had to start from scratch on our accommodation strategy, and we are bringing an early draft to the Committee later this morning. To be frank, it is constrained by the availability of conventional finance.

1763. I do not think that there is any point in making grand promises that we will be able to do significant things on the accommodation strategy, but we want to do what we can. The business plans of CSG and properties division contain the relevant targets, and we can let you know about those.

1764. Mr O'Loan: As you say, we will be coming back to that in more detail.

1765. We are aware that, to a significant degree, Land and Property Services (LPS) is not achieving its targets for the collection of rates. By quoting the collection target as a cash amount of £970 million rather than as a percentage, you seem to be shifting the goalposts. I have significant concerns about that, because it does not tell us what proportion that £970 million is of the outstanding rate for the current year and what is outstanding from previous years. Quoting separate percentages for both would provide much clearer information. Is this an example of a target being changed because it is proving difficult to meet? That is what it looks like.

1766. Mr Orr: The targets have not yet been finalised and we still have the opportunity to adjust them. In 2009-2010, rate collection is predicted to be around 94.5%. The Committee speaks to John Wilkinson from the LPS frequently, so members know the reasons for that. The cash value will be worked out on the basis of a higher percentage than this year's prediction, so the percentage that will be used to predict next year's rate collection will be higher than 94.5%. We have focused on the cash value because it is important, for the purposes of the Northern Ireland block and for the councils, to know what is being collected. We are not moving the goalposts. When the target is finalised, we will be happy to provide an explanation of how that relates to the target for the current year, 2009-2010, the actual collection value for 2009-2010, and the target for 2010-11.

1767. Mr O'Loan: I think that you should consider how you present that target. A target for collecting £970 million has been stated. What percentage is that figure of the total rate, both in terms of the amount that will arise next year and the amount outstanding at the end of the current year?

1768. Mr Orr: It is around 95% to 95.5%.

1769. Mr O'Loan: Am I right in saying that the target is 98%?

1770. Mr Orr: Yes, but I do not think that that is achievable in the current financial climate. I am being open with you in saying that. That target has not been achievable in the past few years. We need to increase the current amount of collection, bearing in mind the financial circumstances and the circumstances of ratepayers.

1771. Mr Weir: Collection and valuation are, in many ways, interlinked, and there is strong willingness across local government to be involved. The big difference between local government and central government with respect to rates revenue is that although it is of benefit to central government, it makes up a relatively limited proportion of overall spend, whereas it is the lifeblood of councils. An extra percentage or two can make a critical difference to local government. Do you have any specific plans to work more closely with councils on the issue? Are you open to proposals from local government to have a much more enmeshed system?

1772. A year or two ago, when there were problems, many councils, together with the Department, took proactive action such as sending staff out to knock doors. That proved to be quite a productive exercise. Strategically, and in the long run, are you open to a greater level of involvement with councils? That need not involve the Department's ceding of control but the sharing of responsibility with councils.

1773. Mr Orr: That might be a very attractive idea to the LPS. However, I assure you that it works co-operatively with councils. It meets councils and their representative bodies regularly.

1774. Mr Weir: Presumably, you would welcome an opportunity to deepen that co-operation.

1775. Mr Orr: Yes.

1776. Mr McNarry: You have a target for collecting £970 million, and you explained that target to Declan. What is the cash value of a 5% reduction of debt?

1777. Mr Orr: The opening debt at the start of the year is approximately £160 million, and 5% of that is around £8 million.

1778. Mr McNarry: I will not use the word "happy", because I am sure that DFP is not happy about it: is DFP satisfied with the LPS target of reducing by 5% the debt of £160 million that is carried forward year on year? Can the LPS not do better than that?

1779. Mr Orr: It can do better than that by writing off old debt. However, to do so is expensive for both the block grant and the councils, because debt that is written off is scored against income.

1780. Mr McNarry: Is the LPS ever going to get that debt paid?

1781. Mr Orr: That question must be considered carefully. It is a good point. I must explain that, even if that opening debt of £160 million were reduced during the year to £80 million, new debt would come in. The process of debt reduction and replacement by more debt is a constant one.

1782. Mr McNarry: Will you clarify whether the £160 million of debt will be lost or added to the predicted cash income of £970 million?

1783. Mr Orr: The £970 million includes the debt that the LPS hopes to recover.

1784. Mr McNarry: I do not know how anybody can present those figures and say that everything will be all right. Whoever is going after that money is not being ambitious enough.

1785. Mr Orr: We will consider that point.

1786. Mr McNarry: The LPS must do better. That situation is not acceptable. The LPS is at risk of sending out a signal that it is not serious about debt collection, and that is part of the problem.

1787. Mr Orr: May I respond to that point?

1788. Mr McNarry: Are you saying that the LPS is not sending out that signal?

1789. Mr Orr: No, it is not.

1790. Mr McNarry: The figures say otherwise.

1791. Mr Orr: The number of court actions that the LPS initiates and pursues is indicative of —

1792. Mr McNarry: How much do those cost?

1793. Mr Orr: I do not have the figures with me. A paper with the relevant figures was given to the Committee.

1794. Mr McNarry: It costs a significant sum of money to chase debt, and a lot of it is debt that you are not prepared to write off, as you probably should do given the circumstances you are in.

1795. Mr Orr: It is expensive to chase debt, and although the LPS is chasing that debt strongly, DFP may have to consider writing it off. That will have an impact on the councils and the block grant.

1796. Mr McNarry: Has the LPS factored in the credit card collection proposals to those figures? What benefit or effect might those have?

1797. Mr Orr: I do not have that level of detail with me. I will get back to the Committee about that.

1798. Mr McNarry: Is it anticipated that the debt will be reduced and that the LPS will collect rates to the cash value stated should those proposals proceed?

1799. Mr Orr: I will have to come back to the Committee to confirm whether that is the case. I do not have that detail with me.

1800. Mr McNarry: Do you know whether credit cards will be used as a method of payment?

1801. Mr Orr: I cannot speak to that at the moment. I will come back and advise the Committee about that. This is not my area, Chairperson. I am doing my best to answer the questions. I will certainly come back to the Committee with the relevant information.

1802. Mr McNarry: That is fair enough. You are always very fair with us. I asked that question for a specific reason.

1803. Mr F McCann: Since the Committee's first meeting in the present term, the LPS has taken major strides in rate collection. However, I was reading an article recently that said that 30,000 people owed rates or had missed their payments. Is that figure accurate, or does the number increase and decrease? How much does it equate to in cash terms?

1804. Mr Orr: I do not know the answer to that. However, John Wilkinson will be meeting the Committee on 14 April. May I give him notice of these questions so that he will be armed and able to provide an answer?

1805. Mr F McCann: Yes, certainly.

1806. Mr Orr: We will respond to the question on credit card payment before 14 April.

1807. Mr McQuillan: I have great sympathy for people who cannot afford to pay their rates. We should be targeting those who can afford to pay but who choose not to do so.

1808. Last year, sick absence targets for the Civil Service and DFP were 9.5 days and 8.5 days respectively. Why have no targets been set for this year? What are the targets?

1809. Mr Orr: The sick absence targets were set over a number of years, and the last target set by Ministers was for the 2009-2010 financial year. As Mr McQuillan has said, the NICS target for 2009-2010 was 9.5 days and DFP's target was 8.5 days. Ministers will be setting new targets for sick absence, but they want to wait until the out-turn for 2009-2010 is finalised. We will send those targets to the Committee at that stage.

1810. I will give the Committee an update on the DFP position. The DFP target is 8.5 days, and I think that the result will be slightly higher, at 8.8 days. We have experienced a reduction, year on year, from 14.3 days in 2004, and, although we will not be complacent, because more work

must be done, a result of 8.8 days will represent an improvement. It is interesting to note that the CBI average for large private sector organisations is 9.5 days, and the Committee has the figures for district councils. DFP is well below those levels. We have put a strong focus on sick absence, and that focus will continue. This year's target has not yet been set, but we will let the Committee know when that has happened.

1811. Mr McQuillan: Given that sickness levels have been reduced to 8.8 days, will next year's target be more ambitious than 8.5 days?

1812. Mr Orr: I think that it will. The CBI average demonstrates that we are reaching a reasonable — I will not say acceptable — level. However, we cannot expect reductions of 0.5% year on year. The reductions will be in the region of 0.1% or 0.2%.

1813. Ms Purvis: I refer to page 12 of the draft plan, which mentions staff satisfaction surveys. During last year's discussion on the draft operational plan, we heard that the customer and staff satisfaction targets for 2009-2010 were 75%. What satisfaction levels were reflected in the 2009-2010 surveys?

1814. Mr Colm Doran (Department of Finance and Personnel): The customer satisfaction survey result for DFP was 73%, which is an improvement from 68% in the previous year. This year's staff attitudes survey was completed on an NICS-wide basis, and results for all Departments are not available yet.

1815. Ms Purvis: In that case, how are you supposed to measure the response or meet the target?

1816. Mr Orr: The survey has been undertaken, but the results are not yet available. They will be published within the next few weeks. We will inform the Committee of the results when we come back to report our performance against the targets.

1817. Ms Purvis: Did any major issues arise from the surveys?

1818. Mr Orr: The customer survey showed a 5% improvement, but we did not meet our target — we fell short by 2%. We received good information from customers, and we want to work with them in 2010-11, using tools such as customer journey mapping. Rather than simply surveying customers at the end of a process, we will ask them about their experiences at various stages during the processes and determine whether anything could be done better. The focus for 2010-11 will be on working with customers more proactively in order to make real changes.

1819. Ms Purvis: Was that one of the issues that arose from the surveys? Was it that you were talking to customers at the end of a process rather than consulting them throughout?

1820. Mr Orr: Yes. Our customers welcome being involved in helping us to make our processes more customer-focused.

1821. Ms Purvis: Did any other issues arise from the surveys?

1822. Mr Doran: Issues raised in the customer survey will be captured in the departmental improvement plan, but involvement in the process is one of the areas that we want to focus on. Communication with customers was also highlighted in a couple of surveys, and we will focus on that in our improvement plan.

1823. Ms Purvis: What are the customer satisfaction targets for the year ahead?

1824. Mr Orr: We have not set a target for 2010-11. We want to proceed with customer journey mapping to see what is possible in relation to customer focus.

1825. Ms Purvis: Is the Department looking at long-term strategic targets for customer satisfaction, or will targets be dropped?

1826. Mr Orr: We are looking for quality engagement with our customers to improve our interaction with them and to understand what they expect. Most of our customers are internal Civil Service customers; we have relatively few external customers, although the LPS is an exception. It is important to examine our customer processes and find out how our customers want us to perform differently. We will undertake a self-assessment of our activities against the European Foundation for Quality Management (EFQM) standard, or something similar, so that we can benchmark our performance for customers and staff against best practice.

1827. We have not worked out exactly how we will do that. There are a number of methodologies available. We will have a workshop tomorrow, which will be followed by a further workshop in early April, to try to work out how to benchmark performance. I cannot give you an exact answer, but I hope that I can assure you that we are focusing on customers. Clear customer focus is a key DFP value, and we want to continue in that vein.

1828. Mr McNarry: I have a couple of questions. Will the plan mean that there will be no further job losses in the Department?

1829. Mr Orr: The reductions in posts for 2010-11 have been identified. We are working our way through that process. Provided that our budgets for 2010-11 remain as we expect, and that process is ongoing, our plans for 2010-11 are in place. I cannot give any commitments or guarantees about 2011-12, because that will be subject to the Budget 2010 process.

1830. Mr McNarry: Annex B of the operational plan shows the Department's organisational structure. I see that there is a vacancy on the departmental board for an independent board member. Are you permitted to tell me the annual operating cost of the board, including the independent board member once that vacancy is filled?

1831. Mr Orr: We will do that.

1832. Ms Deborah McNeilly (Department of Finance and Personnel): The salaries of board members are disclosed in our annual accounts. That might be helpful.

1833. Mr McNarry: Yes, it would be. I would like information on any other costs that there might be. I do not want to get into the cost of water, because a lot of people give off about the volume of water that you people drink.

1834. Mr Orr: We do not use bottled water in DFP.

1835. Mr McNarry: Is it Beaujolais?

1836. Mr Orr: It is from the Silent Valley or whatever other reservoir serves our area.

1837. Mr McNarry: That is the best stuff. I would be grateful if you could give me that information.

1838. Mr Orr: Is it the cost of the independent board members that you are interested in?

1839. Mr McNarry: No; I am interested in the cost of the board — the DFP company.

1840. Mr Orr: Including salaries?

1841. Mr McNarry: Yes; I just want to see how much the board costs.

1842. Mr McLaughlin: Following on from a point made by David McNarry earlier; is there a way of tracking the impact of the efficiency measures on administration costs? I am talking about DFP specifically. I am asking about the outcomes of the efficiency measures on the Department. Can you say whether the staff complement has grown or contracted as a result of the efficiency measures? I am sure that, at the end of the three-year Budget period, you will be looking at some sort of a balance sheet that will show the impact of the efficiency measures.

1843. Mr Orr: We can track the number of staff in the Department.

1844. Mr McLaughlin: Can you track staff costs?

1845. Mr Orr: Yes. For example, between 2009-2010 and 2010-11 we will reduce our staff costs by 200 posts; and I mean 200 funded posts rather than 200 people. Some posts were filled by temporary employees, and we are redeploying others. Therefore, we are able to chart the change in the size of the Department and the administration costs.

1846. The effect of the efficiency measures on the ground can be a little bit more difficult to measure. For example, in March 2009, there were 47 members of the Senior Civil Service in the Department. That figure has been reduced by almost 10% to 43, and a further three or so will be removed during this financial year. You may ask what difference that has made. In my own area, I merged two grade 5 jobs. It is very hard to track the impact of such measures on delivery on the ground, because we are trying to deliver what we promised with less.

1847. Ten years ago, the Department had roughly half of the number of staff that it has now; 3,200 then compared to 1,600 now. The number of staff has doubled in 10 years because of the functions that have been added by various Ministers. The Department has acquired responsibility for rates collection, valuation, accommodation services, CPD, NISRA and the OHS. Therefore, a large number of staff has come into DFP along with a large number of functions. The most recent increase in staffing was when the Department took on the shared services work. We now have IT Assist people from all other Departments working together in the shared services organisation and in Account NI. It may not just be about the total number of staff in the Department; one has to look at the functions too.

1848. Mr McLaughlin: I understand that; but how can the Assembly be satisfied? Those functions had to be delivered anyway. If we are talking about outputs and unit costs, does this demonstrate that there is more efficiency and less administration costs in delivering the same services, albeit that they have been consolidated in the Department?

1849. Mr Orr: It can do. For example, IT Assist delivers IT facilities at a cost of just under £1,500 a person across the NICS. That cost includes the computer, the network, the secure data storage and the help desk function. We benchmarked that cost against the cost in England, and it is below the English figure by about £200 a person. We aim to lower it to £1,400 or £1,300 a person. There are ways to benchmark those efficiencies.

1850. Mr McLaughlin: That is very helpful. In the February monitoring round, the Minister expressed disappointment that significant reduced requirements were declared. He indicated that those could have been surrendered much earlier had Departments displayed better financial

management and reporting. Why has the objective to improve financial management across the public sector been removed from the balanced scorecard?

1851. Ms McNeilly: Work is still ongoing. It has not disappeared as such; it has dropped down into —

1852. Mr McLaughlin: Has it been de-prioritised for some reason?

1853. Ms McNeilly: No.

1854. Mr McLaughlin: Was it not expected that there would be a continued focus? This Committee takes particular interest in that area of financial management.

1855. Mr Orr: Target R2 in the draft plan shows a range of measures that CFG plans to undertake in 2010-11. There will be a strong focus on the monitoring rounds. The Minister's statement was one example of that, and that will continue. There will also be a strong focus on living within budgets and within the acceptable tolerance of underspend, which is mentioned in the plan. I think that good financial management is one of our priorities, and there was no intention to relegate it in any way.

1856. Mr McLaughlin: Perhaps it may be worth taking another look at that. This Committee is awaiting the review of the budgetary and monitoring processes. We have not seen the outcome, but the indications are that there will be a fairly conservative approach. These key instruments allow the Assembly to engage in the budgetary process and the quarterly monitoring rounds to see whether we can further enhance or develop the process of in-year scrutiny. Perhaps there are opportunities for us all to work together. It should be reinserted or restated as one of the priorities.

1857. Mr Orr: We will consider that suggestion.

1858. Mr F McCann: It is obvious that the Department is under severe pressure to deliver on the targets that were set and, at the same time, deliver efficiencies. Sometimes it is an open match. You talked about the reduction of 200 posts. Do you assess each post against your ability to deliver on targets? If not, how are the posts chosen?

1859. Mr Orr: We undertook that exercise, in preparation for 2010-11, last October and November. Each business area looked at its staffing structure and the activities that each post undertook and compared that with statutory requirements and key strategic business plan requirements that were given priority. Each business area looked methodically at the posts that did not contribute to the statutory and obligatory targets. We identified the areas in which savings would cause least pain. There is never no pain, but we wanted to continue to focus on the key targets in the PSA and in our business plan.

1860. Mr F McCann: Some 200 posts may be going now; and, in the next round, you may have to reduce the number of posts further. There must be a cut-off point at which it is acknowledged that no more posts can go, because the reductions are impacting on the ability to deliver.

1861. Mr Orr: That is correct. There comes a point when one cannot simply argue that it will be more efficient. I am not saying that we have reached that point yet. Indeed, I think that there is still some way to go. However, there comes a point when it must be acknowledged that one must stop doing certain things. As the Committee has pointed out before, it is a combination of being more efficient and, at times, acknowledging that one has to stop doing certain things in order to work within a budget.

1862. The Chairperson: You touched briefly on public procurement in your opening remarks. Target R2.2 in the draft operating plan outlines only one target in that regard:

"95 of public procurement spend influenced by CoPEs by 31 March 2011."

1863. I realise that this is not within your responsibility; however, the Committee completed its inquiry recently and, given public procurement's huge significance and huge budget, surely more public procurement target outcomes should be set rather than having one overriding target.

1864. Mr Orr: Yes; there should be; and, indeed, there are. The CPD has a sustainable procurement action plan in its business plan, which it is working through. The CPD also proposes to produce an action plan in response to the Committee's review. It may be opportune for Des Armstrong to come to the Committee to talk about that at some stage.

1865. We realise that public procurement is vital. You were very kind to me, Chairperson, but, having held Des's job in the past, I should know a wee bit more about it than some other areas. Our key focus has been on channelling procurement through centres of procurement expertise (CoPEs). If procurement is channelled through the CoPEs, then the people who deal with procurement day in and day out will know all the sustainable procurement and initiatives and good practice that need to be applied. That is why the 95% target is so important.

1866. The Chairperson: I take your point; but, during our inquiry, we identified problems and difficulties with the fact that there was not regulation across all the CoPEs.

1867. On that point, it might be useful if a briefing paper were submitted to the Committee in advance of evidence sessions such as this because some issues have been raised today and you cannot be expected to be experts on everything. A briefing paper would be useful to the Committee, so that members could map departmental performance against business plans, the Programme for Government and the PSAs. It would also enable members to inform the Department of the questions that they want to ask, so that the relevant officials could appear and answer those questions at Committee rather than you being put on the spot.

1868. Finally, can I just ask —

1869. Mr Orr: I am sorry to interrupt. Could we try that approach for the session on end-year performance? We will send the Committee a report, and members can identify the areas that they want to scrutinise.

1870. The Chairperson: The operational plan contains no targets in respect of responses to Assembly Questions, Committee queries or valid requests under freedom of information or data protection legislation. Will you explain why those targets been dropped?

1871. Mr Orr: They have not been dropped. We monitor that work on a quarterly basis, and will continue to do so. When drafting a plan, one has to strike a balance between the things that should be done routinely and the key strategic issues. I assure the Committee that the targets mentioned are monitored quarterly by the departmental board. Performance is recorded, and we are happy to let the Committee see those details. We have recently discussed setting operational targets in those areas and, without being complacent, it has proved very beneficial to us. The focus on Assembly Questions and getting information back to the Committee has actually improved performance. We will continue to monitor it next year on a quarterly basis.

1872. The Chairperson: So, you record that information already?

1873. Mr Orr: We do.

1874. Mr McNarry: David and colleagues, I will take you back to Annex C of the operational plan, which concerns rates. I have difficulty with some of it. One of the stated targets is: "To maintain the valuation list with early, accurate assessments and regular revaluations."

1875. You told me that there was an opening debt of £160 million circulating. Will you refresh my mind on the figure that I was saying should be written off; was that £68 million? There was clearly an amount that did not seem to be collectable.

1876. Mr Orr: We are planning to reduce the total debt by 5% of the current amount.

1877. Mr McNarry: I know that, but on the figures you gave me —

1878. Mr Orr: I was giving hypothetical figures to try to illustrate the point. For example; one starts off with £160 million of debt and then reduces individual debts during the year. I think I mentioned something like £80 million as an example. I was using that figure to illustrate the point that other debts then accrue to replace that reduction. The figure I gave in that example was hypothetical in order to illustrate the point.

1879. Mr McNarry: What I am trying to find out is — and David might help me understand — in relation to the LPS target of accurate assessments and regular revaluations, is it possible to hit on an approximate figure for the people who cannot pay?

1880. Mr Orr: We may be talking at cross purposes. The accurate assessments mentioned are the rateable values of properties. For example, if someone builds an extension, the rateable value of the property will change. Returning to your key point, which is how we know the point at which people cannot pay, or, as Adrian McQuillan said, will not pay? I suggest that that may be something that we could brief John Wilkinson to cover when he appears before the Committee on 14 April.

1881. Mr McNarry: Will you be kind enough to return with a note on that before John comes before the Committee, so that my memory is jogged? I need that figure in order to be able to work out in my mind how many people are really under stress due to the rates situation, and whether there is anything that can be done to alleviate that stress? I am setting aside those people that Adrian has mentioned — the ones who just will not pay.

1882. Mr Orr: We will. I think I recall — and the Committee Clerk can keep me right — that there was a fairly lengthy paper from the LPS on debt last autumn, which covered a lot of the arrangements.

1883. Mr McNarry: There are people who have those things paid for them. I am not talking about them. I am trying to find out whether there is a population that is just above the thresholds but is struggling and in great difficulty. In other words, is this a social issue that we may need to investigate further through that information, which might help us all?

1884. Mr Orr: We will provide the Committee with the information.

1885. The Chairperson: Thank you, David, Deborah and Colm.

24 March 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Mr Fra McCann
Mr Mitchel McLaughlin
Mr David McNarry
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Philip Irwin
Mr David Orr Department of Finance and Personnel

1886. The Chairperson (Ms J McCann): The next evidence session is on Workplace NI. The Committee has a letter from the Department of Finance and Personnel (DFP) on the draft NICS accommodation plan. I welcome David Orr again and Philip Irwin, who is the head of the properties division of the corporate services group (CSG).

1887. Mr David Orr (Department of Finance and Personnel): The termination of the Workplace 2010 contract was a significant issue for us. We all know why the contract was terminated: the two remaining bidders withdrew just over a year ago because of the difficulty in securing financing and the diminution in property values. We really needed to take stock and go back to first principles. The markets remain difficult, and there is no private finance solution to be found in the next two to three years. We have to assume, therefore, that we will do what we can with conventional funding.

1888. Conventional funding is tight, and there are many competing demands on it. The Department has produced an early draft of a Northern Ireland Civil Service accommodation strategy to recognise those points. It is quite an honest strategy, because it does not say that we will do magnificent things. Frankly, there is not the money for that. However, we can do some useful things.

1889. One benefit that came out of the Workplace 2010 experience was the office accommodation principles, which can be found at annex A to the paper on the draft accommodation plan. Around 10% of our people across the Civil Service are in that type of accommodation, and it is proving successful. Its biggest financial advantage for the Department is that it uses roughly 25% less space than traditional cellular, individual offices. That is working well. I wish to invite the Committee to see some of that more recent accommodation, perhaps at Causeway Exchange, or the "Future@Work" area in Clare House, which aims to demonstrate how we can move ahead with working practices.

1890. This is an early draft, and Philip will provide a summary of it. At this stage, I suppose that we are looking for input from the Committee, and for good ideas to incorporate into the strategy.

1891. Mr Philip Irwin (Department of Finance and Personnel): As David said, the draft accommodation plan is based on the Northern Ireland Civil Service's remaining committed to the principles that we set out during the Workplace 2010 procurement, which are now defined as "Key Workplace Northern Ireland (WPNI) principles" in annex A to the paper.

1892. The paper focuses on greater Belfast, because tenants in many of the large buildings outside greater Belfast are subject to decisions that will be made under the review of public administration (RPA). Therefore, there is uncertainty about the demand side, and we will leave that matter until we have more certainty about our tenant base.

1893. The Department has set two goals in putting together the draft accommodation plan: reducing the overall footprint, and its associated operational costs; and seeking to upgrade the worst accommodation and trying to move as many people as possible to the new standards. All that must be undertaken within the constraints of business needs, current lease expiries, and the capital and operational budget constraints under which the Department operates.

(The Deputy Chairperson [Mr Weir] in the Chair)

1894. Paragraphs 2.2 and 2.3 provide a summary, under three main headings, of where the Department is at: the quality of accommodation; the current efficiency of accommodation; and an analysis of the lease expiry dates. On the quality of accommodation, the main headline is:

"approximately 30 of the space is categorised as poor or very poor".

1895. On the efficient use of accommodation, Committee members will see from the graph in annex B to the paper that there is room for improvement. The Department currently has a significantly higher square metres per workstation figure than was envisaged under Workplace 2010, and we probably have the ability to improve that further without spending significant amounts of capital. However, money must be spent to take walls down and open up space if we are to achieve the 11 sq m for each person target that is envisaged under the Workplace NI principles.

1896. Finally, paragraph 2.3 shows that some 30,000 sq m of leases will expire over the next three years. That will provide the Department with an opportunity, because changes can be made only when leases are expiring or when the Department is no longer bound by contractual conditions. However, the Department does not want to exit all that space. Some of it is specialised and has had money spent on it, and the Department will want to renew those contracts and remain in those premises. However, there is enough scope to allow the Department to move the pieces on the board.

1897. Section 3 of our submission sets out the draft accommodation plan itself. First, to cover the financial year 2010-11, paragraph 3.1 shows the various moves that can be made within current budgetary constraints. Those will make savings of approximately £300,000 a year and will result in a one-off capital receipt, as the Department will be able to release a currently held piece of land.

1898. Paragraph 3.2 goes on to consider the position beyond 2010-11. All the information set out in paragraphs 3.2.1 and 3.2.2 is subject to business cases and an analysis of various options under each of the different headings. However, the Department has tried to make some assumptions as to the indicative levels of savings, and the investment that may be required to achieve those savings. A different option could be selected after the details of the business cases are worked through case by case, but the detail that is provided will give the Committee a top-level indicative view of what might be required and what the benefits might be.

1899. Lease expiries are analysed under paragraph 3.2.1 of the draft plan. The 30,000 sq m that I mentioned is broken down into three sets of 10,000 sq m: 10,000 sq m of which a significant amount can be exited and the space reduced through a variety of different means; 10,000 sq m that will require a degree of spend but would allow the footprint to be reduced and budgetary savings to be made; and 10,000 sq m that falls more into the final year, and that has not been

considered in the table in paragraph 3.2.1, because the savings will be made beyond the financial year 2012-13. However, if the assumptions made on those projects are the ones that the business cases project as being the best way in which to proceed, approximately £1 million could be saved each year. A level of savings can also be made on the lease renewals over the next three years.

1900. Paragraph 3.2.2 examines a variety of projects under a set of assumptions that will have to be tested through business cases. It also provides an indicative level of the capital spend required to achieve those projects. I will not go into details, but, in 2011-12 and 2012-13, we are looking at budgetary requirements of approximately £10 million a year. In 2010-11, the number will not be as big, because it takes time to get things on to the ground. If the projects that are identified are completed, approximately 1,400 additional workstations will move to the new accommodation standard, removing 7,000-odd sq m of the worst accommodation and resulting in savings of approximately £1 million a year in running costs.

1901. Paragraphs 3.3 and 3.4 make the point that the numbers and the projects that we have been talking about do not address all the issues. Paragraph 3.3 makes the point that there is still a significant amount of space for which refurbishment work has been postponed, and that work cannot be postponed indefinitely. Paragraph 3.4 points out that other ad hoc opportunities will arise — some have already arisen — and that we are speaking to various people. Those issues will be considered as we go through the three-year plan.

1902. The Deputy Chairperson: Thank you for your very comprehensive presentation. Members will now ask you a number of questions.

1903. Mr McNarry: David, I do not agree entirely with your opening remarks about the commercial property market. I understand why you said it, but I do not agree entirely with it, so it does not do a great deal to convince me that there is nothing worth pursuing in Workplace 2010. I hope that Workplace 2010 will not just be dropped, because it is vital to what we need to do here.

1904. (The Chairperson [Ms J McCann] in the Chair)

1905. The final two paragraphs of Mr Irwin's letter of 18 March 2010 to the Committee are probably the most important ones. He states:

"It is important to note that even the modest capital investment mentioned in this draft plan is not included in existing budgets".

1906. Therefore, we are searching for something that I am not sure is too real. The final paragraph states:

"Even if such funding is secured, the tight financial position means that the plan cannot address all of the pressing and time-critical issues within the estate."

1907. You are almost setting us up to say that you have great plans but no money with which to carry them out, and even if you were to get the money, it would not be enough. My concern is that Workplace 2010 seems to have been, to use your choice of word, terminated. I would like it to be still on the table, even on a smaller scale. That is not what is contained in the proposals, but, somewhere down the line, a small-scale version of Workplace 2010 should be considered. The market must be tested, but I do not think that you are doing so. You may be getting estimates from estate agents, and so on, but you are not testing the market.

1908. I really should not mention the fact that the Invest Northern Ireland was able to find the rent for a building that nobody occupied for a long time. That cost ratepayers £2 million-odd, and although the Department was not responsible for doing it, it reflects on us all.

1909. Looking at the offices and buildings that we have, what the draft plan says about new premises is fine. Some of them are lovely and must be very nice places in which to work. I may not have picked up on it, but you do not seem to mention some of the appalling conditions in which some of our employees have been and are asked to work. Are conditions for employees assessed?

1910. Are the complaints that I receive different from those that you receive? I receive complaints from people who are unhappy with the work conditions in which they are asked to work. That is not satisfactory. You tell us what you would like to do but that you do not have the dough to do it. What are we going to do for those people?

1911. The final paragraph of your letter also states:

"More significant capital sums will be required in the years from 2013 onwards to address these issues."

1912. It appears that anyone who can make such a statement has an idea of what lies ahead. How significant are the sums about which we are talking? How much money are we talking about?

1913. I congratulate you on the intention of the savings. The paper is credible, but it is short on costs. The costs that you have included are difficult for a poor soul such as me to follow. You state that you will make various amounts of savings, but I am not sure against what you are saving that money. Furthermore, I am not sure how much the 1,400 additional workstations, for instance, will cost. I need your assurance that you are going in a clear direction. Allied to that, and if there is validity in what I said earlier about people working in appalling conditions, how will that clear direction address the problems?

1914. Mr Orr: You mentioned the prospect of public-private partnerships (PPPs) — private finance. We have continued to explore that on smaller-scale developments on the principle that the whole project was perhaps too big and that we should look at some smaller-scale developments. We have received feedback from the market that private sector finance for buildings may be possible, provided that there is a continuing occupation by a Department. In other words, people are not interested in buying government property in order to develop it for housing; they are interested in buying it if there is a sitting tenant. That is the first principle.

1915. Mr McNarry: Is there a sitting tenant? Are you not a sitting tenant?

1916. Mr Orr: Yes. There is an interest in purchasing government property, provided that government continues to occupy the buildings. However, the capital receipt that the Department would receive in any sale is low. For instance, we have received a range of assessments of the capital receipt that would be received for the likes of Netherleigh House, which has slightly less than 10 acres. Those assessments range from £3.5 million to £4.5 million to £5.5 million. That is low for 10 acres of prime land.

1917. Mr McNarry: We are not talking about boom time. That is the market.

1918. Mr Orr: That is correct. Therefore, we have to ask whether we wish to realise those sorts of capital receipts at that low level or whether we want to wait until the market recovers.

1919. Mr McNarry: I do not want to go too deeply into it, but if people are able to make those assessments, are they able to tell you how long you will have to wait before we are back in boom time? I do not hear anybody telling me that we are going to be back in boom time. We have a construction industry, and the trades allied to that are in deep trouble.

1920. I am just making the pitch that a long-term need has been identified in your paper and was identified in Workplace 2010. Is there merit in asking whether we can look at some smaller scale on-the-market prices, which will benefit those who will occupy the building, and will benefit the construction industry and its allied trades, which are in serious trouble? Are we factoring in those considerations?

1921. Mr Orr: Yes, we are.

1922. Mr McNarry: Are we still coming up blank?

1923. Mr Orr: We are coming up blank for the reasons that I outlined. Property prices are low, so capital receipts are low. Lending is tight, and, as members will know, interest rates for such private finance initiative (PFI) property are not conducive to selling properties. Therefore, the business case is difficult to make at the moment.

1924. I will now address your point on conditions.

1925. Mr McNarry: I understand the business case problem. Will you allow me to write you an alternative business case?

1926. Mr Orr: That is why we are here: to get input from the Committee.

1927. Mr McNarry: You can write a business case for whatever you like, but you have to take on board the strengths and weaknesses of the market. No one is telling me when we will get out of the current situation, so we all have to cut our cloth accordingly. All that I am suggesting is that you take that on board when considering the overall benefits.

1928. Mr Orr: On the conditions, we have rated the office estate on the basis of its condition, and that includes working conditions. I fully accept that some of our estate is poor and some is very poor. Indeed, our assessment is that 15% of our estate is in poor condition and 15% is in very poor condition, and that is significant.

1929. Mr McNarry: You are making my case for what we need to do here

1930. Mr Orr: I am looking forward to seeing the business case come through.

1931. Mr McNarry: Surely those statistics give you a real reason for compiling a business case. Forget about the construction industry, which I have already highlighted, there is reluctance because of the current markets. We are not gamblers in this place. The bankers do the gambling, and they have gambled all our money away. We have people who we are trusting to do work for us. Adrian McQuillan asked about sickness and absence levels in the Civil Service, but there is a reason for those levels. How long will we be able to keep things going, given such percentages?

1932. Mr Orr: You are speaking to someone who wants to improve that by 30%. That is why we are here.

1933. Mr McNarry: I know that, and you are much better than some of the other bozos who have sat there looking at me as if I were dead meat.

1934. Mr Weir: From either side of the table. [Laughter.]

1935. Mr Orr: We want to improve that. The first factor that we need to make work for us in any business case is that we need to see how much of a receipt we will get for selling a property. Then we need to look at how much the private sector will charge us to lease that property, having taken account of their costs in doing the improvement work.

1936. Mr McNarry: You might expect to pay 50% less than what you expected to pay for a lease under Workplace 2010.

1937. Mr Orr: I am not so sure about that, because leasing costs have gone down 10%.

1938. Mr McNarry: In the great commercial world, which others frequent, I assure you that leasing costs and rents have gone down, because the commercial world has to survive.

1939. Mr Orr: I would like to be talking to you as a property developer, because the developers to whom we have spoken require significant leasing amounts, which take account of the price that they have paid for the building. They have to make a return on their investment and on the cost of upgrading.

1940. Mr McNarry: Is the problem that, because you are the client, developers think that DFP is an easy touch? There is property to rent, and it costs much less to do so today than it did two years ago, and it will continue to cost less.

1941. Mr P Irwin: That is absolutely right. However, you are talking about the way in which Workplace NI will be financed. What we have put together is a plan based on financing Workplace NI through normal government capital. However, what you are proposing is a Workplace 2010, PFI-style arrangement, whereby we sell the property and use the money to upgrade the accommodation.

1942. Mr McNarry: Do not misunderstand me. The mindset is that you have terminated — to use your word — Workplace 2010.

1943. Mr P Irwin: Workplace 2010 procurement.

1944. Mr McNarry: I think that you will agree with me when I say that surely it is worth pursuing that on a smaller scale if possible. However, how you do that has to be for best value. Therefore, you have to ask yourself how Workplace NI can be done for best value, and, in doing so, whether you can address the problems in the construction industry and the fact that 15% of accommodation is not so good and 15% is very poor. That is the business case. If the Workplace 2010 way of doing it is insurmountable, there are other ways.

1945. Mr Orr: Yes.

1946. Mr P Irwin: The reason that it is not as attractive as it was is that much of the surplus land was being sold, and bidders in Workplace 2010 were factoring in that receipt as part of the deal. In the current climate, as bits of the estate are sold off for development, that number will be much smaller. That is a major driver in the change in the economics.

1947. Mr McNarry: I need somebody to tell me for how long you are going to hold on to the land? It is sitting there doing nothing. You are not using it. When will somebody reach the decision that you are going to do something with it?

1948. Mr Orr: Sorry, but we are not talking about land that is sitting idle. We are talking about —

1949. Mr McNarry: You mentioned Netherleigh House.

1950. Mr Orr: Netherleigh House is occupied by the Department of Enterprise, Trade and Investment (DETI).

1951. Mr McNarry: Property, then. You need to make changes. Are you just going to sit there? When will something happen to kick-start the project?

1952. Mr Orr: We are trying to develop a strategy that takes account of the need to improve the estate and of the difficult financial position that we are all in. Mr McNarry makes a good point when he says that we should not close our mind to the opportunity to use private finance, perhaps on a smaller scale. We will keep an open mind on that.

1953. The Chairperson: I am very conscious of the fact that other members have questions.

1954. Mr McNarry: The final paragraph of your letter states: "More significant capital sums will be required".

1955. What are those significant capital sums?

1956. Mr P Irwin: There is a draft plan that includes approximately £15 million per annum, spread over perhaps half a dozen years. That is the magnitude of additional funding about which we are talking.

1957. Mr McNarry: From 2013 to 2019. Is that what you are talking about?

1958. Mr P Irwin: Yes.

1959. The Chairperson: A number of members want to ask questions. Therefore, we have to move on. We are already half an hour behind time. Members should keep their questions focused, and the officials should try to keep their answers focused, too.

1960. Mr F McCann: I have two short questions. The last time that we visited Clare House to view the open-plan shared space, there were some indications of staff dissatisfaction at having to work under those conditions. I know that an offer has been made to visit Clare House again. Do you continually assess and review the impact that dissatisfaction may have on staff morale?

1961. On the back of what David Orr said at the beginning, I am concerned that 30% of property is in either poor or very poor condition. That throws up all sorts of mind-boggling health and safety problems that may exist and questions around the conditions in which people may be working. Should health and safety checks be carried out continually?

1962. Previously, we received a list of the Department's stock of properties. Is there any possibility that we could get another list, which outlines details of each property's condition and how many people are employed in it?

1963. Mr Orr: On your first point, staff satisfaction with accommodation at Clare House continues to be assessed. A survey is ongoing. It took two or three years, but I believe that staff are much happier now with their accommodation.

1964. We also undertook a survey at Causeway Exchange shortly after staff moved into it under the Workplace NI accommodation principles. Positive feedback was received. Although you will always get individual preferences and a range of opinions, my feeling is that staff are generally content with their working conditions. I certainly am, and Philip works in the same building as them.

1965. We will provide a list of stock, conditions and staff. We have all that data. We have any amount of data that we can provide to the Committee.

1966. Mr P Irwin: All statutory health and safety works are undertaken annually. Checks are undertaken as frequently as they are required. Any remedial action that is required from that is also undertaken. There is no suggestion that we do not undertake our statutory duties to health and safety works.

1967. Mr Orr: I want to reinforce that point if I may. Health and safety is top priority. Therefore, all those inspections continue, whether they relate to air-conditioning systems and legionella, lifts, fire safety, structural safety, or whatever. Any remedial action that is needed is prioritised and carried out. Therefore, health and safety is not being compromised.

1968. Mr McLaughlin: When I look at the draft accommodation plan, I am struck by the absence of objectives, performance indicators, a time frame and budget resources. It is hardly a strategy when there are no objectives or targets even in the operational plan. The caveat at the end of your note states that even if funding is secured, the plan cannot address all issues in the estate. David McNarry referred to that. There are no budget lines: bids have to be made, which may or may not be successful. Even if they are successful, the bulk of the work that needs to be done between now and 2013 could not go ahead.

1969. Therefore, as I said, there are no objectives, performance indicators, time frame or budget. What does the draft plan actually mean?

1970. Mr Orr: It means that I have a big problem. How can I offer targets and time frames when I do not have the money that I need in my budget? That is my basic problem.

1971. Mr McLaughlin: I can sympathise with the answer that you have given me. I can see your dilemma. Of accommodation stock, 17% is suitable under Workplace NI principles, which we support. That means, however, that 83% is not suitable.

1972. Mr Orr: Did I say 10%?

1973. Mr McLaughlin: No. Your pie chart shows at paragraph 2.2 shows that 6% of accommodation is in excellent condition and 11% is in good condition. Both of them are up to those kinds of standards.

1974. Mr P Irwin: Do not confuse those two different standards. Certain excellent accommodation is not categorised under the Workplace NI standard. In other words, it is not open plan; does not have shared printing areas; does not have the density of workstations that we are talking about, and so on. However, it is still excellent accommodation that is in excellent condition.

1975. Mr McLaughlin: OK. You have given us five categories, one to five. You have given us a pie chart. Do they correlate or not? I can look only at the information that has been put in front of me.

1976. Mr P Irwin: The pie chart and the categories correlate. Some accommodation will fall into the category of being in good or excellent condition. That is —

1977. Mr McLaughlin: Are you telling me that "good" would be mostly open-plan and "reasonable" mostly cellular? Therefore, am I right in assuming that accommodation that is in reasonable condition does not satisfy Workplace NI accommodation principles?

1978. Mr Orr: Yes.

1979. Mr McLaughlin: You said that the Department has a significant problem. At one stage, Workplace 2010 was a budgeted-for strategy. I accept that there have been significant changes in market conditions, and I do not think that we can just transform the estate. However, do we have a strategy at all? If we do, are all the possibilities being considered? For example, the Minister of Finance and Personnel has taken a public position on the Bain proposals on relocation. His is not an Executive position; rather, it is his view. However, was the Minister's view something else that tied the Department's hands?

1980. The draft accommodation plan appears to show that the Department has not considered matters such as whether a correlation exists between the number of civil servants who travel up to three hours a day from their place of work to substandard accommodation and sickness levels owing to stress. I do not see how there could not be. Have we considered cost-effective alternatives, such as shared services or co-location? The draft plan does not suggest alternatives to the expensive option of demolishing and rebuilding the existing stock.

1981. At present, we cannot release the budget resources to simply bulldoze and rebuild, so we must consider all the options. I do not see that being addressed in the draft plan; in fact, those options are noticeably absent.

1982. Mr Orr: Yes.

1983. Mr McLaughlin: How many civil servants can we take off the roads every day because we can give them shared accommodation elsewhere?

1984. Mr Orr: You are right: Bain's recommendations in his 'Independent Review of Policy on Location of Public Sector Jobs' has not been factored into the draft plan. That is because the report is subject to Executive discussion and decision. As the Committee knows, the paper that the Minister presented to the Executive some time ago has yet to be taken. Until we receive direction from the Executive, the Bain recommendations will not be taken into account in the early-draft strategy.

1985. Mr McLaughlin: Yes, but it becomes a decision for the Executive when they are presented with a draft strategy up to 2013 that sets aside all those objectives and options. If nobody has costed those options or compared them with the current proposals, the outcome is that we do not end up with a strategy to upgrade the working conditions of civil servants, because we cannot afford the alternative that is presented to us here. We cannot do it.

1986. Mr Orr: Yes.

1987. Mr McLaughlin: If the Executive have not taken a decision to dump the Bain proposals, why should the Department's projections ignore a possible outcome that may be considered a good idea and the way around the problem?

1988. Mr Orr: I am waiting for Executive direction before we incorporate the Bain recommendations into our plan. Until that occurs, we are trying to do the best that we can with the estate and the funds that we have.

1989. Mr McLaughlin: The Committee should consider recommending to the Minister that he address that issue at the Executive and give them the opportunity to set out their position — they have had the report long enough — or that he develop the best possible proposals on accommodation options that take the Bain proposals into account and allow the Executive, in the light of the fullest information and the current economic conditions, which David McNarry pointed out. By simply not taking a position, the Executive are ignoring the opportunity to do something about accommodation in the prevailing circumstances. The Executive asked for and got the Bain report, so they are entitled to consider it and to decide whether to implement the report's recommendations. However, that should not stop people from thinking outside the box. That is my main criticism of the draft plan.

1990. Mr McNarry: Are you saying that the Executive are dysfunctional?

1991. Mr McLaughlin: No. I did not say that at all. You might have wished that I had said it.

1992. I invite that the report be put before the Executive, in order to give them a chance to do something about it.

1993. The Chairperson: Have you finished, Mr McLaughlin?

1994. Mr McLaughlin: Yes, for the moment. Did that sound like a rant?

1995. The Chairperson: No. You have suggested a course of action for the Committee. Do Members agree that we take forward that proposal?

1996. Mr Weir: I support the first part of the proposal, which stressed the urgency of the Executive coming to a conclusion on the Bain proposals. However, I have many problems with the Bain proposals, and I am not happy to support the second part of the proposal, which is to incorporate the Bain proposals into the draft plan. We can all unite around the fact that, to get certainty, we need a decision from the Executive.

1997. Mr McLaughlin: How are we to decide on the Bain report if we do not explore it? If we make a set of proposals, people can say that they have looked at them. Either it saves money or it does not.

1998. Mr Weir: On the one hand, I agree that the Bain proposals should be brought to the Executive and that the Executive should reach a decision on them. On the other hand, I take the view that, until the Executive reach a decision, the Bain recommendations should not be incorporated into a set of proposals. It may be a two-stage process. I am happy to support the first part of the proposal.

1999. The Chairperson: Will we take forward the proposal?

2000. Mr McQuillan: Market conditions may dictate Bain. One might consider central Belfast to be best value for money, only to discover a site in Coleraine that accommodates twice the number of people for half the price.

2001. Mr McNarry: Newtownards is cheaper. [Laughter.]

2002. The Chairperson: Members are saying that the fact that the Bain proposals are not incorporated into the draft plan is in itself an issue. That is something that we need to thrash out.

2003. Mr O'Loan: I will try to make my questions as succinct as possible, and I will be happy if the answers are also succinct.

2004. I welcome that you are trying to do something. I agree with David McNarry's point that private money may well be available. I know of private investors with large sums who are said to be looking at investing in social housing here. I mentioned to their associates that that opportunity also exists. We should be looking at opportunities.

2005. Moreover, let me register my sadness that the Bain proposals are not being integrated into the draft plan.

2006. There was a major operation to understand and log the estate. Has that exercise been completed?

2007. Mr P Irwin: It has been. The review of the quality of accommodation has been done.

2008. Mr O'Loan: Does the estate lend itself to refurbishment? Are you convinced that refurbishment will bring value for money?

2009. Mr P Irwin: We will look at it on a building-by-building basis. For some buildings, refurbishment makes sense, and it would be more cost-effective to refurbish them than to take new space. With other buildings, and particularly where small pockets of space are spread around different parts of Belfast, it may make more sense to exit them and move into a single building.

2010. Mr O'Loan: If you carry out the indicative three-year plan, what percentage of the task will be completed?

2011. Mr P Irwin: We would be able to exit between 25% and 30% of the accommodation categorised as "poor" and "very poor". It would add 1,400 workstations of Workplace NI standard, but a significant number of other workstations would remain. That is a relatively small percentage of the overall estate.

2012. Mr O'Loan: The Minister has an Invest to Save project for next year. Are you bidding into that?

2013. Mr Orr: We are not, because the time taken to make the investment is not available, and the savings have to come in the same year. It is not possible with this sort of property project. The lead times are too long for us to deliver the savings in the same year.

2014. Mr O'Loan: I am sorry that that is not possible, because I would like to see the accommodation plan move on. Will you invest only in properties that you own, or are the terms of your long-term leases such that you will invest money in some leasehold buildings?

2015. Mr P Irwin: We are prepared to invest in leasehold buildings, provided that there is a reasonable length on the lease. Many of the newer larger buildings do not fall into the "poor" and "very poor" categories. We will invest mainly in properties that we own, but, in principle, we would not have any problem with investing in a leased building if it made sense to do so.

2016. Mr O'Loan: I suspect that your answer to my final question will be no. The Bain proposals do not enter into this equation. In consideration of the public sector estate, recognising that it is not only the Civil Service estate that needs to be looked at, are you co-operating with other public sector bodies, including local government, to try to get good co-operative solutions in the round across Northern Ireland?

2017. Mr P Irwin: Our interaction with local government has been done under the RPA. Some staff who are currently housed in accommodation that we own and look after will move to local government, so work has been carried out with local government to discuss what the longer-term plans for staff will be when they transfer to local government.

2018. Mr Weir: I shall follow on from Declan's point. I am slightly sceptical about the amount that can be brought in by way of capital receipts. Perhaps partly to do with the constituency that I represent, I am sceptical about the proposals in the Bain review. I agree with Declan and Mitchel in that I am concerned at the lack of imagination and wider thinking. I am interested in your response to Declan on the wider public sector, particularly local government. It seems that thought has been limited to considering staff who are moving from local government to central government, and the opportunity that that creates.

2019. I am concerned by paragraph 1.2 of your draft accommodation plan, which deals with the current office estate. I can appreciate that certain buildings have a specific function and have no other involvement. I am a bit concerned from the way in which that paragraph is written that the proposals seem to be overly restrictive in putting forward the idea that a building has a purpose and that nothing else should happen there. Effectively, those buildings are cut out of the plan.

2020. I am quite taken by the movement towards the use of public service centres in the rest of the UK and in the Republic of Ireland. A range of functions is provided in one building, and that is also beneficial to the wider community. I am a bit concerned that the plan appears to suggest a doctrinaire approach through which buildings that are for one purpose will not let anyone else through the door. That does not seem to be particularly productive thinking.

2021. I appreciate that local government faces huge issues with the RPA, but I would like to see at least some degree of thinking towards more imaginative solutions. It should not simply be a case of transferring a building to local government because the staff are transferring to local government. I would like to see solutions that involve different parts of the public sector, including central government and local government, sharing buildings among different sections of government. I do not see a great deal of evidence of such thinking, and I am a bit concerned that there has been a lack of imagination at a broader level. There has been a little too much thinking inside the box.

2022. Mr Orr: That was not our intention, and I am sorry that we have given that impression. We are certainly open to the idea of one-stop shops, which you mentioned. The RPA and the community planning obligations on the new councils may well provide an opportunity for government to co-operate. If a council with expanded powers were to open a one-stop shop in a town, some government services could also be provided. That option is certainly not excluded.

2023. Mr Weir: I do not see a great deal of evidence of commitment to it either, to be honest. You may not have said that it is out of the picture, but I do not see evidence that Departments and different functions are even being encouraged to share facilities.

2024. Mr P Irwin: The comment at paragraph 1.2 of the draft accommodation plan relates to what we call the regional estate. We have focused on greater Belfast because that is where the bulk of poor accommodation is. However, the plan is also driven by the fact that certain buildings have many non-NICS tenants. For example, we own and operate the County Hall in Ballymena. However, the majority of the people who work in that building are not departmental staff but work for the North Eastern Education and Library Board, health trusts, and so on. We have spoken to them, but their current position is that, until the RPA is sorted, they cannot commit to anything. That is why paragraph 1.2 shows that we have parked the matter until those tenants are in a position to make commitments.

2025. Mr Weir: By the same token, there are broader issues that may be heavily affected by the RPA. For example, why has there been no blue-sky thinking about co-locating a jobs and benefits office with a Housing Executive office in one building, so that people can access them together. That is just one example, and it may not work. However, I am unconvinced that there is commitment to flexibility in the Department's approach. Such flexibility would also be welcomed by the public, because they would be able to go to one place to deal with two or three issues, and that would be convenient.

2026. Mr Orr: We will take that point on board.

2027. Mr McQuillan: You said to Fra that you are doing remedial work to keep the 30% of property that is in poor or very poor condition up to health and safety standards. Is that not just throwing good money after bad? Would it not be better to cut your losses and go elsewhere?

2028. Mr Orr: To go elsewhere would cost money.

2029. Mr McQuillan: In the long term, would it not be cheaper?

2030. Mr Orr: It may be, but if one cannot afford to move, one cannot afford to move. Therefore, existing accommodation must be kept in good condition for health and safety reasons. I am not trying to fight the Committee; I am simply trying to explain the facts.

2031. Mr McQuillan: Have you looked for accommodation outside Belfast, given the difference in the market value of accommodation elsewhere?

2032. Mr P Irwin: At the moment, there is plenty of good value accommodation in Belfast.

2033. Mr McQuillan: What about outside Belfast?

2034. Mr P Irwin: At the end of the day, it comes down to demand from Departments. If a Department tells us that it wants to accommodate X people in a certain region, we will do that. However, we are not, I suppose, driving that.

2035. Mr McQuillan: There is no drive to do that from the Departments?

2036. Mr McLaughlin: Nobody is driving.

2037. Ms Purvis: You will not be surprised to hear that I am not unhappy that Workplace 2010 has gone. I do not believe in the principle of the private finance initiative. The project was too ambitious and did not give enough consideration to the fact that we would be left with a debt millstone around our necks. It is no surprise that those who are interested in purchasing government buildings are maintaining leases at such high prices, because they know that it is such a lucrative business, as accommodation is so necessary.

2038. Having said that, I am not averse to selling assets that are surplus to requirements. I understand what the Department is trying to do with its plan, although I take on board the other comments that were made about detail and about starting with zero budget in order to move forward. There is the Capital Realisation Task Force. What is its role in your strategy?

2039. Mr Orr: The Capital Realisation Task Force, which works to the Office of the First Minister and deputy First Minister (OFMDFM), is available to assist us if we have surplus property to dispose of. We will have a meeting with it in the next two or three weeks. The task force's initial focus is on ensuring that Departments such as ours have good information on their assets, because it is not possible to manage assets unless we know what they are. One by-product of Workplace 2010 is that we have good information on our assets. We will, and do, work with the task force on good asset management and when we have surplus property to dispose of.

2040. Ms Purvis: Your paper focuses on savings. Do you intend to obtain the income to continue with the strategy from those savings? What will happen to the savings that are predicted in the paper? Will they return to a central pool or are you allowed to keep them to address the strategy?

2041. Mr Orr: We are not allowed to hold on to the savings. Therefore, to put it very simply, spending money to move into the desired type of accommodation will result in a reduction in cost. That money can then be used for the benefit of the Northern Ireland block. We do not retain the savings.

2042. Ms Purvis: The paper mentions additional costs, and Declan touched on the issue of dilapidation costs. It is possible that extensive dilapidation costs might offset those savings.

2043. Mr P Irwin: That might happen in the first year. The savings that we have highlighted are annual savings that will accrue year after year. However, you are right to say that we will potentially have to deal with dilapidation costs in the first year.

2044. Mr Purvis: That comes back to Mitchel's point about starting with a zero budget.

2045. The Chairperson: Thank you very much for your patience, David and Philip. Committee members raised many concerns and highlighted many issues, and I have no doubt that you will take those on board. Given that the plans are underdeveloped, we cannot endorse them at this stage. Moreover, we need to consider Mitchel's proposal. We reached an agreement? correct me if I am wrong, Peter? to seek an Executive decision on the Bain proposals so that the outcome of this discussion could inform the development of your strategy. We will go down that road if you are happy enough to do so.

2046. Mr Weir: You might want to add that we need an "urgent" decision. Whether Committee members are for or against it, they will want some degree of certainty on the matter.

2047. The Chairperson: Is that OK?

2048. Mr Orr: Yes. I want to clarify two matters. First, we did not intend to ask the Committee to endorse the draft plan. We said that the plan is at an early stage.

2049. Mr McNarry: Now you are bluffing us. [Laughter.]

2050. Mr Orr: Secondly, I want to clarify another issue for the purpose of the Hansard report. At the outset, I may have said 10% of our people are in Workplace 2010-type accommodation. I meant to say 1,000 of the 25,000 people. I do not want to mislead the Committee.

2051. Mr McLaughlin: The Committee strongly shares your objective for accommodation.

2052. Mr Orr: Thank you very much.

2053. The Chairperson: Thank you for attending.

14 April 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Shane Murphy
Mr Richard Pengelly Department of Finance and Personnel

2054. The Chairperson (Ms J McCann): Our next session is a departmental briefing on the performance and efficiency delivery unit (PEDU). I refer members to their tabled papers on the matter. I welcome Richard Pengelly, the public spending director of the central finance group in the Department of Finance and Personnel (DFP), and Shane Murphy from PEDU in that Department.

2055. Richard, your paper was not prepared in time to be included in members' packs. It is a one-page paper, and the subject has been on the Committee's agenda for some time. Can you explain why we got the document only in sufficient time for it to be included with tabled papers?

2056. Mr Richard Pengelly (Department of Finance and Personnel): I believe that that was to do with the Easter break. The paper was prepared, but because people were on leave over Easter, no one was available to clear it. There is nothing more to it than that.

2057. The Chairperson: We are discussing a fairly important issue, and members did not have the opportunity to see the paper until this morning. Given that the document is only one page long, I think that it could have been brought to the Committee sooner.

2058. Mr Pengelly: We are carrying out various strands of work to try to expand what we are doing and were hoping to be able to include a lot more information in the paper. That is why we were originally holding on to it. Unfortunately, we have not been able to include that information. We were trying to give more to the Committee, and then we ran into the Easter holidays. I am sorry about that.

2059. Mr McLaughlin: Yes. It is interesting that the performance efficient delivery unit gives late papers. We should consider whether PEDU has been embraced. As you know, I have been concerned about the mechanism for activating PEDU, subject to invitation by the Minister. Through its business plan, DFP told the Committee that PEDU was to be the accepted mechanism by which Departments could be helped to achieve higher performance and

efficiency. To what extent are we making progress towards the goal of PEDU's being the accepted mechanism and towards demonstrating that Ministers are recognising the value of that engagement?

2060. Mr Pengelly: It is slow progress, to be honest. The important word is "accepted", because our Minister acknowledges PEDU as the accepted mechanism. However, for PEDU to do a piece of work, it needs to go into another Department, and for that to work, it must be accepted by the receiving Departments.

2061. The reality is that any work that has been done thus far has been in Departments that our Minister's party have held. No other Minister has invited PEDU in as yet. We are working on that, and our Minister has had conversations with other Ministers about it. We are making some progress, but are not yet at the stage where there has been a formal invitation to go in.

2062. Aside from that and the non-departmental specific work, there is an ongoing programme of work on projects such as supporting the Executive's delivery report, the accountability review that will underpin that. All that is generic, cross-cutting work. However, I still aspire to get PEDU into another Department quite quickly. I genuinely believe and absolutely acknowledge the slight caution from other Ministers about what PEDU is. Some members here who are also members of the Public Accounts Committee can see the fear in Departments.

2063. Some of them still see PEDU as a PAC-type mechanism. It is not. The Audit Office and the PAC do an incredibly important job, but we are not trying to duplicate that. We want to get in on the other side of the timeline of the work. Once we have got into in another Department and have got to that side of the timeline, I genuinely believe that, at the end of the process, the relevant Minister will say that it has been a worthwhile exercise. Other Ministers will then be much more enthusiastic about the idea. I am optimistic, but I would like to be further along that line.

2064. Mr McLaughlin: The process comes against the background of over 30 years of direct rule during which there were different accountability mechanisms. Some would say that there were not that many accountability mechanisms in those circumstances. We have gone through a change of culture and a process of change, which we must acknowledge can be quite challenging. I thought that PEDU represented an important mechanism in managing that process of change and in helping us to identify the opportunity for cost efficiencies, as well as for performance efficiencies.

2065. Therefore, it is disappointing that, almost three years after restoration, there is what can only be described as resistance to the idea. We must ask whether that laissez-faire approach exists to demonstrate that PEDU can do a job only if the relevant Minister is prepared to engage, to give direction and leadership and to invite PEDU in. Given the threatening and difficult resource implications of the efficiencies that are being driven by Westminster already and those that are projected post-election, should we consider the use of another mechanism?

2066. Mr Pengelly: Other options are available, but they are not PEDU options. As we have discussed previously, the concept of PEDU, which evolved from the work of the Prime Minister's delivery unit (PMDU), is based on collaboration.

2067. We have carried out two significant studies, and Shane might want to say more about those, because he was on the front line in the Planning Service and in Land and Property Services (LPS) during that time. When reflecting on those studies, both parties would say that most of the value of those pieces of work can be traced back to the collaborative approach between PEDU and the host organisation. A different approach that is more of an imposition would not achieve anything like the same value. Not many months after we finished the work,

Planning Service hit its targets for the first time because it had implemented ideas that came from the review. Those ideas came largely from the operational staff who were part of the central team that Shane worked with. Shane can say more about the collaborative nature of the process.

2068. Mr Shane Murphy (Department of Finance and Personnel): I want to point to two elements, the first of which is the collaborative nature of the work. Two professional planners were on the team in the Planning Service. That provided a window to ideas and opened doors to information. The second element is the gaining of information and data such as that on the Planning Service's 2020 planning database. That was very important.

2069. If PEDU were imposed on Departments, I am not sure whether we would get the same access to information that we would through a collaborative process and through working with people hand in hand. Moreover, I doubt that we would get the same access to information and data if there were significant resistance in Departments. I suspect that we would either be frustrated or that it would take much longer to get the information that is needed to generate evidence of where the problems or blockages lie, or whatever you want to call them, and then to prompt the generation of ideas, which is the basis for action plans to tackle those problems.

2070. Mr Pengelly: The comparison has been made with the work of the Audit Office, and Shane made a point about access to information. The Audit Office's entitlement to the information is enshrined in legislation. There is no such legislative basis for PEDU's access. Therefore, the collaborative approach is all the more important.

2071. Mr McLaughlin: I understand exactly what you are saying about the value of bodies inviting PEDU in and of having an open and collaborative approach. The update tell us that PEDU has only two current areas of work, which we are discussing today. One is the performance management framework of the Programme for Government and the other is the delivery oversight team, which came out of PEDU's work in engaging with Land and Property Services on the invitation of the Minister of Finance and Personnel. On that basis, anyone would be entitled to conclude that PEDU was a good idea but that its time has not yet come. Ministers are not engaging with PEDU or availing themselves of the support that it could offer.

2072. Mr Pengelly: That is not an unfair comment, but I would not wish to understate the value of the work that has been undertaken. A fundamental shift took place in the Planning Service's performance as a direct consequence of a short piece of work that PEDU did. Earlier this morning, the Committee took evidence from representatives from LPS. Good progress has been made with LPS, and many clear recommendations have been made. Work on the performance management framework is cross-cutting and focused on the Programme for Government. It is driving forward accountability reviews that are chaired by the First Minister and deputy First Minister, and it is holding Ministers to account for non-delivery or poor delivery on targets. That is an important piece of work on which good progress is being made.

2073. PEDU is still adding value, although I agree that it is not adding anything like the amount of value that we would like it to add and that it is capable of adding across the portfolio. That is a frustration, and we will keep pushing on that.

2074. Mr McLaughlin: Your previous briefings have convinced me about the benefit of PEDU, but I am seriously concerned that we have not set effective terms of reference that would allow for agile and effective challenge and response to performance. We will all have views on the commentary that goes on between Ministers protesting about insufficient budgets and the pressures on their budgets. A lot of general comment is made on the need for efficiencies, and the expertise and the drive to satisfy people that the maximum efficiencies and performance are being generated out of Departments is emerging as a key concern for the public.

2075. The Chairperson: In your answers to Mitchel, you said that PEDU could have more impact, but that Departments were not engaging with it. Is there an argument, therefore, that PEDU should be an independent body, as opposed to what it is now? You said that the Audit Office has more powers than PEDU, so is there an argument to be made for that?

2076. Mr Pengelly: It depends. If PEDU were to have independent status, it might solve some issues but raise others. The Audit Office is independent and at arm's length, but its approach is much more reflective.

2077. Mr McLaughlin: It takes a retrospective approach.

2078. Mr Pengelly: It looks at events. The classic view of the Audit Office's role is that it stalks the battlefield long after the bodies are cold and bayonets the wounded. It looks at how things were done so that lessons can be learned. PEDU's focus is on working with Departments to meet a target to ensure that something is done by a date in the future.

2079. Some of the difficulties with PEDU's having an independent role are political in that there are cross-party boundaries. If PEDU had an independent role, some of those would be addressed, but it would also raise the fear that it was pushing more towards a model that is similar to the Audit Office whereby it would be independent and subject to external critique. The value of PEDU's being in the system is that it is staffed by people who understand that system, who have experience and knowledge and who can work closely and quickly with people.

2080. There is an element of swings and roundabouts with that idea. I believe that given that PEDU is attached to DFP, the fear is that, if we were to go to a Department ostensibly to help it, we would find something that might manifest itself as a DFP critique of a Department. That is my personal genuine belief, and I certainly would not want to attribute it to my Minister.

2081. That is not what PEDU is about, and we will demonstrate that only by carrying out some reviews. A couple of Ministers are, I hope, very close to inviting us in, and our Minister is happy to give them any and all assurances that the recipient Minister will be the only person to comment on any work that we do. Once that is seen to happen, Ministers will become more comfortable and we might make the sort of progress to which we all aspire.

2082. Mr McNarry: Welcome, gentlemen. Your optimism about PEDU reforming itself appears to be everlasting. Every time you sit in front of us to tell us about PEDU and what it is doing, you seem to be repeating yourself. Therefore, although I respect your view, it is quite alarming to hear the same thing, albeit with one or two minor improvements. If we were to pick up on what the Chairperson and Mitchel McLaughlin said, could you tell us whether PEDU is now ready to be reviewed? Is such a call needed? Indeed, should the Committee itself ask the question and recommend a review that is based on the evidence that it has heard?

2083. Mr Pengelly: That is for others to judge. You mentioned my everlasting optimism, but my optimism is well founded and evidence based. One can look, for example, at the performance of the Planning Service and at the comments of the Minister who was responsible for planning and at those of the Finance Minister at the time. The Planning Service's performance information has been published and audited, subject to verification, and it shows that following a six-week PEDU review, there was a quantum leap forward, which the service is happy to attribute to the work of the review. As I said, it is not just down to PEDU; it is down to the collaborative nature of that review, of which individuals from the Planning Service formed a part.

2084. Mr McNarry: Maybe it is for others to call for a review, and maybe we are the others who should consider whether PEDU is ready to be reviewed. Have you identified external advisers

that Departments could use? Perhaps that would bring another professional angle to what PEDU is trying to do.

2085. Mr Pengelly: We have not identified external advisers for other Departments. It is for them to consider whether they need external advisers. At the moment, we are saying that PEDU is a source of expertise, so Departments can come to us. If a Department were to invite us to look at a specific area, and as we develop the terms of reference for that piece of work, it is quite possible that we would both conclude that that engagement would benefit from external advice and support, which we could then draw on and incorporate in a review. However, in the absence of a detailed review, it is hard to identify the sorts of expert advice that would be appropriate.

2086. Mr McNarry: I wonder whether there is a gap there. In September 2007, when Peter Robinson was the Finance Minister, he suggested that PEDU would:

"be asked to identify radical options to produce deliverable efficiency savings over and above the 3% level already set by direct rule Ministers."

What role is PEDU playing in the drive for increased efficiency savings across the Northern Ireland public sector?

2087. Mr Pengelly: The then Minister's statement, and the whole basis for PEDU, is based on specific and detailed reviews, so coming at it with innovative approaches is predicated on going into an individual Department or area, looking at how it does business and coming up with innovative approaches in that context. We have not been invited in to do any of that. PEDU is not about scanning the horizon. Innovation must be tailored and specific, and one cannot take a generic approach to it.

2088. Mr McNarry: I am just saying what was said then, namely that the unit would be "asked to identify radical options". Are you telling me that you need to be asked to do that?

2089. Mr Pengelly: That reference was to radical options in the context of the working methodology for PEDU, which is providing detailed reviews.

2090. Mr McNarry: I am trying to focus on the difficulties that you are explaining to us. We have to take whatever information we are given on the ability of Departments to reach the 3% level of efficiency savings. It is no secret that, within a few weeks, perhaps, there will be greater pain in efficiencies. I wonder what the point is if you find that you are not asked to become involved in that process. Things may get harder and tougher all round, but here we are with a body that was established in 2007, so if there is little or no response to you on the 3% level, I am trying to find out how we can improve that situation. Perhaps we need to consider other avenues, unless you tell me, with your the super optimism, that all of a sudden people will say that they need to bring in PEDU to identify radical options.

2091. Mr Pengelly: You used the term "super optimism", but I prefer to call it realism. The then Minister's September 2007 statement put how PEDU would operate into the context. Innovative approaches can be developed only in the context of specific circumstances.

2092. As to dialogue with Departments, if there are two strings to the PEDU bow, one is to look at delivery and the other is to look at efficiency. To be honest, the dialogue that I have with Departments at present is much more focused on delivery. The points that we discussed earlier, such as the fear factor in Departments, mean that if I turn up at a Department and say that I am from PEDU and I am there to make that Department more efficient, I am not sure that the Department would hear those words. It would hear me say that I am from DFP and I am there to cut its budget.

2093. Mr McNarry: It may not be. I can only go back again to what the then Finance Minister said, and I have not heard any subsequent Finance Minister change the emphasis. He described what the unit would be asked to do. As an elected representative, I see that. I now hear you tell me that you may not go that way exactly. That is fine if you produce results. I do not really care how you go about it, as long as we get the results. I understand what you tell me about the difficulties of the reception that you — perhaps not you personally — and your job would get, because you might be seen as Mr DFP. You have told this Committee that.

2094. Mr Pengelly: I do not want to give the impression that I am concerned about the reception that I would get. The nature of my job means that I have become used to hostile receptions across Departments.

2095. Mr McNarry: I am not interested in what you have become used to; I am interested only in how this job works out for you and what the Committee can do to help you.

2096. Mr Pengelly: My point is that it is not about reception, but your point is that you are not as interested in how we do things as in our getting results. The two are inextricably linked. How we do any piece of PEDU work fundamentally impacts on results. If we try to do PEDU work as an external imposition or critique, we do not stand a snowball's chance of getting the sort of results that we get by adopting an approach of collaboration and being present through invitation. That is not within our gift. All we can do is what we have been doing, which is to work with Departments, explain how we will work and point to the results we have had.

2097. Mr McNarry: On that issue, I am trying to make a point, snowballs and all. I am saying and hearing is that the reception to PEDU, in terms of uptake, is not as great as it should be. After three years, it should be better. Therefore, we need to have another look at it.

2098. Given the limited resources that PEDU has, is the unit unable to effectively scrutinise performance and delivery in broader areas in the Health Department, for example, or in efficiencies on a cross-departmental basis? I have been told that that is the case, but you can tell me if it is not. If that is the case, how could we help to have that addressed?

2099. Mr Pengelly: Just to clarify, are you asking about the capacity and size of PEDU as opposed to whether we are able to physically obtain the information?

2100. Mr McNarry: I am concerned about the unit's effectiveness in scrutinising performance. You will have to do that to be able to advise and make recommendations to anybody who seeks your help. Are your limited resources affecting your effectiveness and efficiency in scrutinising performance and delivery? Will you take the Department of Health, Social Services and Public Safety as an example and outline the situation with it?

2101. Mr Pengelly: We have no role in the Health Department because we have never been invited into it. We will not do anything unless and until we are invited. Our only piece of work that touches on health issues is the work with our colleagues in the Office of the First Minister and deputy First Minister (OFMDFM) to consider the Executive's delivery report through which we assess the Health Department's performance against the Programme for Government PSA targets. It is not an efficiency space that you talk to.

2102. Mr McNarry: We have established that you have not been invited into the Health Department. What other Departments have you not been invited into?

2103. Mr Pengelly: I did not single out the Health Department; I used that example only because you asked me about it.

2104. Mr McNarry: I appreciate that.

2105. Mr Pengelly: The only two Departments that we have been invited into are the Department of the Environment (DOE) and DFP.

2106. Mr McNarry: Your own Department invited you in, as you would expect, and the only other one that has done is DOE. Have no other Departments invited PEDU in since it was established?

2107. Mr Pengelly: No.

2108. The final part of the question was about capacity. PEDU has four full-time staff, excluding me. They are fully occupied with the ongoing parallel work. I want PEDU to have a number of staff in excess of four and to be in position where it runs a portfolio of studies and works in parallel with other Departments. Given our position at the moment, it would be the wrong approach to build PEDU to the preferred size and scale in the hope that work will follow. I want the work to suck PEDU up to size. The existing four staff are fully occupied with the work with colleagues in OFMDFM on the analysis of the delivery report. As and when we are invited to do a piece of work, such as when the LPS work arose, we will quickly redeploy. However, any piece of work, by its nature, is short and time limited.

2109. Mr McNarry: Are you justifying your existence, and that of the four good people who work with you, on the basis of your work with OFMDFM?

2110. Mr Pengelly: We have done two reviews —

2111. Mr McNarry: That is basically how you are justifying your existence.

2112. Mr Pengelly: No; I am saying that we have completed two very important value-added reviews in DOE and in LPS. We are doing other work on the performance management framework with OFMDFM. The Executive are committed to the fundamental importance of that piece of work. It is driving forward the performance agenda on a generic, rather than on a targeted, basis.

2113. Mr McNarry: I accept your point. LPS's evidence in the previous session made it very clear how helpful and useful PEDU has been. The Committee recognises that. That work is more or less finished.

2114. Mr Pengelly: PEDU has an ongoing oversight role.

2115. Mr McNarry: I understand that oversight role. However, LPS was able to say that PEDU has made the situation there much better than it was previously. Your own Department and DOE have utilised your services, but no other Departments have. Is it in order, Chairman, for the Committee to ask the other Departments why that is the case? I think that it is reasonable for us to ask that. We might be able to assist in some way.

2116. Mr Pengelly: That would be helpful from our perspective; I appreciate that.

2117. Mr McNarry: That is a first, Mr Pengelly. Thank you very much for that.

2118. The Chairperson: We can ask the other Committees about that.

2119. Mr McNarry: I am disturbed at what Mr Pengelly said. I share Mitchel's view in not understanding why anybody wants to turn down PEDU's offer of assistance. It does not cost the Departments anything. Therefore, that issue is part of a bigger picture.

2120. Ms Purvis: In your paper, you said that there had been some recent expressions of interest from other Departments. Can you elaborate on that?

2121. Mr Pengelly: Unfortunately, I cannot, because —

2122. Ms Purvis: Are you afraid of scaring them off?

2123. Mr Pengelly: Yes, exactly. I know that our Minister has spoken to at least one other ministerial colleague in detail and that that Minister is actively considering it. We have identified a couple of areas in that Department where we think that we can help. However, given that that Minister is considering the offer, I do not think that we should say anything. He or she may feel that we came out of the box a bit quickly.

2124. Ms Purvis: In the final paragraph of your submission, you say that the outcome of the scope of the work and whether PEDU is the best partner to add value to such work remains uncertain. Why is that the case?

2125. Mr Pengelly: That is to do with the specific nature of the work. We are trying to develop our expertise in, and experience of, focused delivery reviews and the examination of those issues. Some of the expressions of interest have come more from official level than ministerial level. As a consequence of Departments' being under pressure to achieve efficiencies, I think that they are seeking, what looks like management consultancy work from us. However, that is not our area of expertise. We were concerned that PEDU would be put in a place where it did not want to be. Perhaps that Department thinks that we should speak with more expertise and authority than we do, but, if we did, we could end up with a suboptimal outcome from both perspectives. The delivery and innovation (DID) capacity in DFP is an internal management consultancy organisation that is a much better at that; that is its mission. We, therefore, try to point organisations in that direction instead of to PEDU.

2126. Mr O'Loan: If I am critical, as I am about to be, it is not because I wish to score points over officials or even over a Minister. It is because I am disappointed with the PEDU report. I am particularly disappointed because I had such high hopes for PEDU, and I strongly supported it from the outset. The present state of play is almost farcical, and that is reflected in the brevity and lateness of the report that you gave us today and the fact that you were not able to provide us with your forward work plan. That calls for fundamental rethinking. We must be realistic about the environment, including the political environment, in which we are operating and about how that environment is clearly contributing to what I would go as far as describing as the failure of PEDU. However, I accept that PEDU has achieved successes in the narrow areas in which it has operated.

2127. The necessary task of fundamentally altering how we do business in the public sector here is huge, and that worries me greatly. Although there has been a great deal of discussion about budgetary pressures over the past three years, I sometimes wonder whether we have it so easy that we do not feel that we must really embrace change. I sometimes think that the significant budgetary cuts that will take place over the next three or four years might be good for us, because that will make us seriously reflect on those issues and change. However, I have a horror that, even then, we might not make the deep changes that are necessary and that we will instead end up making cuts here and there without doing things differently and better.

2128. It is as stark as that. Although we talk about it, we are not really preparing for that future. We know that we will feel the impact of the colossal budgetary pressures facing the UK Government, but any prudent government would prepare for that situation. Although I have not read what is in the latest document, the Minister's proposals valued the invest to save project at £26 million, which is very modest considering the overall need.

2129. There comes a point when we have to say that, although the idea about performance, efficiency and improvement is sound and all the words in PEDU's title are right, the unit is not doing the job. The political lead needs to be in accepting that the task and the strategic goal that have been presented are absolutely sound but that something has not worked. I look to the Minister to recognise the problems and to start to bring forward a different model. For example, some of the efficiency savings have been cosmetic. Some of them have been sound and have led to better ways of doing things, but that has not happened on the scale and at the deep level that I am looking for.

2130. I have made a commentary and reflected what others have said, and you have reacted to some of that already. A discussion about the business consultancy service during yesterday's questions for oral answer to the Finance Minister got me thinking a bit. Is that service on similar ground to PEDU? The creation of a more independent unit has been suggested, and I find that appealing. Could we grow the business consultancy service as well?

2131. This is not a political point, but to do the business and to have more success, we need to consider North/South inter-governmental approaches more seriously. The economies that come out of that may be at that level. If it is necessary to demonstrate that that is not merely a political point, I am open to having much more involvement with the Office of Government Commerce (OGC). As far as I know, that body has a lot of expertise.

2132. We need to grow the model and recognise the challenge. We should recognise that the present model would be best used as a learning exercise and could be used to start to identify a much better model that will bite into the job much more seriously.

2133. Mr Pengelly: I will make a couple of points for clarification. You talked about PEDU not doing the job, but I differentiate between not doing the job and not being given the opportunity to do the job. The latter is very much the case in my view, and Mr McNarry focused on that. You also made the point that the Minister needs to think about something else if it is accepted that PEDU has not worked. However, if the current Minister and both his predecessors have offered to take a collaborative approach, I am not sure that a response that is much more intrusive and has an imposition will have a greater chance of success.

2134. The most interesting observation that you made concerned the business consultancy service. In my answer to Dawn, I spoke about the delivery and innovation division. The business consultancy service is the internal management consultancy in the delivery and innovation division, so it is the same unit. There is a stark contrast and, although it is still seen as a unit in DFP, all Departments use it widely. The last customer survey figures that I saw indicated that 100% of customers are either satisfied or very satisfied with that unit's work.

2135. During Question Time yesterday, the Minister emphasised that that unit does not report to any other senior DFP officials or to the Minister. It engages only with the Department that initiates the piece of work on the terms of reference. That is exactly the model that PEDU aspires to follow. Although consultancy services' work is slightly different in that it is more mainstream management consultancy work, there is not a huge overlap. However, as a model of co-operation, collaboration and clear separation from the normal business of DFP, that model is a sound one that we can follow.

2136. Dr Farry: Welcome, gentlemen. The invitations are limited by the nature of government and the cohesion between Departments here compared with elsewhere. I have three questions. First, to what extent can PEDU help shape the debate on what is meant by efficiency savings and define what they should be? You should bear in mind that the Committee has received evidence from academics and others on that issue. There is a fear that, for some, the definition is based strictly on productivity gain based on inputs and outputs. In another sense, some people regard efficiencies as doing less or increasing the cost and charges for services. That does not make an organisation any more efficient; it reduces cost pressures by doing fewer or more closely targeting activities.

2137. On a related note, by definition, our Departments are set up arbitrarily in their functions and responsibilities. I appreciate that the Department must be set up in some way and that there will always be difficulties. However, there is a real requirement for joined-up, interdepartmental government. True efficiencies in our type of government may be found through Departments working together more closely on issues and collaborating in areas to reduce the cost challenges that each faces. For example, the Department of Health may be able to do something that eases pressure on the Department of Education or vice versa. Secondly, therefore, how can PEDU help drive that debate and consideration?

2138. My final question relates to your work on the Programme for Government and public service agreement (PSA) targets. The Department will appreciate that an earlier Audit Office report was quite critical of some of the definitions, measurability and vagueness of targets that were set in the original Programme for Government.

2139. Mr Pengelly: If I fail to adequately address your questions, please come back at me.

2140. PEDU can add a lot to the debate on efficiency, however subtly. Individual Ministers and the Executive collectively are very clear that, although the Executive can agree a targeted level of efficiencies to be applied to individual Departments, it is for each Minister to determine how he or she delivers those efficiencies, hence the requirement to publish efficiency delivery plans that will be in the public domain and subject to scrutiny. PEDU's role is to work in a Department in seeking to deliver those efficiencies.

2141. A natural consequence of that dialogue is that in some cases, PEDU should tell a Department that it does not regard a proposal as an efficiency in the universally accepted sense. That must also be part of the bilateral debate between PEDU and the relevant Department. However, PEDU must be ready, willing and able to say that to Departments.

2142. Cross-departmental collaboration is another important area of work. The boundary between whether that is more about cross-departmental collaboration or having fewer Departments and getting business units working together is blurred. The departmental boundaries can sometimes cause the difficulties. The clearest example of where there might be scope in the independent review of economic performance in the Department of Enterprise, Trade and Investment (DETI) is where that report refers to a specifically designed Department of the economy. I believe that we are making the same point about the need for cross-departmental working or for the removal of some of those boundaries. That is a vital component of delivery and efficiency on which PEDU can add value to those comments.

2143. Dr Farry: We must take political reasons into consideration. However, hypothetically, if DETI and the Department for Employment and Learning (DEL) were to merge and form a single Department of the economy, it would not avoid all the difficulties on where arbitrary lines are drawn between Departments, because there are difficulties between DEL and the Department of Education, where one Department's responsibility ends when people reach 16 or 18, depending

on the situation, and another Department picks up that responsibility. Therefore, there would still be a need for Departments to work together even if there were rationalisation.

2144. Mr Pengelly: The recommendation for having a Department of the economy is far from being a simple merger of DETI and DEL. I was talking to a busy audience recently, and I said that there were probably more organisations in Northern Ireland that lay ownership to economic development than there were people in the room, and that is certainly true today. I think that the matter needs to go beyond DETI and DEL. I agree that you will never create a Department that is so self-contained that it brings in every one of those agencies, but cross-departmental working is an issue that we have always struggled with as a system, and we are not as good at it as we could be. However, there are massive gains to be made in cross-departmental collaboration.

2145. The Programme for Government goes some way towards that by setting shared PSA targets, and some of the evidence that we have collected in the delivery report shows that there is genuine collaboration. However, we are starting from a pretty low base in Northern Ireland. We are getting better at it, but there is a long way to go. We continue to get better at it, but it is important that we put pressure on.

2146. Finally, there is always a rush to critique the Audit Office. The Audit Office report, which was the subject of the PAC hearing, was based on the PSA position several years ago. Since then, it has been through at least two changes of government and three different iterations of structure. However, the Audit Office's view was that the comment in the report about some of the targets could have been better articulated. As officials we deal with the targets that the Executive agree, impose and ask Departments to deliver, and we help Departments to deliver them.

2147. Dr Farry: I am sure that you and your colleagues in other Departments can advise the Minister on integrity or otherwise.

2148. Mr Pengelly: We can try.

2149. The Chairperson: Thank you very much for coming along.

21 April 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Mr Jonathan Craig
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Michael Brennan
Mr Paul Montgomery Department of Finance and Personnel

2150. The Chairperson (Ms J McCann): I welcome Michael Brennan, head of the central expenditure division, and Paul Montgomery from the central expenditure division. We have the papers, and the matter was debated in the Assembly yesterday. At this stage, I do not know whether members wish to ask the officials any questions. If not, the witnesses should open with a few brief remarks, particularly highlighting any changes since the publication of the original proposals in January.

2151. Mr Michael Brennan (Department of Finance and Personnel): Members will be aware that yesterday's ratification of the opening 2010-11 position followed the Executive's agreement to a draft proposal back in December. Papers were issued for consultation on 12 January. Following consultation, papers were presented to the Executive on 25 March. Now that the opening position has been ratified by the Executive and the Assembly, Departments have certainty about their opening budget positions for the new financial year. However, as part of the normal June monitoring process, those positions will be subject to adjustment and amendment.

2152. Most of the consultation took place through the Assembly, although members will be aware that some Assembly Committees did not have an opportunity to engage in consultation on the proposals. In addition, there were 18 responses from external bodies and organisations, most of them from the health and social care sector and those with an interest in children's groups.

2153. The Chairperson asked us to highlight the changes and amendments that have taken place. There were two substantive issues. First, the £26 million in the invest to save budget has been allocated to 14 proposals across Departments. In total, Departments submitted 60 proposals, costing at some £90 million. Of those, 14 were successful, and the £26 million went to the relevant Departments.

2154. The opening position for 2010-11 that was ratified yesterday will address some significant pressures. There are pressures on current expenditure of some £243 million, including the £26 million that was set aside for the invest to save budget. Pressures on the capital side amount to £150 million.

2155. Other changes to flag up to members include the allocation from the centre of £101 million to the Department for Regional Development to meet pressures in respect of NI Water; technical changes in relation to international financial reporting standards and the Treasury's Clear Line of Sight project; and transfers from some Whitehall Departments. There was also a transfer of funding of some £14 million to the Department of Finance and Personnel (DFP) to cover shared service costs across Departments.

2156. Members will be aware that, in setting the allocations to Departments, the Executive adopted a targeted rather than a pro rata approach. That was done to address concerns about protecting services in the health sector and those related to the economy. Therefore, for example, in order to address concerns over the economy, the savings allocated to the Department for Employment and Learning (DEL) and the Department of Enterprise, Trade and Investment were below average.

2157. In December 2009, the Executive also asked DFP to look at the scope to make further savings in the public sector pay bill. The Department did that over the consultation period. It is fair to say that there is only limited scope to make savings from the pay bill. There are a number of reasons for that. The two main ones are that there are strong contractual entitlements to pay across the public sector that have to be met, and that a large number of pay awards and pay determinations in Northern Ireland are tied directly to GB pay settlements. In the health sector, for example, doctors, dentists, nurses and other allied professionals are directly tied into pay review bodies set in legislation at Whitehall.

2158. In his Budget last month, the Chancellor allocated some additional money to Departments in Whitehall, and Northern Ireland received some additional money as a consequence of the Barnett formula. Some £6.4 million was allocated on the current expenditure side and some £5.7 million on the capital side. That £12 million is held centrally and will be allocated as part of the June monitoring process. Members will further be aware that in the days after the Chancellor's Budget last month, there was frequent media reference to an additional £33 million being made available to Northern Ireland. However, that was a reference to annually managed expenditure that does not come into the Northern Ireland departmental expenditure limit. It was to cover issues such as winter fuel payments, so it was not for allocation by the Executive at all. The media reports were rather misleading

2159. That is a quick run through, in summary, of the main changes that were made to the opening 2010-11 position. I am happy to take questions.

2160. Ms Purvis: I want to ask about your assessment of the consultation. The main route for consultation was through the Assembly and its Committees, including this one. We highlighted all the issues from other Committees, such as the lack of information etc. There were also 18 responses from outside organisations. Given all of those factors, what is your assessment of the consultation? How effective was it? What can be done to improve it? Given the responses that the Department received from outside organisations, is there anything that you can point to where a submission was taken on board, acknowledged or used? Or was the consultation process just a paper exercise?

2161. Mr Brennan: It was not just a paper exercise. The time available was constrained, but there was a genuine desire to engage with the public. For example, adverts were placed in all three local newspapers inviting comment. As I said earlier, the main consultation was with Assembly Committees and, as expressed in the debate in the House yesterday, there was wide concern about the extent to which the relevant Committees were engaged and informed about the draft proposals.

2162. In the responses to the draft proposals, concerns were expressed by the health and social care sector about perceived cuts. However, there were no suggestions as to, for example, if we were to take resources and allocate them to area B, which other areas should have their budgets reduced to meet the pressure. That was not explored. The other issue was pro rata cuts across Departments, as opposed to the targeted approach which the Executive decided to pursue and implement. There was no great deal of analysis or response on that.

2163. Ms Purvis: One of the Executive's focuses was to ensure that there would be no cuts to front line services. Yet anecdotally, through other Committees and from the community and voluntary sector and the health sector, we hear all the time about services being cut. It does not match up. Services are being closed down. Funding has ended for, for example, family support services in a part of west Belfast. They did not get any funding and the centre will have to close. That does not match up with the targeted focus to ensure that there are no cuts to front line services. I am sure that many of the 18 responses that you received sought to ensure that there would be no cuts to front line services, yet we hear that there are such cuts. What level of scrutiny goes on in Departments to ensure that the spending plans are targeted and focused, to ensure that efficiencies that need to be found are found in other business areas, rather than in front line services?

2164. Mr Brennan: The process is designed to give Departments their opening budget positions for the 2010-11 year. The mechanics of allocating those resources within Departments are the sole responsibility of the Ministers who set the priorities in their Departments. I cannot comment on the degree to which front line services in Departments have been cut. It is up to how the relevant Minister takes the decision.

2165. Mr Paul Montgomery (Department of Finance and Personnel): That is why we put such great focus on Departments publishing their plans to tell people how they would deliver the additional savings, so that there could be public scrutiny during the consultation process before the revised plans were finalised. Unfortunately, a number of Departments did not take that opportunity. I know that our Minister is very keen that that be rectified. He has written to ministerial colleagues a number of times to tell them that we need to have greater engagement.

2166. Ms Purvis: What can be done? The Executive have a focus on protection of front line services. What can be done to ensure that that happens when individual Ministers get their allocation and do whatever they want with it?

2167. Mr Montgomery: There are two points here. While we try to protect front line services as much as possible, it has to be recognised that even front line services can become more efficient. As well as that, because of the scale of the issues that we face, it is inevitable that, although services may be beneficial, they may be of lower priority than others. Even in front line services, it must be recognised that there needs to be a scaling back. Obviously, in the first place, one looks at internal bureaucracy and administration. We seek to minimise the impact on front line services, but there is no guarantee that each and every front line service will be protected. All we can do is create greater transparency and engagement with public services and with the Assembly, in order that only the lowest priority services are scaled back, rather than services that deliver greater benefit to people.

2168. Ms Purvis: That is a more honest starting point than saying that our focus is on ensuring that there are no cuts to front line services. It is more honest to say that we will ensure minimal disruption.

2169. Mr Montgomery: Our Minister has not said at any point that there will be cuts whatsoever.

2170. Ms Purvis: You said that that was the Executive's focus.

2171. Mr Montgomery: The focus is to minimise the impact on front line services. We have tried to be careful with everything that we have said, because there can be no guarantees.

2172. Mr Brennan: That is why it is imperative that Departments are transparent about how they will deliver.

2173. Ms Purvis: That is frustrating members, other Committees and the groups that are affected.

2174. Mr McLaughlin: I am interested in and supportive of the invest to save approach, and I thank you for the update. There were more than 60 applications, totalling over £90 million. The concept is to provide support to enable Departments to identify and implement efficiencies. Therefore, in a sense, it is a self-financing project. In fact, it is more than that and is meant to release resources that can be applied to other spending areas. Did all of the 60-odd projects that were identified by the Departments meet that requirement? Was it an issue of matching the funding that had been identified, or was it a matter of setting out a priority list of the projects that represented the greatest possibility of delivery? Did they all meet the criteria? Would they all have released resources, and did we underestimate the amount of the money that we should have put into the pot in the first instance?

2175. Mr Brennan: The projects were scored against three criteria: the extent to which they would deliver value for money, the extent to which they were genuinely deliverable, and whether they were things that the Departments were going to be doing anyway. The 60 projects were benchmarked against those three criteria and ranked by their value for money. The bottom line

is the return that the projects could obtain in later years. The key rationale is that the 14 successful projects will be taken forward on the basis of an upfront investment to generate greater returns at a later date.

2176. Mr McLaughlin: That is fair enough. You said that some projects fell out of the bottom because the Departments were going to do them anyway. How many would have been on the order? Were projects still on the list but did not qualify because they could not be matched and because the budget did not stretch that far?

2177. Mr Montgomery: Given the amount of money that was available and the number of projects, our first cut was fairly ruthless. From memory, there were only 20 left after the first cut, and they were ranked by savings versus the upfront cost.

2178. Mr McLaughlin: You have to start somewhere. If we are already beginning to consider what to do next and what to do in years two, three and four, does that indicate that the scheme gives Departments the necessary focus? We have been looking for efficiencies and better returns. This is a way to incentivise that, and it might, perhaps, be sensible to consider the benefit of increasing the allocation that is to be applied to the initiative.

2179. Mr Montgomery: Indeed. However, it is also a matter for individual Departments. As an Executive initiative, the £26 million had to be taken from savings and was added to the amount of overall savings required of Departments. There is nothing to stop individual Departments setting aside parts of their own funding to take forward invest to save projects themselves.

2180. Mr McLaughlin: Amid a lot of angst, reaction, complaints and pressure about having to review the spending plans, there is a clear need to be agile and responsive to the changing circumstances. The Assembly agreed a three-year Budget plan, and we are now in the final year of it. One feature of yesterday's debate was the litany of reports from Committee Chairpersons about the lack of response and information from the Departments. Your report and your briefing paper acknowledge that there was a constraint on the consultation time. Given the need to respond, that was a reasonable point to make, and, to be fair, the Minister identified the fact that that significant pressure was emerging and had to be responded to. He first put down a marker six months ago.

2181. The Committee is on record arguing for a more timely Budget process, and, looking forward to the next Budget period, I am frustrated and disappointed that the Department has still not told us how the process will be brought forward in a more timely fashion. All Ministers, Departments and Committees need to feel that they have ownership of the process. There are significant pressures already, and we are told that with the change of Administration after the election there will be even more cuts in the public expenditure programme. Are we going to be bounced into another review of the spending plans, or will we take the process through collectively and in a manageable fashion? We should remind the Minister strongly that, for a couple of years, we have been in a similar position due to our outstanding expectations for the Budget process. The Department has had time to bring forward, discuss and agree how the Budget should be streamlined and modernised. Such proposals should have been brought before the Committee in a more timely fashion than has been the case up to now. It looks like crisis management, and, as far as I am concerned, it has gone on long enough.

2182. Mr McNarry: On the invest to save scheme, can you supply us with a list of the applications that were approved and what they were about? You may have done that, but I have not picked up on it.

2183. Mr Montgomery: They are listed in table 4.1 in the revised spending plans document.

2184. Mr McNarry: Is there a list of applications that were not approved?

2185. Mr Montgomery: Yes.

2186. Mr McNarry: Is there any indication of whether projects that were not approved will be carried through, or do people have to reapply when the opportunity arises?

2187. Mr Montgomery: We will want people to reapply. Obviously, they will have the same supporting information, but we want to make sure in case the situation has changed for each proposal. Furthermore, some Departments did not submit any bids, and they may wish to bid at the next stage of the process.

2188. Mr McNarry: I apologise for not reading the document — other things have been demanding my attention — but there seems to have been quite a good take-up rate for the scheme, which should encourage others beyond those who applied. You have £20-odd million; is there any indication that more is needed? Were the applications that were turned down legitimate? If you had had more money, might you have responded more favourably to them?

2189. Mr Brennan: The Executive decided to set aside £26 million.

2190. Mr McNarry: I know that.

2191. Mr Brennan: The 14 projects that were approved are the ones that will deliver the greatest future savings. That is why they have met the mark. Going forward, there are two key issues. If Departments, even within existing resources, have suggestions or ideas about where to invest now to generate returns, they have the discretion to do so, and they can engage with DFP on that. If later tranches of the invest to save budget become available, I presume that those Departments, in parallel or separately, will put those proposals to us.

2192. Mr McNarry: Only 14 of the 60 proposals were successful. People thought that the other 46 were worthwhile, but those proposals did not make it. Were there any patterns or trends, and which proposals came fifteenth or sixteenth?

2193. A decision was taken to allocate £26 million for invest to save projects. Is a case being built up? Is it too soon to say that we need to have more money if this is going to give the value we expect, and that the net should be widened? Are we happy that £26 million was given out and that 14 proposals got it? Is the job done now and we can tick that box? I am trying to understand what is beneath all of this. Of the 60 proposals that people thought were worthwhile, 46 did not make it. How good were the unsuccessful proposals?

2194. Mr Montgomery: They were of variable quality. One of the key issues was that many of the projects had returns in the first year in excess of their cost: if a project has a 100% return, our view is that the Department should be doing it anyway. The issue will be returned to as part of the Budget process for 2011-12 and beyond.

2195. Mr McNarry: It is worth keeping an eye on, and I am certainly very interested in it.

2196. Mitchel referred to pressures; can you provide the Committee with a breakdown of those?

2197. Mr Montgomery: For 2011-12 and beyond or 2010-11?

2198. Mr McNarry: The almost £400 million you referred to.

2199. Mr Montgomery: Those are the pressures for 2010-11, which we previously set out to the Committee.

2200. Mr McNarry: Is the Department able to identify approaching pressures?

2201. Mr Montgomery: The Department has engaged in a scenario planning exercise with the other Departments, asking them to identify inescapable or unavoidable pressures for the coming years.

2202. Mr McNarry: I am glad to hear that you are doing that. It may be crystal-ball gazing, but are those pressures irrespective of what might happen across the water after the general election, or will that be factored in to the scenarios?

2203. Mr Montgomery: Through that exercise, the Department is trying to examine the demand for public spending — the sort of things that Departments have to spend money on. The amount that we get from the Treasury through the block grant is the supply of money. The Department is trying to get as good an idea as possible of the balance between the two at this stage.

2204. Mr McNarry: Once the Department has been made aware of a serious development, how quickly can it respond to it via ministerial action, with perhaps a review of some kind, getting the message to the Executive and getting decisions back to the Committee and the Assembly?

2205. Mr Brennan: By serious developments, do you mean additional budgetary pressures or cuts?

2206. Mr McNarry: I do not want to put words in anyone's mouth, least of all yours, but the anticipation is that there will be a hit here. We are already identifying and living with pressures. What will the Department's reaction time be to new circumstances, and how will those be dealt with? There will undoubtedly be hardships, but how will we manage our affairs in light of the new hardships that the Department is trying to anticipate? Will new priorities be set?

2207. Mr Brennan: As Mr Montgomery said, the Department has already commissioned work with the other Departments to identify the pressures that lie ahead in their budgets on both the capital and current sides. That will give us a feel for the degree of flexibility that exists in departmental budgets to address unanticipated pressures. However, it all depends on the magnitude of any future pressures. There are also questions about the degree to which the Executive and the Assembly have to address issues such as domestic water charges and the regional rate. Those issues have a direct effect in addressing budgetary pressures at a block level.

2208. Mr McNarry: Indulge me for a second. Last night I listened to a senior member of the Scottish Nationalist Party who was quite keen on the fact that a new Government, of any party, are likely to ring-fence funding for health. He said that he was relieved, because if that money were to be ring-fenced at Westminster then the money that Scotland gets would be protected. Does the same scenario apply in Northern Ireland? We have a devolved situation, the same as Scotland. Therefore, would funding for health be ring-fenced here?

2209. Mr Brennan: I presume that you are referring to the fact that Scotland has 100% comparability under the mechanics of the Barnett formula. In other words, the allocation that it gets from the Barnett formula is 100% of the equivalent spend in England. We also have 100% comparability. However, the resources that come to Northern Ireland through the Barnett formula are unhypothecated. Therefore, it is for the Executive to determine where those resources go. Under the mechanics of the Barnett formula, funding for health would be ring-

fenced and defended as a full read-across. but it would then be for the Executive and Assembly to determine where those resources go.

2210. Mr McNarry: So the obstacle or the assistance to ring-fencing — in other words, doing parity — being similar to that in Scotland, England and Wales is entirely up to the Executive, if funding for health is not ring-fenced? A case for that has already been made in other nations. However, you are saying that the Executive still have to make their case as to whether we ring-fence the Health Department here.

2211. Mr Montgomery: It also depends on what you mean by "protected". The Department of Health in England carries out different functions than the Department of Health, Social Services and Public Safety in Northern Ireland —

2212. Mr McNarry: The Health Department in Scotland is reasonably similar, is it not?

2213. Mr Montgomery: We focus on the Department of Health in England —

2214. Mr McNarry: I am more interested in the situation in Scotland. Of all things for any nationalist to say, I heard a Scottish nationalist talking about how dependent they are on the Treasury and the existence of the Union. That aside, he is hoping that the money will be ring-fenced, and I am trying to get to the bottom of why it is not ring-fenced here. Here was a Scottish nationalist saying "whoopie!" If the money for health is ring-fenced at Westminster, Scotland will be able to do the same. Is there a case for ring-fencing funding for health in Northern Ireland? I think that you have already helped me make the case. However, the final decision is how the Executive decide to prioritise the Departments.

2215. Mr Montgomery: The Executive's ability to protect a certain Department depends on the allocations that we get based on the allocations to the English Departments. If the Department of Health in England is protected and we get a read-across through the Barnett formula, that may not be financially sufficient to allow us to do the same for the Department of Health, Social Services and Public Safety in Northern Ireland.

2216. Mr McNarry: We will have to look at it carefully then. I long for 6 May to be over so that we can see what we are going to get.

2217. The Chairperson: No one has any more questions. Thank you very much for coming today.

Appendix 3

Memoranda and Papers from Department of Finance and Personnel

Briefing Note on PEDU for Committee for Finance and Personnel

In September 2007, the Minister for Finance and Personnel indicated his intention:

"to create a new high level Efficiency taskforce – the Performance & Efficiency Delivery Unit (PEDU) – supported by a small number of staff to re-examine the scope for generating cash

releasing efficiencies and improving delivery and performance within departments and across the wider public sector."

Since then, DFP officials have been considering the optimum structure, scope and remit for the Unit. This process has involved discussions with Whitehall colleagues who have had considerable experience of working within the Prime Minister's Delivery Unit (PMDU).

At this stage, the Minister has not concluded on the related issues, however the emerging themes – particularly reflecting the successful aspects of PMDU - are as follows:

- The Unit should be led by a credible and external figurehead;
- The work should be targeted and focussed on specific areas, rather than applying a broad brush approach to the system in totality
- The Unit will have a small core staff, and should be supplemented on specific assignments by secondees from the area under examination;
- Rather than holding departments and other bodies to account for delivery (for which separate mechanisms exist), the Unit should seek to work with delivery bodies, to seek improve efficiency and delivery

The Minister has yet to conclude on the detailed logistical issues associated with the creation of the Unit, and further discussion on these aspects will be held with the Committee in due course.

Department of Finance and Personnel
November 2007

Briefing for DFP Committee - Update on PEDU June 2009

Scrutiny of Performance and Efficiency Delivery Unit

From: Norman Irwin

Date: 9 JUNE 2009

Summary

Business Area : Performance and Efficiency Delivery Unit (PEDU).

Issue: This paper sets update the progress on establishing a performance management framework for delivery of the PfG Targets and Commitments.

Restrictions: N/A

Action Required: To note for forthcoming oral evidence session on 10 June 2009.

Background

1. The Programme for Government included a commitment to "put in place a delivery framework which establishes a robust and effective basis for monitoring and reporting of progress at a strategic level". It also stated that OFMDFM Ministers and the Minister for Finance and Personnel

take the lead in monitoring progress and reporting to the Executive at regular intervals. PEDU has led the Department's contribution to this work by way of developing and establishing the interim PfG Monitoring arrangements and, following the Executive meeting of 5 March, supporting OFMDFM in implementing the agreed PfG Monitoring Framework.

Key Issues

PSA & Delivery Agreement Assessment

2. Following the establishment of the interim PSA monitoring system PEDU led a DFP assessment of the PSA Delivery Agreements – an assessment that also took account of the first monitoring returns on PSA progress. The aim was to pinpoint any early areas, or indeed common themes, about which there might be concerns around the ability of Departments to deliver their PSA targets in full and on time. On the 7th January our Minister wrote to Ministerial Colleagues to highlight certain issues of concern around the robustness of the Delivery Agreements stating that DFP officials would be engaging directly with departments with the aim of ensuring that improvements to the Delivery Agreements were actioned.

3. In particular two key issues of concern emerged from this exercise. Firstly, the cross cutting nature of a number of the PSA targets require departments to work closely together and to coordinate their approach. In a number of cases, there is little evidence that lead departments have put in place Governance arrangements to allow them to formally influence or drive the delivery of actions and results from other contributing departments.

4. Secondly, successful delivery against our targets will require, amongst other things, an ability to monitor progress – and that ability to monitor progress is undoubtedly compromised when a number of our PSA targets rely too heavily on indicators that have yet to be fully developed or that only provide information on progress after very long lags that can be a year or more after the event. In some cases baseline information had still not been produced. These issues are not dissimilar to some of those raised in a recent NIAO report entitled Public Service Agreements – Measuring Performance.

5. Following on from this the second round of PfG monitoring, commissioned in January, sought to commence the process of prompting departments to tackle certain measurement issues with a number of their targets – in particular where targets have been set without an established system in place to collect appropriate, timely and robust information on progress.

6. Overall, the first two rounds of monitoring received by OFMDFM and DFP, under the interim PfG monitoring arrangements, have indicated a range of issues for the successful delivery of PfG Targets and Commitments – and while many of these issues revolved around the measurement of progress and the arrangements to drive cooperation across departmental boundaries a fuller list of concerns is included at Annex A.

Executive Agreement to a Performance Management Framework

6. In line with the commitment to "put in place a delivery framework which establishes a robust and effective basis for monitoring and reporting of progress at a strategic level", Ministers agreed an overall delivery framework for the PfG at the Executive meeting of 5 March.

7. The Executive also agreed that performance against delivery of the PfG goals, commitments and targets would be monitored quarterly through departmental returns to OFMDFM/DFP, culminating in the production of consolidated Delivery Reports for the Executive's consideration, which would draw together progress on delivery against the PfG targets and goals. It was also

agreed that the Delivery reports would will inform selective Accountability Meetings, at both official and Ministerial level, which will be held periodically to discuss progress. OFMDFM, as part of their responsibility for the PfG, will lead the overall exercise with DFP in support.

Executive Agreement to on Delivery Reports

8. On 7th May the Executive agreed that the first formal Delivery Report should be commissioned on performance up to 31 March 2009. It was also agreed that this information on year end performance would subsequently be published.

9. Following the Executive decisions, set out above, a third round of PfG monitoring (building on the interim monitoring system) has been commissioned by OFMDFM with responses due by 27th May. Officials in OFMDFM and DFP have established a joint team to manage the exercise, assess the returns and produce the delivery report. The team is made of staff from the PfG team in OFMDFM and PEDU staff in DFP. The team is responsible for;

- Assessing Departmental returns and the RAG status on progress.
- Producing the Delivery Report for progress up to 31st Match 2009.

10. During the Assessment Stage the Team will also utilise DFP Supply to support the analysis of the Departmental returns and Departments' own RAG assessments.

Annex A

PSA Delivery - Key Thermes & Issues

1. No statistical data / Baseline / Milestone available: a number of the returns on individual indicators record that no data is available either because the baseline and associated indicators have not yet been agreed or that such information will not be available until a future date. In at least one case, for example, it is reported that the baseline for a target to be delivered during the PfG period 2008-2011 will not be available until 2010/2011.

2. Long range targets: a number of targets are to be achieved over an extended period, on occasion beyond the 2011 timeframe of the current PfG. In such cases it is important to identify key milestones to be achieved during the PfG period in line with the resources allocated. While this approach is evident in a number of targets, there are a small number where the reporting department has not clearly set out the required information.

3. No evidence of co-operation between departments: many of the PSAs are cross cutting in nature and require actions to be carried out by a number of Departments. To facilitate a joined-up focus on delivery it was anticipated that during the preparation of delivery agreements, the lead department would establish a board drawing representation from key contributors, including, where appropriate, officials from other departments. There is little evidence that to date PSA delivery boards have been established in this regard.

4. Inconsistency in departments' assessment of RAG status: the RAG system aimed to provide a clear and transparent assessment of progress with very clear guidance issued to departments. Notwithstanding this, however, there are considerable inconsistencies in how departments have assessed progress.

5. Mitigating measures to bring delivery back on track: Very few returns set out what action departments propose to take to either bring delivery back on track or move from a red to an amber / amber/green assessment.

6. PSA delivery agreements not agreed: for a very small number of PSAs it is apparent that not all elements of the delivery framework have been agreed. However, indications are that progress is being made in such cases and it is anticipated that all delivery agreements will be in place shortly.

7. Changing of Targets: It was apparent in the departmental monitoring returns that a number of the targets have been amended by the responsible department. Targets can only be amended with Executive agreement.

Department of Finance and Personnel

CSR 2007 - Efficiency Delivery Plan

Introduction

This Delivery Plan describes the measures DFP will implement to achieve the target savings for the Department in response to CSR 2007.

Efficiency Programme

The Department will realise total annual efficiencies of £14.8 million by 2010-11 to be available for reinvestment in front-line activities across the NI Block. The profile of the annual target efficiency savings is shown in table 1 below.

Table 1 – ANNUAL TARGET EFFICIENCY SAVINGS

Total Efficiency Targets (3%)	2007-08 £ million	2008-09 £ million	2009-10 £ million	2010-11 £ million
Baseline (excl non cash)*	160.585	155.767	151.094	146.561
Total Efficiencies Required	-	4.8	9.5	14.0
Total Efficiencies Identified	-	5.7	10.3	14.8

* The baselines in respect of finance, human resources and ICT, all areas directly involved in a number of major reform programmes, are excluded.

The Department has identified and is committed to delivering efficiencies of at least £14.8m by 2010-11, thereby finding savings which are 5 above the set target. The Department is fully committed to long-term measures to improve the quality of the services it provides to citizens both directly and indirectly by 'Leading Reform, Delivering Value and Promoting Sustainability'. Efficiencies which do not compromise service delivery have therefore been sought, and many of the efficiencies sought are key to helping the Department achieve its objectives by delivering more and better outputs.

Although the Department will deliver the overall target of £14.8m of efficiency gains by 2010-11, the final composition of how this total will be delivered may vary from that set out in this

Delivery Plan as more detailed plans are developed across business areas. The content of this Delivery Plan will therefore be kept under review and updated as necessary.

Summary of the Proposed Savings

The areas that have been targeted as a means of realising cash releasing efficiencies are:

- Maximising receipts and extending charging in respect of services provided by DFP particularly to non NICS customers;
- Realise potential savings from the release of accommodation following 'Fit for Purpose' staff reductions (target of 2,300 posts) across the NICS;
- Efficiency targets for Land and Property Services;
- Targeted GAE and staffing reviews across the Department; and
- Recognition of costs recovered in respect of rate collection.

A summary of the savings proposed are provided in table 2 below.

Table 2 – EFFICIENCY PROGRAMME SUMMARY TABLE

£m	2007/08 Baseline	2008/09	2009/10	2010/11
Efficiency Savings Accruing To Department				
(a) Near cash resource DEL	Res DEL			
1. Increase Charging ¹	-49.2	0.2	0.4	0.5
2. Accommodation ²	76.2	0.3	2.0	4.7
3. Land & Property Services	21.4	-	0.5	0.9
4. Target GAE/ Staff Reviews	24.8	0.8	2.4	3.0
5. Recognition of costs recovered in respect of rate collection	12.5	4.4	5.0	5.7
(b) Capital				
Total Departmental Savings (a + b)	-	5.7	10.3	14.8

Notes:

1. The charging review will take place across the income generation areas within the Department. The baseline shown in 2007/08 represents total resource DEL income (excluding EU income).
2. The accommodation baseline in 2007/08 represents the full Properties Division budget.

Administration Resource Savings

While the Department has been required to identify efficiencies of at least £14m in overall terms, specific targets have also been set to achieve efficiencies in administration budgets. When the Department's reform work on behalf of all Government departments has been excluded, administration efficiency targets of £1.3m / £5.3m / £9.1m have been set across the budget years. The efficiency measures outlined in this plan will address this requirement. Given the

composition of the Department's budget, 61.5% of the cash-releasing efficiencies identified by 2010/11 will be delivered from administration budgets.

The Department will undergo major change over the CSR period with the implementation of the NICS Reform Agenda and the establishment of the Land and Property Services organisation. Given that the delivery of the main reform programmes will result in an increase in the quantum of departmental funding required to meet contractual commitments, the Department's scope to deliver further savings will be constrained and the need for targeted staff reductions is anticipated to manage the impact of inflation.

Content of this Delivery Plan

Immediately below this plan is an index to the Appendices, which deal in more detail with each of the components of the overall efficiency programme:

- Efficiency Measure 1 Increase charging
- Efficiency Measure 2 Accommodation
- Efficiency Measure 3 Land and Property Services (LPS)
- Efficiency Measure 4 Targeted general administration expenditure and staff reviews across the Department
- Efficiency Measure 5 Recognition of costs recovered in respect of rates collection.

1. Title of Efficiency Measure

Department	DFP
Efficiency Measure 1	Increase charging
Ministerial Agreement to plan received	Yes
Senior Responsible Officer	Jim O'Hagan

2. Forecast of Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin	-34.1	0.2	0.4	0.5
Resource	-15.1			
Capital				
Total	-49.2	0.2	0.4	0.5

3. Summary of evidence supporting scope for realising savings

Early review of methodology for recognition of recovery of overheads has identified the scope for realisation of additional admin resource receipts. The level of savings are such as to be broadly achievable. Completion of the review will provide more robust information on the level of potential savings.

4. Summary of any potential wider benefits (including non-resource releasing gains)

Not applicable.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

Review of income generation activities across the Department, focusing on extending charging for services to external customers e.g. non-NICS Departments, and maximising the recovery of overheads whilst ensuring adherence to appropriate policy guidelines and relevant legislative requirements.

5b: Details of any Up-Front Costs

None. Reprioritisation of existing workloads will allow the review to be undertaken within existing resources.

6. Timetable

Timetable For Delivering Efficiencies

Date	Action	Owner	Outcome
Feb to Sept 2008	Review of income generation activities across the Department, focusing on extending charging for services to external customers e.g. non NICS Departments.	D McNeilly	Opportunities for increased income generation identified.
Jan to Mar 2008	Review of recovery of overheads within existing charges.	J O'Hagan	Opportunities for maximising overhead recovery in charges identified.
April to Mar 2009	Implementation of additional charges to external customers and maximisation of recovery of overheads in existing charges during 2008/09.	J O'Hagan	Additional income realised.

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator	Data Source	Who monitors?	How often?
No impact as represents additional income.			

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact	Mitigating Action
The Equality impacts will be further considered as part of the proposed review, although it is anticipated that given the level of savings proposed (£0.5m by 2010/11) there would be no detrimental impact.	

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks Contingent Action
Availability of skilled resource. Review and reprioritisation of workloads as necessary.

1. Title of Efficiency Measure

Department DFP
Efficiency Measure 2 Accommodation
Ministerial Agreement to plan received Yes
Senior Responsible Officer Chris Thompson

2. Forecast of Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin	76.2	0.3	2.0	4.7
Resource				
Capital				
Total	76.2	0.3	2.0	4.7

3. Summary of evidence supporting scope for realising savings

This efficiency measure represents the realisation of accommodation cost efficiencies as a result of 'Fit for Purpose' staff reductions. Accommodation cost efficiencies will be dependant on opportunities presented for rationalisation of the estate as staffing levels are reduced. Staff reductions over a dispersed estate will be slower to translate into accommodation cost efficiencies than material staff reductions on a single site/location.

4. Summary of any potential wider benefits (including non-resource releasing gains)

Rationalised estate will offer opportunities for better quality accommodation.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

Ongoing review of accommodation requirements in light of staff reductions, designing flexibility into the WP2010 contract, and an aggressive policy to reduce the size of the residual office estate. Work in this area is already progressing as a result of the WP2010 programme.

5b: Details of any Up-Front Costs

Some upfront costs may be required in respect of accommodation fit out costs for buildings outside the WP2010 contract. It is anticipated that these costs will not be material in the context of the overall WP2010 investment.

6. Timetable

Timetable for Delivering Efficiencies

Date	Action	Owner	Outcome
Jan 2008 to 2010	Ongoing review of accommodation requirements in light of staff reductions, designing flexibility into the contract, and downsizing of the residual office estate.	Chris Thompson	Realisation of target savings.

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator	Data Source	Who monitors?	How often?
Reduction in capacity of office estate and associated costs savings.	General Ledger Quarterly Performance Reports Accommodation capacity records	Departmental Board	Quarterly

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact	Mitigating Action
An EQIA is being progressed as part of the WP2010 programme.	

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks	Contingent Action
RPA – risks associated with a change in accommodation requirements as a result of RPA. Requirement for dispersal.	Liaison with Departments and organisations impacted by RPA, and designing flexibility into the WP2010 contract.

1. Title of Efficiency Measure

Department	DFP
Efficiency Measure 3	Land and Property Services
Ministerial Agreement to plan received	Yes
Senior Responsible Officer	John Wilkinson

2. Forecast of Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin				
Resource	21.4	-	0.5	0.9
Capital				
Total	21.4	-	0.5	0.9

3. Summary of evidence supporting scope for realising savings

Approval is in place for the establishment of the Land and Property Services agency (LPS), incorporating the former Rates Collection Agency and Valuation and Lands Agency with effect from 1 April 2007, and Land Registers NI and Ordnance Survey NI with effect from 1 April 2008. Initial savings are expected to accrue in the area of corporate and common services. The target savings will be kept under review as work progresses on a number of workstreams associated with the establishment of the new agency.

4. Summary of any potential wider benefits (including non-resource releasing gains)

Better and more streamlined service delivery to customers. Better customer satisfaction with the LPSA acting as a single contact for rating and land and property queries.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

An LPS project team has been set up and this is taking forward the preparations for the establishment of the Agency including review of corporate governance arrangements, financial arrangements, staffing issues and communication and change management issues. With RCA and VLA already merged, LRNI and OSNI are continuing to progress a range of project workstreams to ensure that deadlines are met and steps have already been taken to take forward the amalgamation of corporate services and align budgets for the CSR period. Development of a benefits realisation plan, and management and monitoring of delivery to include ongoing rationalisation of common and corporate services. LPS has also implemented a new Strategy for Rating Reform and modernisation, incorporating IT replacement. Savings have been identified in the areas of IT staff, software licences and maintenance are expected to be realised from 2008/09. LPS will also be taking forward a review of business processes with a view to identifying improvements.

5b: Details of any Up-Front Costs

Costs to support the LPSA project team are expected to be de minimis.

6. Timetable

Timetable for Delivering Efficiencies

Date	Action	Owner	Outcome
Dec 06 to July 08 [DN: update]	Incorporation of OSNI and LRNI into the LPSA with effect from 1 April 2008.	John Wilkinson	Incorporation of OSNI and LRNI into the LPSA.
Dec 06 to Mar 2009 [DN: update]	Development of a benefits realisation plan, and management and monitoring of delivery, to include ongoing rationalisation of common and corporate services.	John Wilkinson	Target efficiencies realised.

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator	Data Source	Who monitors?	How often?
Customer satisfaction levels. Level of rate income. Unit costs.	General Ledger/ Quarterly Corporate Performance Reports/ Agency Report and Accounts	Agency Board/ Departmental Board	Quarterly/Annual

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact	Mitigating Action
EQIA implications will be kept under review as part of the ongoing work in establishing the LPSA.	

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks	Contingent Action
Adverse reaction to rating reforms may impact on the ability of the Agencies to deliver the efficiencies as planned. Availability of skilled resources. Reform of rating implications.	Publicity campaign. Response plan in place. Review and reprioritisation of workloads as necessary. Establishment of multi-disciplinary project teams.

1. Title of Efficiency Measure

Department	DFP
Efficiency Measure 4	Targeted GAE and staffing review largely in remaining Divisions
Ministerial Agreement to plan received	Yes
Senior Responsible Officer	Chris Thompson, David Thomson, Richard Pengelly, Derek Baker, David Orr, Bill McCluggage, Oswyn Paulin

2. Forecast of Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin	24.2	0.8	2.4	3.0
Resource	0.6			
Capital				
Total	24.8	0.8	2.4	3.0

3. Summary of evidence supporting scope for realising savings

Delivery of targeted staff reductions in policy areas. Review of staffing requirements of back office services is already ongoing as part of the NICS reform programme. A review of staffing levels in policy areas, and reprioritisation of activities will be required to deliver these savings.

4. Summary of any potential wider benefits (including non-resource releasing gains)

To be reviewed in tandem with development of detailed operational plans.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

A review of staffing levels in policy areas, and reprioritisation of activities, to support staff reductions without a detrimental impact on service delivery. CSG (£0.15m/0.5m/0.6m)
 Reprioritisation of work; Streamlining of processes and workflows, particularly taking account of the impact of Reform Programmes. CFG (£0.2m/0.7m/0.9m) Review of structure and possible mergers of divisions; Review of central financial skills provision/funding e.g. Trainee Accountant Scheme. CPG (£0.1m/0.4m/0.4m) Reprioritisation of work, including the suppression of one SCS post; Reorganisation of functions and merging of branches permitting the suppression of posts at General Service grades; Streamlining of processes and workflows and optimising the use of charging. CPD (£0.15/0.5m/0.75m) Reviews of eSourcing and senior management structures; Reprioritisation of work; Review of fees and potential for greater charging; Review of vacancies and GAE expenditure. DID (£0.1m/0.15m/0.15m) Salary and headcount management within existing vacancies. DSO (£0.1m/0.15m/0.2m) Reprioritisation of work; Review of charging regime to be effected in 2008/09.

5b: Details of any Up-Front Costs

No upfront costs are anticipated assuming staff reductions can be realised through natural wastage and redeployment.

6. Timetable

Timetable for Delivering Efficiencies

Date	Action	Owner	Outcome
Jan 08 to Mar 09	Review of staffing levels, reprioritisation of activities and delivery of target staff reductions.	Business Area Directors / HoDs	Target efficiencies delivered.

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator	Data Source	Who monitors?	How often?
Expenditure. Staffing levels. Customer satisfaction levels.	General Ledger/ Quarterly Corporate Performance Reports/Customer satisfaction surveys	Departmental Board	Quarterly/Annual

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact

Mitigating
Action

Business areas in reviewing staff levels and re-prioritisation of activities will be required to consider equality impacts.

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks Contingent Action

1. Title of Efficiency Measure

Department	DFP
Efficiency Measure 5	Recognition of costs recovered in respect of rate collection
Ministerial Agreement to plan received	Yes
Senior Responsible Officer	Jim O'Hagan/John Wilkinson

2. Forecast of Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin				
Resource	12.5	4.4	5.0	5.7
Capital				
Total	12.5	4.4	5.0	5.7

3. Summary of evidence supporting scope for realising savings

Recognition of recovery of costs of collection in respect of district rates. Increased efficiency in the costs of collection could result in a reduction of the savings identified in the medium to long term. This potential reduction is likely to be offset by any increase in the proportion of district rates as a result of RPA, which will result in a corresponding increase in the recovery of costs of collection.

4. Summary of any potential wider benefits (including non-resource releasing gains)

Not applicable.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

Seek necessary authority for the recognition of the income stream, followed by implementation of the associated budgetary and accounting adjustments. Legislation will also be refreshed to

5a: Description of Key Actions

reflect modern accounting practice. There are no additional up-front costs to support implementations as actions will be accommodated within existing resources.

5b: Details of any Up-Front Costs

None.

6. Timetable

Timetable for Delivering Efficiencies

Date	Action	Owner	Outcome
Jan 08 – Mar 09	Agreement of accounting arrangements in liaison with AASD/Supply/CFG/LPS/NIAO and Finance Division as appropriate.	J O'Hagan/John Wilkinson	Realisation of income stream.
Feb 08	Submit proposals for legislative changes to Government Accounts Branch for inclusion in proposed Financial Provisions Bill.	J O'Hagan	Realisation of income stream

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator	Data Source	Who monitors?	How often?
No impact as represents recognition of an additional income stream.			

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact	Mitigating Action
No impact as represents recognition of an additional income stream.	

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks	Contingent Action
No impact as represents recognition of an additional income stream.	

Department of Finance and Personnel

Efficiency Delivery Plan – Mid Year Progress Report

As part of the 2007 Comprehensive Spending Review, the department was required to deliver total annual efficiencies of £14.8 million by 2010-11. The profile of the annual target efficiency savings is shown in table 1 below.

Table 1 – Annual Target Efficiency Savings

	2008-09	2009-10	2010-11
	£ million	£ million	£ million
Total Efficiencies	5.7	10.3	14.8

Summary of the Identified Measures

The areas that have been targeted as a means of realising cash releasing efficiencies are:

- Recognition of costs recovered in respect of rate collection;
- Maximising receipts and extending charging in respect of services provided by DFP particularly to non NICS customers;
- Realise potential savings from the release of accommodation following 'Fit for Purpose' staff reductions (target of 2,300 posts) across the NICS;
- Efficiency targets for the new Land and Property Services Agency;
- Targeted GAE and staffing reviews across the department.

Details of the savings proposed are provided in table 2 below.

Table 2 – Efficiency Programme Summary Table

£m	2008/09	2009/10	2010/11
Resource £m			
1. Increase Charging	0.2	0.4	0.5
2. Accommodation	0.3	2.0	4.7
3. Land & Property Services	-	0.5	0.9
4. Target Staff / GAE Reviews	0.8	2.4	3.0
5. Recognition of costs recovered re rate collection	4.4	5.0	5.7
Total Departmental Savings	5.7	10.3	14.8

Progress at 30 September 2008

The department is making good progress in respect of its efficiencies to be delivered in the current financial year. Efficiencies of £5.7m are required to be delivered in 2008/09, against which the department has achieved £2.95m at 30 September 2008. A breakdown of this amount against the planned measures is outlined in Table 3 below:

Table 3 – Efficiency Savings to 30 Sept 2008

Measures	Forecast Savings in EDPs (£m)	Savings to Date (£m)
2008-09		
Increase Charging	0.2	0.1
Accommodation	0.3	0.15
Targeted GAE and staffing review	0.8	0.5

Measures	Forecast Savings in EDPs (£m)	Savings to Date (£m)
2008-09		
Recognition of costs recovered in respect of rate collection	4.4	2.2
Total	5.7	2.95

Outlook for 2009/10 and 2010/11

The department has planned to deliver efficiencies of £10.3m in 2009/10 and £14.8m in 2010/11 by building on the measures being taken forward in the 2008/09 year. The delivery of these efficiencies in tandem with the need to manage the impact of inflation represents a significant challenge for the department during a period of major change with the implementation of the NICS reform agenda.

The department's analysis of the status of projected efficiencies is outlined in table 4 below. Those measures showing a green status are on track for delivery. Those which are showing an amber status are on track but have associated risks which the department is keeping under review.

Table 4 – Forecast Savings

Measures	Forecast Savings in EDPs (£m)			Efficiency Status		
	2009-10	2010-11	2008-09	2009-10	2010-11	
2008-09						
Increase Charging	0.20	0.40	0.50	Green	Amber	Amber
Accommodation	0.30	2.00	4.70	Green	Amber	Amber
Land & Property Services	0.00	0.50	0.90	Green	Green	Green
Targeted GAE and staffing review	0.80	2.40	3.00	Green	Green	Green
Recognition of costs recovered in respect of rate collection	4.40	5.00	5.70	Green	Green	Green
Total	5.70	10.30	14.80	Green	Green	Amber

Most efficiencies across the years are on track for achievement. Amber status has been given to two measures in years two and three. The department has identified some risk that gains to be realised from increased charging may not be as significant as previously projected. Likewise, accommodation savings may be less than anticipated in 2009/10 and 2010/11.

The department remains committed to delivering the overall target of £14.8m of efficiency gains by 2010-11 however, as acknowledged in the Efficiency Delivery Plan, the final composition of how this total will be delivered may vary from that initially set out. The content of the Efficiency Delivery Plan and associated risks will continue to be kept under review.

Department of Finance and Personnel

Investment Delivery Mid-Year Progress Report

Overall Position

The Department's capital investment, as set out in the 'Investment Strategy for Northern Ireland 2008-2018', was £59.9m in the Budget period 2008-2011. Indicative expenditure of £89m has been identified in the period 2011/12 to 2017/18. Taken together, this represented a substantial investment of £149m in the delivery of key public sector services over the ISNI period with funding provided from NI Executive funds.

Following adjustments in the 2008/09, largely to reflect additional investment in the HR Connect programme and NI Direct, a reduced requirement in Account NI, and budgetary transfers to the department in respect of accommodation, the capital position for the department across the Comprehensive Spending Review (CSR) period now stands at £72.7m. The latest capital position for the department is outlined at table 1 below.

Table 1 – DFP Capital Budgets £'000s

Business Area	2008-09 Sept	2009-10 Baseline	2010-11 Baseline
Account NI	1,560	4,800	100
Central Procurement	270	230	250
HR Connect	7,700	3,750	-
IT Assist/Network NI	4,975	6,620	7,300
NI Direct	541	-	-
Delivery and Innovation	300	300	300
Properties Division	13,802	3,000	3,000
Central Energy Efficiency	2,000	2,000	2,000
NI Statistics and Research Agency	820	1,000	1,000
Land and Property Services	2,000	1,000	2,050
	33,968	22,700	16,000

Also included in the department's contribution to the ISNI was the realisation of a projected capital receipt of £175m, initially anticipated in 2008/09 from the

Workplace 2010 programme. In light of the recently-announced suspension of the Workplace 2010 procurement, the capital receipt will no longer be realised in 2008/09. During the period of the delay, the department will be considering the impact that the recent upheaval in the banking and property markets could have on the contract and to review alternative options for the delivery of the objectives of Workplace 2010 in the event that the current procurement does not proceed as intended at the end of the suspension period.

Progress at 30 September 2008

The department has been reviewing its capital plans for the current year through the normal monitoring processes and, in the case of much of the substantial investment, through the Civil Service Reform Oversight Board. Adjustments are being made in the 2008/09 monitoring rounds to take account of changes to the investment profiles for a number of the department's programmes as follows:

- Account NI – a £0.9m reduction due to the revised accounting treatment of assets;

- HR Connect – a bid for £1.2m was successful to cover contractual milestone payments rescheduled from 2007-08;
- IT Assist – capital provision has increased by £0.3m due to a successful September monitoring bid (£0.2m) and transfer of budgetary cover from DETI (0.1m);
- NI Direct – a bid for £0.5m was successful in September monitoring;
- Properties Division – capital provision was increased by £2.8m due to transfers from DSD and DEL in respect of welfare reform and employment tribunal accommodation projects;
- Workplace 2010 – In view of the decision to suspend the procurement process, it is now clear that the projected capital receipt of £175m will not now be realised in the 2008/09 financial year.

At this stage, the department does not anticipate any significant further changes to its total capital expenditure plans in the current financial year. Business areas are working towards their budget positions with a view to making the planned investment for 2008/09 by the end of the financial year. Some of the NICS reform programmes involve significant individual milestone payments, such as HR Connect which has a significant amount due to be paid over the coming months before the year end.

Outlook for 2009/10 and 2010/11

The department has taken the opportunity offered as part of the strategic stocktake 2009-11 to review its capital planning for the next two financial years. Aside from the capital pressures identified in this exercise for rating reform and NI Direct and any reprofiling arising from the Workplace 2010 suspension, the department is largely content with its projected budgets and will not be making any adjustments to its profiles across the next two years at this stage.

Paper to Committee for Finance and Personnel

Monitoring of Efficiency Delivery Plans

April to September 2008

Background

1. As part of the 2008-11 Budget process the Executive agreed that departments should work to deliver cumulative efficiency gains of 3% a year over the period 2008-09 to 2010-11. This is equivalent to £273 million in 2008-09, £537 million in 2009-10 and £794 million in 2010-11. All of the efficiency savings made over this period will be resource releasing and hence, in the Budget process, were redeployed to other areas of public services. Thus, any failure to deliver the required level of efficiencies will have further implications for departments.

2. Although departments are responsible for determining how these efficiencies are to be achieved, and ensuring the subsequent implementation, it has been emphasised that the impact on front line service should be minimised. For example, in the Assembly debate on the Budget on 29 January 2008 the then Minister for Finance and Personnel, referring to the efficiencies, stated:

"There seems to be confusion and concern that the efficiency agenda presents a risk to front-line services. The whole point of the efficiency agenda is to release funds specifically for reallocation to front-line services, not to take them away."

This point was highlighted again in the Budget Settlement Letters issued to departments in February 2008.

"It has been stressed throughout the Budget process that these efficiency savings should not be achieved by simple cuts in the funding to priority frontline services, although recognising that there is scope to improve the efficiency and effectiveness of delivery in these areas. In order to ensure that savings will be delivered through improvements in efficiency Departments have produced Efficiency Delivery Plans (EDPs) to be made available on Departmental websites."

Publication of Efficiency Delivery Plans

3. As part of the Budget process, departments were required to produce an Efficiency Delivery Plan (EDP) for each of the measures they were intending to implement in order to achieve the 3% per annum efficiency savings target. The rationale for producing EDPs was to provide assurance to the Assembly, key stakeholders and the public in general that departments would be able to deliver the targeted level of savings in a strategic and planned manner rather than through an arbitrary cuts exercise.

4. At the Executive meeting of 21 January 2008 to approve the revised Budget 2008-11, Ministers also agreed that departments would publish the EDPs as soon as possible. EDPs were to include the forecast level of savings to be achieved, key actions to be taken, timetable for delivery, monitoring arrangements, key risks and potential equality impacts. Early publication was important to allow sufficient time for Assembly Committee's and other stakeholders to scrutinise and comment on the departmental plans (and for these views to be reflected in revised plans) before they were implemented. There have been over 80 EDPs published on the departmental websites to date with varying levels of detail provided.

Monitoring the Implementation of EDPs

5. In order to provide assurance that savings are being generated in line with the planned actions, it is important that implementation of the EDPs by departments is monitored to measure delivery against the 3% target. The monitoring will also identify areas where revisions need to be made, ensure that priority front line services are not being cut and finally to examine the scope for further savings.

6. The DFP role in the process reflects the respective objective in PSA 21.

"To ensure public expenditure is managed effectively to deliver best value for the people of Northern Ireland"

7. The main monitoring mechanism in this respect will be through the Public Spending Directorate (PSD) as part of the normal interaction with departments. However, it is also necessary to report to the Executive and the Assembly as regards overall performance.

Assessment Progress to Date Implementing EDP's

8. Over the first six months of the 2008-09 financial year, the assessment is that departments have generated £174 million of savings equivalent to almost two thirds of the 2008-09 total. Four departments (DCAL, DE, DEL and DETI) have achieved 90% or more of their efficiency target for the whole financial year within six months.

9. In addition, an assessment was made as regards whether the targeted level of savings for each EDP is likely to be achieved for the remainder of 2008-09 and for 2009-11 using the following three categories:

- On Track for Achievement;
- Not on Track for Achievement; and
- On Track for Achievement but with a significant risk.

Table 1: Planned Savings by NI Departments – Assessment of Current Position

	Not on Track	On Track but with significant risk	On Track
% of EDP's			
2008-09	2.9%	5.8%	91.3%
2009-11	2.4%	18.2%	79.4%
% of savings			
2008-09	0.4%	47.7%	52.0%
2009-11	0.5%	51.6%	48.0%

10. Table 1 above sets out the assessment, up to the end of September 2008 as regards the delivery of efficiency savings in terms of the number of EDPs and by value of savings. 91% of EDPs are reported as on track for delivery in 2008-09. However, only 52% of the amount of savings is on track for delivery without any risk. This is more significant for the two year period 2009-11, where less than half of the efficiency savings are on track with no risk.

Efficiency Monitoring - Next Steps

11. In recognition that only a short period of time had passed since the start of the Budget 2008-11 period, this initial monitoring return involved only limited details as regards progress over the first six months. However, as the process moves forward, further detail will be required. A risk based approach will be used to monitor and to provide information to the Executive on the delivery against efficiency savings targets, whilst also recognising the need to minimise the administrative burden on departments. This will involve a greater degree of challenge and interrogation with respect to those EDPs where implementation is proving to be difficult or where there is a significant risk that the targeted level of savings will not be achieved. The corollary is that less information will be required for those plans where progress is on track.

12. As part of DFP's normal business with departments, the implementation of EDPs will be included as a regular agenda item for monthly stocktake meetings, discussing progress on the implementation of EDPs, focusing on those where there are problems achieving the planned level of efficiency savings. There should also be early discussion regarding the corrective action that the departments are proposing to take, including possible changes to the EDPs.

13. The second round of efficiency monitoring, to assess the delivery of efficiencies for the whole of 2008-09 and the latest projections regarding 2009-10 and 2010-11 efficiencies, was commissioned in July 2009. My officials are currently collating and verifying the returns, with the results to be provided to the Executive and the DFP Committee, once they have been finalised.

30 October 2009 - Statistics press notice: Analysis of personnel statistics for the 11 NI Departments

The Northern Ireland Statistics and Research Agency (NISRA) today published an analysis of Personnel Statistics for the 11 NI Departments based on Staff in Post at 1 April 2009.

The key findings are as follows:

- On 1 April 2009 there were 23,511 permanent NI Civil Servants (Full-time Equivalent) in the 11 Northern Ireland departments representing an increase of 660 (2.9%) in staff numbers since 1 April 2008. 22,389 (95.2%) were non-industrial staff and 1,122 (4.8%) were industrial staff.
- DSD was the largest department in the NICS with 7,310 staff (FTE). DCAL was the smallest department with 272 staff (FTE).
- Almost one third (30.8%) of all permanent non-industrial staff (FTE) were at AO level, while 1.0% of all staff were at Grade 5 level and above.
- On 1 April 2009, 49.8% of staff were male and 50.2% were female.
- Of those permanent staff for whom a community background was determined, 50.1% were Protestant and 49.9% were Roman Catholic.
- A total of 1,320 (5.4%) permanent staff had declared a disability, a slightly higher number than in the previous year (1,231).
- On 1 April 2009, there were 46 (0.2%) permanent staff from ethnic minorities.
- The average (median) salary was £19,647 (calculated on a Full-Time Equivalent basis). One quarter of staff earned £16,136 or less, while one quarter earned £26,086 or more.
- An average of 11.0 days per staff year was lost as a result of sick absence. The absence level is down from 12.9 last year, but the fall, while substantial, has not been enough to achieve the target of 10.2 days.
- The proportion of permanent non-industrial staff who left the service during 2008/09 was 4.2% (951 staff), a decrease on the previous financial year (5.1%).

The report is available on the NISRA website

Notes to editors:

The report is based on data taken at 1st April 2009 from the new HR Connect personnel management system for NI Departments.

All media enquiries should be directed to DFP Communications Office, telephone 028 9052 7374.

Request for Papers



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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
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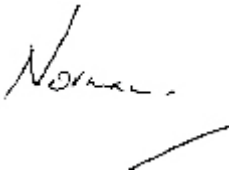
13 November 2009

Dear Shane

It is noted that the Committee is currently holding oral evidence sessions on efficiency savings. I understand as part of the Committee's brief ahead of these sessions written papers from expert witnesses are being provided.

Officials have requested if it would be possible to have sight any briefing papers received in relation to efficiency savings. I would therefore be grateful if you could obtain the Committee's agreement to the release of this information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Norman', with a long horizontal stroke underneath.

NORMAN IRWIN

Letter from Minister on Finance Provisions Bill

From the Office of the
Minister for Finance & Personnel



Department of
**Finance and
Personnel**

www.dfpni.gov.uk

DFP Private Office
Craigantlet Buildings
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Telephone: 028 90529140

Email: private.office@dfpni.gov.uk

Your reference:

Our reference: SUB 51409

Declan O'Loan
Parliament Buildings
BELFAST
BT4 3SX

13 November 2009

Dear Declan

The Consideration Stage for the Financial Provisions Bill took place on the 3rd November 2009 and during the debate I undertook to write to you in response to questions raised on the proposed withdrawal of Clause 4 (Costs of district rates collection).

You asked if the proposed withdrawal of Clause 4 would impact on my Department's ability to deliver its Budget 2008-11 Efficiency Delivery Plan in terms of the "recognition of costs recovered in respect of rates collection".

The objective of Clause 4, as originally drafted, was to enable income associated with the cost of collecting rates on behalf of district councils to be recognised in the Department of Finance and Personnel's accounts. This income is already recognised in the department's budget and DFP had been seeking to increase the degree of transparency by reflecting it in the annual resource accounts. Thus the withdrawal of the Clause has not and will not have an impact on the delivery of the department's Efficiency Delivery Plan.

I trust this addresses the questions raised and look forward to your continued support in progressing this Bill through the Assembly.

A copy of this letter goes to the Speaker, Chair of the Committee for Finance and Personnel and will be placed in the library.

Yours sincerely

SAMMY WILSON MP MLA

Letter from Minister on the role of NIAO

From the Office of the
Minister for Finance & Personnel



Ms Jennifer McCann MLA
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Telephone: 028 90529140

Email: private.office@dfpni.gov.uk

Your reference:

Our reference: COR 1008/09

Dear Jennifer

30 November 2009

Thank you for your letter of 23 November regarding whether any further consideration has been given to inviting the NIAO to have a more proactive role in the development and/or monitoring of Efficiency Delivery Plans across Departments.

The NIAO has a clearly defined role to play in terms of considering how effective Departments have been in their use of resources and delivery of business objectives. Therefore, to include them formally in the process of developing Efficiency Delivery Plans would, in my opinion, be a conflict of interest.

In terms of the monitoring of delivery against such plans, or indeed the scrutiny of any aspect of a Department's business activities, this would clearly be a matter for NIAO. To suggest otherwise, could undermine the independence of the Comptroller and Auditor General in determining his programme of work within the scope of his remit.

Yours sincerely

A handwritten signature in black ink, appearing to read "Sammy Wilson".

SAMMY WILSON MP MLA

Letter from Minister on Accommodation Efficiencies

DFP Private Office
Craigtantlet Buildings
Stoney Road
Belfast
BT4 3SX

Telephone: 028 90529140
Email: private.office@dfpni.gov.uk

Your reference:
Our reference: COR1084/2009 18 December 2009

Dear Jennifer,

Thank you for your letter of 3 December 2009 about the prospect of realising efficiencies through the introduction of flexible working arrangements such as home-working, working from satellite offices and shared desking.

My Department has been giving consideration to this issue in the following ways.

We are developing a policy which will cover the circumstances in which home or remote working would be possible, balancing the demand from staff for such arrangements with the requirements of departments in managing their day to day business.

The introduction of new technologies, through the IT Assist and Network NI shared services, means that staff already working away from their normal location can log-in to their normal e-mail system and other shared services such as Account NI and HR Connect. We are considering an upgrade to our phone systems from analogue to digital which will allow the user to 'log-in' to any phone and receive calls from people using their normal extension number.

Already we have arranged for some 750 civil servants to have access to NICS systems from their homes – either through dedicated ADSL lines or, on a trial basis, via their own home broadband. And we have developed a number of business zones – areas where civil servants attending meetings away from their normal locations can log-in and connect with their departmental systems.

If remote working is to be adopted in a significant way, there will of course be costs in developing the satellite offices that would be necessary. And we will only gain efficiencies as a result of either home or remote working if we adopt shared desking policies, which are not always popular with staff. These concepts have already been trialled within DFP's Central Procurement Directorate.

Your letter also mentions the reference to flexible working in the Review of Policy on Location of Public Sector Jobs; indeed the report devotes a full chapter to the issue of flexible working. As things stand the costs of relocation must be considered in the context of the overall financial position facing the Executive in the coming years. I have written to Ministerial colleagues, therefore to say that, at a cost of some £40 million, I am coming to the conclusion that implementing the recommendations in the Location Report is simply not affordable, nor do I believe that this is the time to set aside value for money principles. However, I have also made it very clear that it is for the Executive to consider the report and make decisions on the way forward, and that I would like an Executive discussion on the location of public sector jobs as soon as possible.

Yours sincerely,

Sammy Wilson MP MLA

Committee Follow up to meeting on 2 December 2009 - Departmental Efficiency Delivery Plan

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

29 December 2009

Dear Shane

The purpose of this minute is to provide the additional information requested by the Committee by way of follow up to the session held on 2nd December 2009 on the department's Efficiency Delivery Plan.

Benefits Realisation and Benchmarking

An update from the Reform Delivery Unit on plans for benefits realisation and benchmarking is provided at Annex A.

Efficiency Targets

Table 1 provides details of:

- the baselines on which the department's 'Efficiency Delivery Plan' is based which excludes non cash and the baselines associated with finance, human resources and ICT, together with the level of efficiencies required and the efficiencies identified; and
- the comparative baseline including finance, human resources and ICT, together with comparative efficiencies required.

Table 1

	2007- 08	2008- 09	2009- 10	2010- 11
Total Efficiency Targets (3%)	£ million	£ million	£ million	£ million
Baseline on which EDP is based (excl non cash and the baselines in respect of finance, human resources and ICT, all	160.585	155.767	151.094	146.561

	2007-08	2008-09	2009-10	2010-11
	£ million	£ million	£ million	£ million
Total Efficiency Targets (3%)				
areas directly involved in a number of major reform programmes, are excluded.)				
Total EDP Efficiencies Required (3%)	-	4.8	9.5	14.0
Total EDP Efficiencies Identified	-	5.7	10.3	14.8
Comparative baseline if finance, human resources and ICT are included (excl non cash)	176.385	171.093	165.961	160.982
Comparative Total Efficiencies Required (3%)	-	5.3	10.4	15.4

Income

An analysis of the department's income for the years 2008/09 and 2007/08 is provided in Table 2 below.

Table 2

	2008-09 £'000	2007-08 *Restated £'000
Income from external customers	34,546	35,746
Other income	47,084	50,163
Total	81,630	85,909

* The 2007/08 figures have been restated to include income relating to the transfer of Ordnance Survey NI from DCAL and Occupational Health Service from DHSSPS.

Overall, the income recorded in the Operating Cost Statement in the departmental Resource Accounts for 2008/09 decreased by £4.3m from £85.9m in 2007/08 to £81.6m. Whilst income has increased across a range of services, including Central Procurement Directorate services and accommodation services, these increases have been offset by a decrease in EU income and income from land registry services.

Yours sincerely,



NORMAN IRWIN

Annex A

Response to request from DFP Committee for an 'update on plans for benefits realisation and benchmarking' - December 2009

Plans for benefits realisation

Plans for benefits realisation have been developed for each of the reform projects in the form of 'benefits reporting packs'. These packs set out the key benefits for each reform project (e.g. reduced costs, greater satisfaction with management information etc), how the benefit will be measured, baseline values, target values and (where the project has reached steady state), actual values. Some of the benefits are measured at Departmental level e.g. the reduced cost of document storage as a result of the introduction of Records NI, while others are measured at NICS level e.g. the benefits of ICT Shared Services, the Centre for Applied Learning and Network NI are all measured at NICS level as they are reflective of centralised purchasing power and economies of scale. Early benefits emerging for the projects include:

ICT Shared Services

A key benefit of this project is to reduce the cost of desktop support from £1,572 (in 2006/07) to £900 per person per year by 2010/11. To date this cost has reduced to £1,200 per person, producing over £4.5 million savings.

Centre for Applied Learning (CAL)

The creation of the shared service for training has resulted in a reduction of 20% in course prices and savings of £1.3 million in 08/09 and a total since (06/07) of £3.9 million.

Network NI

A key benefit of this project is to reduce the cost per megabyte per year from £396 to £218. This has produced a saving to date of over £1.5 million.

HRConnect

A key benefit of this project was to realise savings in the overall cost of HR services. This benefit has been achieved as there has been a reduction in current cash running costs when compared to 2005/06 expenditure uplifted to 2009/10 prices.

Benchmarking

External benchmarking activities have been carried out by the projects where benchmarking is appropriate and where data is available. Information on benchmarking activities to date is as follows:

ICT Shared Services

IT Assist compares the full cost of the existing service catalogue provision with sound public sector comparators e.g. the Cabinet Office Flex contract, which adopts a very similar service catalogue provision. Cost comparisons made are as follows:

- £2,362 was the average cost of ICT provision per person for government organisations in GB in 2006.
- £1,700 was the cost for ICT provision per person for the CAF/CASS FLEX contract used by the Cabinet office in 2008/09.

- £1,572 was the estimated cost for ICT provision per person for ICT services in the NICS in 2006/2007 before the creation of ICT Shared Services.
- £1,200 is the cost for ICT provision per person for ICT Shared Services in 2008/09.

The Centre for Applied learning (CAL)

CAL compares the price of similar courses provided by external training providers, including both the private sector and the National School for Government - in the majority of cases CAL's prices are lower. Two recent comparisons are:

- an 'Assembly Questions' course delivered by CAL (duration - half day) at a cost of £65 was compared with a 'Parliamentary Questions' course delivered by the National School for Government (duration - 1 day) at a cost of £450.
- A 'Leading and Managing Change' course delivered by CAL (duration - 2 days) at a total cost of £440 was compared to a 'Leading and Managing Change' course delivered by Reed Learning (duration - 2 days) at a total cost of £895.

HRConnect

The HRConnect project uses the Saratoga database hosted by PWC to benchmark HR performance. At the start of the HRConnect project in 2006 a Saratoga HR 'Scorecard' baseline report was used to develop an HR scorecard for the NICS and the NIO and to set targets. The results and their benchmark positioning provide an assessment of the impact that people policies and processes are having on the organisation. The metrics, specific

to the HR Function, provide a view on how it is aligned to deliver the needs of the organisation. The metrics focus on the overall size and cost of the function in terms of the resource and costs of key HR processes.

The Saratoga scorecard provides the following:

- Consolidated results across the NICS and NIO on each of the metrics that comprise the scorecard, where data has been reported for the purposes of this exercise.
- Benchmark comparisons for each of the metric results, comparing the NICS and NIO's positioning against two external comparison samples:
 1. against the database of GB Central Government Departments and Agencies; and
 2. against a selected sample of organisations with similar challenges or operations to the NICS and NIO.
- Examples of metrics used on the scorecard include ratio of HR staff to employees, time to fill vacancies and sickness absence rate.

Now that all the services in HRConnect have been introduced, a further Saratoga benchmarking exercise is planned for 2010/11.

Account NI

The Account NI project team carried out limited benchmarking on levels of financial transaction processing to inform the development of the benefits realisation plan.

The project team also participated in a Cabinet Office Special Interest Group on benchmarking by sharing / circulating material and attending various meetings. Following on from this, it is planned to examine the performance of the Account NI service against external organisations in 2010/11.

Monitoring of the Delivery of Efficiency Savings By NI Departments

2008-09 Full Year Efficiencies

Background

1. In September 2009 the Committee for Finance and Personnel was provided with details of the level of savings achieved by NI departments for the first six months of 2008-09 against their Efficiency Delivery Plans (EDPs). The purpose of this report is to provide an update of the position for the full 2008-09 financial year as well as the latest assessment of the status of EDPs for 2009-10 and 2010-11.

2. Although it is the responsibility of Ministers and their departments to deliver the 3% efficiency target, DFP have an important role in the monitoring of the achievement of efficiency savings against plans.

2008-09 Efficiency Savings

3. Overall, NI departments achieved £173.9 million or 63.7% of the full year target within the first six months of 2008-09. This strong performance has continued with Table 1 showing that NI departments fully delivered the required level of efficiency savings for 2008-09 with £275.1 million of savings achieved compared to the target of £273.2 million. This overachievement was as a result of two departments, FSA and DARD, who significantly exceeded their 2008-09 efficiency targets.

Table 1: Departmental Efficiencies Achieved in 2008-09

Department	2008-09 Target (£m)	6 months Savings (£m)	2008-09 Savings Achieved (£m)	% of 2008-09 Savings Achieved
DARD	6.2	4.2	7.2	116%
DCAL*	3.2	3.2	3.2	100%
DE	63.2	57.4	63.2	100%
DEL	20.4	19.4	20.3	100%
DETI	7.7	7.7	7.7	100%
DFP *	6.1	3.0	6.1	100%
DHSSPS	118.2	48.0	118.3	100%
DOE	3.9	3.4	3.9	100%
DRD	22.4	18.0	22.5	100%
DSD	19.4	8.4	19.6	101%

Department	2008-09 Target (£m)	6 months Savings (£m)	2008-09 Savings Achieved (£m)	% of 2008-09 Savings Achieved
OFMDFM	2.4	1.1	2.4	100%
FSA	0.2	0.1	0.8	354%
Total	273.2	173.9	275.1	101%

* OSNI moved from DCAL to DFP during 2008-09, the efficiency target and achievement of the target was moved from DCAL to DFP as a result (£0.4m in 2008-09)

2009-10 & 2010-11 Efficiency Savings

4. In addition to examining the actual level of savings achieved by NI departments it is also important to monitor the latest projections in respect of the achievement of savings for the remainder of the Budget period. Table 2 sets out an assessment as to whether the targeted level of savings for each EDP is likely to be achieved for 2009-10 and 2010-11 using the following three categories:

- On Track for Achievement;
- Not on Track for Achievement; and
- On Track for Achievement but with a significant risk.

Table 2: Planned Savings by NI Departments - Assessment of Current Position

	Not On Track	On Track with Significant Risk	On Track
% of EDP's			
2009-10	3.8%	15.4%	80.8%
2010-11	5.8%	19.2%	75.0%
2009-11	4.8%	17.3%	77.9%
% of Savings			
2009-10	0.8%	13.6%	85.5%
2010-11	1.7%	14.6%	83.9%
2009-11	1.3%	14.2%	84.5%

5. The majority of EDPs are on track for delivery without any risk, with 19.2% being significantly at risk or not on track in 2009-10 and 25.0% in 2010-11. Less than 5% of EDPs are not on track for delivery in 2009-11. A broadly similar picture emerges when the assessment is based upon the percentage of savings with 84.5% on track for achievement.

6. The percentage of efficiency savings on track for delivery in 2009-11 has improved from the 6 month assessment where 48.0% of efficiencies savings were on track for delivery without any risk to 84.5%. However, the proportion of EDPs not on track has increased in terms of both the percentage and savings, although remains a small percentage of the overall level of savings to be achieved.

7. There remains the need for all departments to monitor their plans to meet efficiency targets and where there are areas where it is known that efficiencies will not be achieved to develop and publish replacement EDPs.

8. There are two main reasons why an EDP is not on track for achievement, either the associated actions have not been taken forward as planned or they have been implemented but have proven to be insufficient in delivering savings. Where EDPs are on track for delivery in both 2009-10 and 2010-11, 93% of the actions have been completed either in part or in full, whereas EDPs which are not on track or where there is significant risk only 81% had been completed in part or in full. This clearly shows that departments should endeavour to take forward actions in their action plans in a timely manner.

Conclusion

9. While NI departments have achieved the 2008-09 3% efficiency target, there remains a significant challenge for 2009-10 and 2010-11. The next round of monitoring will be undertaken shortly, which will provide a better picture of the 2009-10 efficiencies and an update of the 2010-11 planned efficiencies.

Department of Finance and Personnel

Accommodation Efficiencies



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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
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12 January 2010

Dear Shane

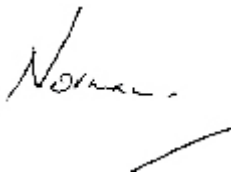
Accommodation Efficiencies

Thank you for your letter of 7 January which asks for details on travel-to-work distances for civil servants, including those travelling over ten miles from their home to their place of work.

This is available in Table B17 of the report of the Independent Review of Policy on Location of Public Sector Jobs which has previously been supplied to the Committee. A copy of the table is attached for convenience at Annex 1. It can also be viewed at page 184 of http://www.dfpni.gov.uk/final_report-location-of-jobs

I hope this is helpful.

Yours sincerely,



NORMAN IRWIN

Annex 1

Table B.17

Distance travelled to work by NICS staff, by grade levela (as at 1 January 2008)

Distance (Miles)	Grade 7+		SO/DP		EOI/EOII	
	No.	%	No.	%	No.	%
Less than 3	219	14.5	737	15.3	1,410	19.0
3-5	205	13.5	523	10.8	853	11.5
5-10	342	22.6	982	20.3	1,524	20.5
10-15	250	16.5	794	16.4	1,118	15.1
15-20	146	9.6	476	9.9	699	9.4
20-30	195	12.9	693	14.3	986	13.3
30-40	78	5.2	293	6.1	421	5.7
40-50	36	2.4	163	3.4	192	2.6
50+	42	2.8	170	3.5	220	3.0
Total available	1,513	100.0	4,831	100.0	7,423	100.0

Distance (Miles)	AA/AO		Industrial		Total	
	No.	%	No.	%	No.	%
Less than 3	2,639	24.7	250	19.3	5,255	20.4
3-5	1,259	11.8	149	11.5	2,989	11.6
5-10	2,089	19.5	311	24.0	5,248	20.4
10-15	1,465	13.7	231	17.8	3,858	15.0
15-20	1,021	9.5	141	10.9	2,483	9.6
20-30	1,168	10.9	137	10.6	3,179	12.3
30-40	473	4.4	58	4.5	1,323	5.1
40-50	192	1.8	10	0.8	593	2.3
50+	396	3.7	9	0.7	837	3.2
Total available	10,702	100.0	1,296	100.0	25,765	100.0

Source: NICS Human Resource Management System

Notes:

a Including equivalent grades.

Shared Services Organisation

From: Norman Irwin

Date: 19 January 2010

Summary

Business Area: Shared Service Organisation (SSO)

Issue: This paper outlines the progress and future direction of the SSO

Restrictions: None.

Action Required: The Committee is asked to note progress.

Background

1. In May 2008 the Reform Oversight Board initiated a study on the future strategic management for NICS shared services, following which a business case was approved for the creation of a new NICS SSO. The aim of this was to establish arrangements for managing shared services that will:

- ensure greater clarity on accountability;
- achieve a sharper focus on customer services and effective and efficient delivery of shared services;
- enhance the level of collaboration, co-ordination and integration between the different services; and
- enable the specific skills and expertise in, for example, contract and supplier management, to be deployed more efficiently and effectively.

2. This approach introduces a single management structure within DFP with responsibility for the various shared services along with the opportunity to transform the way services are delivered.

3. Paul Wickens was appointed as a Grade 3 Director of the new SSO in August 2009. His initial task was to migrate all the relevant reform programmes/projects into a transitional organisation by the end of 2009. This has now been achieved and the SSO came into operation on the 1st January 2010. The SSO consists of Account NI, the Centre for Applied Learning (CAL), HRConnect, IT Assist, Network NI, Records NI and the Reform Delivery Unit.

4. The primary role of the SSO is to deliver customer-focused services in the most efficient and effective way. In doing so, it will be responsible for:

- strategic and business planning and financial management of the SSO;
- ensuring that sound business and financial models are aligned to business priorities;
- setting and meeting performance and service delivery targets;
- driving excellence in customer service;
- encouraging a cohesive and integrated approach within the SSO;
- implementing appropriate charging and pricing regimes;
- managing 3rd party commercial contracts;

- risk management;
- implementing best practice;
- change control as services mature and develop;
- achieving enhanced co-ordination, synergy and integration of shared services; and
- realising benefits across the shared services portfolio.

Key Issues

5. Governance

A governance model has now been endorsed by the Permanent Secretaries Group and advised to the Departmental Board. The SSO will be overseen by a Strategy Board with representation from Departments, underpinned by Service Boards for HR, ICT and Finance. In addition, a single Audit and Risk Committee is being established for the SSO. Membership of these bodies is currently under consideration.

6. Customer Experience

A key focus will be to ensure that the SSO delivers a faster, simpler, more responsive service to its customers, enabled by technical and process improvements

Next Steps

7. Going forward, key priorities will be to:

- Ensure there is no disruption to customers – "business as usual"
- Resolve residual implementation issues
- Move quickly from project to service mode
- Build confidence and manage expectations
- Activate new governance arrangements

Strategic Financial Issues

DFP Response to Queries from the Committee for Finance & Personnel

February 2010

Review of 2010-11 Spending Plans - Methodology

1. What methodology did the Review use to target the areas for additional savings? What analysis/information is there available to support the various amounts in additional savings being proposed across departments, including in terms of how frontline services and delivery of PfG targets have been safeguarded in identifying the savings?

The Executive's approach in respect of determining the level of additional savings required of each department for 2010-11 in terms of current expenditure and capital investment is set out in Paragraphs 4.3-4.5 in the Review of 2010-11 Spending Plans Consultation Document.

See also response to questions from DFP Committee Chairperson, Dr. Farry and Mr. McNarry at evidence session on 13 January 2010.

2. The consultation document on the Review of 2010-11 Spending Plans refers to an overall public expenditure pressure of £367m in 2010-11 (paragraph 3.24) and provides narrative on the elements of this shortfall. To assist the Committee in its analysis, would it be possible to provide a tabular breakdown of the £367m referred to?

The spending pressures faced by the Executive can be broken down into two parts (i) those relating to changes in the level of funding available to the Executive (Table 1) and (ii) additional spending pressures and easements flowing from Executive decisions subsequent to the initial establishment of plans for 2010-11 (Table 2).

Table 1: Pressures / (Easements) flowing from changes to the funding available to the Executive for 2010-11.

£ million	Current Expenditure	Capital Investment
Remove Opening Level of Overcommitment	60.0	0.0
Barnett consequentials from UK Budget 2008 & 2009 and PBR 2008 & 2009	(86.5)	(9.1)
Impact of additional efficiencies confirmed in Budget 2009	100.0	22.8
Balance of EYF Available from CSR 07	(20.0)	(50.0)
Acceleration of capital DEL into 2008-10	0.0	38.4
Shortfall in receipts	44.0	53.4
IFRS PFI Changes	0.1	(9.8)
Clear Line of Sight	(55.2)	0.0
Total Pressure	42.4	45.7

Note: Figure in brackets indicates a negative

Table 2: Additional Spending Pressures and (Easements)

£ million	Current Expenditure	Capital Investment
Deferral of Water Charges	119.7	93.3
Equal Pay	64.6	0.0
Reduced Requirements declared in Strategic Stocktake	(21.1)	(0.0)
Shared Services for all departments - net of amounts held centrally	6.5	0.0
Integrated Development Fund	0.0	3.7
NI Assembly costs	5.0	3.4
Innovation Funding	0.0	3.9
Total Pressure	174.6	104.2

Note: Figure in brackets indicates a negative

Table 3: Overall level of Public Expenditure Pressures for 2010-11

£ million	Current Expenditure	Capital Investment	Total
Table 1	42.4	45.7	88.1

	£ million Current Expenditure	Capital Investment	Total
Table 2	174.6	104.2	278.8
Total	217.1	149.9	366.9

Efficiencies

3. DFP has previously advised that the additional £5 billion efficiency savings for 2010-11 in the Chancellor's Budget 2009 statement would result in a reduction of £123m in the existing funding available to the Executive in 2010-11. The consultation document on the Review of 2010-11 Spending Plans (paragraph 3.3) refers to "a reduction in respect of the NI share of the additional £5 billion of efficiencies expected of UK departments ". However, in his evidence to the Committee, Professor Midwinter explained that the implications from the additional Whitehall efficiencies for NI would be 'a reduction in the rate of growth, as opposed to the current baseline and will not require savings from existing programmes.'

- What additional efficiency savings (i.e. over-and-above the existing 3% annual target) will be required in 2010-11 arising from the additional measures announced by the Chancellor in respect of Whitehall departments?
- What account has the Review of the 2010-11 Spending Plans taken of these additional efficiencies?

As previously advised the £5 billion of additional efficiency savings for UK departments, as confirmed by the Chancellor of the Exchequer in Budget 2009, gives rise to a gross expenditure pressure of £122.8 million for the NI Executive in 2010-11. This amount has been incorporated into the £367 million pressure facing the Executive next year, as shown in Table 1 of the response to Question 2.

4. The Chancellor also imposed further efficiencies from 2011 – 2014. What is DFP's current estimate of the implications of these additional efficiencies on block spend available to the Executive from 2011 to 2014 and are there provisional plans in place to identify additional efficiencies if necessary?

The block grant available to the Executive will only be confirmed at the conclusion of the 2010 UK-wide Spending Review. The impact on the NI Executive will depend not only on the level of efficiency savings expected of Whitehall departments but also the level of allocations.

The latest available information at this time is from the spending projections set out in the 2009 Pre-Budget Report. These indicate that total UK current expenditure (DEL and AME) will increase by 3.0% per annum in cash terms over the period 2010-11 to 2013-14 whilst total gross capital investment will fall by 9.1% per annum over the same period. It is impossible to forecast the implications for the Executive of such projections in the absence of clarity as regards the position for individual Whitehall departments.

5. Is there an audit trail between departmental budget lines which provides evidence that the cumulative efficiencies in the 2008-11 Budget were invested in frontline services? If not, how can the Assembly be assured that this money has been invested in the frontline?

All planned efficiency savings in the 2008-11 Budget process were used to fund allocations to departments, which were made on the basis of the achievement of the targets for improved public services in the Programme for Government. The End Year Delivery Report on the Programme for Government provides an update of progress against targets.

See also response to question from Mr. McQuillan at evidence session on 13 January 2010.

6. In its Report on the Executive's Draft Budget, the Committee raised concerns at the imposition of across the board efficiencies on all departments, as some departments could more easily make efficiencies than others. In response, DFP undertook to review the situation.

- What are the outcomes from DFP's review of the comparative impact of the 3% efficiency target on departments?
- Has any consideration been given by DFP to achieving efficiencies in future, other than via the imposition of across-the-board efficiencies inherited from Direct Rule Ministers?

The DFP response to the Committees' concerns in the response to the draft 2008-11 Budget indicated that "...this aspect will be kept under review" rather being subject to a formal Review. This has been achieved through the biannual monitoring of the delivery of efficiency savings by departments. The experience to date, as shown by the performance for 2008-09, would suggest that all departments are making good progress against the 3% target. Building on this, the Executive has adopted a targeted, rather than a standardised, approach to the Review of 2010-11 Spending Plans.

See also response to question from Ms. Purvis at evidence session on 13 January 2010.

7. Professor Talbot informed the Committee of efficiencies claimed at departmental level in England having a negative effect on the system as a whole.

- Is this an area which DFP monitors and is there any evidence of this happening?
- What safeguards are in place to prevent long term objectives being sacrificed for short-term savings?

The Efficiency Delivery Plan (EDP) guidance for NI departments (as previously provided to the Committee) clearly states that departments should not proceed with efficiency measures that merely shift costs onto other government departments. In addition, DFP officials provided further detailed guidance and challenged departments in respect of the contents of EDPs as they were being developed.

However, ultimate responsibility for the content of Efficiency Delivery Plans and the subsequent achievement of savings lies with individual Ministers and departments.

8. At DFP's request, the NIAO examined departmental efficiency technical notes for 2004 – 2007 and reported back to DFP of 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. The Committee's scrutiny of DFP's own Efficiency Delivery Plan (EDP) indicates that these weaknesses still exist.

- Does DFP not have a central role in ensuring that these weaknesses were addressed?

The Efficiency Delivery Plan (EDP) guidance for NI departments (as previously provided to the Committee) clearly states that departments monitoring arrangements for the delivery of efficiency savings should take account of the need to not have a detrimental impact on public services.

In addition, DFP officials provided comments on the EDP's as they were being developed by departments, which included highlighting any weaknesses. As part of the ongoing engagement

with departments DFP officials regularly discuss the progress being made in implementing each efficiency measure and whether any changes or amendments are required to the EDP's.

However, ultimate responsibility for the content of Efficiency Delivery Plans and the subsequent achievement of savings lies with individual Ministers and departments.

9. Did the DFP guidance to departments on formulating efficiency delivery plans contain a clear definition of the savings which would be allowed as efficiencies? Does this issue need to be further clarified?

The Efficiency Delivery Plans guidance for NI departments was sent to the Committee as part of the consultation on draft Budget 2008-11. This included the definition of efficiency to be used in the context of the 2007 Comprehensive Spending Review.

Specifically it was indicated that "In the CSR 07 context a broader definition of efficiency is used beyond the "pure" efficiency concept of outputs increasing/decreasing at a faster/slower rate than inputs. Also included is "allocative" efficiency whereby resources are transferred from low to high priority/effectiveness areas in terms of service delivery".

See also response to question from Ms. Purvis at evidence session on 13 January 2010.

10. In March 2009, DFP's then Permanent Secretary informed the Committee of the Department's role in ensuring that the programme of 3% cumulative efficiency savings are being delivered as planned and that they are genuine efficiency savings and not cuts. What is DFP's precise role in centrally monitoring the efficiency programme?

Primary responsibility for the planning and delivery of efficiency savings lies with individual departments. However, it is important that implementation of the Efficiency Delivery Plans (EDPs) by departments is monitored on a regular basis to measure delivery against the 3% target.

As part of the ongoing engagement with departments, DFP officials regularly discuss the progress being made in implementing each efficiency measure including whether changes should be made to the existing suite of EDPs.

Furthermore, an assessment by DFP of the delivery of efficiency savings by NI departments is reported to the Executive and the Assembly on a biannual basis. This includes both the level of savings achieved to date and the projected position for the remainder of the Budget period.

11. Did DFP assess the validity of the efficiencies in EDPs and, if not, how will the mere publication of EDPs provide assurance that arbitrary cuts are not being made?

There was ongoing discussion between officials in DFP and NI departments as part of the development of Efficiency Delivery Plans (EDP's). However, the ultimate approval for each EDP lies with individual Ministers.

The publication of EDP's is a necessary but not sufficient condition in terms of the scrutiny of how each department intends to achieve the 3% savings target. In particular, making the EDP's publicly available was intended to facilitate robust challenge from Committee's, stakeholders and the wider public in terms of the deliverability of each of the efficiency measures and the impact on public services. This was felt to be a more powerful incentive mechanism than the normal bilateral engagement between DFP and departments.

12. In relation to DFP's EDP, should increased income from charging and a revised accounting treatment of the recognition of costs recovered on rates collection be permissible as valid efficiencies?

Income represents a significant component of DFP's budget and in this context the investigation and subsequent recognition of income from district councils, for services provided by the Land and Property Services agency in collecting district rates, released £5.7m of additional resources for reallocation to priority services across the NI Executive. In addition, business areas within the department have reviewed and taken steps to increase income generation, this has included reviewing charges and chargeable hours, and the additional income reflected in the department's efficiency delivery plan has also released additional resources for reallocation to priority services across the NI Executive. These represent legitimate cash releasing actions and were included in the department's Efficiency Delivery Plan on this basis.

13. The intention in the Executive's Budget was for Departments to publish efficiency delivery plans, yet DFP has informed us that over 80 EDPs have been published. Surely this makes monitoring extremely difficult, if not impossible? Does DFP not have a central role in managing this?

The number of EDPs reflects the fact that a differentiated approach to the delivery of savings has been taken by departments, and also reflects the complex and multifaceted nature of departmental services.

While this does add to the monitoring process, an artificial reduction in the number of EDPs could have resulted in them being presented at a higher level and thus with less detail about the specific approach to be adopted.

14. In its monitoring role, has DFP examined data to ensure that efficiency savings are not affecting frontline services and are not resulting in cuts? Has the Department identified areas where revisions need to be made or scope for further savings?

Primary responsibility for the planning and delivery of efficiency savings lies with individual departments. However, DFP officials provided detailed guidance and challenged departments in respect of the contents of EDPs as they were being developed.

In the course of monitoring efficiencies and departments' spending plans DFP officials routinely discuss any revisions which may be necessary to enable departments to achieve the required level of efficiency savings and also highlights areas where further savings might be made.

15. Progress in efficiency delivery to October 2008 was not reported until September 2009. Is there a significant risk in this time lag, especially given the uncertainty around the delivery of future efficiencies?

There are a number of tasks involved in terms of the monitoring of the delivery of efficiency savings by NI departments. These include the provision of information from departments as well as the subsequent scrutiny and challenge by officials in DFP before the results can be collated. There is also a need to secure the appropriate approvals before the completed report can be passed to the Committee.

However, every effort is made to provide information to the Committee in a timely manner.

16. Four departments achieved 90% of their respective efficiencies for 2008/09 by October 2008? What were the reasons for this? The Committee previously highlighted that some

departments may be able to achieve more than the 3% cumulative efficiencies imposed. Have further potential efficiencies been identified for the departments concerned?

Specific issues regarding the departments are primarily matters for the relevant Assembly Committee, and it would not be appropriate for DFP to comment on their behalf. However, at the generic level the characteristics of certain proposals are such that the efficiency saving can be achieved at an early stage in the year if the necessary steps are taken.

When measuring progress at a mid year point it is important to report accurately on the full quantum of efficiencies achieved. However although in some cases efficiencies are able to be released early in financial year this does not necessarily mean that they are easily achieved or that this is a sign that further efficiencies are available in these areas.

17. DFP has highlighted the necessity of reporting performance on efficiency targets to the Executive and the Assembly. What options exist to strengthen the system of reporting both to the Executive and the Assembly?

The current reporting arrangements for the monitoring of the delivery of efficiency savings, which seek to strike the right balance between frequency and administrative burden, are considered to be appropriate.

18. DFP officials informed the Committee that Budget targets on admin spend for 2008 – 2011 were managed centrally at Block level. What was the target for admin spend in the Budget for 2008/09 and what was the outturn against this target?

The overall Administration Cost Limit for 2008-09 was £507.5 million as set out in Annex B, Table 6 of the Budget 2008-11 document. The actual level of administration expenditure for 2008-09 was £505.6 million.

Invest to Save

19. What will be the criteria used to assess the Invest to Save proposals from departments?

Each Invest to Save Proposal will be assessed in terms of the quantity of projected savings versus the level of upfront cost as well as the quality of the proposal in respect of, for example, deliverability.

Financial Management

20. In his recent monitoring rounds the Minister has highlighted the welcome improvement in the spending performance of departments, leading to a reduction in underspend.

- To what extent is this due to improved financial forecasting and monitoring by departments or is it more to do with increased or unforeseen budgetary pressures?
- What evidence is there to support the view that there is improved financial management and delivery by departments?

There has been a significant improvement in the spending performance of departments over recent years. For example in 2008-09 departments spend 99.7% of their DEL allocations compared to 95.6% in 2005-06.

There has also been a considerable reduction the level of reduced requirements surrendered in-year, a reduction of some 57% between 2007-08 and 2008-09, with the position so far in 2009-10 indicating a similar trend.

DFP's view is that, while some part of this is undoubtedly due to a tightening financial position, the most significant factor is in respect of the improvements in financial management.

There is no clear metric for the quality of financial management, and our view is based on the on-going dialogue between DFP and departments. One important objective measure is a comparison between what departments forecast their expenditure to be, and actual spend – this measure shows a clear improvement in recent years. For example, the variance between December Forecast Outturn and Provisional Outturn has improved from 2.9% in 2006-07 to 0.8% in 2008-09 in respect of current expenditure and from 17.6% to 3.1% in respect of capital investment over the same period.

21. Given the need to manage down the overcommitment position due to the improved spending performance of departments, does the Department now believe that overcommitment should no longer be used as a financial management tool going forward?

In Budget 2008-11 the Executive recognized that there was a need to reduce the level of planned overcommitment to reflect the expectation that improved financial management by departments would result in a lower level of reduced requirements and end-year underspend. Therefore, the Executive's spending plans in Budget 2008-11 were based on the initial level of planned overcommitment being reduced to £100 million in 2008-09; £80 million in 2009-10; and £60 million in 2010-11.

The significant improvement in departmental spending performance in 2008-09 indicated that there should be further acceleration in this downward trend, and as part of the Review of 2010-11 Spending Plans the Executive has agreed to plan on the basis of a zero overcommitment for both current expenditure and capital investment in 2010-11. This will provide the Executive with additional scope to address emerging pressures as part of the 2010-11 in-year monitoring process.

The situation regarding the use of a planned overcommitment will continue to be kept under review.

22. In the September Monitoring Round the Executive agreed to the reclassification of £10 million capital investment to current expenditure in respect of the Health budget. Previously, however, DFP officials have advised that, whilst it can move current expenditure to capital investment, the Executive cannot move capital investment to current expenditure.

- Can you clarify what the Treasury rules permit in terms of the reclassification of monies from capital and current expenditure? What flexibility exists in this regard?

The Treasury sets separate budgets for Current and Capital DEL. While funding can be moved from Current to Capital budgets, the Treasury does not normally permit the movement of funding from Capital budgets into Current budgets.

The reclassification, in September monitoring, of £10 million from capital investment to current expenditure in respect of the Health budget was only possible because of a specific and one-off concession that had been received from the Treasury as part of the negotiations around the response to the Swine Flu pandemic.

23. The Committee has taken an interest in the implementation of recommendations in the PKF Report on Forecasting and Monitoring, published in June 2007, for which DFP has a key central role.

- DFP's Business Plan for the current year contains a target for a review of progress in implementing these recommendations by September 2009. What was the outcome of this review?
- In particular, the PKF Report recommended a move from the existing incremental approach to planning and budgeting to an outcome/performance based approach in which there is a more transparent link between inputs and outputs. What progress has been made in this regard?

The DFP Board considered an update report on the PKF recommendations in December 2009.

The Board noted the progress to date in respect of the three key short term recommendations:

- the reporting and consideration of financial matters by boards;
- the development of financial management training for non-financial staff; and,
- the current position in respect of the development of forecasting and monitoring functionality within Account NI.

The Board agreed that ongoing development work in respect of these areas should now be taken forward within the context of DFP's overall responsibilities for financial management.

The 2008-11 Budget was prepared in the context of the developing Programme for Government (PfG), establishing the link between spending allocations in the Budget and planned outcomes in the form of crosscutting Public Service Agreement (PSA) targets. In addition, the Investment Strategy for Northern Ireland (ISNI) set the strategic direction for investment in public sector infrastructure over the 2008-2018 period, and provided the important context for specific capital allocations, within the Budget, for the first three financial years.

24. Following a recommendation in the PKF Report and a subsequent Committee recommendation in its Report on Stage One of its Inquiry into the Executive's Budget and Expenditure in October 2008, DFP's Central Finance Group included a target in this year's Business Plan for at least 15% of departmental baselines to be reviewed and evaluated in 2009/10.

- What does this review and evaluation work entail? Does it include a zero-based approach to assessing baselines?
- What areas have been reviewed to date and have the findings contributed to any further discussion on future efficiencies?
- What areas will be examined in the remainder of 2009/10 and how were the areas to be reviewed prioritized?

Baseline reviews are primarily intended as internal DFP tools to help inform DFP Supply Teams and equip them with relevant data which will support their challenge role with departments in the course of Public Expenditure exercises. A range of business areas representing some 20% of Departmental Expenditure Limits has been selected for review by Supply during 2009-10. Over a five year period it is expected that all significant areas of departmental expenditure will be covered. This ongoing exercise will provide better insight and a wider understanding of departments' spending patterns and business priorities. The work has already contributed to establishing the DFP position during recent bilateral discussions with departments in respect of the targeted approach to the Review of the 2010-11 Spending Plans.

PEDU

25. What evidence is there to show that PEDU is effective in assisting Departments achieving higher levels of performance and efficiency? How many approaches or requests for interventions has PEDU received from (i) other Departments and (ii) from DFP? What options exist for developing the role of PEDU?

The model for PEDU engagement with departments relies on collaboration and joint working, with departments rightly taking any and all credit for subsequent improvements. In that context, it is difficult to point to any hard evidence of the effectiveness of PEDU, other than the views of departments who have worked with PEDU in both the Planning Service and LPS where the relevant departments feel PEDU performed effectively and added real value to the area under review.

The NIAO, in its report on Planning Service Performance, stated that "PEDU agreed an Action Plan with the Agency, which was substantially implemented by April 2009 and current results show progress towards improved performance". In addition at the subsequent PAC Hearing a Committee Member went on to state that "the action plan was implemented very quickly, and one could argue that it had obvious improvements".

In relation to the number of requests, following the LPS and Planning Service Reviews and other ongoing work undertaken with OFMDFM, PEDU has been approached by DFP to undertake some follow-up work in respect of LPS.

End Year Flexibility (EYF)

26. What are the Executive's current stocks of both current and capital EYF and what level of access has been agreed with Treasury? To what extent have the current stocks of EYF been allocated/committed already?

The Finance Minister has answered this question in his letter to Mr. Mitchel McLaughlin MLA on 18 January 2010, copied to the Chairperson of the Committee.

Asset Management/Capital Realisation

27. When will the central asset register for all public bodies, recommended by the Capital Realisation Taskforce in December 2007, be finalised?

This is being taken forward by OFMDFM.

28. In the interim, how are surplus assets and the costs involved in retaining these identified centrally?

Currently, there is no central mechanism for identifying surplus assets although there are procedures and guidelines in place which require individual Accounting Officers to manage their assets efficiently and effectively.

The ePIMS (electronic Property Information Mapping Service) database, when it is fully operational, will allow property costs to be captured centrally allowing disposal/rationalisation opportunities to be more easily identified. It is planned to pilot ePIMS shortly.

29. NIAO recommended to the Committee that an exercise to identify surplus property is a regular feature of budget processes and that a mechanism is used to independently assess the outcomes of this exercise. Is this currently the case? If not, how will this be rectified?

The capital investment allocations to departments in Budget 2008-11 were developed in conjunction with the Investment Strategy for Northern Ireland (ISNI). The baselines agreed with departments as part of this process included receipts from the sale of surplus assets. The Strategic Investment Board worked with departments and DFP to agree these proposals.

The initial Capital Realization Taskforce report also identified further assets for disposal, the income from which was incorporated into spending plans in the Budget 2008-11.

Going forward, this approach will be improved by the use of the ePIMS database (see Q28).

30. The consultation document on the Review of 2010-11 Spending Plans (paragraph 3.22) refers to expected "slippage in two major projects planned for 2010-11 which are broadly equivalent in value to the anticipated shortfall in receipts". What projects are being referred to and what is their estimated value?

The two projects referred to in the Consultation Document are:

(1) Royal Exchange/North East Quarter (DSD) which was allocated £110 million in net capital investment funding for 2010-11; and

(2) Strategic Waste Infrastructure Fund (DoE) which was allocated £180.2 million in net capital investment funding for 2010-11.

In the 2008 Strategic Stocktake, DoE indicated that only £6.5 million of the allocation for the SWIF would be required in 2010-11.

See also response to question from Mr. McCann at evidence session on 13 January 2010.

31. Given the increased spending performance of departments, how much flexibility will there be to manage the shortfall in departmental capital receipts through the In-Year Monitoring process in 2010-11.

The improved spending performance of departments, coupled with a reduction in the level of reduced requirements, does reduce the flexibility available to the Executive in the in-year monitoring process.

However, reducing the starting level of overcommitment to zero, as part of the Review of 2010-11 Spending Plans and the slippage in two major capital projects as referred to in the response to Question 30, will provide the Executive with additional scope to address emerging pressures.

Movement of PFI Capital Projects Off-Balance Sheet

32. The consultation document on the Review of 2010-11 Spending Plans (paragraphs 3.11-3.12) explains that changes in budgeting rules means that there will be greater scope in future years to classify projects as being "off-balance sheet".

- What are the potential future capital investment savings arising from this change in budgeting treatment and what will be the value of savings in 2010-11?

Capital investment savings will arise when PPP/PFI projects that were previously planned to be 'on-balance sheet' move to being 'off-balance sheet' under the revised guidance.

However, the revised Treasury guidance only applies to contracts signed after 1 April 2009 and due to the normal lead in times on such projects the impact on 2010-11 was minimal. Only one project with a value of £9.8 million was assessed as moving 'off-balance' sheet in 2010-11, as part of the Review of 2010-11 Spending Plans.

Funding Water and Sewerage Services

33. The consultation document on the Review of 2010-11 Spending Plans (paragraph 3.15) states that the cost of deferring water charges will be approximately £210m in 2010-11.

- What are the financial implications to the Block from the outcome of negotiations around the treatment of VAT, the reclassification of Northern Ireland Water (NIW) from a Government owned company (Go-Co) to a Non-Departmental Public Body and the valuation of NIW's asset base of £1 billion?
- What are the potential annual costs beyond 2010-11 and what options exist to address this issue?

The VAT treatment of NI Water (NIW) is still under consideration by NI Water and DRD who will advise us of any financial implications in due course.

The financial implications of reclassifying NIW from a GOCO to an NDPB have been addressed in the proposed allocation for Water and Sewerage Services as part of the Review of 2010-11 Spending Plans and are based on the £1billion valuation of NIW's assets.

The forecast costs of NI Water beyond 2010-11 are a matter for DRD, and has not yet been shared with DFP.

Equal Pay Claim

34. The consultation document on the Review of 2010-11 Spending Plans (paragraph 3.17) states that the cost of the equal pay claim is estimated to be between £155-170m and that this is "offset by the £100m in additional current expenditure which was negotiated with the UK Government in late 2008".

- What is the source of the £100m referred to? Is it truly additional to the NI Block or is it to be drawn from EYF which accumulated from previous underspends by NI departments? Is the full £100m available to offset the equal pay claim?
- How is it intended to fund the remainder of the costs?
- In addition to the one-off costs, will there also be additional recurring annual costs associated with the deal? If so, how will these be funded?

The £100 million is made up as follows:

- £40m under RRI financed by drawdown of unused borrowing carried forward from 2007-08;
- £31m from borrowing under RRI, or from capital receipts up to this amount to cover current spending; and,
- £29m capital DEL .

The remainder of the costs will be addressed using the savings to be delivered as part of the Review of 2010-11 Spending Plans (see paragraphs 3.17 and 3.20 of Consultation document).

The recurring costs of the settlement are estimated to be approximately £25.7 million in terms of increased salaries, to be addressed by departments.

Policing and Justice

35. The financial package on offer for the devolution of policing and justice was set out in a letter from the Prime Minister to FM/DFM, which was published in the press.

- In general terms, what implications could this package have for the Executive's future strategic spending?
- Treasury will grant "access to the reserve" to meet any exceptional policing and justice pressures. Has this to be repaid and, if so, on what terms?
- Access to £30m in unallocated EYF and underspends generated in future years will be available to meet pressures. Is this additional to the level of access to EYF stocks already agreed with Treasury? Will this arrangement affect the Executive's future flexibility to cover pressures in other areas, particularly given the recent pattern of reduced year-end underspend by departments?
- The Executive is to be gifted four former military bases as part of the deal. Are there plans in place for these? What costs will be incurred in retaining these bases if they are not sold, or put to full use quickly?

The aim of the financial package is to address known issues in policing and justice functions and to provide a secure financial foundation for the devolution of these functions primarily to ensure such issues have no impact on other spending areas.

DFP officials are continuing to discuss with NIO and Treasury the practical implications of the proposals in the Prime Minister's letter.

Supplementary Questions on Review of 2010-11 Spending Plans

A1. Clarification on the different percentage figures used to quantify overall budget reductions within the Review of 2010 – 2011 Spending Plans for NI Departments

The objective of the Review of 2010-11 Spending Plans was to consider the changes required to the original 2010-11 spending plans for NI departments from Budget 2008-11, in the context of the public spending pressures facing the Executive next year. In addition, the Executive has proposed that £26 million is set aside for an Invest to Save Fund.

This resulted in the need for additional savings of £393.1 million to be delivered by NI departments in 2010-11. However, the majority of these savings are to be recycled back into departmental budgets, which offsets the savings by £257.6 million. In addition, various technical adjustments have resulted in changes to departmental budgets, although these do not generally impact on spending power.

The different percentages quoted in the Consultation Document reflect the fact that the proposed changes to the spending plans can be considered from a number of different perspectives.

The 2.4% and 10.2% figures relate to the cost pressures faced by the Executive (£367 million) as a percentage of the adjusted 2010-11 budgets for NI departments in terms of current expenditure and capital investment respectively. The 2.6% figure includes the £26 million set aside for the Invest to Save Fund in respect of the current expenditure percentage savings requirement.

The 0.1% and 1.0% figures relate to the total net impact of the changes proposed by the Executive in terms of a comparison between the Draft Revised Plans (£8961.4 Current and £1,398.6 million Capital) and those set out originally in the Budget 2008-11 document (£8,972.4 Current and £1,412.9 million Capital).

Both sets of figures are equally valid with the former highlighting the gross amount of additional savings required of department whilst the latter indicates the net impact of the Executive's proposals on the budgets of NI departments compared to the original plans.

A2. Details of the technical changes for each department referred to in tables 4.1 & 4.2 in consultation document?

Table A1: Technical changes set out in Review of 2010-11 Spending Plans Consultation Document, Current Expenditure.

£ million	Post-Budget Exercise ¹	Strategic Stocktake RR's ²	Depreciation Exercise ³	Clear Line of Sight ⁴	IFRS ⁵	Total Technical Adjustments
DARD	0.0	0.0	0.0	(19.0)	0.4	(18.7)
DCAL	0.0	0.0	0.0	(2.0)	0.0	(2.0)
DE	0.0	0.0	(0.3)	0.3	0.2	0.2
DEL	0.0	(10.6)	(0.4)	1.9	0.5	(8.7)
DETI	0.0	(10.5)	(6.0)	(7.5)	0.2	(23.8)
DFP	8.9	0.0	0.0	(4.2)	0.1	4.9
DHSSPS	212.1	0.0	(33.0)	(62.3)	0.0	116.8
DOE	(0.2)	0.0	(0.3)	(1.6)	0.0	(2.1)
DRD	3.6	0.0	0.0	0.0	0.0	3.6
DSD	11.2	0.0	0.0	(2.4)	4.1	12.9
OFMDFM	(3.8)	0.0	0.0	0.0	0.0	(3.8)
Other	0.0	0.0	0.0	(4.4)	0.0	(4.4)
Total	231.8	(21.1)	(40.0)	(101.2)	5.5	74.9

Notes:

1. Additional budget allocation to DHSSPS relates to increase in employer superannuation contributions as a result of a new method of calculating superannuation charges as well as reclassification of Health Trusts as Non Departmental Public Bodies.
2. Reduced Requirements declared by departments part of 2008 Strategic Stocktake
3. Reduced Depreciation requirements declared in response to constraints on alternative uses of this category of spend.
4. Removal of Cost of Capital budgets and movement of the costs of setting up Provisions from DEL to AME.
5. Mainly reflects increased scope to capitalise costs under IFRS.

Table A2: Technical changes set out in Review of 2010-11 Spending Plans Consultation Document, Capital Investment.

£ million	Post-Budget Exercise	Strategic Stocktake	RR's	Depreciation Exercise	Clear Line of Sight	IFRS	Total Technical Adjustments
DARD	0.0	0.0		0.0	0.0	(0.4)	(0.4)
DCAL	0.0	0.0		0.0	0.0	0.0	0.0
DE1	0.0	0.0		0.0	0.0	(9.8)	(9.8)
DEL	0.0	0.0		0.0	0.0	0.0	0.0
DETI	0.0	0.0		0.0	0.0	0.3	0.3
DFP	0.0	0.0		0.0	0.0	1.1	1.1
DHSSPS	0.0	0.0		0.0	0.0	0.0	0.0
DOE	0.0	0.0		0.0	0.0	0.0	0.0
DRD2	0.0	0.0		0.0	0.0	44.0	44.0
DSD	0.0	0.0		0.0	0.0	0.0	0.0
OFMDFM	0.0	0.0		0.0	0.0	0.0	0.0
Other	0.0	0.0		0.0	0.0	0.0	0.0
Total	0.0	0.0		0.0	0.0	35.2	35.2

Notes:

1. Reduced capital requirement from transfer of Schools project to off-balance sheet treatment.
2. Change in budgeting treatment for Roads Structural Maintenance.

Shared Services Organisation - Follow Up

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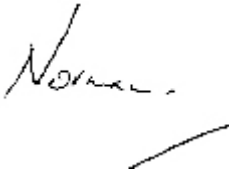
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Mr Shane McAteer
 Clerk
 Committee for Finance and Personnel
 Room 419
 Parliament Buildings
 Stormont 17 February 2010

Dear Shane

The purpose of this minute is to provide the additional information requested by the Committee, following the session held on 27th January 2010 on the Shared Service Organisation. The attached Annex provides responses to each of the issues raised in your letter of 3rd February.

Yours sincerely,



Norman Irwin

Annex A

Shared Services Organisation

Shared Services: Efficiencies And Performance

1. What evidence is there to date that the shared service centres have resulted in efficiency gains?

How are these efficiencies defined, measured and reported?

Efficiency gains associated with the individual services in the Shared Service organisation programmes will extend beyond the CSR period as projects are implemented and service delivery is stabilised. Efficiency gains already realised are as follows:

- **IT Assist**

A key benefit of the ICT Shared Services project was to reduce the cost of desktop support from the £1,572 (estimated at the start of the migration programme in 2006/07) to £900 per person per year by 2010/11. To date this cost has reduced to £1,000 per person, producing over £4.5 million efficiency savings. The cost for the full IT Assist Service, which includes the data centres and Network NI, equates to £1,200 per person per year, which compares favourably to recently published GB data for their shared service programme (£1,700) and the estimated average cost for the provision of desktop and infrastructure services in GB Government (£2,400).

- **Centre for Applied Learning (CAL)**

The creation of the shared service for training has resulted in actual cash savings to NICS departments of over £3.9 million (in total for the years 06/07, 07/08 and 08/09). This saving is as a result of the reduction in staff costs for the delivery of training, comparing staffing costs for the delivery of training pre CAL with the staffing costs of CAL at the end of each financial year.

- **Network NI**

A key benefit of this project is to reduce the cost per megabyte per year from £396 to £218. This has produced a saving to date of over £1.5 million.

- **HRConnect**

A key benefit of this project was to realise savings in the overall cost of HR services. This benefit has been achieved as there has been a reduction in current cash running costs when compared to 2005/06 expenditure uplifted to 2009/10 prices

Anticipated efficiencies are defined in the Benefit Reporting Packs for each shared service, developed in conjunction with the Department's Reform Delivery Unit. These packs set out the key benefits for each reform project (e.g. reduced costs, greater satisfaction with management information etc), how the benefit will be measured, baseline values, target values and (where the project has reached steady state), actual values.

The Reform Delivery Unit has also undertaken a series of reviews across business areas in DFP and these have shown that, in addition to benefits identified in the Benefits Reporting Packs,

further benefits are being realised within business areas as a result of the introduction of the shared services. For example, reviews to date have resulted in:

- Savings of £232,861 from the reduction of HR staffing in business areas.
- Savings of £334,000 from the reduction of financial processing staffing in business areas.
- Savings of £150,000 from the reduced need for storage of documents in business areas.

A reporting system has been developed to record, for each project, the key benefits, baseline values, target values and actual values. Measurement is carried out by the Northern Ireland Statistics and Research Agency (NISRA).

Responsibility for realising and measuring some of the benefits is at Departmental level e.g. the reduced cost of document storage as a result of the introduction of Records NI. Others are measured at NICS level e.g. the benefits of ICT Shared Services, the Centre for Applied Learning and Network NI are all measured at NICS level as they are reflective of centralised purchasing power and economies of scale.

In addition, a benefits plan will also be developed to identify the expected efficiencies and benefits anticipated from the creation of the Shared Service Organisation and this will be also be monitored and reported on by the Reform Delivery Unit.

2. In its Report on the Executive's Draft Budget 2008-11, the Committee called for consideration to be given to extending the shared service centres beyond NICS, to cover NDPBs and other public bodies, with a view to maximising efficiencies across the public sector. The Committee also recommended that the contractual arrangements with the providers of the shared service centres should include provision to ensure that NICS shares in the benefits from any future expansion in the customer base of the centres.

What progress has been made in this area and what potential still exists?

IT Assist provides its services to a growing number (approximately 20) of NDPBs, including the Agri-Food and Biosciences Institute and the Strategic Investment Board, and is in talks with several others with a view to them taking services. For security reasons, any NDPB must be "sponsored" by its owning department and develop practices in line with NICS data security responsibilities.

The Network NI contract has already been extended to the Education and Skills Authority and parts of the Northern Ireland Office and may be extended into Council Headquarters.

Account NI already provides service to the Agri-Food and Biosciences Institute (AFBI) and a range of other Agencies that were included within the scope of the contract. Discussions are underway with a view to the Driver & Vehicle Agency (DVA) migrating to Account NI. Others will be considered where it proves viable.

HRConnect currently provides services to a number of non-NICS Participants, including AFBI, NIAO and the Policing Board. The Contract provides for other NI public sector bodies to opt in to receive services from HRConnect.

CAL increasingly provides services to customers outside the core Departments. For example; Labour Relations Agency, Northern Ireland Court Service, Food Standards Agency NI and the Policing Board.

3. A final Gateway review was to be completed for IT Assist in summer 2009, and Gateway 5 reviews for HR Connect and Records NI in November 2009 and December 2009 respectively.

Have these reviews been completed and, if so, what were the outcomes?

The final Gateway Review for IT Assist completed in June 2009. The Review gave an Amber/Green Confidence Assessment and concluded that "IT Assist has achieved successful implementation through a strategic balance of thorough planning, organisational development, skills development and adoption of best practice methodologies. The work to develop IT Assist has also received strong commitment at all levels from PSG, governance board and the IT Assist programme and operational organisation. It is a success story." Six recommendations (non critical) were made, all of which have been addressed or are in the process of being delivered.

A Gateway 5 Review for Records NI is targeted for the summer of 2010.

A Gateway 5 Review for HRConnect is targeted to take place in the summer of 2011, after the programme completion.

4. Paragraph 5 of the paper [see Tab 3] refers to the governance arrangements for the Shared Service Organisation (SSO) and shared service centres.

How is the performance of both the SSO and the individual shared service centres monitored and reported?

The performance of the SSO is monitored through the standard monitoring and control mechanisms of the Department, including financial monitoring, headcount monitoring, business plan reporting, risk reporting and performance management.

The strategic performance of the SSO will be monitored by a Strategy Board with representation from Departments, while Service Boards for HR, ICT and Finance will be used to monitor the performance of the individual shared services.

5. What lessons have been learned to date from the experiences of the individual shared service centres and how will these be applied going forward?

Lessons learned to date from the experiences of the individual shared services include the need to:

- Start gathering key baseline data to measure benefits at an early stage in the project.
- Allocate adequate resources to the project from the outset in order to maintain business as usual during the transition phase.
- Spend more time on "people issues" associated with the required cultural change as staff previously working in various departments in the NICS were "centralised" in one business.

Going forward, lessons learned will be applied in the development of the Shared Service Organisation – for example work on collecting baseline data for the SSO has commenced, the need for internal consultancy support for key projects has been identified and work is planned to address cultural issues.

HR Connect

6. The Committee heard last week that, for the current financial year, capital slippage of £2.8m has been identified for HR Connect due to delays on the part of the contractor. What is the current situation in this regard?

To meet contractual commitments, it will be necessary for DFP to bid for this £2.8m in the 2010-11 in-year monitoring rounds. What are the implications for SSO should such a bid not be successful?

The forecast capital slippage remains at £2.8 million; however, part of this is expected to become due in 10/11 and part in 11/12.

The £2.8m capital bid represents an inescapable capital commitment. SSO will seek to address this as part of the in-year monitoring process in 2010/11. A formal bid will be submitted by SSO to Retained Finance who will usually address this through one of the following options:

- Secure the required funding by way of a successful capital bid at a monitoring round.
- If no additional capital funding is made available, they may consider reducing the capital budgets available to other business areas within DFP.
- A combination of the options above could be used to cover the full Capital requirement.

7. In February/March 2009 there was a significant spike in the number of complaints received by HRConnect and at 6 May 2009 over 600 complaints remained outstanding.

What is the current number of complaints outstanding against HRConnect, and how many of those have not been dealt within the prescribed 10-day period?

The number of complaints received by HRConnect has been steadily decreasing month on month since May 2009. In January 2009, 129 complaints were received by HRConnect, all of which have now been closed. As of 9th February, there are 27 open complaints, all of which remain within the 10 day time period.

IT Assist

8. The IT Assist Annual Report 2008-09 notes that 'the real success of IT Assist will be judged on how well the NICS can exploit its shared ICT services to achieve business benefits'.

What steps have been taken to achieve those business benefits?

What milestones or targets have been established to measure performance and the efficiencies saved?

IT Assist worked closely with the DID Reform Delivery Unit to develop a Benefits Plan and a Benefits Realisation Report was subsequently developed in April 2009. This focused on three major benefits, i.e. Reduced Cost of ICT Provision, Increased End User Satisfaction with the Support Service and Greater Assurance in all Aspects of the Governance of the Service.

With regard to Reduced Cost of ICT Provision, the set target was to reduce the cost of desktop support from the £1,572 (estimated at the start of the migration programme in 2006/07) to £900 per person per year by 2010/11. To date this cost has reduced to £1,000 per person, producing over £4.5 million efficiency savings. The cost for the full IT Assist Service, which includes the data centres and Network NI, equates to £1,200 per person per year, which compares favourably to recently published GB data for their shared service programme (£1,700) and the

estimated average cost for the provision of desktop and infrastructure services in GB Government (£2,400).

Customer satisfaction is calculated by polling 400 customers each month (these are people who have contacted IT Assist due to a problem or specific service requirement). The randomly selected customers are invited to complete a short on-line questionnaire and the responses have averaged at 75% satisfied or very satisfied with the IT Assist service.

Greater Assurance will be measured by a questionnaire issued to all stakeholders on an annual basis. The first survey is ongoing and scheduled to complete this month.

9. In a previous evidence session the Committee heard that there have been significant difficulties in negotiating transfers from other departments in relation to payment for the service provided by IT Assist.

What measures have been taken to address these issues?

What assurance can you give that IT Assist will not feature in the monitoring rounds during 2010-2011 because other departments are not paying up?

IT Assist is currently going through the 2010/11 Technical transfer process, assisted by the DFP Finance Director. This involves securing transfer commitments from departments now to enable budget forecasting. The process was only initiated last week but progress has already been encouraging. IT Assist consequently does not expect to require funding from the centre beyond that which was agreed at the start of the CSR period to cover new commitments, e.g. data centres.

10. In the evidence to the Committee's Procurement Inquiry, members heard of a lack of co-ordination and lesson learning in the procurement of IT. It was also felt that potential suppliers have no point of contact for having their systems assessed for potential use within the wider NICS.

How will IT Assist address these issues?

IT Assist is bound by the NI Public Procurement Policy to use the services of a Centre of Procurement Expertise, in this case DFP's Central Procurement Directorate, and follow the appropriate statutory guidelines. Although IT Assist is a large-scale operation, several local companies are involved in the supply of services to the NICS via IT Assist as part of partnerships and consortia. IT Assist meets with many local companies on a regular basis to discuss various potential opportunities.

Account NI

11. What evidence is there to date that Account NI is having a positive impact on forecasting and monitoring by departments?

How might the Account NI system facilitate the use of alternative approaches to budgeting (e.g. zero-based or performance/output budgeting)?

Account NI has introduced a standardised approach for month end and year end accounting processes aimed at supporting the timely production of budget holder reports and financial information on an accruals basis. Better quality information on the current period is fundamental

to budgeting and in-year monitoring, allowing more effective decision making where actual performance and results are more accurately measured against the in-year provision.

The Account NI chart of accounts supports detailed expenditure analysis and budget setting at variable levels – the chart of accounts was designed to support the sophisticated use of the financial data contained within the solution and reflects best practice in the development of financial systems. Account NI facilitates budgeting at various levels within the common footprint, namely Chart of Accounts level and Central Expenditure Division level allowing for in-year reporting and monitoring on either a micro or macro basis. This data is available for departments to use for forecasting purposes.

12. Is the Account NI system sufficiently aligned with PfG/PSA targets and indicators to provide the necessary management information on inputs/outputs/outcomes going forward?

Yes, the Account NI system allows departments to "map" expenditure and report to the record level detail required by the CED database. Data recorded at this level can then be aligned by Departmental reporting with PfG and PSA targets and indicators.

Budget and In Year Monitoring Processes - Responses to list of issues and Assembly Research Paper

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Mr Shane McAteer
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23 February 2010

Dear Shane,

Further to your letter of 22 January, I attach responses to the list of issues on the reviews of the budget and the in-year monitoring processes, which the Committee agreed to forward to the Department for a written response. You also provided a copy of the Assembly Research paper on methods of budgeting, which is commented on briefly.

I apologise for the delay in responding but this was unavoidable due to other pressures.

Yours sincerely,



NORMAN IRWIN

Budget & In-Year Monitoring Processes

DFP Response to Queries from the Committee for Finance & Personnel

Review of In-Year Monitoring Process

1. At paragraph 1.4 of the Review report it states that the ultimate aim of moving to an outputs/outcomes focused process is dependent on departments having adequate management skills and sufficient focus on achieving outputs.

- To what extent are outputs considered as part of the existing monitoring round process?
- Given the focus on improving financial management skills across departments in recent years, what skills gaps exist?
- Why is there currently not sufficient focus on achieving outputs?

Departments provide details of the Impact on PFG targets and the consequences of a bid not being met. This information is taken into consideration by DFP when assessing bids.

The significant changes in government accounting and corporate governance over the past number of years required the support of professional financial staff with strong technical accounting and governance skills and this was reflected in training and development programmes.

Having addressed the immediate requirements of accounting and governance departmental priorities are now focusing increasingly the quality of business decisions and consequently professional staff, previously focused on technical accounting support, are being asked to provide more detailed analytical and interpretative input. Additionally, the expectation in relation to general wider civil service staff skills is an increased awareness of the financial implications of decisions and also the underlying factors which may impact financial outcomes.

The skills gap therefore can be considered in term of "business intelligence" skills rather than technical finance skills and current planning in relation to financial management training is seeking to access and develop programmes which meet this demand. Any new provision must be developed to take account of resourcing and budgetary pressures.

It is not that outputs are not considered, it is more that the general perception is that the focus is on the amount of spending that is needed as opposed to what will be delivered or if there is a better way to achieve a particular objective.

2. In paragraph 2.3 of the Review report it explains that the system of in-year monitoring in NI is distinct from the approach taken by Whitehall departments of building in a reserve to initial budgets? In comparative terms, which system is the most effective and what approaches are taken in other jurisdictions? Given the trend towards lower levels of underspend and the need to remove the overcommitment provision, is NI likely to emulate the Whitehall system eventually?

It is not possible to give a definitive answer as to which system is the most effective as this would be dependent upon the particular circumstances of the organisation involved. As explained during the evidence session on 20 January, in response to a question from Ms Purvis, the question arises as to whether to hold back an unallocated reserve and, if so, how much should this be and at what point in the year should it be distributed. To date the Executive has taken the view that it is better to allocate all budgets and to deal with any emerging issue through in-year easements.

Therefore, whether or not Northern Ireland moves towards the Whitehall system is something that can be considered, but there are inherent risks involved in deliberately holding back money that could be used to provide services.

3. If there was an eventual move away from the existing approach to in-year monitoring, what implications would this have for the approach taken by departments to forward-year budgeting? Would a diminution of in-year monitoring process increase the risk of departments building in greater safety margins and thereby inflating future budget bids? Indeed, is there not already a risk of this given that there is now less money available for reallocation at monitoring rounds? What safeguards can be put in place to ensure the validity of budget baselines going forward?

There is always the risk that departments would seek to build a safety margin into their bids, but this might apply whether or not the current in-year monitoring arrangements remained in place. External to departments' own obligations to ensure effective financial planning and control, the main safeguards aimed at minimizing the risk of departmental baselines not being taut and realistic is the effectiveness of on-going scrutiny/challenge by both DFP and the respective Assembly Committees.

4. Paragraph 2.7 of the Review report states that "historically the key purpose of the June monitoring round was to allocate End Year Flexibility (EYF) funding to departments". How and why has this changed?

Historically the Executive had automatic access to EYF, allowing the full draw down of the previous year's underspend in the following year. This allowed significant allocations to be made in the June round.

Currently, however, although all underspends are incorporated into the Executive's EYF entitlement, the draw down of the funding is subject to Treasury approval and is at a much lower level than previously allowed. Although HM Treasury agreed that the Executive could draw down £440 million of its EYF stock over the 2008-11 period, no adjustments were made to allow for subsequent underspends. It is expected that the position will be reviewed as part of the next Spending Review.

5. What flexibility do departments currently have for addressing pressures from within existing budgets rather than relying on the in-year process? What scope exists for providing further flexibility in this regard?

There are three flexibilities available to departments.

First, departments are permitted to retain reduced requirements below the de minimis level (£500k) for redistribution. They may also move amounts below the de minimis threshold between Spending Areas (Units of Service). However, such movements must be within the same category of expenditure and require DFP approval. Finally, movements of resources between Units of Service, which exceed the de minimis threshold, require Executive approval. Such movements, known as Proposed Reductions and Reallocations, are only considered if they are the result of a proactive management action to limit expenditure in one area in order to release resources for reallocation.

Any increase to this level of flexibility would have to be agreed by the Executive on the basis of a recommendation from the Finance Minister.

6. Paragraph 5.10 of the Review report states that "the linkage between funding and public service outputs/outcomes will be dependent on the quality of the performance indicators underpinning the PfG which will be further developed in the coming years".

What are the weaknesses in the existing PfG performance indicators in this regard?

Are the existing financial systems within departments and the Account NI system sufficiently aligned with PfG/PSA targets and indicators to provide the necessary management information on inputs/outputs/outcomes going forward?

The targets set out in the Programme for Government document are the responsibility of the respective departments and OFMDFM.

The Account NI system allows departments to "map" expenditure and report to the record level detail at which budget allocations are held on the Resource Budget Management (RBM) system that is managed by Central Expenditure Division (DFP). However, the basis on which these records are aligned to PfG and PSA targets and indicators is a matter for individual departments.

7. In terms of recommendation (c) [Review report, paragraph 5.14], what consultation is planned with Assembly committees on this guidance? Will a draft be made available to this Committee in the first instance?

It is planned to incorporate the requirement for departments to engage with their committees at an early stage into the annual In-year Monitoring Guidelines. These will be issued to departments and published on the DFP website. However, the precise nature of the engagement between each committee and their respective department is primarily a matter for individual Committees. For that reason, the guidance will not be so prescriptive so as to require consultation with individual departmental committees before it is finalised. Rather, the guidance will require departments to consult with their committees and establish their requirements both in terms of timing and detail.

The relevant section of the draft Guidance will be made available to the Committee for Finance and Personnel for comment.

8. As regards recommendation (d) [Review report, paragraph 5.14], in addition to stating the impact on the relevant PfG target if the Executive approves the bid, should departments not also explain what the consequences will be if the bid is not approved?

Departments should already provide information on the impact of bids on PfG targets so that this can be taken into consideration when assessing their relative merit. In addition, it is intended that the guidance for the 2010-11 In-Year Monitoring process will include a specific reference to consider also the implications on PfG targets of bids not being successful in order to bring about a more disciplined and consistent approach to this important aspect of the process.

9. When will the indicative timetable and guidance for the 2010-11 monitoring process be available and can this be provided to the Committee?

The indicative timetable will be included in the 2010-11 In-year Monitoring Guidelines which should issue around end March/early April and will be placed on the DFP Website.

A copy of the indicative timetable will also be provided to the Committee.

10. What are the existing arrangements between Treasury and DFP for determining and receiving Barnett consequentials and what is the decision-making process for how these monies should be allocated through the monitoring rounds? Is the breakdown of the Barnett consequentials placed in the public domain?

The funding arrangements for the NI Executive, including the operation of the Barnett formula, are set out in the Statement of Funding Policy which is available on the HM Treasury website at

http://www.hm-treasury.gov.uk/pbr_csr07_statement_of_funding_policy.htm

and is updated at the time of each UK-wide Spending Review.

Barnett consequentials can be negative as well as positive and are considered as part of the local Budget or In-Year Monitoring process in the context of the overall level of funding available to the Executive.

The policy in respect of the publication of Barnett consequentials is a matter for HM Treasury and, currently, they do not place the breakdown in the public domain. However, as any and all Barnett consequentials are unhypothecated, to be allocated in lines with local needs and priorities the corresponding change in funding for Whitehall departments is not a material factor in the allocation of resources by the NI Executive. The breakdown of the consequentials is, however, important in demonstrating to the Devolved administration in a transparent manner how the overall allocation or reduction has been arrived at.

Executive's Future Budget Process

11. For some considerable time now, the Committee has been calling for clarity on the process for agreeing future Executive Budgets, and this is likely to be a priority for the wider Assembly in terms of it being in a position to plan and fulfil its scrutiny function. The Minister, in his response of 4 December '09, was unable to give a date for the completion of the Review of

the 2008-11 process, which will inform the future process. Work pressures on departmental officials was cited as the reason for the considerable delay.

- Aside from the recently initiated Review of 2010-11 Spending Plans, what other work pressures have got in the way of settling the future process?
- Does the delay point to insufficient staff resources within Central Expenditure Division?
- Will the Review of the 2008-11 process and any emerging proposals take account of budget processes in other jurisdictions, including the comparative provision made for parliamentary scrutiny?
- What consideration will the Review give to the future PfG process?
- Can the Department offer an indicative date for setting out proposals on the future Budget process?

The reasons for the delay in the completion of the Review of the Budget 2008-11 Process have been set out in previous correspondence with the Committee from the Finance Minister to the Committee Chairperson on 4 December 2009 and from the Departmental Assembly Liaison Officer to the Committee Clerk on 16 April 2009. These include the additional staff input requirements as a result of the more protracted nature of the In-Year Monitoring processes in 2008-09 and 2009-10 as well as the Strategic Stocktake exercise in late 2008. In addition, the temporary transfer of the Head of Division to resolve the NICS Equal Pay claim had a significant impact in the first half of 2009 given the relatively small number of officials involved in strategic analysis activities in Central Expenditure Division.

The allocation of resources within DFP to Central Expenditure Division is based on the competing needs within the department as well as the overall level of available funding. It is inevitable, given the wide ranging nature of the work of the Division that plans will often be subject to re-prioritisation throughout the year, often at short notice.

The Terms of Reference for the Review, previously provided to the Committee, indicated that it would consider "...the approach to the Budget process in the rest of the UK, focusing on the parallel devolved administrations in Scotland and Wales.". The linkages between the Budget and Programme for Government will also be considered, although primary responsibility for the latter lies with OFMDFM. The latest position in respect of the timetable for the process, as set out in the Finance Minister's letter to the Chairperson of the Committee of 7 January 2010, is that the work will not be completed until the revised spending plans for 2010-11 are in place.

12. In its Report on the Executive's Draft Budget 2008-10, published in December 2007, the Committee highlighted concerns around the lack of read across between the Budget and PfG documents.

- What further consideration has been given to this issue?
- What options exist to provide clearer linkage between baseline allocations and PfG/PSA targets and for the monitoring of performance in this regard?

This issue is being considered as part of the Review of the Budget 2008-11 Process.

The main option in this respect is for the Programme for Government (PfG) to be sufficiently well developed in advance of the Budget process, to allow a clear linkage in departmental spending proposals between the additional funding being requested and the impact on the targets and priorities set out in the PfG.

13. Given the various reviews of the Barnett Formula in GB and the possibility of a change of UK Government in the coming months, what consideration is

DFP giving to potential changes in the future funding arrangements for devolution and the implications that this could have for future budgeting at the devolved level?

DFP has not been advised of any plans to fundamentally change or review the funding arrangements for the NI Executive and without any such details it would not be possible to comment in a meaningful way. However, it is not expected that a change to the Barnett formula would have significant implications in respect of the local budgeting framework.

Methods of Budgeting

14. In October 2008, DFP officials advised the Committee that they intended to undertake a rolling programme of baseline reviews, which would include a zero-based analysis of each Department's baseline. Recently the Department has confirmed to Assembly Research that the process of baseline reviews does not indicate a move towards zero-based budgeting.

- To what extent are departmental baselines subject to zero-based analysis either internally, by DFP or as part of the CSR process?
- Given the tight public expenditure outlook and the need for departments to achieve the optimum allocation of resources, what scope is there for applying a zero-based approach to areas of discretionary expenditure going forward?

DFP have identified a range of business areas representing some 20% of Departmental Expenditure Limits for review this year. Whilst the baseline reviews share many characteristics of a zero based approach, they are only intended as an internal DFP tool to help support the Department's challenge role.

The approach given to budgeting going forward is something that will require further consideration. Whilst a zero based approach may prove effective in certain areas of spend, it is not something that could be applied across the board.

15. The PKF Consultants report in 2007 found that the existing incremental approach to budgeting does not provide a transparent link between inputs and outputs, with the result that it is difficult to determine if the right level of resources has been allocated.

What progress has been made on the PKF recommendation for a move away from incremental budgeting and towards a more output/performance-based approach?

The 2008-11 Budget was prepared in the context of the developing Programme for Government (PfG), establishing the link between spending allocations in the Budget and planned outcomes in the form of crosscutting Public Service Agreement (PSA) targets. In addition, the Investment Strategy for Northern Ireland (ISNI) set the strategic direction for investment in public sector infrastructure over the 2008-2018 period, and provided the important context for specific capital allocations, within the Budget, for the first three financial years.

16. The PKF report also recommended that DFP provides for "full End Year Flexibility to those Departments that demonstrate robust arrangements for financial management".

- What is the Department's position on this and has any progress been made in this regard?

This arrangement would not be possible as the Executive does not receive automatic access to End Year Flexibility from the Treasury, with any draw down having to be agreed in advance, usually as part of a Spending Review process, as was the case in the 2007 Comprehensive Spending Review. Therefore, if such an arrangement were to be put in place, departments' requirements for End Year Flexibility could be greater than the permitted draw down in a given year.

17. What evidence is there to date that the Account NI shared service centre is having a positive impact on forecasting and monitoring? How might the Account NI system facilitate the use of alternative approaches to budgeting?

Account NI has introduced a standardised approach for month end and year end accounting processes aimed at supporting the timely production of budget holder reports and financial information on an accruals basis. Better quality information on the current period is fundamental to budgeting and in-year monitoring, allowing more effective decision making where actual performance and results are more accurately measured against the in-year provision.

The Account NI chart of accounts supports detailed expenditure analysis and budget setting at variable levels – the chart of accounts was designed to support the sophisticated use of the financial data contained within the solution and reflects best practice in the development of financial systems. Account NI facilitates budgeting at various levels within the common footprint, namely Chart of Accounts level and Central Expenditure Division level allowing for in-year reporting and monitoring on either a micro or macro basis. This data is available for departments to use for forecasting purposes.

Departments' Monthly Forecast Outturns

18. In terms of the monthly forecast outturns by departments, the Committee recently requested fuller information to assist it in more effectively monitoring the standard of financial forecasting at a strategic level. In particular, the Committee sought revised tables to include figures showing the variances between opening baselines, forecasts and outturns. DFP has helpfully provided some additional tables and information.

- Is it possible to provide the additional information requested in a more accessible/user-friendly format?

Monthly Forecast Outturn Compared against relevant Monitoring position.

Current Expenditure Tables for 2009-10

May DEL Current

	Forecast	Outturn received 08/06/2009	Opening Monitoring	Difference
AOCC	1,556		1,581	-25
DARD	238,403		238,408	-5
DCAL	111,868		113,663	-1,795
DE	1,860,646		1,879,145	-18,499
DEL	773,834		784,531	-10,697
DETI	218,506		223,939	-5,433

	Forecast	Outturn received 08/06/2009	Opening Monitoring	Difference
DFP	148,608		167,094	-18,486
DHSSPS	4,274,689		4,274,923	-234
DOE	136,041		136,581	-540
DRD	360,971		364,927	-3,956
DSD	534,098		534,098	0
FSA	8,687		9,333	-646
NIA	47,600		47,600	0
NIAO	8,319		9,434	-1,115
NIAUR	478		478	0
OFMDFM	68,237		76,713	-8,476
Total	8,792,541		8,862,448	-69,907

June DEL Current

	Forecast	Outturn received 08/07/2009	Opening Monitoring	Difference
AOCC	1,556		1,581	-25
DARD	238,403		238,408	-5
DCAL	111,868		113,663	-1,795
DE	1,864,040		1,879,145	-15,105
DEL	776,517		784,531	-8,014
DETI	213,573		223,939	-10,366
DFP	148,608		167,094	-18,486
DHSSPS	4,267,223		4,274,923	-7,700
DOE	135,481		136,581	-1,100
DRD	455,250		364,927	90,323
DSD	534,096		534,098	-2
FSA	8,667		9,333	-666
NIA	50,548		47,600	2,948
NIAO	8,861		9,434	-573
NIAUR	478		478	0
OFMDFM	68,673		76,713	-8,040
Total	8,883,842		8,862,448	21,394

July DEL Current

	Forecast	Outturn received	June Monitoring	Assembly Statement	Difference
	10/08/2009	10/08/2009	07/07/2009	07/07/2009	
AOCC	1,738		1,769		-31
DARD	238,688		238,688		0
DCAL	112,684		112,684		0
DE	1,864,040		1,864,040		0
DEL	777,381		778,306		-925
DETI	211,170		213,881		-2,711
DFP	189,453		198,398		-8,945

	Forecast Outturn received 10/08/2009	June Monitoring Assembly Statement 07/07/2009	Difference
DHSSPS	4,274,901	4,274,965	-64
DOE	135,492	136,690	-1,198
DRD	455,355	455,513	-158
DSD	524,989	526,993	-2,004
FSA	9,443	9,716	-273
NIA	50,571	50,571	0
NIAO	8,929	9,361	-432
NIAUR	478	478	0
OFMDFM	75,389	77,135	-1,746
Total	8,930,701	8,949,188	-18,487

Forecast Outturn - Incorporating IFRS additions

	Forecast Outturn received 08/09/2009	Forecast Outturn received 08/10/2009	Forecast Outturn received 09/11/2009	Forecast Outturn received 08/12/2009
AOCC	1,769	1,769	1,769	1,694
DARD	236,062	232,242	227,308	231,600
DCAL	110,634	110,634	109,829	109,829
DE	1,864,040	1,864,060	1,864,360	1,850,023
DEL	771,657	771,157	766,497	765,254
DETI	212,362	211,931	210,278	207,137
DFP	189,417	189,430	190,558	192,729
DHSSPS	4,274,978	4,274,978	4,308,841	4,311,097
DOE	135,070	135,059	135,589	135,879
DRD	454,942	454,991	452,221	416,460
DSD	529,575	529,575	525,810	524,378
FSA	9,568	9,552	9,555	9,212
NIA	50,147	50,147	50,265	49,872
NIAO	8,818	8,820	8,948	9,047
NIAUR	476	476	476	262
OFMDFM	73,585	70,691	71,816	70,150
Total	8,923,100	8,915,512	8,934,120	8,884,623

As requested by HMT forecast outturn for these months has been reported on an International Financial Reporting Standards basis. However changes to the budgetary controls were not agreed until December therefore no monitoring position has been included in the tables as this would provide an inaccurate comparison.

December DEL Current

	Forecast Outturn received 11/01/2010	December Monitoring Assembly Statement 11/01/2010	Difference
AOCC	1,661	1,661	0
DARD	228,922	229,790	-868

	Forecast Outturn received 11/01/2010	December Monitoring Assembly Statement 11/01/2010	Difference
DCAL	110,089	110,089	0
DE	1,851,030	1,851,030	0
DEL	766,070	766,070	0
DETI	208,246	208,543	-297
DFP	198,409	199,285	-876
DHSSPS	4,316,645	4,316,639	6
DOE	135,955	136,274	-319
DRD	418,301	418,301	0
DSD	515,181	516,775	-1,594
FSA	9,180	9,329	-149
NIA	49,922	49,922	0
NIAO	8,954	9,493	-539
NIAUR	266	266	0
OFMDFM	69,430	74,200	-4,770
Total	8,888,261	8,897,667	-9,406

Capital Investment Tables for 2009-10

May DEL Capital

	Forecast Outturn received 08/06/2009	Opening Monitoring	Difference
AOCC	30	30	0
DARD	27,994	28,890	-896
DCAL	67,289	74,068	-6,779
DE	253,300	253,300	0
DEL	41,200	41,200	0
DETI	81,863	87,902	-6,039
DFP	22,700	22,700	0
DHSSPS	208,701	208,701	0
DOE	15,957	16,214	-257
DRD	416,000	416,000	0
DSD	220,311	220,311	0
FSA	53	53	0
NIA	250	250	0
NIAO	230	269	-39
NIAUR	23	23	0
OFMDFM	9,978	23,200	-13,222
Total	1,365,879	1,393,111	-27,232

June DEL Capital

	Forecast Outturn received 08/07/2009	Opening Monitoring	Difference
AOCC	30	30	0

	Forecast	Outturn received 08/07/2009	Opening Monitoring	Difference
DARD	27,994		28,890	-896
DCAL	67,289		74,068	-6,779
DE	254,086		253,300	786
DEL	41,250		41,200	50
DETI	81,333		87,902	-6,569
DFP	22,700		22,700	0
DHSSPS	202,200		208,701	-6,501
DOE	16,304		16,214	90
DRD	494,970		416,000	78,970
DSD	220,311		220,311	0
FSA	53		53	0
NIA	3,379		250	3,129
NIAO	230		269	-39
NIAUR	23		23	0
OFMDFM	11,749		23,200	-11,451
Total	1,443,901		1,393,111	50,790

July DEL Capital

	Forecast	Outturn received 10/08/2009	June Monitoring Assembly Statement 07/07/2009	Difference
AOCC	30		30	0
DARD	23,470		23,470	0
DCAL	66,384		67,389	-1,005
DE	253,270		254,086	-816
DEL	41,250		41,250	0
DETI	81,112		81,748	-636
DFP	27,375		27,530	-155
DHSSPS	202,200		202,734	-534
DOE	8,411		16,484	-8,073
DRD	494,970		494,970	0
DSD	240,045		240,045	0
FSA	53		53	0
NIA	3,379		3,379	0
NIAO	230		230	0
NIAUR	23		23	0
OFMDFM	16,275		17,014	-739
Total	1,458,477		1,470,435	-11,958

Forecast Outturn - Incorporating IFRS additions

	Forecast Outturn received 08/09/2009	Forecast Outturn received 08/10/2009	Forecast Outturn received 09/11/2009	Forecast Outturn received 08/12/2009
AOCC	30	30	30	30

	Forecast Outturn received 08/09/2009	Forecast Outturn received 08/10/2009	Forecast Outturn received 09/11/2009	Forecast Outturn received 08/12/2009
DARD	22,582	20,774	20,170	19,580
DCAL	66,289	66,289	66,178	66,178
DE	253,270	253,270	253,270	242,214
DEL	41,750	41,750	41,615	41,615
DETI	77,693	77,181	99,477	71,091
DFP	28,564	28,564	36,168	35,588
DHSSPS	202,200	202,734	191,700	204,234
DOE	8,657	8,724	5,226	4,723
DRD	544,292	544,292	540,280	540,154
DSD	240,045	240,045	233,858	219,349
FSA	44	44	44	11
NIA	3,379	3,379	3,379	1,000
NIAO	230	230	230	230
NIAUR	43	43	43	33
OFMDFM	10,108	10,067	10,516	9,879
Total	1,499,176	1,497,416	1,502,184	1,455,909

As requested by HMT forecast outturn for these months has been reported on an International Financial Reporting Standards basis. However changes to the budgetary controls were not agreed until December therefore no monitoring position has been included in the tables as this would provide an inaccurate comparison.

December DEL Capital

	Forecast Outturn received 11/01/2010	December Monitoring Assembly Statement 11/01/2010	Difference
AOCC	30	30	0
DARD	19,570	19,570	0
DCAL	66,178	66,178	0
DE	242,275	242,275	0
DEL	41,615	41,615	0
DETI	71,174	73,941	-2,767
DFP	35,896	36,773	-877
DHSSPS	204,751	204,751	0
DOE	7,768	7,823	-55
DRD	556,167	556,167	0
DSD	217,192	217,201	-9
FSA	26	53	-27
NIA	1,000	1,000	0
NIAO	230	230	0
NIAUR	33	33	0
OFMDFM	8,999	9,100	-101
Total	1,472,904	1,476,795	-3,836

Comments on Research paper 628/09 Methods of Budgeting

The paper provides a reasonable assessment of the advantages and disadvantages of different methods of budgeting. It also highlights the range of difficulties that can be encountered in adopting a number of these in a public sector setting. In this regard, it is noted that the overall assessment is that there is no 'one size fits all' approach to budgeting and that the methods used will depend on the circumstances and context within which the organisation is operating.

This assessment is broadly in line with the Department's assessment.

Strategic Financial Issues - Staffing Level Query

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

26 February 2010

Dear Shane

At the Committee meeting on 17 February 2010 the Chairperson asked a number of questions relating to Civil Service staffing numbers and accommodation efficiencies during the "Fit for Purpose" (FfP) period. It was agreed that Corporate HR would respond on the issues raised.

Fit for Purpose (FfP) Period: 1 April 2005 – 31 March 2008

I can confirm that during the FfP period the target reduction of 2,303 full-time equivalent (FTE) posts was achieved. In fact, during the FfP period the Northern Ireland Civil Service reduced by just under 3,800 FTE posts.

Budget 2007 Period: 1 April 2008 – 31 March 2011

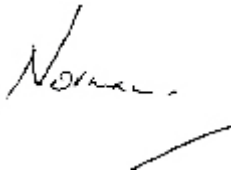
The 660 FTE increase in staff numbers between April 2008 and April 2009 (as reported by the NI Statistics and Research Agency (NISRA)) refers to permanent staff-in-post during the first year of the Budget 2007 period. While the actual number of staff in post will vary up and down as staff leave or when vacancies are filled, the general trend in overall staffing levels across the Northern Ireland Civil Service is downwards. The increase in 2008/09 was due to an increased rate of vacancies being filled, additional staff appointed to deal with increased benefit uptake and the introduction of the new Employment Support Allowance.

During the Budget 2007 period the requirement for Departments to make efficiency/cash releasing savings will inevitably continue to place downward pressures on workforce numbers and the number of posts across the NICS. Latest projections from the 11 NI Departments suggest that during the Budget 07 period reductions in the region of 2,000 FTE posts will be achieved.

Pay and Grading Review

A comprehensive pay and grading review will be carried out in the NICS as part of the package of proposals to settle the equal pay claims, recently approved by the Executive and accepted by NIPSA. It is expected that this review will take approximately 2 years to complete and will prioritise the examination of the EO2 grade within the NICS pay and grading structures. The purpose of the review is to ensure that all staff in the NICS are correctly graded and paid at the appropriate rate.

Yours sincerely,



Norman Irwin

Notes: Full Time Equivalent (Fte) = The total number of staff converted to their full time equivalent.

Response to Research Paper on Systems Thinking

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
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Stormont

8 March 2010

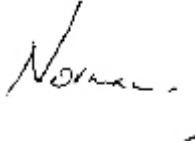
Dear Shane

Research Paper on Systems Thinking

The Department would like to thank the Committee for sharing the Research Paper entitled "Systems Thinking and Public Sector Efficiencies".

Furthermore the Department has passed on the research paper to a variety of officials who have a potential interest, or background, in the application of systems thinking or the tools inherent in its approach.

Yours sincerely,



Norman Irwin

Cover letter Draft NICS Accommodation Plan

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Mr Shane McAteer
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18 March 2010

Dear Shane,

Draft NICS Accommodation Plan

I refer to the proposed evidence session relating to Workplace NI on 24th March. For the information of Members I attach the draft NICS plan. The NICS remains committed to implementing the Workplace NI accommodation principles (set out in Annex A of the draft plan) which were originally defined as part of the Workplace 2010 procurement.

The strategy on which this draft plan is based seeks to:

- reduce the overall footprint and operational costs associated with the NICS office estate by increasing the density of workstations;
- retain existing owned buildings and leased buildings of a high standard, ending other leases at suitable break points; and
- vacate or prioritise the upgrade of the poorest accommodation within existing budgetary and operational constraints.

The draft plan does not deal with proposals for the relocation of public sector jobs, which is a matter for consideration by the Executive.

An analysis of existing accommodation has shown that:

- there is scope to increase the current efficiency of buildings by increasing the workstation density in certain buildings;
- some savings can be made in the short term without the need for significant capital spend by moving staff from buildings where leases will expire into existing accommodation;
- additional capital spend will then be required to allow further increases in workstation density to be achieved;
- 30% of the current NICS estate is categorised as being in poor or very poor condition;
- projects have been planned over the next 3 years to upgrade the worst of this property, but this is subject to funding becoming available, and budget limitations mean that it will not be possible to upgrade all of our offices..

The draft plan set out in the attached document proposes:

- a three year programme to increase the density of accommodation resulting in an annual saving of approximately £1.5m (excluding one off dilapidation costs associated with vacated accommodation) by March 2013;
- a capital programme of approximately £22m spread over 3 years which would:
- create 1,400 additional workstations in WPNI accommodation;
- result in 7,000 sqm of category 5 accommodation being vacated or upgraded; and,
- (depending on the final out-workings of business cases) have the potential to save up to £1m p.a. in rent and rates costs.

It is important to note that even the modest capital investment mentioned in this draft plan is not included in existing budgets, and can only proceed if a funding bid is successful.

Even if such funding is secured, the tight financial position means that the plan cannot address all of the pressing and time-critical issues within the estate. More significant capital sums will be required in the years from 2013 onwards to address these issues.

Officials will welcome the Committees views on the draft Plan.

Yours sincerely,



NORMAN IRWIN

DFP Committee Paper (18/3/10)

Draft NICS Accommodation Plan FY10/11-FY12/13

1. Background

1.1 Workplace Principles

The NICS remains committed to the Workplace NI accommodation principles (set out in Annex A) which were originally defined during the Workplace 2010 procurement.

It is anticipated that implementation of these principles across the estate would have the following benefits:

- reduction in accommodation footprint by circa 25%-30% resulting in a long term saving in rental, rates, servicing and maintenance costs;
- reduction in energy usage;
- improved flexibility in relocating staff as office space will be homogeneous and require minimal tailoring for different occupiers;
- greater staff inter-action and improved team working between staff and management;
- improved support for new working practices and support for wider NICS reform;
- improved working environment for staff through the provision of quality services and facilities.

1.2 The Current Office Estate

The NICS office estate currently consists of approximately 200 buildings spread across Northern Ireland. Around 56% are freehold with the remaining 44% leasehold.

Many of the buildings in the regional estate (outside Belfast) will be affected by RPA plans, and many are specialist buildings with dedicated public-facing functions controlled by the Departments housed in these buildings (e.g. DSD and DEL in Jobs and Benefits Offices (JBO's), DARD in DARD Direct offices). This plan focuses on generic office accommodation that will not be significantly affected by RPA and where the buildings are not function specific. In the main these are located in the Greater Belfast area.

A separate exercise to consider office buildings in the regional estate will be commissioned at a later date.

2. NICS Accommodation Strategy

The NICS Accommodation Strategy had to be revised following the global turmoil in the financial and property markets of late 2008 and early 2009. In February 2009, the Workplace 2010 procurement was terminated when the 2 remaining bidders wrote to the Department withdrawing their bids. They explained that the deal was no longer deliverable given the difficulty in obtaining debt finance for this type of property transaction, and also because of the decline in property values, including of course the NICS office estate. The property and finance markets remain difficult, and so the prospect of a PFI deal in the short to medium term remains unlikely.

This means that the NICS must now seek to achieve the objectives of Workplace NI in a more targeted way using the limited conventional funding available.

2.1 Strategy Adopted

In order to make progress towards achieving the desired standards across the estate within the severe budgetary constraints that currently exist, an accommodation plan has been created based on the following approach:

- Reducing the overall footprint and operational costs associated with the NICS office estate by increasing the density of workstations;

- Where possible increased accommodation density will be achieved by not renewing leases and moving staff from the buildings where leases have lapsed into existing accommodation with minimal refurbishment works;
- Seeking to upgrade accommodation to WPNI standards on a selective basis where budget and operational constraints allow;
- Prioritisation of accommodation for upgrade has been based on:
 - the current state of the accommodation;
 - the potential for savings achievable by increases in workstation density;
 - lease expiry dates of other buildings from which staff can be moved;
 - the capital budget available; and,
 - business need.

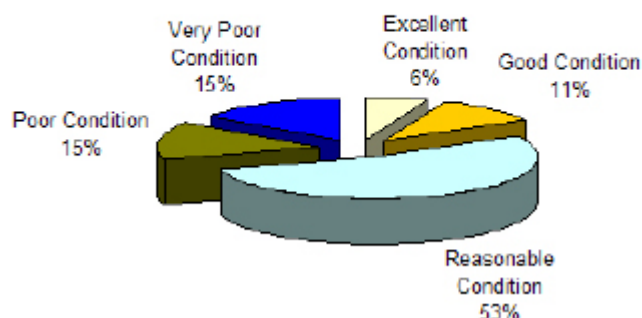
2.2 Analysis of Existing Accommodation

The quality of all of the existing buildings has been categorised on a scale from 1 to 5. The table below explains the categorisation:

Category	1	2	3	4	5
Characteristic					
Condition	Very Good	Good	Reasonable	Poor	Very Poor
Configuration (typical)	Fully open-plan	Mostly open-plan	Mostly cellular	Substantially cellular	Very cellular
Procured or last major investment/ refurbishment (typical)	2005	1998 - 2005 Within last 10 years	1988-1998 Between 10 – 20 years	Pre 1988 Between 20 – 30 years	Pre 1978 Over 30 years
Number of years before substantial capital investment required or replacement building sought (typical)	15+	10-15	5-10	0-5	Now

The results of this grading process are summarised in the pie chart below. This shows that approximately 30% of the space is categorised as poor or very poor and it is this accommodation that will, where possible, be prioritised as capital funds become available.

NICS Accommodation by Category



The current efficiency of space usage has also been assessed on a building by building basis. The results of this study are shown in the histogram in Annex B. This shows that there is scope for further improvement in efficiency within the estate however it should be noted that while some increase in accommodation density will be possible without the need to refurbish buildings, significant spend would be required to achieve the target WPNI densities as it would be necessary to make structural changes in the buildings.

The realistic densities achievable without the need for structural work can only be assessed on a building by building basis.

2.3 Analysis of Lease Expiry Dates

The table below shows the area of office accommodation where leases will expire (or break clauses are available) over the next three years.

	FY10/11	FY11/12	FY12/13
Area of office space where leases will expire or where breaks are available (sqm)	6,844	9,873	12,350

As some of this space has been fitted out to meet specialist requirements it will not necessarily be desirable to exit all accommodation at the lease break points. However where the opportunity is available to exit general office accommodation, active consideration will be given to identifying sufficient space elsewhere in the estate to re-house the occupants.

3. Accommodation Plan - Projects Identified

3.1 Short Term (FY10/11) - Projects Achievable without Additional Baseline Cover

Based on the analysis and approach outlined in section 2, the following projects for FY10/11 have been identified which are achievable at modest cost within existing baselines.

Building	Lease Expiry Date	Organisation	Staff Numbers	Alternative Accommodation
Lancashire House	Expired (currently over-holding)	DRD	45	Clarence Court
Avenue House	26/11/10	HSENI	38	Longbridge House
		HRConnect	3	No longer accommodated within NICS estate.
		NIPSA	7	Longbridge House
Stoney Road	Owned	Health Estates	130	Stormont Estate
		DFP European Division	30	Longbridge House

When complete at the end of FY10/11 these projects have the potential to generate:

- an annual revenue saving of £304k in rent/rates costs per annum; and,
- a one-off capital receipt in the order of £2m.

3.2 Short to Medium Term (FY10/11-FY12/13)

3.2.1 Lease Expiries – Current Plans

Following assessment of the leases that will expire (or where lease breaks are available) in the Greater Belfast area over the next 3 years, it has been estimated that approximately 10,000 sqm of space could be released.

Additionally, a further 10,000 sqm of space spread over 5 different buildings could be vacated if viable, cost-effective alternative accommodation is located. If we assume that the buildings ultimately vacated are occupied at the average density shown in Annex B and that any new space would be occupied at an average of 11 sqm per workstation, this space could potentially be replaced with new accommodation requiring 2,000 sqm less than that currently occupied.

Business needs, capital budget availability and the practicality of timing lease expiries to coincide with the availability of new accommodation may mean that some of these changes may not be practicable however there clearly is some potential for additional savings. Decisions on which buildings to vacate and when will be made on a case by case basis balancing all of the factors listed above with the potential revenue savings that may be possible.

While at this stage it is not possible to be definitive regarding the final outcome of the various options being considered, indicative levels of savings possible through this period (without the need for significant capital spend) are show in the table below:

	By FY11/12	Additional savings by FY12/13
Indicative level of savings achievable (£000's)	**£527k*	**£947k

* Includes savings identified in 3.1;

** Savings reduced by estimated depreciation costs for fit out of alternative accommodation and any estimated additional leasing costs required.

It should be noted that there will be additional costs in relation to leases that expire in the form of dilapidation costs, which could be significant in the year of vacation. There will however also be additional future savings over and above the rent/rates savings set out above due to reductions in maintenance costs associated with the buildings that are vacated.

3.2.2 Projects Requiring Capital Investment (FY10/11-FY12-13)

Although the potential staff moves identified in 3.2.1 above will generate revenue savings they will not make any significant impact in terms of improving the quality of the worst accommodation as many of the buildings that will be exited when leases expire are in reasonable condition. Additional capital projects will be required in order to achieve this. At this point the DFP capital baseline is insufficient to fund all of these projects with the result that capital will need to be bid for, on a case by case basis, as business cases are completed.

Work is currently underway to identify priority capital work packages focused on the buildings in the poorest condition. Where possible this work has sought to break the projects down into a series of mini-projects which are standalone and could therefore be implemented if funding became available. While this will not necessarily be the most efficient means of implementing the

projects it is a pragmatic approach to dealing with the budget constraints likely to exist over the next few years.

Work is currently underway on the following projects:

- (i) Upgrade of College Street;
- (ii) Upgrade and consolidation at Rathgael House;
- (iii) LPS consolidation;

Each of these projects has the potential to reduce the footprint of the estate, upgrade or remove category 5 accommodation from the portfolio, and reduce running costs. Each will however require capital investment to allow the project to proceed and work preparing business cases is currently underway. Where possible the work involved in the projects has been broken down into a number of sequential mini-projects which could be activated at reasonably short notice should funding become available sufficiently early in any given financial year.

Assuming a realistic phasing of a programme of work to implement the projects identified, an indicative capital baseline required to achieve them is shown below:

	FY10/11 (£m)	FY11/12 £(m)	FY12/13 £(m)	Future Years
College Street Refurbishment	0.6	1.6	-	-
Rathgael House	0.5	5.6	6.9	5.0
LPS*	-	3.0	2.9	-
Stormont Pre-contract Work	-	-	1.0**	-
Total:	1.1	10.2	10.8	5.0

* Estimated costs for upgrade of Colby House and Queen's Court to WPNI standards based on ready-reckoner costs. No allowance for additional decant/recant costs.

** Assumes a major project to address the issues with Dundonald House and Hydebank will begin in FY13/14.

This capital programme would:

- convert approximately 1,400 additional workstations in WPNI accommodation;
- result in approximately 7,000 sqm of category 5 accommodation being vacated or upgraded; and,
- (depending on the outworking of final business cases) have the potential to save up to £1m p.a. in rent and rates costs.

3.3 Implications of Restricted Capital Baseline

The projects listed in 3.2.2 will be achievable provided a capital baseline in the order of approximately £10m per annum is available in FY11/12 and FY12/13. Should only part of this sum be available, the projects have been designed with break points that would allow projects to be partially completed and delayed until the required budget cover is in place.

A significantly higher figure will be required to address the continuing decline of some other major buildings. Given that access to capital is likely to be severely constrained for the foreseeable future, it is unlikely that a long term solution to these issues (particularly at the Stormont Estate) will be achievable in the next three years. Spend on some maintenance items on buildings in the Stormont Estate that had been postponed over the last number of years in anticipation of Workplace 2010 PFI contract has been brought forward (e.g. re-roofing temporary buildings) where budget has allowed.

It should however be highlighted that the continuing postponement of a major refurbishment of some of these buildings cannot continue indefinitely. Work is therefore underway to identify a programme of upgrade activities with a view to securing budget beyond the 3-year window covered by this plan.

3.4 Redevelopment/Other Projects

Consideration is also being given to a number of other projects in Belfast, Londonderry and Newry where buildings currently occupied by NICS are situated in areas where urban regeneration schemes are being considered. This may result in opportunities for the NICS to upgrade and consolidate accommodation without the need to generate a capital budget. These projects are likely to take some time to come to fruition.

Annex A

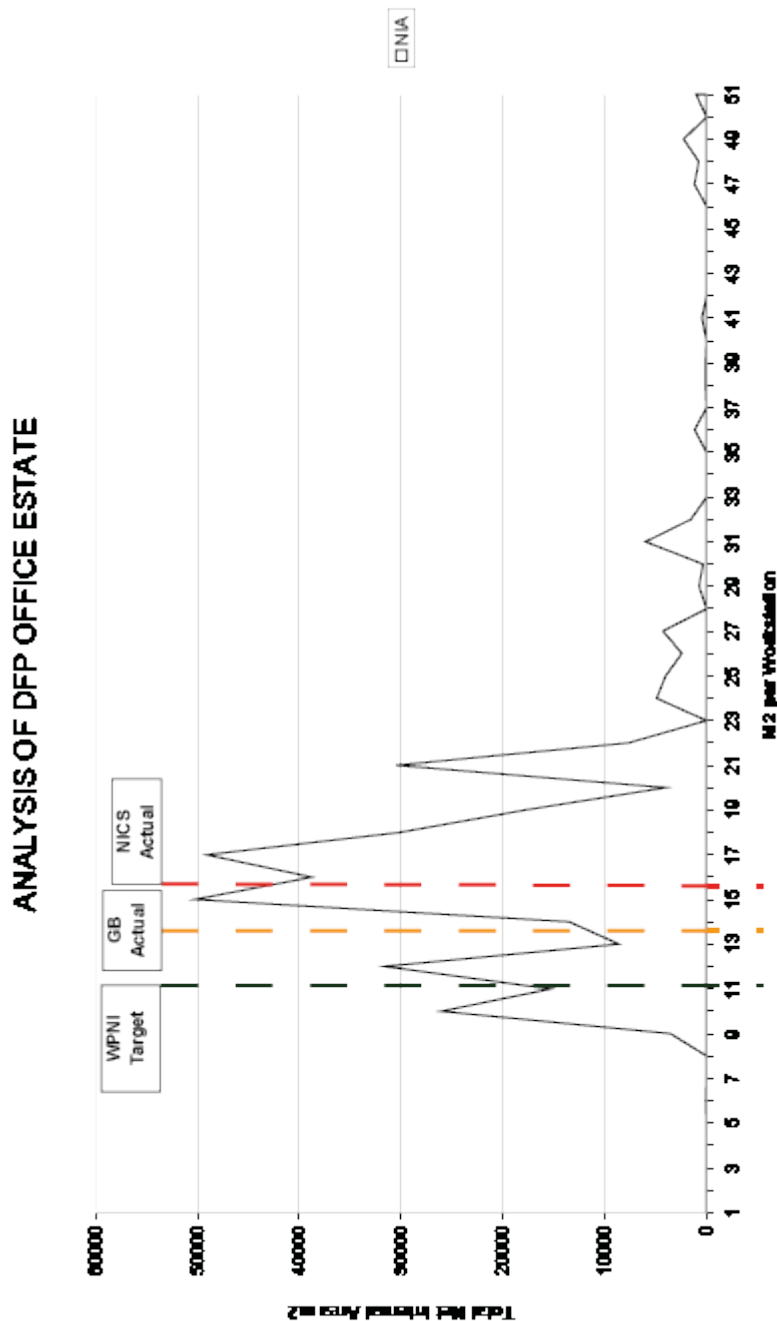
Key Workplace Northern Ireland (WPNI) Principles

- Workspace to be predominantly open-plan in nature with good access to daylight.
- Modular furniture and storage solutions to be used to aid flexibility and optimum use of space. Normal workstations will be sized at 1600mm x 800mm.
- Average space standard in general office environments of 10 to 12m² per workstation (defined as the area devoted to a desk, chair, personal and team storage, local circulation space and proportional allocation of support spaces). Space standard in processing centre-style environments to be 8 to 10m² per workstation measured in the same way.
- Team file storage to be provided at an average of two linear meters shelf space per person. Additionally one linear metre of personal storage normally provided by means of an under-desk pedestal or nearby drawer. Offsite storage to be utilised for any additional storage requirements.
- Support spaces to be provided including the provision of reception areas, tea points, service areas (printing, copying, vending etc.), touchdown areas and breakout spaces. These may be semi-enclosed to aid functionality.
- Other cellular support spaces, including meeting rooms, conference rooms, store rooms, first aid rooms and IT communications rooms to be provided. The number and size of meeting rooms will be proportionate to the number of staff in a building. The role of smaller rooms will be particularly key in complimenting the open workspace, providing opportunities for drop in privacy.
- Printing and copying to be achieved through centralised, high quality multi-functional devices (printer/copier/scanner) to reduce the inefficiencies and environmental impacts of existing arrangements.
- Provision of connectivity for specialist communications equipment (e.g. tele-conferencing, video-conferencing) within specific meeting rooms.
- Specialist facilities to be provided as necessary outside the average space standard. These include provision of ministerial suites, emergency planning rooms, public offices, necessary specialist on-site storage, showers and catering. The level of catering will be dependent on location and size of building and the level of departmental subsidy provided. Provision will typically be along the following lines:

- 'Deli'/coffee bar type facilities where there are 250-699 occupants;
- Full restaurant facilities where there are 700+ occupants.
- Accommodation to be configured in a manner which allows Departments to allocate desks to staff on a 1:1 basis or in a desk-sharing arrangement as required by evolving workplace policies.

Annex B

Analysis of Space Density in the NICS Office Estate



Research Paper on Systems Thinking

Assembly Section
 Craigtantlet Buildings

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

25 March 2010

Dear Shane


Research Paper on Systems Thinking

Within the Department's response on the above, dated 8 March 2010, it was noted that the research paper had been passed on to a variety of officials with a potential interest, or background, in the application of systems thinking or the tools inherent in its approach.

The Department has subsequently collated a number of observations on the research paper and it was felt that, as a follow up, it might be beneficial to share those with the Committee.

I hope the Committee finds the enclosed useful.

Yours sincerely,



NORMAN IRWIN

Observations on the Assembly Research Paper on Systems Thinking and Public Sector Efficiencies

Introduction

1. Systems Thinking is one of basic features of the concept of the learning organisation which was popularised in the 1960s-1980s. At a basic level, organisational learning is about creating a culture of continuous learning for all employees. This Assembly Research paper on systems thinking and Public Sector Efficiencies (050/10) is useful as it could prompt debate on the various approaches available to help improve the efficiency and effectiveness with which public services are delivered.

2. Set out below are some thoughts and observations on the issues and points raised in the paper. Its also goes on to provide clarification on how the PEDU approach aligns with systems

thinking. Input from the Department's Delivery and Innovation Division (DID) and the Social Security Agency is also incorporated within this response.

Application of Systems Thinking in NI

3. The research paper contends that there is little available evidence of Systems Thinking having been applied in Northern Ireland (Key Issues page 2 and section 8 page 11). However, there are many examples of systems thinking being applied in both the public and private sectors in NI. This is in terms of both the application of the tools inherent in Systems Thinking, and Systems Thinking as an Organisational Approach.

4. Examples of private sector organisations using Systems Thinking and Six Sigma include Northern Ireland Electricity, Seagate and Bombardier. In relation to the Public Sector, and setting aside for the moment the use of Systems Thinking tools in the work carried out by PEDU, for example DFP's Delivery and Innovation Division (DID) has applied the systems thinking approach in their business consultancy improvement work. Systems Thinking work that has been delivered by DID over the last few years includes work commissioned by DHSSPS and OFMDFM.

5. Examples of success include:

- a 86% service delivery improvement in wheelchair access across 60% of the NI wheelchair service; and
- a 60% performance improvement in the delivery of counselling services to victims of sexual abuse.

6. This work crossed highly complex organisational boundaries, for example it included user groups, health trusts, the DHSSPS, the voluntary sector, the regional wheelchair centre and the Health Boards.

7. Future systems thinking work will extend to DEL. This engagement is set to improve the quality of the service delivered to jobseekers across Northern Ireland. This will also cut across complex system boundaries where it will have to take account of the needs not only of the user of the service, but the wider DEL family, the SSA, and a number of training providers.

8. Lean/Systems Thinking has also been applied by the Social Security Agency through two Proofs of Concept in the Pension Service. The principal objectives of the Proofs of Concept was to investigate the application and opportunities offered by Lean; demonstrate any benefits of Lean; and explore any nuances that may require a more tailored approach to adopting Lean as a customer focused philosophy within the Agency.

9. Evaluation of the Proofs of Concept has confirmed the benefits of implementing a Continuous Service Improvement approach using Lean and that the various tools and techniques can be applied to Agency business. Benefits were realised in terms of a sustained increase in productivity and accuracy. In addition reducing waste and streamlining business processes has helped the Agency to deliver efficiency savings and meet ongoing budget pressures. In view of the success of the Proofs of Concept, the Agency intends to take forward Lean/Systems Thinking across the wider organisation in April/May.

Systems Thinking and Public Sector Efficiencies

10. The paper references the relationship between systems thinking and efficiency. DID would agree that this distinction should be clearly understood. To view systems thinking as a mechanism to achieve efficiencies (in the traditional sense of NICS efficiencies, e.g. headcount

reduction) is a misuse of the approach. Systems Thinking is about aligning the policies, leadership, objectives, targets, and work, across an organisation with customer demand. Waste and non value adding activities are then ideally eliminated, and the organisational culture of the organisation evolves and changes so that the "system" continues to align with ever-changing customer demand.

11. Therefore, "efficiency" in the context of systems thinking is more about real efficiency which is defined as the organisation doing things "better", or more quickly, or delivering a better service, or eliminating waste, or utilising people better and giving them more rewarding work through the empowerment that systems thinking brings.

12. Systems thinking should therefore be viewed as one way to deliver real and sustainable change across an organisation. It can be viewed as an approach on its own, or an approach within a larger organisational change programme (perhaps taking a number of years). The latter approach is what delivers optimum results from a change intervention.

Systems Thinking and Complexity

13. The research paper, Key Issues, Page 2, states that systems thinking cannot be applied in "highly complex functions". This is not necessarily the case. DID can evidence that the established approach may be applied across highly complex boundaries. It is, however, challenging and often takes a longer time to achieve the desired outcomes. Some initial work may also be necessary to get the organisation ready for a systems thinking intervention involving the leadership of an organisation.

Systems Thinking and Lean

14. The paper equates "lean" and systems thinking as one and the same, Section 9, Page 14. DID would disagree with this assertion. Lean is a more tactical application of tools and techniques to solve specific problems, relating to, for example, flow, quality, time, cost or delivery. Whereas systems thinking will address issues of cultural change, change in thinking, changes in how "work" is viewed and services are delivered, and the leadership dimension of organisational improvement.

Data for Reporting and Data for Understanding

15. Importantly the paper draws a distinction between data required for reporting purposes and that which can be used to understand and improve processes.

16. This is a point which PEDU emphasised during Reviews of both Planning Service and LPS having found that data is often underutilised. Indeed one of the key recommendations from the LPS Review was that the agency should maximise the use of information held on its databases to improve processes, identify delivery blockages and better understand services and processes:

"Leaders and Senior Managers within LPS should aim to extract the maximum value out of its databases to improve management information and information that could be used to improve processes, identify delivery blockages and better understand the effectiveness of services and processes. The approach to the production and coordination of information management also needs to become increasingly corporate and synchronised." (LPS Review Report, paragraph 3.11, page 26)

17. During the review of Planning Service, PEDU extracted and analysed data from Planning Service's 2020 databank of applications to better understand the reasons behind under-

performance and identify areas where there was potential for improvement. While Planning Service produced a raft of data for reporting on targets, they tended not to make use of the wealth of information held to better understand the process and hence performance. PEDU also identified lead indicators of performance and recommended improvements to the reporting format so that areas of underperformance could be identified early.

Parallels between Systems tools and techniques and the PEDU Approach

18. The paper references techniques such as work flow mapping and mathematically based tools that can be used to better understand and improve systems and processes. Examples are provided illustrating how these tools were applied by Hull City Council to address housing issues.

19. PEDU undertook similar analysis during the Planning Review to identify factors contributing to lengthy planning applications and action that could be taken to improve processing times.

20. In terms of workflow mapping, the paper cites an example of process mapping being used to identify value steps, blockages and waste in the flow of Social Work from customer demand in Hull. One of the earliest pieces of work carried out during both the Planning and LPS Reviews was the production of an end-to-end process map with metrics to help identify bottlenecks within each system. During both Reviews this work was led by team members from the host organisation (e.g. by two professional planners during the Planning Service Review) which is consistent with the point made in the research paper at page 10 that process mapping should be completed by a team within the system rather than external to it.

21. The mathematical tools highlighted in the paper are based on the principles of Statistical Process Control (SPC), a problem solving technique which PEDU has capability in. Continuing the Hull Social Work example, the research paper highlights the use of a Control Chart to analyse variation in the time taken to meet demand for social care provision. This is similar to analysis PEDU undertook during the Planning Review – the PEDU team analysed variation in the time taken to process planning applications but also went onto re-order the data in terms of the cumulative percentage of applications processed within given time periods.

22. Another mathematical type technique highlighted in the paper is Pareto Analysis. This is a tool which helps in the identification of strategic points of leverage within a system and hence where to focus improvement efforts for maximum impact. An example from Hull is cited in the paper where it was found that 60% of calls to the council's customer contact call centre were housing related – this suggested that focusing improvement efforts on addressing housing issues could greatly reduce the workload of the call centre.

23. Again PEDU conducted this type of analysis during, for example, the Planning Service Review. In this case, following the analysis described at paragraph 21 above, PEDU analysed a sample of those applications which failed to comply with PSA target processing times. This identified that the problems with the greatest impact on processing times were in relation to managing Planning Agents and Statutory Consultees. In relation to Minor applications there were problems with the information supplied by agents in two-thirds of the non compliant cases studied, while there were slow response times from consultation bodies on 70% of Intermediate applications studied – this added an average of 221 and 196 days respectively to processing times and pushed the overall processing times of these cases well in excess of the standards set by the PSA Targets.

PEDU Methodology & Customer Information

24. At page 16, the research paper points to a lack of information on PEDU and correctly concludes that this is due to the desire for PEDU to be a low profile unit. PEDU aims to avoid the 'limelight' so that any successes can be attributable to the host Department.

25. Although acknowledging a lack of information on the PEDU methodology, the paper appears to criticise the 'internal focus' suggesting that there seems to have been no attempt to engage customers. However, the paper does not pick up on the fundamental role of the data analysis. Here the data on processing times for planning applications was used as a proxy for the customer experience – with the PSA target times being used to differentiate between those with an acceptable and unacceptable experience. This would appear to be precisely the same approach used in Hull where, as set in page 9 of the research paper, the data was used to determine the extent or incidence of unacceptable customer experiences. The collection and use of good quality data as a proxy for the customer experience is vital in facilitating a systematic approach to customer service improvement.

26. Following on from the data analysis its conclusions can then be substantiated by way of workshops, surveys and interviews. And for example, as part of the LPS and Planning Service Reviews, PEDU engaged with representatives from the local business community, local councils, public consultee bodies, the Enforcement Judgements Office, and the IRRV.

27. Some background information on PEDU is attached at annex A for information.

Systems Thinking and the PEDU Work Programme

28. The research paper concludes that systems thinking could be a useful tool to help departments improve the efficiency and effectiveness of their activities.

29. With this in mind it is worth noting that while PEDU can and does utilise systems thinking tools during review work, that this is for the purpose of aiding problem solving rather than a concerted attempt to embed a culture of Systems Thinking within the host organisation. The successful implementation of the latter would require a wider approach involving organisational cultural change which must be led by senior managers within the host organisation.

Annex A

Background Information on PEDU

It is worth setting the scene for PEDU, from its inception, its aims and objectives. The Programme for Government and the Budget set out a twin agenda for PEDU. Broadly speaking that agenda was;

- To examine the scope for departments to deliver higher levels of cash releasing efficiencies, and
- To work with Departments over the life time of the PfG, in specific areas, to ensure that the funds allocated by the Executive delivered significant improvements in outcomes.

There is now an effective monitoring system in place for the Programme for Government which identifies areas that are on track to deliver and those which are not. Any areas that are not on track are potentially candidates for a PEDU review to help get delivery back on track.

When PEDU was launched back in April 2008 it was established around the same principles as the Prime Ministers Delivery Unit in Whitehall. PEDU aims to work with Departments in a

collaborative approach and tries to avoid the 'limelight' so that any successes can be attributable to the host Department.

Priority Reviews

The Priority review methodology used by both units is well documented in Sir Michael Barber's book 'Instruction to Deliver'. A 'Priority Review' is suitable where there is a concern about the delivery of a particular target or other priority area. It is not about the wider organisation or delivery landscape or even a longer time frame. It is about a particular focused immediate concern. It is usually seen as a form of 'intervention' and is mandated from outside the organisation. This was very much the approach used in relation to Planning Service.

Capability Review

PEDU also undertakes Capability Reviews. A 'Capability Review' is suitable where there is a requirement for assurance about the capability currently, and in the future (3-5 years). It is focused on the capability of the strategic apex of the unit in three specific areas:

- leadership;
- strategy; and
- delivery.

This type of Review enables improvement in specific areas related to delivering ministerial policy. For example this was the methodology used for the LPS Review.

Efficiency

The third type of review PEDU can undertake is an efficiency review. The aim of an efficiency review is to improve operational efficiency and organisational effectiveness in a department. An efficiency review would provide a thorough examination of a Department's spending and operations and is designed to help the Department determine priority service areas, programmes, and ways to improve efficiency and effectiveness.

Governance and Project Management

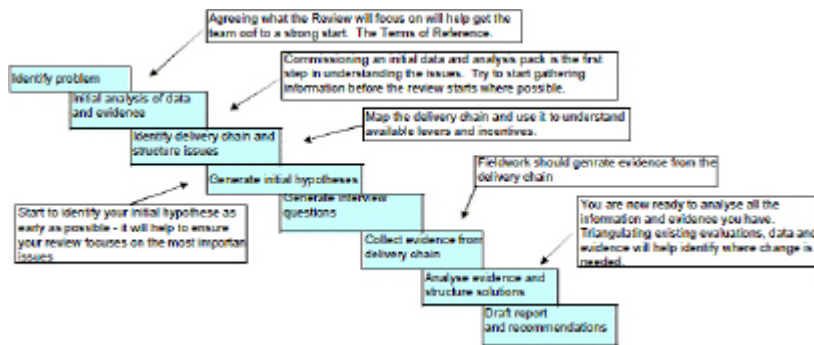
Regardless of the type of review PEDU undertakes, it is underpinned by a clear terms of reference (ToR) and is project managed using the PRINCE2 methodology.

The structure of any PEDU review would broadly follow the same sequence:

Stage 1 Set-up	Wks 1-2
Stage 2 Diagnose and plan	Wks 3-4
Stage 3 Field visits & interviews	Wks 5-6
Stage 4 Finalise recommendations	Wks 7-8
Stage 5 Implementation by Department	Wks 9 -onwards
Stage 6 Follow up review	6-12 months after the review

The review methodology contains a set of problem solving steps, see Figure 1 below, which ensures the review identifies, examines and develops solutions to the biggest challenges.

Figure 1: methodology contains a set of problem solving steps



The initial desk research phase involves analysing material which is already available to the Department, such as business plans, management information and data on progress against published targets, benchmarking material from similar organisations and drafting an end to end process map.

During the evidence gathering stage of a review, the findings from initial desk research are triangulated with anecdotal evidence from staff workshops and information gathered from interviews with senior managers and relevant external stakeholders.

PEDU Reviews are very much collaborative exercises conducted with the support and co-operation of the host organisation. The collaborative nature of Reviews is underpinned by having a minimum of two representatives from the host organisation on the Review team.

Department of Finance and Personnel CSR 2007 - Efficiency Delivery Plan Updated March 2010

Introduction

This Delivery Plan describes the measures DFP has taken, and will continue to implement, to achieve the target savings for the Department in response to CSR 2007.

Efficiency Programme

The Department will realise total annual efficiencies of £14.8 million by 2010-11 to be available for reinvestment in front-line activities across the NI Block. The profile of the annual target efficiency savings is shown in table 1 below and excludes any budget adjustments as part of the 2010-11 budgetary process.

Table 1 – Annual Target Efficiency Savings

Total Efficiency Targets (3%)	2007-08 £ million	2008-09 £ million	2009-10 £ million	2010-11 £ million
Baseline (excl non cash)*	160.585	155.767	151.094	146.561
Total Efficiencies Required	-	4.8	9.5	14.0
Total Efficiencies Identified	-	5.7	10.3	14.8

* The baselines in respect of finance, human resources and ICT, all areas directly involved in a number of major reform programmes, are excluded.

The Department has identified and is committed to delivering efficiencies of at least £14.8m by 2010-11, thereby finding savings which are 5% above the set target. The Department is fully committed to long-term measures to improve the quality of the services it provides to citizens both directly and indirectly by 'Leading Reform, Delivering Value and Promoting Sustainability'. Efficiencies which do not compromise service delivery have therefore been sought, and many of the efficiencies sought are key to helping the Department achieve its objectives by delivering more and better outputs.

Although the Department will deliver the overall target of £14.8m of efficiency gains by 2010-11, the final composition of how this total will be delivered may vary from that set out in this Delivery Plan as more detailed plans are developed across business areas. The content of this Delivery Plan will therefore be kept under review and updated as necessary.

Summary of the Proposed Savings

The areas that have been targeted as a means of realising cash releasing efficiencies are:

- Maximising receipts and extending charging in respect of services provided by DFP particularly to non NICS customers;
- Realise potential savings from the more efficient use of the NICS office estate by adopting open plan working as opportunities to do so arise;
- Efficiency targets for Land and Property Services;
- Targeted GAE and staffing reviews across the Department; and
- Recognition of costs recovered in respect of rate collection.

A summary of the savings are provided in table 2 below.

Table 2 – Efficiency Programme Summary Table

£m	2007/08 Baseline	2008/09	2009/10	2010/11
Efficiency Savings Accruing to Department				
(a) Near cash resource DEL	Res DEL			
1. Increase Charging (1)	-49.2	0.2	0.4	0.5
2. Accommodation (2)	76.2	0.3	2.0	4.7
3. Land & Property Services	21.4	-	0.5	0.9
4. Target GAE/ Staff Reviews	24.8	0.8	2.4	3.0
5. Recognition of costs recovered in respect of rate collection	12.5	4.4	5.0	5.7
(b) Capital	-	-	-	-
Total Departmental Savings (a + b)	-	5.7	10.3	14.8

Notes:

1. The baseline shown in 2007/08 represents total resource DEL income (excluding EU income).
2. The accommodation baseline in 2007/08 represents the full Properties Division budget.

Administration Resource Savings

While the Department has been required to identify efficiencies of at least £14m in overall terms, specific targets have also been set to achieve efficiencies in administration budgets. When the Department's reform work on behalf of all Government departments has been excluded, administration efficiency targets of £1.3m / £5.3m / £9.1m have been set across the budget years. The efficiency measures outlined in this plan will address this requirement. Given the composition of the Department's budget, 61.5% of the cash-releasing efficiencies identified by 2010/11 will be delivered from administration budgets.

The Department will undergo major change over the CSR period with the implementation of the NICS Reform Agenda and the establishment of the Land and Property Services organisation. Given that the delivery of the main reform programmes will result in an increase in the quantum of departmental funding required to meet contractual commitments, the Department's scope to deliver further savings will be constrained and the need for targeted staff reductions is anticipated to manage the impact of inflation.

Content of this Delivery Plan

Immediately below this plan is an index to the Appendices, which deal in more detail with each of the components of the overall efficiency programme:

Efficiency Measure 1 Increase charging

Efficiency Measure 2 Accommodation

Efficiency Measure 3 Land and Property Services (LPS)

Efficiency Measure 4 Targeted general administration expenditure and staff reviews across the Department

Efficiency Measure 5 Recognition of costs recovered in respect of rates collection.

1. Title of Efficiency Measure

Department	DFP
Efficiency Measure 1	Increase charging
Ministerial Agreement to plan received	Yes
Senior Responsible Officer	Deborah McNeilly

2. Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin	-34.1	0.2	0.4	0.5
Resource	-15.1			
Capital				
Total	-49.2	0.2	0.4	0.5
Savings Realised		Yes	On Track	

3. Summary of evidence supporting scope for realising savings

Early review of methodology for recognition of recovery of overheads has identified the scope for realisation of additional admin resource receipts. Scope for increased income generation opportunities has also been identified. The level of savings are such as to be broadly achievable.

4. Summary of any potential wider benefits (including non-resource releasing gains)

Not applicable.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

Review of income generation activities across the Department, focusing on extending charging for services, reviewing charges and maximising the recovery of overheads whilst ensuring adherence to appropriate policy guidelines and relevant legislative requirements.

5b: Details of any Up-Front Costs

None. Reprioritisation of existing workloads will allow the review to be undertaken within existing resources.

6. Timetable

Timetable for Delivering Efficiencies

Date	Action	Owner	Outcome
2008-11	Ongoing review of income generation activities across the Department.	D McNeilly	Opportunities for increased income generation identified.
2008-11	Ongoing review of recovery of overheads within existing charges.	D McNeilly	Opportunities for maximising overhead recovery in charges identified.

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator Data Source Who monitors? How often?

No impact as represents additional income.

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact

Mitigating Action

Given the level of savings proposed (£0.5m by 2010/11) no material impacts are expected.

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks Contingent Action
Availability of skilled resource. Review and reprioritisation of workloads as necessary.

10. Progress Update

Description of Key Actions and Outcomes:

A departmental policy on charging has been prepared. Business Areas within the department have reviewed and taken steps to increase income generation, this has included reviewing opportunities for charging, and reviewing charges and chargeable hours. The additional income generation reflected in the department's efficiency delivery plan has released additional resources for reallocation to priority services across the NI Block. Over recent years Central Procurement Directorate (CPD) has delivered increases in activity which have allowed it to maintain a very low level of fee increase i.e. the increased activity has delivered efficiency savings for CPD's customers. In tandem with this CPD has been successively reducing its overhead and corporate services costs.

1. Title of Efficiency Measure

Department DFP
Efficiency Measure 2 Accommodation
Ministerial Agreement to plan received Yes
Senior Responsible Officer David Orr

2. Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin	76.2	0.3	2.0	4.7
Resource				
Capital				
Total	76.2	0.3	2.0	4.7
Savings Realised		Yes	On Track	

3. Summary of evidence supporting scope for realising savings

Accommodation cost efficiencies will be dependant on opportunities presented for rationalisation of the estate as leases come up for renewal and NICS departmental accommodation needs and staffing levels change. The department remains committed to the accommodation principles developed during the Workplace 2010 process. These principles can create a cost-effective, flexible working environment to enable the delivery of better public services. The department continues to pursue alternative means of achieving these objectives of the Workplace 2010 Programme, including the use of conventional funding to improve and consolidate existing leased or owned property and exploring development opportunities with the private sector. However, the limited availability of conventional funding and the low development value of Government owned property make this difficult at present.

4. Summary of any potential wider benefits (including non-resource releasing gains)

Rationalised estate will offer opportunities for better quality accommodation and benefits such as improved team-working and senior management visibility.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

Ongoing review of accommodation requirements and identification of opportunities for rationalisation of the estate as leases come up for renewal and NICS departmental accommodation needs and staffing levels change. Ongoing robust review of service delivery and associated running costs to identify and implement efficiency measures. Procurement to be done through Central Procurement Directorate, a Centre of Procurement Expertise, in order to maximise value for money and realise procurement savings.

5b: Details of any Up-Front Costs

Some upfront costs may be required in respect of accommodation fit out costs for buildings. The efficiencies realised will be after any up-front costs have been taken into consideration.

6. Timetable

Timetable for Delivering Efficiencies

Date	Action	Owner	Outcome
Feb 2009 to March 2011	Ongoing strategic review of accommodation requirements following the termination of the Workplace 2010 procurement.	David Orr	Realisation of target savings.
Feb 2009 to March 2011	Improve and consolidate existing leased or owned property and exploring development opportunities with the private sector.	Philip Irwin	Realisation of target savings.
Feb 2009 to March 2011	Ongoing robust review of service delivery and associated running costs to identify and implement efficiency measures.	Philip Irwin	Realisation of target savings.
2008-2011	Procurement through Centre of Procurement Expertise (CPD) to realise procurement savings.	Philip Irwin	Realisation of target savings.

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator	Data Source	Who monitors?	How often?
Reduction in footprint of office estate and associated costs savings.	General Ledger Quarterly Corporate Performance Reports Accommodation capacity records	Departmental Board	Quarterly

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact

An EQIA is progressed as part of each proposed accommodation move.

Mitigating Action

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks

RPA – risks associated with a change in accommodation requirements as a result of RPA. Requirement for dispersal. Insufficient funding.

Contingent Action

Liaison with Departments and organisations impacted by RPA. Each project to be assessed for affordability and value for money against available funding.

10. Progress Update

Description of Key Actions and Outcomes:

Using conventional procurement the department has been able to provide over 1,200 workstations in modern open plan accommodation in line with the Workplace principles in places like Clare House, Causeway Exchange and Lesley Exchange. This has generally been seen as successful, with a saving in floor space of some 25%. Security services on the Stormont Estate have been reviewed and a contract has now been put in place to meet ongoing service requirements more efficiently, with annual savings of approximately £300k in staff costs. Procurement savings have also been realised with the renegotiation of an energy contract with savings estimated at £1m. The strategic review of accommodation requirements, following the termination of the Workplace 2010 contract is due to be completed shortly.

1. Title of Efficiency Measure

Department	DFP
Efficiency Measure 3	Land and Property Services
Ministerial Agreement to plan received	Yes
Senior Responsible Officer	John Wilkinson

2. Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin				
Resource	21.4	-	0.5	0.9
Capital				
Total	21.4	-	0.5	0.9
Savings Realised		Yes	Realised	

3. Summary of evidence supporting scope for realising savings

Approval is in place for the establishment of the Land and Property Services agency (LPS), incorporating the former Rates Collection Agency and Valuation and Lands Agency with effect from 1 April 2007, and Land Registers NI and Ordnance Survey NI with effect from 1 April 2008. Initial savings are expected to accrue in the area of corporate and common services. The target savings will be kept under review as work progresses on a number of workstreams associated with the establishment of the new agency.

4. Summary of any potential wider benefits (including non-resource releasing gains)

Better and more streamlined service delivery to customers. Better customer satisfaction with the LPS agency acting as a single contact for rating and land and property queries.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

An LPS project team has been set up and this is taking forward the preparations for the establishment of the Agency including review of corporate governance arrangements, financial arrangements, staffing issues and communication and change management issues. With RCA and VLA already merged, LRNI and OSNI are continuing to progress a range of project workstreams to ensure that deadlines are met and steps have already been taken to take forward the amalgamation of corporate services and align budgets for the CSR period. Development of a benefits realisation plan, and management and monitoring of delivery to include ongoing rationalisation of common and corporate services. LPS has also implemented a new Strategy for Rating Reform and modernisation, incorporating IT replacement. Savings have been identified in the areas of IT staff, software licences and maintenance are expected to be realised from 2008/09. LPS will also be taking forward a review of business processes with a view to identifying improvements.

5b: Details of any Up-Front Costs

Costs to support the LPS agency project team are expected to be de minimis.

6. Timetable

Timetable for Delivering Efficiencies

Date	Action	Owner	Outcome
Dec 06 to July 08	Incorporation of OSNI and LRNI into the LPS agency with effect from 1 April 2008.	John Wilkinson	Incorporation of OSNI and LRNI into the LPSA.
Dec 06 to Mar 2009	Development of a benefits realisation plan, and management and monitoring of delivery, to include ongoing rationalisation of common and corporate services.	John Wilkinson	Target efficiencies realised.

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator	Data Source	Who monitors?	How often?
Customer satisfaction levels. Level of rate income. Unit costs.	General Ledger/ Quarterly Corporate Performance Reports/ Agency Report and Accounts	Agency Board/ Departmental Board	Quarterly/Annual

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact	Mitigating Action
EQIA implications will be kept under review as part of the ongoing work in establishing the LPS agency.	

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks	Contingent Action
Adverse reaction to rating reforms may impact on the ability of the Agencies to deliver the efficiencies as planned. Availability of skilled resources. Reform of rating implications.	Publicity campaign. Response plan in place. Review and reprioritisation of workloads as necessary. Establishment of multi-disciplinary project teams.

10. Progress Update

Description of Key Actions and Outcomes:

The Rates Collection Agency and Valuation and Lands Agency merged into the new Land and Property Services (LPS) agency with effect from 1 April 2007, with Land Registers NI and Ordnance Survey NI transferring into LPS with effect from 1 April 2008. LPS has realised the required savings of £0.5m in 2009/10 through the rationalisation and consolidation of corporate services and an associated reduction in staffing levels of 17 posts. As the savings have been realised in agency corporate services there has been no detrimental impact on frontline service delivery.

1. Title of Efficiency Measure

Department	DFP
Efficiency Measure 4	Targeted GAE and staffing review largely in remaining Divisions
Ministerial Agreement to plan received	Yes
Senior Responsible Officer	David Orr, Richard Pengelly, Derek Baker, Des Armstrong, Oswyn Paulin

2. Forecast of Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin	24.2	0.8	2.4	3.0
Resource	0.6			
Capital				
Total	24.8	0.8	2.4	3.0
Savings Realised		Yes	On Track	

3. Summary of evidence supporting scope for realising savings

Delivery of targeted staff reductions in policy areas. Review of staffing requirements of back office services is already ongoing as part of the NICS reform programme.

A review of staffing levels in policy areas, and reprioritisation of activities will be required to deliver these savings.

4. Summary of any potential wider benefits (including non-resource releasing gains)

To be reviewed in tandem with development of detailed operational plans.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

A review of staffing levels in policy areas, and reprioritisation of activities, to support staff reductions without a detrimental impact on service delivery. Corporate Services Group (CSG) (£0.25m/0.65m/0.75m)

- Reprioritisation of work;
- Streamlining of processes and workflows, particularly taking account of the impact of Reform Programmes;
- Salary and headcount management within existing vacancies. Central Finance Group (CFG) (£0.2m/0.7m/0.9m)
- Review of structure and possible mergers of divisions;
- Review of central financial skills provision/funding e.g. Trainee Accountant Scheme. Corporate HR (CHR) previously Central Personnel Group (£0.1m/0.4m/0.4m)
- Reprioritisation of work, including the suppression of one SCS post;
- Reorganisation of functions and merging of branches permitting the suppression of posts at General Service grades;
- Streamlining of processes and workflows. Central Procurement Directorate (CPD) (£0.15/0.5m/0.75m)
- Reviews of eSourcing and senior management structures;
- Reprioritisation of work;
- Review of vacancies and GAE expenditure. Departmental Solicitors Office (DSO) (£0.1m/0.15m/0.2m)
- Reprioritisation of work;
- Review of vacancies and GAE expenditure.

5b: Details of any Up-Front Costs

No upfront costs are anticipated assuming staff reductions can be realised through natural wastage and redeployment.

6. Timetable

Timetable for Delivering Efficiencies

Date	Action	Owner	Outcome
Jan 08 to Mar 11	Review of staffing levels, reprioritisation of activities and delivery of staff reductions.	Business Area Directors / HoDs	Target efficiencies delivered.

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator	Data Source	Who monitors?	How often?
Expenditure. Staffing levels. Customer satisfaction levels.	General Ledger/ Quarterly Corporate Performance Reports/ Customer satisfaction surveys	Departmental Board	Quarterly/Annual

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact	Mitigating Action
Business areas in reviewing staff levels and re-prioritisation of activities will be required to consider equality impacts.	

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks Contingent Action

Progress Update

Description of Key Actions and Outcomes:

Business Areas across the department continue to robustly review staffing requirements and processes and implement more efficient ways of working. At the SCS level there has been a reduction of 4 posts in the period from March 2009, which represents 8.5 %. The department plans to make further reductions of around 3 SCS posts in 2010-11, which when completed will represent a reduction by some 15% since the start of 2009-10. The Departmental Board has introduced a range of general economies requiring target reductions in travel costs, paper costs, hospitality costs and a 25% reduction in external consultancy costs (from 2008/09 levels). Additional work associated with Equal Pay has been taken on without additional funding. Customer satisfaction rates have increased from 68% in the autumn of 2008 to 73% in the autumn 2009 customer survey. Steps taken to maximise value for money with 97% (£97m) of the department's procurement expenditure in 2008/09 through Central Procurement Directorate, a Centre of Procurement expertise (COPE).

1. Title of Efficiency Measure

Department	DFP
Efficiency Measure 5	Recognition of costs recovered in respect of rate collection
Ministerial Agreement to plan received	Yes
Senior Responsible Officer	Deborah McNeilly/John Wilkinson

2. Forecast of Savings Accruing from Efficiency Measure (£m)

	Baseline Savings			
	2007-08	2008-09	2009-10	2010-11
Admin				
Resource	12.5	4.4	5.0	5.7
Capital				
Total	12.5	4.4	5.0	5.7
Savings Realised		Yes	On Track	

3. Summary of evidence supporting scope for realising savings

Recognition of recovery of costs of collection in respect of district rates.

4. Summary of any potential wider benefits (including non-resource releasing gains)

Not applicable.

5. Summary of Key Actions and any Up- Front Costs

5a: Description of Key Actions

Seek necessary authority for the recognition of the income stream, followed by implementation of the associated budgetary and accounting adjustments. There are no additional up-front costs to support implementation as actions will be accommodated within existing resources.

5b: Details of any Up-Front Costs

None.

6. Timetable

Timetable for Delivering Efficiencies

Date	Action	Owner	Outcome
Jan 08 – Mar 11	Agreement of accounting arrangements in liaison with AASD/Supply/CFG/LPS/NIAO and Finance Division as appropriate.	D McNeilly/ J Wilkinson	Realisation of income stream.

7. Summary of monitoring arrangements to ensure forecast level of savings are delivered without a detrimental impact on high priority services.

Indicator	Data Source	Who monitors?	How often?
No impact as represents recognition of an additional income stream.			

8. Summary of equality impact assessment and details of any mitigating actions.

Equality Impact	Mitigating Action
No impact as represents recognition of an additional income stream.	

9. Key risks and interdependencies to implementation and details of contingencies.

Key risks	Contingent Action
No impact as represents recognition of an additional income stream.	

10. Progress Update

Description of Key Actions and Outcomes:

The income has been realised against budget and is reported in the department's annual Resource Accounts.

PEDU Update

Assembly Section

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

12 April 2010

Dear Shane

Evidence Session on 14 April – PEDU Update

In advance of the upcoming session on the Performance & Efficiency Delivery Unit I enclose a brief overview of progress on key work areas.

PfG Performance Management Framework

PEDU has undertaken a central role in the development and operation of the performance management arrangements for the PfG. It is anticipated that this will continue in future rounds of monitoring. A half year Delivery Report, up to 30 September 2009, has been prepared for the Executive, while Quarter 3 Monitoring, up to December 2009, is at an advanced stage. At each quarter the PEDU team prepare and refine the monitoring templates, organise and participate in the central assessment exercise and draft much of the material for the delivery reports to the Executive. In addition, PEDU will continue to manage the preparations for the Accountability Meeting / Performance Review process by providing, on each of the areas, Delivery Assessments setting out barriers to progress, and Outcome Papers detailing actions required to instigate improvement. The upcoming half year Delivery Report, which has been prepared for the Executive, contains a number of new areas recommended for further Review.

Assurance on LPS Action Plan

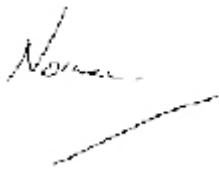
The LPS Review Report provided for the establishment of a Strategic Oversight Group (SOG) to oversee delivery and implementation of the Action Plan. It also suggested that a Delivery Oversight Team (DOT) be established to provide external assurance on progress on the Action Plan. The PEDU Team was commissioned to perform the role of the DOT given the team's prior knowledge of LPS and the Action Plan.

The team completed the first the three planned assurance exercises in later February providing assurance on progress against the plan's 3 month actions. A further two stock takes are due to be undertaken, later this year and in early 2011, to provide assurance on the actions due to be completed by a later date.

Targeted Review Work

Review work is primarily demand led and is difficult predict with a high degree of certainty. There have been some recent expressions of interest, from other Departments, in undertaking collaborative work with PEDU. However, the outcome remains uncertain in terms of the scope of the work and whether PEDU would be the best partner to add value to such work.

Yours sincerely,



NORMAN IRWIN

Monitoring of Efficiency Delivery Plans - September 2009

Background

As part of the 2008-11 Budget process, the Executive agreed that departments should work to deliver cumulative efficiency savings of 3% a year over the period 2008-09 to 2010-11. The purpose of this report is provide details of the level of savings achieved by departments for the first six months of 2009-10, as well as the latest projections in respect of the planned savings for the remainder of 2009-10 and 2010-11. There was a delay in the production of this update because of the late returns received from some departments and in particular the Department of Education which was eleven weeks overdue in providing the information requested. The Finance Minister has written to his Ministerial Colleagues highlighting the importance of monitoring the achievement of efficiency savings and requesting that returns are provided in a timelier manner in the future.

2009-10 Efficiency Savings

In the first six months of 2009-10, departments have achieved £387.4 million of efficiency savings equivalent to 72.1% of the target for the full year. This represents an improvement in the level of performance at the same stage in 2008-09. All departments have achieved at least 50% of the target level of savings for 2009-10 within six months whilst two departments (DETI and FSA) have achieved their full-year target, six months early- see Table 1 below.

Table 1: 2009-10 Departmental Efficiencies Achieved by the end of September 2009

Department	2009-10 Target (£m)	6 months Savings (£m)	% of 2009-10 Savings Achieved
DARD	12.2	6.2	50.4%
DCAL2	6.0	3.8	63.0%
DE	124.5	113.7	91.3%
DEL	40.1	30.3	75.6%
DETI1	15.2	16.8	110.2%
DFP2	11.3	5.7	50.0%
DHSSPS	232.9	144.0	61.8%
DOE	7.7	3.9	50.1%
DRD	44.2	33.4	75.5%
DSD	38.1	25.8	67.7%
OFMDFM	4.6	3.5	76.1%
FSA	0.4	0.4	100.0%
Total	537.3	387.4	72.1%

Notes:

1. The % of savings achieved for DETI is more than 100% of its target due to its plans to deliver more savings than in its original plans.
2. OSNI moved from DCAL to DFP during 2008-09, the efficiency target was moved from DCAL to DFP as a result (£1m in 2009-10)

2009-11 Efficiency Savings

In addition to examining the actual level of savings delivered by departments, it is also important to monitor the latest projections in respect of the achievement of planned savings. Table 2 sets out the DFP assessment as to whether the targeted level of savings for each Efficiency Delivery Plan (EDP) will be achieved for 2009-10 and 2010-11 using the following three categories:

- On Track for Achievement;
- Not on Track for Achievement; and
- On Track for Achievement but with a significant risk.

The latest assessment is that the majority of EDPs are on track for delivery without any risk, with 12.4% being significantly at risk or not on track in 2009-10 and 21.9% in 2010-11. In terms of the percentage of savings, only 52.5% are on track for achievement in 2010-11 compared to 83.8% in 2009-10. This is primarily due to a significant amount of savings being on track for delivery but with significant risk as well as the downward adjustment to the level of savings projected for some EDPs.

There are eight departments who have 100% of their efficiency plans and savings on target for delivery in 2009-10 and four have 100% of their efficiency plans and savings on track for delivery in 2010-11.

Table 2: Planned Savings by NI Departments - Assessment of Current Position

	Not On Track	On Track with Significant Risk	On Track
% of EDP's			
2009-10	4.4%	8.0%	87.6%
2010-11	3.5%	18.4%	78.1%
% of Savings			
2009-10	0.1%	16.5%	83.8%
2010-11	5.8%	42.0%	52.5%

Note:

Savings may total more than 100% due to some departments planning to achieve savings in excess of their target.

Conclusion

This update highlights the need for all departments to continue to monitor the implementation of their plans to deliver 3% per annum, cash releasing efficiency savings, and to make adjustments where necessary. The next round of monitoring will be undertaken shortly, which will provide an assessment of the actual delivery of efficiency savings for the whole of 2009-10 and an update of the 2010-11 planned efficiencies.

Department of Finance and Personnel
April 2010

List of Buildings and Staff Table for DFP Committee

Assembly Section

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

16th April 2010

Dear Shane

Further to a request made by the Committee at the 24 March evidence session on Workplace NI, please find attached a list of DFP NICS building stock, including condition and number of staff employed (Annex A). The buildings are categorised in line with the information previously provided to the committee. Staff numbers are full time equivalents.

Yours sincerely,



NORMAN IRWIN

DFP - List of Buildings and Staff Table for DFP Committee

Prop No	Address	Postcode	FTEStaff Nos		Building Categorisation
P101	Dungannon JBO, Crown Building, 36 Thomas Street, Dungannon	BT70 1EN	66	SSA	3
			38	DEL	
			54	DARD	
P102	Omagh JBO, Crown Building, 19 Mountjoy Road, Omagh	BT79 7JB	100	SSA	3
			50	DEL	
P104	Strabane SSO, Crown Building, 18 Urney Road, Strabane	BT82 9BX	48	SSA	5
P105	Enniskillen JBO, Crown Building, 14 Queen Elizabeth Road, Enniskillen	BT74 7JD	69	SSA	3
			48	DEL	
			2	DETI	
P106a	Cookstown SSO, Crown Building, 38-40 Fairhill Road, Cookstown	BT80 8AG	26	SSA	4
P111	County Building, 15 East Bridge Street, Enniskillen	BT74 7BW	29	DOE	3
			6	DVLNI	
P112	Castle Barracks, 39 Wellington Place, Enniskillen	BT74 7HN	40	DRD	3
P113	County Hall, 5 Mountjoy Road, Omagh	BT79 7AF	80	DOE	3
			69	DRD	
P115	21 Hospital Road, Omagh	BT79 OAN	15	DARD	3
P117	Elmview, 20 Derry Road, Strabane	BT82 8DX	17	DRD	4

Prop No	Address	Postcode	FTEStaff Nos		Building Categorisation
P119	33 Molesworth Street, Cookstown	BT80 8NX	13.5	DARD	5
P138	17 Oldtown Street, Cookstown	BT80 8EE	16	DEL	4
P143	15-17 High Street, Omagh	BT78 1BA	8	SSA	4
P148	5 Thomas Street, Dungannon	BT70 1HN	20	DEL	4
P149	22 Deverney Road, Omagh	BT79 OJJ	35	DRD	4
P151	Inishkeen House, 21 Lough Yoan, Killyhelvin, Enniskillen	BT74 4EJ	116	DARD	3
P156	Sperrin House, 4 Sedan Avenue, Omagh	BT79 7AQ	94	DARD	3
P158	Diamond House, 2 Eden Street, Enniskillen	BT74 7EG	4	SSA	4
P160	24 Fair Hill Road, Cookstown	BT30 8AG	5	DARD	
				DETI	
P164	Boaz House, 15 Scarffes Entry, Omagh	BT78 1JG	78	LPS	3
P166	23 Upper Main Street, Strabane	BT82 8AS	32	DEL	4
P167	Kevlin Buildings, 45 Kevlin Avenue, Omagh	BT78 1ER	11	DSD	3
			3	SSA(MEC)	
P168	Units 14 & 15, Orchard Road Industrial Estate, Strabane	BT82 PFR	9	DARD	4
P171	31 Market Street, Omagh	BT78 1EE	35	DRD	4
P201	Marlborough House, 2 Central Way, Craigavon	BT64 1AD	202	NIHE	4
			45	HMRC	
			112	DOE	
			113	DRD	
			42	DFP	
P202	16 West Street, Portadown	BT35 9AB	27	DFP	4
P209	Armagh JBO, Crown Building, 10-12 Alexander Road, Armagh	BT61 7JL	92	SSA	3
			33	DEL	

Prop No	Address	Postcode	FTE	Staff Nos	Building Categorisation
P210	Ballynahinch SSO, Crown Building, 18 Crossgar Road, Ballynahinch	BT24 8XP	25	SSA	3
			9	DEL	
P211	Banbridge JBO, Crown Building, 18 Castlewellan Road, Banbridge	BT32 4AZ	39	SSA	3
			8	DSD	
			34	DEL	
P212	Downpatrick SSO, Crown Building, 9-11 Mount Crescent, Downpatrick	BT30 6NQ	44	SSA	3
P213	Kilkeel JBO, Crown Building, 58 Newry Street, Kilkeel	BT34 4DR	20	SSA	3
			14	DEL	
P214	Newcastle SSO, Crown Building, 31 Valentia Park, Newcastle	BT33 OEJ	34	SSA	4
P215	Newry JBO, Phoenix House, 40 Bridge Street, Newry	BT35 8AJ	81	SSA	3
			67	DEL	
P216	Portadown JBO, Crown Building, 84-140 Jervis Street, Portadown	BT62 1HA	33	DEL	3
			36	SSA	
P220	2 Newry Road, Armagh	BT60 1EN	27	DARD	4
P221	Lisburn JBO, Bow House, 61-73 Bow Street, Lisburn	BT28 1BB	50	SSA	3
			53	DEL	
P222	Lurgan JBO, Crown Building, 10 Alexandra Crescent, Lurgan	BT66 6BB	54	SSA	3
			36	DEL	
P224	109-113A Main Street, Newcastle	BT33 0AE	10	DARD	4
P227	4-6 Bachelors Walk, Lisburn	BT28 1XJ	10	DARD	4
P229	127 Main Street, Newcastle	BT33 0AE	4	DARD	4

Prop No	Address	Postcode	FTE	Staff Nos	Building Categorisation
P235	6-8 Scarva Street, Banbridge	BT32 3DA	27	DARD	4
P241	45 Newry Street, Banbridge	BT32 3EA	8	DRD	4
P244	1 The Sidings, Antrim Road, Lisburn	BT28 3AJ	40	DFP	3
P255	Dobbin Centre, Units 2 & 3 Dobbin Lane, Armagh	BT61 7QP	11	DVA	4
P258	Rathkeltair House, 87 Market Street, Downpatrick	BT30 6AJ	89	DOE	3
			9	DVLNI	
			19	DEL	
			26	DARD	
P262a	Glenree House, Carnbane Ind. Est., Tandragee Road, Newry	BT35 6EF	79	DARD	3
P263	Mall West Building, The Mall, Armagh	BT61 9BL	54	DARD	4
P264	CBO, Unit 2 Enterprise Centre, North Street, Crossmaglen	BT35 9AB	1	SSA	4
P266	2 Scarva Street, Banbridge	BT32 3DA	12	DRD	4
P268	Health Village, Unit 2 Monaghan Street, Newry	BT35 6BB	5	SSA	4
P270	1st Floor, 23-27 Magowan Bldgs, West Street, Portadown	BT62 3PN	12	SSA	3
			2	DARD	
			14	DRD	
P273	Banbridge Business Centre, 62 Scarva Rd, Banbridge	BT32 3QD	11	DSD	4
P401	Dundonald House, Stormont Estate, Belfast	BT4 3SB	974	DARD	Main Building 5, Annex A 5, Annex D 5
			163	NIPS	
P407	Stormont Castle	BT4 3SB	120	OFMDFM	1
P411a	Castle Buildings, Stormont Estate, Belfast & Annexes	BT4 3SX	55	NIO	Main Building 3, Annexes 2
			780	DHSSPS	

Prop No	Address	Postcode	FTEStaff Nos	OFMDFM	Building Categorisation
			165	OFMDFM	
P412	Rosepark House, 711-715 Upper Newtownards Road, Belfast	BT4 3SJ	37	DFP	2
P414	83 Ladas Drive Belfast	BT6 9FR	86	DFP	3
P415	Hollywood JBO, 106-108 Hollywood Road, Belfast	BT4 1JU	105	SSA	3
			43	DEL	
P416	Shankill, 15-29 Snugville Street, Belfast - JBO	BT13 1PP	26	DEL	3
			43	SSA	
P417	Knockbreda JBO, Crown Building, 210 Upper Knockbreda Road, Knockbreda, Belfast	BT8 6SX	60	SSA	3
			38	DEL	
P418	Crown Building, 39-41 Church Road, Newtownabbey - JBO	BT36 7LB	48	SSA	3
			40	DEL	
P419	Rathgael House, 43 Balloo Road, Bangor	BT19 7NA	498	DE	New Building 3, remainder 5
			202	DFP	
P421	Calvert House, 23 Castle Place, Belfast	BT1 1FY	135	DOE	3
P422	Health Estates, Stoney Road, Belfast	BT16 1US	0	VACANT	5
P429	Fermanagh House, 20A Ormeau Avenue, Belfast	BT2 8NJ	68	DETI	3
P430	Bedford House, 16-22 Bedford Street, Belfast	BT2 7FD	81	DOE	3
P432	Mark Royal House, 70-74 Donegall Street, Belfast	BT1 2GU	62	NI WATER	3
P434	Oxford House, 49-45 Chichester Street, Belfast	BT1 4HH	73	LPS	3
			58	NISRA	
P436	Londonderry House, 21 Chichester Street, Belfast	BT1 2JJ	197	DFP	3
			10	DHSSPS	

Prop No	Address	Postcode	FTEStaff Nos		Building Categorisation
			7	DSD	
P438	Hydebank,4 Hospital Road, Belfast	BT8 8JL	271	DRD	5
P445	24-42 Corporation Street , Belfast - SSO	BT1 3DR	185	SSA	5
P447	Northland House, 3 Frederick Street, Belfast	BT1 2NR	98	NI WATER	4
P448	19 Falls Road, Belfast - JBO	BT12 4PH	62	SSA	3
			36	DEL	
P449	65-67 High Street, Bangor	BT20 5BE	31	DEL	4
P452	Netherleigh, 1 Massey Avenue, Belfast	BT4 2JP	342	DETI	4
P454	Newtownards SSO,Crown Building, 8 East Street, Newtownards	BT23 3EL	45	SSA	4
P455	2B Portaferry Road, Newtownards	BT23 3NT	9	DARD	4
P456	7-9 Conway Square, Newtownards	BT23 4DA	27	DEL	4
P457	56 Ann Street, Belfast	BT1 4EG	18	DEL	4
P459	Gloucester House, 57-63 Chichester Street, Belfast	BT1 4RA	140	DEL	3
			42	LPS	
P460	35-37 Slieveban Drive. Andersonstown - SSO	BT11 8HL	135	SSA	5
P461	Magnet House, 81-83 York Street, Belfast	BT15 1SS	28	DARD	4
			81	SSA	
P463	Centre House, 79 Chichester Street, Belfast	BT1 4JE	140	BSO	3
			67	DFP	
P476	Clarence Court, 10-18 Adelaide Street, Belfast	BT2 8GB	550	DRD	3
			130	DOE	
P478	34 College Street, Belfast	BT1 6DR	142	NI WATER	3
P480	Carrickfergus JBO, Crown Building, 1 Davy's Street, Carrickfergus	BT38 8TJ	30	SSA	3
			36	DEL	

Prop No	Address	Postcode	FTE	Staff Nos	Building Categorisation
P482	Larne JBO, Crown Building, 59 Pound Street, Larne	BT40 1SB	39	SSA	3
			29	DEL	
			32	DARD	
P483	Bangor SSO, Crown Building, 110 Hamilton Road, Bangor	BT20 4LG	35	SSA	5
			37	DFP	
P484a	Royston/Ferguson House, 13 Wellington Place, Belfast Part 3 &4	BT1 6GB	56	SSA	3
P484b	Royston/Ferguson House, 13 Wellington Place, Belfast Floors 4,5,6 & 7	BT1 6GB	127	DFP	3
P491	State Buildings, 1-7 Arthur Street, Belfast	BT1 4HG	36	DSD	3
P576	Queen's Court, 56-66 Upper Queen's Street, Belfast	BT1 6FD	120	DFP	3
P579	Castle Court, 442 Royal Avenue, Belfast	BT1 1DF	717	SSA	3
P587	Lancashire House, 5 Linenhall Street, Belfast	BT2 8AA	41	DRD	4
P589	Bankmore House, 62-66 Bedford Street, Belfast	BT2 7FH	52.7	DFP	3
P595	Longbridge House, 12-24 Waring Street, Belfast	BT1 2EB	26	DFP	3
P599	Waterman House 5 Hill Street, Belfast	BT1 2LA	96	DOE	3
P602	Victoria Hall, 12 May Street, Belfast	BT1 2NL	57	DFP	3
P607	Conor Building, 107-111 Great Victoria Street, Belfast - Shaftesbury Sq JBO	BT2 7AG	66.11	SSA	3
			35.77	DEL	
P608	43-47 Falls Road, Belfast	BT12 4PD	25	DSD	3
			4	DEL	
P609	Park House, 87-89 Great Victoria Street, Belfast	BT2 7AG	40	OFMDFM	3

Prop No	Address	Postcode	FTE	Staff Nos	Building Categorisation
P611	Lincoln Building, 25-45 Great Victoria Street, Belfast	BT2 7SL	304	DFP	3
P614	Craigtanlet Buildings, Stormont Estate, Belfast	BT4 3SX	249.86	DFP	5
			4	DARD	
P619	Dundonald House, Annexe B, Stormont Estate, Belfast	BT4 3TB	5	OFMDFM	5
P621	Road Transport Licensing Division, 148-158 Corporation Street, Belfast	BT1 3DH	73	DVA	3
P624	Massey House, Stormont Estate, Belfast	BT4 3SX	82	DOJ	4
P626	Dundonald House, Annexe C, Stormont Estate, Belfast	BT4 2SF		NIA	5
P631	Adelaide House, 39-49 Adelaide Street, Belfast	BT2 8FD	377	DEL	3
P633	CBO, 29 Hillhead Road, Ballyclare	BT38 9DU	2	SSA	4
P640	Arches Centre, 11/13 Bloomfield Avenue, Belfast	BT5 5HD	137	SSA	3
			17	DFP	
			3	DARD	
			2	DEL	
P642	Hillview Buildings, Stormont Estate, Belfast	BT4 3SG	42	DOJ	5
P643a	Floors 15 Windsor House, 9 Bedford Street, Belfast	BT2 7EL	23	NI WATER	3
P643b	Floors 6-12 Windsor House, 9 Bedford Street, Belfast	BT2 7EL	72	HMRC	3
			167	DSD	
			10	NIO	
P646	McAuley House, 2-14 Castle Street, Belfast	BT1 1SA	131	DFP	3
P648	1st Floor Unit, Kennedy Shopping Centre, Kennedy Way, Belfast	BT11 9AE	24	DEL	3

Prop No	Address	Postcode	FTE	Staff Nos	Building Categorisation
P653	Avenue House, 42-44 Rosemary Street, Belfast	BT1 1QT	29	DETI	3
			6	NIPSA	
			1	HR CONNECT	
P658	Lesley Buildings, 61 Fountain Street, Belfast	BT1 5EX	141	DEL	3
P662	Elizabeth House, 116- 118 Holywood Rd, Belfast	BT4 1NY	11	DFP	3
P663	Design Centre, 39 Corporation Street, Belfast	BT1 3BB	258	DSD	3
P666	Lesley House, 25-27 Wellington Place, Belfast	BT1 6GQ	24	DSD	3
P667	Millenium House, 1st (pt), 2nd & 3rd (pt) Floors, 17-25 Great Victoria Street, Belfast	BT2 7BN	225	DOE	2
P670	Causeway Exchange, 1-9 Bedford Street, Belfast	BT2 7LJ	171	DFP	2
			179	DCAL	
			59	NIDIRECT	
P671	Goodwood House, 44- 58 May Street, Belfast	BT1 4NN	300	DFP	2
			80	DOE	
P674	Clare House 303 Airport Road West Belfast	BT3 9ED	306	DFP/CPD	1
			109	DID	
			30	SIB	
P675	Waterfront Plaza, 1st Floor, 8 Laganbank Road, Belfast	BT1 8LX	35	DETI	2
P677	Lighthouse, 1 Cromac Place, Gasworks Business Park, Belfast	BT7 2JB	350	DSD	2
P678	James House, 2-4 Cromac Ave, Gasworks Business Pk, Belfast	BT7 2JA	715	DSD	2
P679	Colby House, Stranmillis Court, Belfast	BT9 5BJ	174	DFP	3
			14	DETI	

Prop No	Address	Postcode	FTE	Staff Nos	Building Categorisation
P684	Lesley Exchange, 24 East Bridge Street, Belfast	BT1 3PH	121	DSD	1
P686a	Stormont House & Annex, Stormont Estate, Belfast	BT4 3SH	100	NIO	5
P687a	Walled Garden and Annexes, Stormont Estate, Belfast, Unit 1	BT4 3TA	0		5
P687b	Walled Garden and Annexes, Stormont Estate, Belfast, Unit 2	BT4 3TA	9	NIO	5
P689	Klondyke Building, Cromac Avenue, Belfast	BT7 2JA	400	DOE	1
P691	Carleton House, 1 Cromac Avenue, Belfast	BT7 2JA	24	DVA	1
P694	Queen's House, 10-18 Queen Street, Belfast	BT1 6ED	20	OFREG	3
P696	Knockview Buildings, Stormont Estate, Belfast	BT1 6ED	34	OFMDFM	5
P697	DARD, 50 The Square, Ballyclare		120	DOJ	
P700	2nd Floor, 10 Cromac Place, Cromac Wood, Belfast		6	DARD	3
P701	Bradley Thallon House Kiltonga Industrial Estate, Newtownards	BT23 4TJ	41	DFP	2
P702	Killymeal House, 2 Cromac Quay, Gasworks, Belfast.		70	DARD	2
P703	Andersonstown JBO, Kennedy Centre Belfast		0	OIFTET	1
P704	Block 2, Greenmount Plaza, Ballymena	BT43 5AP	62	New Build	1
P801	Crown Building, 2-14 George Street, Ballymena	BT42 1QG	4	SSA	4
P802a	County Hall, 182 Galgorm Road, Ballymena	BT42 1QG	633	SSA	4
				DEL	
				DRD/DVA/NHSSB/NEEL&B All buildings	4

Prop No	Address	Postcode	FTE	Staff Nos	Building Categorisation
P803a	County Hall, 7 Castlerock Road, Coleraine	BT51 3HS	50	DOE	Main building 4, DVLNI building 4, DOE building 3, library building 5
			376	DVA	
			180	DRD	
P805	Foyle JBO, Crown Building, 14 Asylum Road, Londonderry	BT52 2AA	24	DARD	5
			12	DETI	
			9	SSA(MEC)	
			149	SSA	
			83	DEL	
P806	Coleraine JBO, Crown Building, 8 Artillery Road, Coleraine	BT41 4JE	79	SSA	3
			43	DEL	
			72	DARD	
P808	Antrim JBO, 20 Castle Street, Antrim	BT53 6DT	65	SSA	2
			39	DEL	
			10	DRD	
			13	DARD	
			1	HMRC	
P811	Ballymoney JBO, 37-45 John Street, Ballymoney	BT43 5EL	37	SSA	2
			36	DEL	
P815	35-39 Bridge Street, Ballymena - JBO	BT49 ODN	0	VACANT	4
P817	4-6 Killane Road, Limavady	BT43 6DT	10	DARD	4
P824	Kilpatrick House, 38-54 High Street, Ballymena	BT49 OTZ	81	DARD	3
P825	Limavady JBO, 9 Connell Street, Limavady	BT43 6BT	37	DEL	3
			15	SSA	
P826	Twickenham House, 59-71 Mount Street, Ballymena - SSO	BT45 5DN	0	VACANT	4
P827	31 Station Road, Magerafelt - JBO	BT45 5DN	90	SSA	3
			41	DEL	
			34	DARD	

Prop No	Address	Postcode	FTE	Staff Nos	Building Categorisation
P830	1 Crescent Road, Londonderry	BT48 6AT	34	DRD	4
P832	Orchard House, 40 Foyle Street, Londonderry	BT47 2LL	150	DARD	3
			16	DRD	
			53	DOE	
			73	DFP	
			42	DSD	
P833	1A Belt Road, Londonderry	BT49 0EP	100	NI WATER	4
P840	86 Main St, Limavady	BT48 6HN	10	DRD	4
P841	Richmond Chambers, The Diamond, Londonderry	BT46 5BN	5	DSD	3
P853	12 Coleraine Road, Maghera	BT43 6BA	2	DARD	4
P854	Academy House, 121A Broughshane Street, Ballymena	BT47 2NJ	62	DFP	3
			68	NI WATER	
P855	Lisnagelvin JBO 2 Crescent Road, Londonderry	BT47 6FP	60	SSA	3
			38	DEL	
P856	Waterside House, 75 Duke Street, Londonderry	BT48 8DU	120	DE	3
			49	DFP	
			82	DFP(CORE)	
			32	DHSSPS	
P858	Northside CBO, Glengalliagh Road, Londonderry	BT43 5AL	4	SSA	4
P861	48-50 Linenhall St, Ballymena	BT43 7QA	8	DEL	4
P862	ECOS Centre, Kernohan House, Broughshane Street, Ballymena	BT48 6RE	13	DARD	3
P863	Carlisle House, Hawkin Street, Londonderry	BT43 6DF	347	SSA	3
			11	DSD	
P866	62 Church Street, Ballymena	BT53 6JD	14.5	DSD	4

Prop No	Address	Postcode	FTEStaff Nos	Building Categorisation	
P867	Trillick House, 49 Queen Street, Ballymoney		11	DRD	3

PEDU - Response to follow up issues from evidence session on 14 April 2010

Assembly Section

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

28 April 2010

Dear Shane

In its letter of 16 April 2010 the Committee sought some additional information following the session with the Performance and Efficiency Delivery Unit (PEDU). Please find enclosed the Department's response which is attached to this note.

Yours sincerely,



NORMAN IRWIN

Role & Performance of PEDU

1. As recognised by the Committee, PEDU seeks to avoid the limelight, working in close collaboration with host organisations and, in terms of delivery reviews, avoiding the publication of specific reports. In this context, firm measures of performance (for example in terms of tangible outputs) do not exist, and thus the effectiveness of PEDU can only readily be gauged by the progress, in terms of delivery, of those areas following a review. The comments and performance of both the Planning Service and LPS, following their work with PEDU, clearly indicate the value-add and effectiveness of PEDU engagement.

2. There was no requirement in the LPS Report for the role of the Delivery Oversight Team to be performed by PEDU. However, it was subsequently considered a pragmatic approach to make good use of their acquired knowledge. While others could have undertaken the role, the assurance process may have taken somewhat longer as there would have been a considerable learning curve for those involved.

In relation to PfG Monitoring and Reporting, PEDU's contribution in support of OFMDFM is considerable – and spans the entire monitoring process. Each quarter the PEDU team prepares and refines the monitoring templates and guidance to Departments, organises and participates in the central assessment exercise, and drafts the majority of the material for the Delivery Reports to the Executive. In addition, PEDU continues to manage the preparations for the Accountability Meeting / Performance Review process by providing, on each of the areas, Delivery Assessments setting out barriers to progress, and also Outcome Papers detailing actions required to instigate improvement.

Again, the support to OFMDFM on PfG Monitoring & Reporting could, in theory, be done by other parts of the Department as an add on to their day jobs. However, in past Programmes for Government there was neither a Delivery Unit nor much of a real emphasis on Delivery – in contrast, in the current PfG, we have both a Delivery Unit and a much greater emphasis on Delivery and this is unlikely to be a coincidence. The creation of a dedicated Delivery Unit, with an undiluted focus, has undoubtedly been a catalyst for much of this change.

Programme for Government

3. Currently there are alternate "interim" and "full" quarterly Delivery Reports compiled for Ministers and the Executive. At the end of Quarters two and four a "Full Report" is prepared for the Executive while an "Interim" Delivery Report is prepared at Quarters one and three. The End Year Delivery Report for 2009 was the first Full Report as it included the following three elements:

- RAG Assessments for the individual PfG Targets, including various commentary around progress to date;
- Recommendations in relation to a number of areas that should be examined further (through the Accountability Meeting process) due to concerns around progress to date; and
- An update on Equality and Good Relations.

An Interim Report on the other hand is a shortened report that focuses on the latest RAG Assessments while providing some brief commentary on trends and changes etc. It does not include the latter two elements outlined above.

A Full Delivery Report has been prepared for the Executive for the period up to 30 September 2010 and it contains a number of new areas recommended for further Review. The report, at this stage, is currently being considered by Ministers ahead of being shared with the Executive – while we cannot be definitive about timing we would anticipate that the report will be available shortly.

4 The aim of central Delivery Reports is to give a realistic assessment of progress on targets – and, subject to a realistic assessment being concluded, it is desirable that the assessments are agreed by the respective departments. To help achieve that goal Guidance on RAG Assessments is provided to departments while, within the monitoring templates, the RAG history from previous rounds is displayed for each and every target or indicator. Finally there is also the opportunity for a departmental "Right to Reply" on any initial conclusions of the Central Team that are disputed by the department concerned.

However, while we can be prescriptive with departments in relation to their participation within the PfG Monitoring & Reporting System, the approach to monitoring and reporting on departmental business Plans is a matter for individual departments and their Ministers.

Efficiency Savings

5. We would very much advocate a role for PEDU in assisting and advising Departments on developing future efficiency delivery plans. However, while PEDU will work with other colleagues in DFP on developing central guidance on this issue, and as discussed at the previous session in relation to delivery, any specific work within an individual department would need to be by invitation.

Monitoring Of Efficiency Delivery Plans - September 2009

Background

As part of the 2008-11 Budget process, the Executive agreed that departments should work to deliver cumulative efficiency savings of 3% a year over the period 2008-09 to 2010-11. The purpose of this report is provide details of the level of savings achieved by departments for the first six months of 2009-10, as well as the latest projections in respect of the planned savings for the remainder of 2009-10 and 2010-11. There was a delay in the production of this update because of the late returns received from some departments and in particular the Department of Education which was eleven weeks overdue in providing the information requested. The Finance Minister has written to his Ministerial Colleagues highlighting the importance of monitoring the achievement of efficiency savings and requesting that returns are provided in a timelier manner in the future.

2009-10 Efficiency Savings

In the first six months of 2009-10, departments have achieved £387.4 million of efficiency savings equivalent to 72.1% of the target for the full year. This represents an improvement in the level of performance at the same stage in 2008-09. All departments have achieved at least 50% of the target level of savings for 2009-10 within six months whilst two departments (DETI and FSA) have achieved their full-year target, six months early- see Table 1 below.

Table 1: 2009-10 Departmental Efficiencies Achieved by the end of September 2009

Department	2009-10 Target (£m)	6 months Savings (£m)	% of 2009-10 Savings Achieved
DARD	12.2	6.2	50.4%
DCAL2	6.0	3.8	63.0%
DE	124.5	113.7	91.3%
DEL	40.1	30.3	75.6%
DETI1	15.2	16.8	110.2%
DFP2	11.3	5.7	50.0%
DHSSPS	232.9	144.0	61.8%
DOE	7.7	3.9	50.1%
DRD	44.2	33.4	75.5%
DSD	38.1	25.8	67.7%
OFMDFM	4.6	3.5	76.1%

Department	2009-10 Target (£m)	6 months Savings (£m)	% of 2009-10 Savings Achieved
FSA	0.4	0.4	100.0%
Total	537.3	387.4	72.1%

Notes:

1. The % of savings achieved for DETI is more than 100% of its target due to its plans to deliver more savings than in its original plans.
2. OSNI moved from DCAL to DFP during 2008-09, the efficiency target was moved from DCAL to DFP as a result (£1m in 2009-10)

2009-11 Efficiency Savings

In addition to examining the actual level of savings delivered by departments, it is also important to monitor the latest projections in respect of the achievement of planned savings. Table 2 sets out the DFP assessment as to whether the targeted level of savings for each Efficiency Delivery Plan (EDP) will be achieved for 2009-10 and 2010-11 using the following three categories:

- On Track for Achievement;
- Not on Track for Achievement; and
- On Track for Achievement but with a significant risk.

The latest assessment is that the majority of EDPs are on track for delivery without any risk, with 12.4% being significantly at risk or not on track in 2009-10 and 21.9% in 2010-11. In terms of the percentage of savings, only 52.5% are on track for achievement in 2010-11 compared to 83.8% in 2009-10. This is primarily due to a significant amount of savings being on track for delivery but with significant risk as well as the downward adjustment to the level of savings projected for some EDPs.

There are eight departments who have 100% of their efficiency plans and savings on target for delivery in 2009-10 and four have 100% of their efficiency plans and savings on track for delivery in 2010-11.

Table 2: Planned Savings by NI Departments - Assessment of Current Position

	Not On Track	On Track with Significant Risk	On Track
% of EDP's			
2009-10	4.4%	8.0%	87.6%
2010-11	3.5%	18.4%	78.1%
% of Savings			
2009-10	0.1%	16.5%	83.8%
2010-11	5.8%	42.0%	52.5%

Note: Savings may total more than 100% due to some departments planning to achieve savings in excess of their target.

Conclusion

This update highlights the need for all departments to continue to monitor the implementation of their plans to deliver 3% per annum, cash releasing efficiency savings, and to make adjustments where necessary. The next round of monitoring will be undertaken shortly, which will provide an assessment of the actual delivery of efficiency savings for the whole of 2009-10 and an update of the 2010-11 planned efficiencies.

Department of Finance and Personnel
April 2010

Appendix 4

Memoranda and Papers from Others



Economic Research Institute of Northern Ireland: Notes on Measuring and Increasing Public Sector Efficiency

November 2009

Introduction

1. As the UK fiscal position deteriorates the push to increase the efficiency with which the public sector uses increasingly scarce public expenditure resources to deliver services is being constantly ratcheted up. Efficiency savings are popular with politicians and the public because they seem to hold out the promise of sustaining or even improving services at the cost of little or no pain. Terms such as "cutting waste", "taking up the slack" and "slashing bureaucracy to release resources for the front line" reinforce this perception of getting something for nothing. In reality, however, securing true efficiency gains in delivering public services can be difficult both to achieve and to measure. These notes provide an introduction to the concepts of efficiency in public services and the ways in which these concepts can be measured. There is a very wide literature on these matters and much of this is technically demanding but the objective of this document is to keep a focus on the basics.

2. Efficiency is about improving the ratio of outputs to inputs so why is this so difficult to measure in the public sector? One reason is that the public sector produces a huge range of outputs, sometimes uniquely, though the same could be said for the private sector. The key difference, however, is that most public sector outputs are provided either free at the point of use or for a nominal charge. There are consequently no market prices for these services which can be used to calculate their value to society. In private services consumers willingness to pay is taken to be a reflection of the value they place on accessing the product and an aggregate of

the value of output can be obtained by using these prices. This is not the case for the public sector and we will see later how this difficulty can be addressed.

3. First, however, we must examine what interpretations have been placed on the term "efficiency savings" in the public sector context. The present approach has largely been dictated in the UK by the 2004 report by Sir Peter Gershon titled, 'Releasing resources to the front line: Independent Review of Public Sector Efficiencies', so that is a useful place to start.

Gershon Review

4. The Gershon Review of Public Sector Efficiency states that efficiency in the public sector entails the best use of available resources for the provision of public services and defines 'efficiencies' as (HM Treasury, 2004, p. 6-7):

"... those reforms to delivery processes and resource (including workforce) utilisation that achieve:

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

5. Becoming more efficient means producing more goods and services for each unit of resources utilised or producing the same amount of goods and services using up fewer units of resources - in a nutshell, increasing the ratio between outputs and inputs. This is what the first, third and fourth points in Gershon's definition above capture. However, the second bullet point introduces prices and hence financial considerations.

Cashable and Non-Cashable Efficiencies

6. With regards to monetary aspects of efficiency, the UK Office of Government Commerce (OGC, 2007, Box 1) classifies efficiency gains as cashable and non-cashable. Cashable efficiency savings release financial resources that could thus be deployed elsewhere whilst maintaining outputs and their quality. Non-cashable efficiency gains take place when productivity or quality increases without releasing financial resources. In general, cashable efficiency implies less expenditure for the same outcomes and non-cashable gains occur where better outcomes are achieved for a given amount. The following table presents a summary of cashable and non-cashable efficiency gains:

Table 1 Cashable and Non-Cashable Efficiency Gains

Cashable Gains

Reduce the level of inputs for the same outputs
Decrease outputs in return for a proportionately larger decrease in inputs

Non-Cashable Gains

Get greater outputs for the same inputs
Increase outputs by a proportionately smaller increase in inputs
Improvements in service quality for the same inputs

Source: IS (2006, pp. 9-10)

7. Within the term of the 2007 Spending Review Northern Ireland departments were required to find 3% efficiency savings of the Cashable form. These are set out in Table 2 below. Following the 2009 UK Budget a further 2% efficiency cut was imposed for the years 2009-10 and 2010-11 for Whitehall departments and this resulted through the Barnett formula in cuts totalling £123 million for the NI block as a whole for those years over and above the initial efficiency targets.

8. Going back to Gershon's definition of efficiencies, reducing the numbers of inputs whilst maintaining the level of provision (first point), paying lower prices for the same resources (second point) and allocative efficiency (fifth point) refer to cashable efficiency gains whereas non-cashable efficiency savings include producing additional outputs for the same level of inputs (third point) and improving output/input ratios (fourth type of efficiency).

Table 2 Spending Review 2007 Cash Releasing Efficiency Targets by NI Department

	2008-09	2009-10	2010-11
	£m	£m	£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

9. The review identified six 'workstreams' –that is, six broad areas of public sector activity with the potential to deliver total cashable and non-cashable efficiency savings. The workstreams are:

- Procurement: purchase of goods and services, including: utilities, ICT systems; professional services, temporary labour, construction, social housing, social care, and environmental services
- Back office functions: provide essential support to frontline services and include finance, human resources, information technology support, procurement services, legal services, facilities management, travel services, marketing and communications
- Transactional services: involve the most common interaction between government and the public (both citizens and private and community/voluntary sector organisations) including payment of benefits and pensions, collection of taxes, charges or fees and taxes; collection and exchange of information (for example, registration of births and deaths); etc.
- Public service policy, funding and regulation: parts of government that develop policy, provide funding to, inspect or regulate other parts of the public sector
- Private sector policy, funding and regulation: government activities designed to impact on or intervene in the private sector.

- Productive time of front-line public service professionals: including schools, hospitals, police, and public sector staff in general.

10. In the 2007 Spending Review the Government significantly increased the target for Value for Money (VFM) savings from efficiency measures. VFM savings under CSR07 differ from efficiency savings under the Gershon Efficiency Programme in a number of important ways:

- VFM savings take account of upfront and ongoing costs whereas efficiency gains under Gershon could be reported gross;
- only cash-releasing savings will be recognised as VFM savings (up to 40% of Gershon efficiency savings were classified as "non-cashable");
- VFM savings can be termed "allocative" i.e. savings from stopping or reducing low priority activities as long as there is no adverse impact on Public Service Agreements targets or Departmental Strategic Objectives;
- the Gershon Efficiency Programme allowed departments to reinvest savings in front line services. However, CSR07 removes the money saved from the departments' resource allocations for the years 2008-09 to 2010-11 with the exception of HMRC, the Department for Work and Pensions, and the Ministry of Defence.

11. In 2008 the UK Government launched two further value for money programmes –the Public Value Programme and the Operational Efficiency Programme in order to "explore whether further savings could be achieved in the medium term".

Public Value Programme

12. The Public Value Programme (PVP) was launched at Budget 2008 and focused on identifying "smarter ways of operating and key policy reforms" within major areas of spending. The 2009 Budget announced initial progress which included the identification of scope to improve utilisation of the NHS estate which could save up to £100m a year by 2013-14.

Operational Efficiency Programme

13. The Operational Efficiency Programme (OEP) was launched in July 2008 in order to learn from "best practice in the private sector and spread best practice in the public sector". The Programme comprised five independent reviews each led by a senior external advisor:

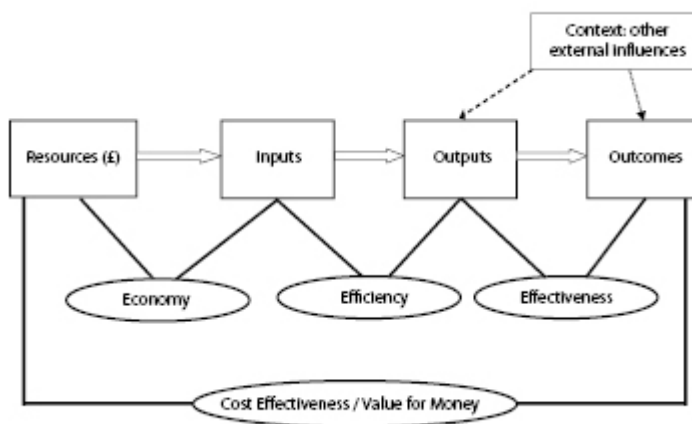
- back office and IT, led by Dr Martin Read, former Chief Executive of international IT services company Logica;
- collaborative procurement, led by Martin Jay, Chairman of Invensys since 2003;
- asset management, led by Gerry Grimstone, the Chairman of Standard Life;
- property, led by Lord Carter of Coles, a Labour Peer who has advised the Government many times; and
- local incentives and empowerment, led by Sir Michael Bichard, Director of the independent Institute for Government.

14. The detailed final recommendations identifying significant potential for additional savings were published alongside Budget 2009 in Operational Efficiency Programme: Final Report. The Government accepted the recommendations in the OEP report in full and announced that all departments would be "working to implement and deliver the additional value for money savings identified through the Programme".

Definitions of Economy, Efficiency, Effectiveness and Value for Money

15. Broadly speaking, efficiency has to do with the relationship between outputs and inputs. HM Treasury et al (2001) presents the following chart that shows efficiency within the whole process of public service delivery: In Figure 1, economy refers to paying less for a given amount of inputs whereas efficiency means obtaining more output per unit of input. In turn, effectiveness relates outputs and outcomes, whilst value for money is used to compare outcomes against the money spent to achieve them.

Figure 1 Economy, Efficiency, Effectiveness and Value for Money in Service Delivery



Source: HM Treasury et al. (2001, Figure 3); modified by ERINI (see text)

16. Another way of defining the 'three Es' (i.e. economy, efficiency and effectiveness) is presented by the Audit Commission (AC, 2001, p.9):

- Economy: acquiring human and material resources of the appropriate quality and quantity at the lowest cost;
- Efficiency: producing the maximum output for any given set of resource inputs or using the minimum inputs for the required quantity and quality of service provided; and
- Effectiveness: having the organisation meet the citizens' requirements and having a programme or activity achieve its established goals or intended aims

Performance Measures

17. Given the different stages in the service delivery process, there are different types of performance measures. Some measures assess efficiency, others economy, and others effectiveness. Furthermore, some indicators only measure outputs, others outcomes only, although measures that combine outputs and outcomes are widely used. Table 3 presents the major types of performance indicators.

Table 3 Types of Performance Indicators

Single indicators

Indicators on input

What goes into the system? Which resources are used?

Indicators on output	Which products and services are delivered? What is the quality of these products and services?
Indicators on intermediate outcomes	What are the direct consequences of the output?
Indicators on final outcomes	What are the outcomes achieved that are significantly attributable to the output?
Indicators on the environment	What are the contextual factors that influence the output?
Ratio indicators (These measures are valid only to the extent that there is a clear causal relationship)	
Efficiency	Costs/Output
Productivity	Output/Input
Effectiveness	Output/Outcome (intermediate or final)
Cost-effectiveness	Input/Outcome (intermediate or final)

Source: van Dooren et al. (2006, p. 15)

Allocative and Technical Efficiency

18. The academic literature distinguishes between two kinds of efficiency: allocative and technical. Allocative efficiency refers to the distribution of costs and benefits among agents, whereas technical efficiency refers to the relationship between benefits and costs. Whenever increasing access to services or reducing social exclusion of vulnerable groups are factored in the measurement of performance of a public sector organisation, allocative efficiency elements are brought into play. On the other hand, technical efficiency concerns are reflected in the objectives of increasing responsiveness or achieving efficiency gains/savings. Studies of organisational efficiency (both allocative and technical) can focus on efficiency in one point in time (static efficiency) or over time (dynamic efficiency).

19. There are several techniques to compare efficiency across public sector organisations; the simplest of which is to compare the ratios of outputs to inputs. This would be straightforward for organisations producing only one type of output with one type of input. However, this is never the case in the public sector, as its organisations present complex production functions.

20. Efficiency indicators can be classified as either non-amalgamated or composite. Non-amalgamated indicators are disaggregated measures that consist of templates of indicators denoting partial aspects or dimensions of an organisation's performance. Performance scores in several dimensions or aspects are presented together, but independently from each other. In contrast, composite indicators bring together several aspects or dimensions of performance into one single figure.

Non-amalgamated Measures

21. Non-amalgamated measures consist of sets of indicators of performance kept independent from each other. The rationale behind these measures is that performance is a multi-dimensional concept and that, given that indicators only capture partial aspects of performance, all of them would have to be reported to convey an accurate picture of organisational service delivery.

22. Stakeholder judgements and balanced scorecards are some of the most common ways to illustrate aspects of organisational performance. With regards to balanced scorecards, this represents a recent cultural shift in performance management in the local public sector. In 1994,

the federal government of the United States of America encouraged local governments to annually report performance to assist users to assess the economy, efficiency and effectiveness of the provision of the services; it was not well received: a study of 132 chief administrative officers of cities and counties in 2000 found that only 55 of them had heard about balanced scorecards and that, of those, just one-fifth had implemented them (Ho and Chan, 2002). A similar situation was found in Canada in 2002 (Chan, 2004). The Ordnance Survey Northern Ireland (OSNI) has developed a corporate balanced scorecard to managing the organisation (see OSNI, 2005).

23. The crucial aspect of any performance management system is how to measure performance. As Wisniewski and Olafsson (2004) argue, outcomes of public sector organisations are usually very difficult to measure, such as quality of life or social inclusion, and when measured, any significant change in the numerical values may take several years. Furthermore, joined-up government and the increasing relations and combined work between the public, private and voluntary sectors make it almost impossible to apportion results to the different units involved in the provision of a given service. As Wisniewski and Olafsson propose, improving road safety may require co-ordination from "local authorities (responsible for road maintenance and improvement), the local police (responsible for traffic law enforcement and public education), the local health services (responsible for providing accident and emergency care). If, ultimately, road safety in the community has improved then whose performance is being measured?" (Wisniewski and Olafsson, *op. cit.*, p. 606).

24. These approaches do not combine the different dimensions of performance into a single figure or a reduced set of figures. Instead, they present previously identified aspects of performance independently from each other. Spider-webs and similar graphical devices are only useful if the number of dimensions is not too large; otherwise, they become cumbersome and confusing. Scorecards and similar lists can handle long lists of indicators; however, they do not provide an overall snapshot, and, more importantly, they tend not to be related to theoretical notions of efficiency and performance. In contrast, amalgamated measures solve the problem of dimensionality that arises when several different indicators are used. Thus, more technically robust composite measures are preferable, the most common of which we briefly consider in the following sub-section.

Composite Measures

25. As we have already seen, efficiency relates outputs to inputs. Thus, ideally, a measure of organisational efficiency has to somehow combine an index of outputs and an index of inputs. This relationship between outputs and inputs is missing in the disaggregated measures overviewed in the previous sub-section.

$$\text{Efficiency} = \frac{\text{Weighted Outputs}}{\text{Weighted Inputs}} = \frac{w_1 O_1 + w_2 O_2 + \dots + w_n O_n}{w_1 I_1 + w_2 I_2 + \dots + w_n I_n}$$

26. Composite aggregate indicators of efficiency attempt to measure the following relationship (where O stands for Output, I for Input, w for Weight, and 1, 2, ..., n, are the different outputs produced or inputs utilised):

Weights reflect value judgments about the relative importance of each output and input. Different weights can render different results.

27. Smith (2002, p. 308) presents arguments for and against composite measures. Amongst the arguments in favour of adopting aggregate performance indicators this author mentions:

- They place performance at the centre of the policy arena;
- They can offer a rounded assessment of performance;
- They enable judgements to be made on system efficiency;
- They facilitate communication with ordinary citizens and promote accountability;
- They indicate which systems represent the beacons of best performance;
- They indicate which systems represent the priority for improvement efforts;
- They may stimulate the search for better data and better analytical efforts;
- They can offer policy makers the freedom to set their own priorities and to seek out improvements along dimensions of performance where gains are most readily secured.

28. In contrast, these are the arguments against the use of aggregate measures:

- By aggregating individual performance measures, composites may disguise serious failings in some parts of some systems;
- As measures become aggregated, it becomes increasingly difficult to know to what to attribute poor performance, and therefore what remedial action to take;
- The individual elements used in the composite indicator are often contentious;
- A composite that seeks to be comprehensive in its coverage may have to rely on very feeble and opaque data in some dimensions of performance;
- A composite that ignores dimensions of performance that are difficult to measure may distort behaviour in undesirable ways;
- Serious inadequacy of methodology on calculating weights;
- Composite indicators are centralist and do not respect alternative viewpoints.

29. Two main methods have been proposed to measuring efficiency across public sector organisations and units that stem from the relationship between outputs and inputs, which can accommodate for different weights as well as estimate mathematically optimal weight structures: data envelopment analysis (DEA) and stochastic frontier analysis (SFA). Both techniques are useful to assess the efficiency of a local council in providing a service in comparison to the provision of that same service by other local councils (or decision-making units in general) –i.e. they are benchmarking devices (Homburg, 2001; Zhu, 2002).

Data Envelopment Analysis

30. DEA is a deterministic technique that seeks to assess the efficiency of an organisation in relation to other organisations that provide the same services. For example, we can use DEA to evaluate the efficiency of a local council in street cleansing against the provision of street cleansing by other local councils.

31. The main concept behind DEA is that of a frontier production function and a cost function^[1]. A production function is a relationship between a number of inputs and outputs: how many inputs (and of which type) are allocated and used to produce a single unit of output (and of which type). The rationale is that we can compare different units that produce similar services in terms of the number of inputs they use to deliver a given level of service; in other words, we can compare their relative technical efficiency. For example, a local council may employ 12 people to cleanse 40 miles of main streets of towns and villages twice a week whereas another council may employ 16 people to cleanse 30 miles. We can also compare how much it costs each council to produce a given level of output –that is, their relative allocative efficiency. A frontier is the locus where the most efficient units lie.

32. A complementary approach focuses upon production rather than cost. Here, we compare how much output each organisation produces with a given endowment of inputs, either physical

or in financial/budgetary terms, against other local authorities. Again, a frontier would depict the most efficient units.

33. The distance between an organisation and the frontier, if any, is the measure of the organisation's inefficiency. The Annex contains a chart ranking local authorities in Northern Ireland according to the efficiency with which they deliver services in waste management. This is based on a DEA analysis carried out by ERINI using data on costs and amounts of waste sent for disposal or re-cycling. Those councils on the 'frontier' score 1 and those below this figure show inefficiencies to an increasing extent.

Stochastic Frontier Analysis

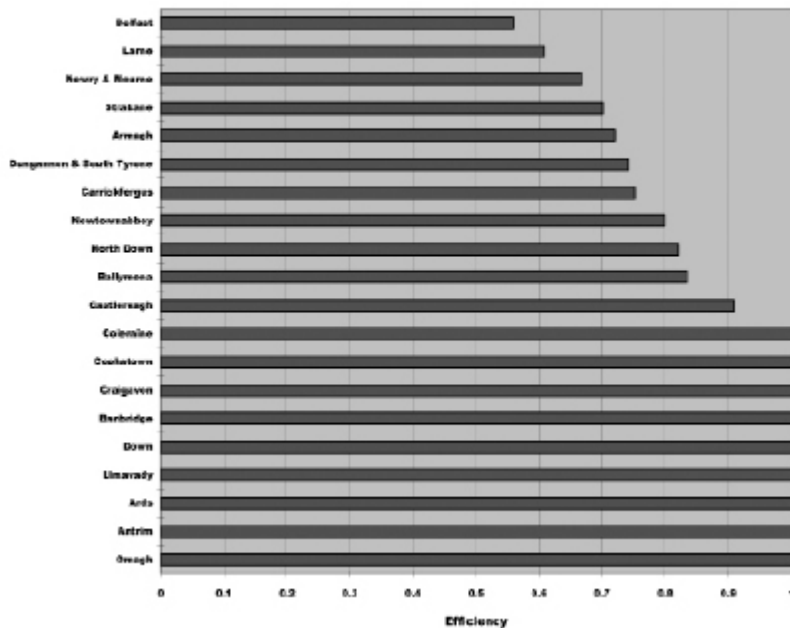
34. According to the DEA approach, if an organisation is not on the frontier, then it is inefficient - and to an extent captured by its distance to the frontier. SFA, in turn, allows for statistical and measurement error: not all the distance between an organisation and the frontier is deemed to reflect inefficiency. SFA is a statistical technique that dissects inefficiency and error. As with DEA, we can choose either an input or an output orientation: we can investigate how much input quantities are being used to obtain a given quantity of output, or how much output is being produced with given quantities of inputs.

35. There are some profound differences between both approaches: DEA is a non-parametric, deterministic, linear programming mathematical technique, whilst SFA is a parametric, stochastic, statistical tool. However, both techniques estimate a frontier and calculate the relative inefficiency of units against the best practice examples on the frontier.

36. It is worth mentioning that SFA looks more accurate than DEA in that it distinguishes between inefficiency and statistical error or noise; however, DEA makes no assumptions with regards to how efficiency is distributed amongst a sample of organisations whereas SFA has to assume a certain distribution. Therefore, using DEA means running risks of confounding data errors with inefficiencies whilst using SFA implies running risks of making specification errors.

37. Both DEA and SFA are valuable and flexible techniques for measuring efficiency and can be used in a very wide range of circumstances provided the public sector units (police districts, hospitals etc) are producing broadly similar outputs and there is data available that measures these outputs and the inputs used up in their production.

Waste Management Efficiency
Northern Ireland April 2005 - May 2006



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[1] For a comprehensive, textbook-long treatment of DEA and SFA, see Cooper et al (2007).

NI Audit Office Submission to DFP Committee

Background

1. The Northern Ireland Audit Office (NIAO) aims to promote accountability and the best use of public money. The Office fulfils this role by providing objective information, advice and assurance

on the use of public funds and by encouraging beneficial change in the provision of public services.

2. This paper provides background information for the Department of Finance and Personnel Statutory Committee on the role which public sector audit can play in helping to contribute to the broader efficiency agenda. The paper:

- Provides some information on work undertaken at national level by the National Audit Office and the Public Accounts Committee at Westminster on the measurement of efficiencies
- Outlines advisory work undertaken by the NIAO for the Department of Finance and Personnel at the time of the Efficiency Programme which was introduced in Spending Review 2004
- Summarises some of the main efficiency themes which have emerged from the Office's programme of Value for Money studies.

The work of the National Audit Office and the Westminster Public Accounts Committee

5. In 2003, Sir Peter Gershon conducted a cross cutting review of efficiency in the public sector. His report^[1] was published to coincide with the 2004 Spending Review in which the Government announced an Efficiency Programme designed to achieve ongoing efficiency gains across the public sector.

5. The National Audit Office produced two reports examining the accuracy and reliability of efficiency savings claimed by GB departments. Both these reports were taken as evidence sessions by the Public Accounts Committee (PAC) at Westminster. Among the main conclusions drawn by the PAC were the following:

- i. There were some doubts, and measurement weaknesses, around the reliability of the claimed efficiencies.
- ii. There was also evidence that some efficiency projects may be having an adverse impact on service quality.
- iii. Departments need a portfolio of indicators to identify more accurately factors contributing to changes in quality.
- iv. Some of the claimed improvements in efficiency may not be sustainable. If lasting change is to be demonstrated, departments need to develop measures which reflect the unit cost of delivering key services and outputs over time.
- v. Departments were reporting efficiencies without netting off the expenditure incurred to achieve them. Consequently, they may have over-stated their efficiency gains.
- vi. The basis for some claimed efficiencies had not been sufficiently challenged. PAC recommended that the Treasury should adopt a more rigorous process for reviewing the supporting evidence for departments' claims, using qualified analysts and statisticians when required.
- vii. The full potential to achieve efficiencies was not being realised. Efficiency improvements were being sought from the narrow basis of a small collection of projects in each department. This was not encouraging departments to look at efficiency in the round.

NIAO's advisory work with DFP on measuring efficiency

5. The public sector in Northern Ireland was also set a target to achieve cumulative efficiency gains of 2.5% per year, at least half of which would release resources to priority frontline services. In order to measure these efficiencies over the period 2004-07, DFP required all departments to produce Efficiency Technical Notes. These documents were meant to provide a robust means of measuring, monitoring and quantifying the targeted financial impacts.

6. The Department of Finance and Personnel (DFP) invited the Northern Ireland Audit Office (NIAO) to review the initial drafts of the Efficiency Technical Notes that had been prepared by departments and to advise whether they would form a reliable basis for measuring efficiency savings.

7. Although NIAO's work was unpublished, the key findings were presented to DFP senior management with a view to helping them improve the quality of Efficiency Technical Notes. Among our key findings were:

i. The basis upon which savings were to be generated was not always clear, headcount reductions had not been specified and there was uncertainty as to whether any additional investment costs had been netted off from the efficiency saving.

ii. 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 costing methodologies were vague.

iii. Data sources and proposed monitoring arrangements were often very high level in nature and it was unclear how specific efficiency initiatives would be tracked. There was also limited reference to ensuring that service quality would not deteriorate as a result of the focus on efficiency.

iv. There was limited attention in the Notes to the issue of data quality – potential data quality risks and limitations were not assessed or disclosed.

NIAO Value for Money Studies

8. One of the core business areas of NIAO is its programme of value for money reports. Over the past number of years, a number of these studies have dealt with efficiency-related issues, from which the following key themes have emerged.

Manpower

9. Manpower costs account for a significant element of all public expenditure and NIAO has identified potential efficiencies in this area. For example, our review into sickness absence in Northern Ireland Civil Service (NICS), found that it was twice as high as in the local private sector and 36% higher than the public sector in GB. This is costing the taxpayer in excess of £25m per annum. Promoting and implementing best practice in this area has the potential to make significant savings.

10. The Office is also involved in other work identifying where manpower resources can be used more efficiently. For example, the Office is currently reviewing the Management of Substitute Teachers, the costs of which have risen from £38m in 2000-01 to £64m in 2008-09.

Major Reform Initiatives

11. A further area where we have had a keen focus is in the area of major reform initiatives as it is clear that many of the planned efficiencies are predicated upon the successful delivery of such initiatives.

12. For example, NIAO has carried out a review of the £3bn Reform Agenda, encompassing HR Connect, Workplace 2010, Records NI, Account NI, Network NI, the Centre for Applied Learning (CAL) and IT Assist. At the time of our initial review in July 2008, it was too early to say whether the efficiencies and benefits envisaged were being delivered, but we have given an undertaking to continue to monitor implementation with a view to providing further assurance reports to the Assembly.

13. We have also looked at major IT Projects, such as in the Land and Property Services Agency where we found that the DFP and LPS were trying to do too much in too short a timescale. At the same time that they were introducing the new system, they were also implementing a new method of calculation for the rates bills and were handling the additional challenge of setting up a new agency; all of this within a very challenging timescale.

Spend to Save

14. When the public purse is under pressure, there may be a temptation to cut services to effect short term savings. A short-term perspective of this nature creates risks for the public sector. NIAO has reported on a number of themes where investment now can generate greater savings in the future.

15. For example, NIAO's review into obesity and type 2 diabetes concluded that the effective targeting of health promotion strategies could help to reduce the not inconsiderable cost burden of the disease. At a recent Public Accounts Committee hearing, members raised concerns over pressures on the Health Promotion budget as the Health Service comes under further financial scrutiny.

16. A further example arose in our review into the Control of Bovine TB where DARD did not have enough internal vets to test the cattle and so have had to engage more expensive private sector vets.

Procurement

17. This is a key area for the achievement of efficiencies. HM Treasury has identified the potential to make savings of almost £6 billion by the use of more collaborative procurement. NIAO's report on the use of consultants touched upon this issue. It noted that annual spend in this area had increased substantially, too many contracts were not being competitively tendered and consultants were often appointed without the business case being formally made.

18. There is also pressure on capital expenditure which, over the last number of years has led to the introduction of PFI/PPP. The Office's work in this area suggests that, over more recent years, lessons have been learned from the earlier schemes (e.g. Pathfinder Schools) and better projects, such as the £186m M1/Westlink and the Landweb Project, are being delivered more in line with best practice. However, the Office will not be complacent in this area, and will continue to monitor all major projects as we move our work programme forward.

[1] Releasing Resources to the Frontline : Independent Review of Public Sector Efficiency, Sir Peter Gershon, July 2004

**Efficiency Savings in N.I. Departments:
Memorandum From: Professor Arthur Midwinter
Institute of Public Sector Accounting Research
University of Edinburgh Business School**

Context

1. The Research Paper refers to the reduction of £129 million in planned expenditure through Barnett consequentials for 2010-11. It should be made clear to members that this is a reduction in the rate of growth, not the current budget baseline. It does not therefore require savings from existing programmes.

Terminology

2. The Guidance Paper on Efficiency Delivery Plans (EDPs) is mostly concerned with inputs – how financial savings will be delivered and monitored. Whilst there is reference to impact on services and the need "to provide evidence there has not been a detrimental impact on services to the public" (para.iv), this is not a systematic approach.

3. Cash-releasing efficiency savings should provide the same service at a lower cost. That requires both financial (input) baselines and service (output) baselines for each saving proposal so that efficiency gains can be validated. The N.I. approach, in the main, reports economies, not efficiencies.

The DFPs Efficiency Programme

4. The EDP states that efficiencies will not compromise service delivery, but deliver more and better outputs. However, no output measures for any of the five categories of savings are provided.

Increase Charging

5. Increased income from charging is not included in the Efficient Government Programmes in Whitehall or Edinburgh, as these constitute a reduction in service. Increased charges are an economy measure, commonly used to deliver budget savings, but they do not result in efficiency gains.

Accommodation Savings

6. This saving arises from staff reductions which reduce the need for accommodation. This is not a pure efficiency saving as it arises from a loss of output from the staff reductions. It too is an economy, not an efficiency.

Land and Property Services

7. This narrative provides no clear basis for the savings assumption made. Does rationalisation involve job loss? There is no output baseline provided to validate efficiency gains.

Targetted GAE and Staffing Review

8. This is obviously not an efficiency proposal, but a reprioritisation of policy areas. Outputs are not provided, but if staff are lost, the quality and timelines of staff outputs cannot be assumed to be unaffected by these savings.

Rate Collection

9. This is a cost reduction. It lacks the robust information needed to assess the realism of the savings assumptions.

Conclusions

10. This is not an efficiency delivery plan, but a budget savings plan. The proposals are unclear on how savings will be delivered, and offer no baseline data on which to validate efficiency gains.

11. It is therefore a matter of concern that the savings are being assumed and monies reallocated prior to savings being delivered.

12. I would advise the Committee to draw its concerns over the poor quality of information to the other departmental committees, and seek the following information for each programme:

(a) Identification of the budget lines in which savings will be made, the current allocation and the scale of savings sought so the realism of the proposal can be assessed;

(b) Identification of an output baseline for each proposal – a quantified statement of what is provided for the funding – so efficiency gains can be validated; and

(c) Identification of budget lines to which the savings have been reallocated with a statement of the expected outputs/outcomes from this spend.

13. The N.I. Efficiency Programme shows the same weaknesses of information as the Scottish Programme that makes it difficult to subject to rigorous scrutiny. Lack of transparency is a major problem that needs to be tackled. Describing these budget savings as efficiencies is misleading the Assembly and the public.

Professor Midwinter retired as Dean of the Faculty of Arts at Strathclyde University in 1999. Since then, he has concentrated on research and consultancy in public finance. He wrote a review of the Impact of the Barnett Formula for the ARLS in 2002. Midwinter was Budget Adviser to the Finance Committee of the Scottish Parliament from 2002-2007, and then to the Shadow Cabinet of the Parliament since September 2007.

Supplementary Note

1. These responses from departments confirm my view expressed in my evidence. The "efficiencies" are mainly conventional budget savings options. Most provide little or no evidence that efficiencies have not reduced services, whilst some provide evidence that services have been cut. Others do not spell out any savings at all. The responses are not fit for purpose, and do not facilitate robust scrutiny of current practice.

2. Enterprise, Trade and Investment

Dropping a buy-out initiative is not an efficiency. An efficiency saving requires current input/output baselines against which to demonstrate the efficiency improvement. This option looks like a hypothetical saving on a new development. Did the 5% saving in administration result in staffing reductions? If so, the department cannot guarantee that the quality and volume of its output has not been reduced.

3. Regional Development

This response simply asserts that efficiencies have been made, it does not provide evidence to validate the claim. How were savings made in water subsidies? Additional income is an economy, not an efficiency. Cutting capital budgets is not an efficiency, but asset sales do count in the Gershon framework. Cutting the Budgets is not an efficiency, it is a saving.

4. Environment

Cutting running costs, freezing vacancies, and cutting consultancy spend are conventional savings, not efficiencies. Neither is cutting out a Grant Scheme. There is no data provided to show these had "only minimal effect" on the frontline, and that does infer they had some adverse effect.

5. Employment and Learning

This response fails to provide any costings or details of how savings were made. It is completely useless for addressing Jennifer McCann's concerns.

6. Education

This response spells out a number of budget lines in which savings have been made. It does not provide information on the service impact, nor even costings.

7. Health, Social Services and Public Safety

The Minister appears content to have "obtained assurances" from health trusts that frontline services are being protected. In Scotland, several health boards reported service reductions as efficiencies. I would advise the Committee to seek the relevant information direct from trusts, given the Minister's warning in para.7.

8. Finance and Personnel

This response avoids answering the question. Is the minister trying to be unhelpful?

9. Culture, Arts and Leisure

Ditto! The response is unhelpful, and bland assurances are no basis for rigorous scrutiny.

10. Social Development

This list is mainly cuts in frontline services, often to the most disadvantaged households. There is not a single efficiency saving in the list.

11. Agriculture and Rural Development

I am not familiar with these functions, but they appear to be cuts in services to DARD and agroforestry research. The statement on rural development does not say whether or how savings were made.

12. FM/DFM

This response provides no information on the scale of savings made through "improving and refocusing", "controlling discretionary spend", "restructuring" and "streamlining". Did these result in staffing reductions?

Arthur Midwinter
14th November 2009

Efficiency Savings in Northern Ireland Departments

Written response to issues that arose from Victor Hewitt's briefing to the Committee for Finance and Personnel on 11 November 2009:

1. The Executive's Budget for 2008 – 2011 included cash efficiency savings of £793 million which were removed from departmental budgets. Was this £793m retained in the NI Block and is there any transparent evidence of this being reinvested in frontline services here?

A. The £793 million was counted along with projections from the regional rate and other receipts as part of the overall pot to be distributed to departments in Budget 08-11. It was therefore retained in the Block and reallocated to departments in line with the Executive's priorities. To the extent that those priorities focused resources on front line services then the efficiency savings are presumed to have been used for that purpose.

2. A further £123m efficiencies are to be sought from NI departments by March 2011, over and above the efficiencies already taken from departments in the Executive's Budget plans.

Are more efficiencies needed in the current year or does the full amount relate to 2010/11?

Will this £123 million be lost from the NI Block through deductions to Barnett consequentials?

A. So far as we know the Chancellor is not looking for further efficiency saving this year. The £123 million was removed from the Block through the operation of the Barnett formula because extra efficiency savings were sought from comparable Whitehall programmes. However, by an equivalent process £116 million was returned to the NI Block because spending was increased on comparable Whitehall programmes. The net pressure is therefore £7 million but because the timing of the cut and the new money differ there is a phasing difficulty to be managed.

3. Do you have any advice as to where further savings could be directed? Are there any safeguards to ensure departments don't simply make crude cuts to frontline services eg is there a role here for DFP/PEDU, the NI Audit Office or an independent panel? Are you aware of any NI Audit Office scrutiny of efficiencies to date?

The Executive have so far decided to spread the pain of efficiency savings pro rata to departmental baselines by imposing an across the board 3% cut. It is a matter for Ministers to decide how best to manage their share of the cuts. Some departments seem to have cascaded this down to each business area as a 3% reduction while other Ministers have sought to protect some areas at the expense of others in their department. Where they are able to do so departments have tried to pass these cuts on to third parties through raising charges.

4. There is certainly a role for DFP in scrutinising the outcomes of these cuts but the Audit Office have traditionally been reserved in these matters. However, I would suggest that the biggest scrutiny role of all should be exercised by the Committees.

In his Budget 2009 statement, the Chancellor imposed a further £9 billion in efficiency savings from 2011 – 2014. The media speculated at the time that this will mean a reduction of £75 m per year to the NI Block during this period.

Can you comment on the potential effect on the NI Block each year from these efficiencies?

Can such reductions still be termed efficiencies or are we now looking at real cuts in services?

A. The Chancellor's budget reference to these new efficiency savings was somewhat vague. We will not know what is proposed until the next Spending Review which covers these years. That will not arrive until after the General Election which might see a completely new government.

Until we know whether the future efficiency savings will be spread across all departments or targeted on specific areas it is not possible to calculate the consequential for NI precisely. However, a cut of around £220 million over three years would be a reasonable guess. Of course, to this figure would have to be added any programme cuts to bring borrowing under control.

The Committee will be aware that at these levels the distinction between an efficiency saving and a service cut is a fine one.

5. Are there recommendations from the reports on the Public Value Programme and the Operational Efficiency Programme in Whitehall relevant to the efficiency programme here. Are you aware if these reports are being considered in a local context?

A. These recommendations are as relevant in principle to Northern Ireland as anywhere else. I am told that they are part of the background consideration in framing efficiency savings.

6. Your paper sets out the definitions of efficiencies used for Whitehall departments.

To what extent do NI departmental efficiency plans for 2008 – 2011 adhere to these definitions of proper efficiencies?

Is there evidence to date of local frontline services being affected by efficiency plans?

A. I presume the definitions referred to are those of the Gershon review. This was something for the 2004 Spending Review since when the fiscal context has changed dramatically. The 2008 - 2011 NI departmental efficiency plans do make use of these definitions but I could not say with authority that they do so consistently.

At this point damage to front line services is mostly anecdotal, such as the threat to close wards in the health service. It will take the passage of time to sift and analyse the evidence.

7. Is there a need for clearer definitions of efficiency savings to be made public, and for transparent baselines and output measurement to demonstrate efficiency gains made by departments and to show that these do not represent cuts to frontline services?

A. Absolutely and the Committees should have this scrutiny role high on their agendas.

8. Departmental efficiency plans have been criticised for containing cuts to frontline services. Has ERINI considered the NI departments' plans and, if so, could you comment on their effectiveness?

A. ERINI has not looked in detail at these plans (indeed some don't seem to have been published) but we have drawn attention to the use of devices such as charging and shifting of financial burdens to third parties as a means of meeting efficiency targets and the dangers of these practices.

9. If departments are making cuts to services in efficiency plans, is this because there is no scope for further efficiencies? Are there sufficient resources and skills available to examine systems properly and make real efficiencies?

A. Efficiency is not a one off process but rather something that needs to be a natural and continuous part of management. That said there will be some aspects of gaining efficiencies that involve major changes in processes or practices or even structures. Some may involve spend to save schemes where an outlay is needed up front to produce savings further down the line. The system can really only cope with major upheavals infrequently without destabilising itself and putting services at risk. Examples might be privatisation, contracting out, PPPs, major IT projects and mergers.

10. The Civil Service is mostly a generalist body in the senior ranks so specialist expertise is hard to find and the practice of moving people around every few years to give them breadth is usually at the expense of depth. Nevertheless there is considerable talent in the public services but it has perhaps not been organised in a way that would promote the systematic pursuit of efficiency.

Are there more efficiencies to be gained here from further focus on the six workstreams identified by Gershon and outlined in paragraph 9 of your paper? What is the potential for more efficiencies from the shared services from the NICS reform programme or from further co-ordination on procurement?

A. The short answer to this question is yes. The Gershon workstreams remain highly relevant and shared services are an important part of this approach. However, the shared services reforms in Northern Ireland are quite complex processes that need time to bed down and at least one (Workplace 2010) has been disabled. We need to take stock of these programmes and their costs/benefits so far before loading further changes onto existing structures.

Efficiency Savings in NI Departments - Written response to issues that arose from Victor Hewitt's briefing to the Committee for Finance and Personnel on 11 November 2009



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Mr Shane McAteer
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11th January 2010

Dear Shane

Efficiency Savings in Northern Ireland Departments

At the Committee's evidence session on 18th November 2009, the CBAG, in response to a request from Mr McElarry, undertook to look into the possibility of compiling a list of outstanding liabilities for maintaining vacant, dormant or surplus properties.

We have now carried out a review of departmental resource accounts to establish if these could be used to produce such a list. Unfortunately, the information for each department is at an aggregate level and does not provide the necessary detail. We are therefore not in a position, at this point in time, to provide the information requested.

However, we had been planning to carry out a value for money review into Capital Asset Realisation, including looking at the work carried out by the Capital Realisation Taskforce and how its recommendations are being taken forward. Given the interest in efficiency savings across the Assembly, the CBAG has asked for this work to be brought forward in our work programme with a view to producing an informative report on this issue. I will keep you informed of progress on the study.

I trust that this is helpful.

Yours sincerely

Eddie Bradley

COMMITTEE FOR

F & P

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NIAO - Efficiency Savings in Northern Ireland Departments

CIPFA

Achieving efficiency savings in Northern Ireland Government Departments - 22 January 2010

CIPFA is the leading public services professional accountancy body. It is responsible for the education and training of professional accountants and for their regulation through the setting

and monitoring of professional standards. CIPFA provides advisory, information and training and consultancy services to public service organisations. CIPFA is the leading independent commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org.uk contact:

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Introduction

1. The Assembly Committee for Finance and Personnel is currently examining progress in achieving efficiency savings in Northern Ireland Government Departments, as part of its role in scrutinising strategic public finance issues. To this end, the Committee has invited CIPFA to provide evidence to inform its deliberations.
2. The Committee's primary focus is on how Departments can maximise efficiency savings without affecting important front-line services.
3. Without conducting detailed expenditure reviews, we are unable to comment on whether Government Departments are as efficient as they should be, nor are we able to identify specific savings in public expenditure.
4. However, in our role as a professional accountancy institute that seeks to improve public finance and financial management, we believe strong leadership at all levels in Government and the Civil Service, a fresh approach to providing public services in Northern Ireland and

implementation of good practice (including good financial management) is required in order to address the projected deficit in public expenditure.

5. The global financial crisis and resulting economic downturn have made reductions in UK public spending inevitable. Leaders of all of the major political parties in the United Kingdom have acknowledged that cuts are unavoidable and as a consequence it is clear that the forthcoming General Election will be fought in large part on the question of how reductions should be achieved.

6. The Northern Ireland public sector has already sought 2% to 3% efficiencies year-on-year for five years and has met annual targets to date. Over and above the need for public bodies to meet these targets, a further saving of £367m of resource and capital expenditure has to be found in the 2010/11 financial year^[1].

Efficiency savings and front-line services

7. Government Departments in Northern Ireland have lived with the need to meet efficiency targets over the last five years and should continue to strive to be as efficient as possible. The nature and definition of efficiency savings is therefore well understood by Government Departments and we believe there is no added benefit in engaging in further academic debate about the meaning and nature of efficiency.

8. Rather, we think there needs to be a radical change in mindsets that enables short and medium term savings in public expenditure to be identified. To reduce public expenditure on the scale required means that some less essential and lower priority public services will have to be cut, together with cost cutting of 'back office' expenditure. Therefore, we believe it should not be a pre-condition that all front line services should be protected from reductions in expenditure. This will require the Executive and Northern Ireland Assembly to manage expectations about the provision of public services.

Tough decisions

9. The provision of public services and the creation of public bodies should not be driven by political expediency. This approach has resulted in instances of over governance in central Government, agencies and local Government compared with the rest of the United Kingdom with the resultant costs of administration. The provision of public services should be based solely on need and benefit.

10. It is generally accepted that, in the past, higher costs of public services have been incurred because of the political divide. Whilst this was deemed essential to meet the needs of the two communities, it has meant duplicating public services such as schools, leisure centres, GP surgeries and public transport. As political stability increases in Northern Ireland, there is an opportunity to move towards eliminating duplication so that public services are integrated for the whole community and costs can be saved.

11. This approach will require political will as well as strong leadership in the Civil Service to take and implement tough decisions. For instance, it will be necessary to review the 'Programme for Government' to identify key priorities. Priorities and budgets should then be delegated to Departments to ensure delivery. This will ensure that only those priority public services are provided and savings are made by cutting out the non essential, low priority, services.

12. In times of scarce resources, it is important to identify the opportunity cost of funding decisions as spending decisions in one area deprives spending in an alternative service.

Reporting efficiencies and oversight – changes in roles and responsibilities

13. The Department of Finance and Personnel (DFP) monitors public expenditure on behalf of the Executive on an ongoing basis both within the budget setting process (Spending Review) and through in-year monitoring rounds. There is then independent scrutiny through the Northern Ireland Audit Office (NIAO) undertaking audits of the annual accounts and Value for Money (VFM) studies.

14. CIPFA Northern Ireland would contend that the degree of oversight should be reviewed in favour of more delegated authority and accountability which is then scrutinised through the work of audit and Public Accounts Committee (PAC). Whilst a degree of in-year monitoring is still required to undertake reporting of uncontrollable variances upon which executive decisions have to be made, the main oversight of public expenditure should be through individual Departments and their NDPBs and Agencies, with the scrutiny and challenge functions coming from Boards, the work of internal and external audit, the Accounting Officer and ultimately PAC. This requires a shift of emphasis in roles and responsibilities from DFP to Departments.

15. This would lead to greater clarity of roles, more focused accountability, the potential for Departments and NDPBs to be more flexible and innovative in their approaches to service delivery, thereby unshackling these organisations to deliver, and still be held accountable for, better performance and greater efficiencies. This oversight model would necessitate consideration of other factors as outlined in paragraphs 16 to 20 below.

16. This oversight model would mean greater budgetary flexibility for Departments in that there would be much more emphasis on the Accounting Officer (and Board) being held accountable for the budgets that they receive without excessive reference to DFP. This would also require Departments to specify savings during the Spending Review and Estimates process and thereafter be allowed to manage services and expenditure accordingly.

17. The scheme of delegated limits for expenditure decisions placed on Departments from DFP and on NDPBs from Departments would need to be increased to allow for greater flexibility, but with enhanced accountability at Board and Accounting Officer levels.

18. A further element of this oversight model will be the requirement for dedicated expertise to provide advice, guidance and best practice on how efficiencies may be delivered. Accounting Officers would then be specifically challenged on the identification, implementation and reporting of these deliverables.

19. Any programme of efficiency needs to be well planned, realistically timed, piloted and implemented on a phased basis. In this respect, Departments need to be allowed to take considered risks and to dispense with efficiency projects that are inappropriate for their circumstances or are clearly not delivering the intended outcomes.

20. CIPFA contends that successful delivery of efficiency savings will also be dependent on how senior executives and Boards within Departments and NDPBs execute their responsibilities; develop the necessary skills to successfully undertake their scrutiny and challenge roles within the efficiency and financial management agendas; and exhibit leadership in embracing best practice in delivering efficiencies and better performance. To ensure a strong challenge and oversight function, CIPFA believes that Boards and Governing Bodies of public bodies should be increasingly professionalised. In our view this means:

- Making Boards smaller – up to eight members

- Increasing financial skills to ensure robust stewardship
- Promoting the effective role of the Chair
- Remunerating members appropriately
- Ensuring Boards have the necessary skills mix
- Regularly assessing individual and collective Board effectiveness.

Managing efficiencies

21. CIPFA believes it is crucial that Government Departments and their agencies operate to the highest standards of financial management. Weaknesses in this area were seen as contributing factors in the £7m deficit of Belfast Metropolitan College in 2007/08 financial year^[2]. To ensure the risk of weak financial management is minimised, we believe Government should:

- Benchmark public bodies against a robust financial management model. Such a self-assessment tool is designed to assess the contribution financial management makes at all levels to the organisation. Its practical application helps organisations establish a profile of its financial management and tests organisational leaders' skills in financial management.
- Ensure that Senior Management Teams of public bodies have an appropriately qualified and experienced Director of Finance to provide professional financial balance in decision-making and who can advise the Board accordingly^[3].
- Ensure that financial skills exist at all levels within public bodies, not just in the finance and accounting function, but also those with budgetary responsibility.

Good practice in delivery of efficiencies

22. Having addressed some of the strategic and structural issues as well as the need to improve skills and governance, it would be useful to identify some basic principles designed to deliver efficiency savings. From CIPFA's work with public bodies in Great Britain, we have identified the following ten key principles^[4]:

- Focus on those approaches and techniques that have been successful in delivering efficiency in the past. Public bodies have delivered significant efficiencies through organisational change, improved procurement, better use of assets and 'absorbing additional costs'.
- Implement strategic changes in working practices that will make the organisation more efficient over the long-term, rather than focusing on short-term cost savings.
- Continually review 'back-office' efficiency. A review of this will be published by the Audit Commission in Spring 2010. This should include a number of useful case studies and online tools to help deliver efficiency.
- Introduce a simple, standardised approach to reviewing VFM to create baselines and aid comparison across services. Where possible and relevant, base reviews on information that is already being collected.
- Make VFM 'business as usual' by integrating it into performance and budgetary planning and monitoring.
- Involve managers and front-line staff in the development of VFM assessments to ensure they feel ownership of the process. Once finalised, communicate the objectives of the review process effectively, stressing that it aims to improve performance, as well as save money where possible.
- Benchmark against comparable organisations to find out why costs and performance differ – and adopt the good practice identified as a result.
- Concentrate on improving performance in those areas deemed organisational priorities by Government, citizens and senior managers.
- Consider whole-life costs in procurement and other major expenditure.
- Work with local partners to reduce costs and improve services.

23. In terms of good practice, CIPFA has identified a number of ways efficiencies could be achieved under the following activity-based themes^[5]:

- Organisational change – redesigning, restructuring or rationalising services
- Procurement – agreeing competitive prices for goods and services, renegotiating existing contracts or improving the management of the procurement function
- e-Procurement – adopting IT-enabled procurement techniques, such as e-marketplaces, online auctions and purchasing cards
- Project management – improving the preparation and assessment of business cases and the management of projects and programmes
- Partnerships – implementing joint working and/or shared services involving other public sector organisations
- Customer self-service – allowing citizens, businesses and staff to serve themselves online or via an automated telephone line
- IT and e-Government – using technology and IT systems to support new ways of working
- Flexible working – adopting remote or home-working
- Use of private and voluntary sector – partnering more closely with the private and voluntary sectors
- Vacancy management – reducing dependency on agency staff and not filling vacancies once existing staff leave
- Absence management – reducing the number of days staff are absent
- Prioritising services – focusing resources on meeting priorities and reducing spend in other areas
- Asset use – getting more value from existing assets and/or selling those that are no longer required.

24. CIPFA has also identified some of the issues and hurdles organisations need to address in order to continue delivering savings in the future. Many of these were associated with cultural issues or the capacity to deliver significant change. They include:

- Conducting an awareness-raising and staff engagement campaign to ensure the organisation has a VFM culture
- Monitoring and incentivising staff according to what they save, not what they spend
- Securing Government support for reduced funds in some areas that may be politically sensitive
- Having the courage to abandon projects that are not going to deliver benefits
- Ensuring the organisation has the leadership and capacity to deliver change
- Having to wait, perhaps for several years, for some projects to deliver a financial return
- Focusing on savings from front-line services, not just the back-office
- Considering whether it might be cheaper to buy-in expertise, rather than develop it internally
- Aligning processes with partnering organisations to ensure that back-office and ICT systems can be shared
- Encouraging or providing incentives for customers to use cheaper contact channels.

25. There is convincing recent evidence^[6] that good management practices lead to good performance. For example, in a study of almost two thirds of acute hospitals in England a measurement of management quality was robustly associated with better hospital outcomes across mortality rates and other indicators of hospital performance.

26. Above all, we believe Government Departments need to ensure they have the necessary leadership and management skills to bring public spending into line with new priorities and new ways of working.

[1] NI Assembly Draft Revised Spending Plans 2010/11

[2] The Department for Employment and Learning (DEL) "An efficiency review into Belfast Metropolitan College (BMC)" (2009)

[3] 'The Role of the Chief Financial Officer in Public Sector Organisations' CIPFA (2009)

[4] Finance Advisory (FAN) and Performance Improvement Networks (PIN) 'Examining the Changing Efficiency Agenda' workshops (2009).

[5] Performance Improvement Network (2007)

[6] Health Economics Data Group Working paper, York University (2009)

Written Assembly Questions Ministers on Efficiency Savings

AQW 1599/10

To ask the Minister of Enterprise, Trade and Investment what services in her Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

DETI has a target to deliver 3% cash releasing efficiencies of £7.7 million, £15.2 million and £22.5 million respectively over the period 2008-09 to 2010-11, which will provide additional spending power to the Department during this time. Savings in the last financial year and in the first six months of this financial year have been achieved primarily through the decision not to pursue the Electricity Contract Buy Out initiative on the basis that was no longer the most efficient way to proceed. Administration savings of 5% within the overall 3% target have also been achieved without adversely affecting service delivery.

AQW 1535/10

To ask the Minister for Regional Development what services in his Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

My Department has a target to deliver 3% efficiencies of some £22 / £44 / £65 million over the Budget period 2008-11. To date the Department has delivered these savings without any impact on its services.

Background

In line with the approach adopted by Whitehall Departments, Departments here developed plans to deliver cumulative efficiency savings of 3% a year over the Budget period 2008-11, including an annual real reduction in civil service administration costs of 5%, in order to accommodate expected cost pressures, and at the same time deliver improvements in public service provision. All resources released by this work are reallocated to public services here.

The objective of the Department's Efficiency Delivery Plans is to demonstrate how we propose to achieve 3% resource and 5% admin annual net cashable efficiencies, amounting to some £22 million / £44 million / £65 million (of which £0.8 million / £3.1 million / £5.4 million is Admin).

The Department identified, at a high level, 3% efficiency reductions within the roads rail and bus capital programmes, corporate service functions and through efficiencies incorporated within the Northern Ireland Water subsidy requirement, as set out in the table below.

Efficiency Delivery Plan - Categories	2008/09 £'000	2009/10 £'000	2010/11 £'000
Overall DRD Efficiencies	22,463	44,250	65,384
Water Efficiencies - to be incorporated within the NIW subsidy requirement	9,014	17,758	26,239
Remaining DRD Efficiencies	13,449	26,492	39,145
Of which Admin Efficiencies	830	3,130	5,366
Generation of additional income	3,494	3,952	4,412
Reduction in capital budget for plant / depot additions / refurbishment	2,500	2,500	2,500
Other Capital efficiencies	2,600	8,000	7,790
Reductions in rail / bus capital	1,100	5,950	4,500
NITHC Asset Disposals	0	0	11,600
Core Costs (Resource)	475	510	527
Bus route subsidy	2,450	2,450	2,450
Subtotal	12,619	23,362	33,779
Service Delivery Efficiencies (Admin)	830	2,995	5,099
Reductions in Core Costs (Admin)	0	135	267
Admin Subtotal	830	3,130	5,366
Total	13,449	26,492	39,145

AQW 1499/10

To ask the Minister of the Environment what services in his Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

To meet the efficiencies in 2008-09 and the year to date, the Department implemented a 15% reduction in non salary running costs along with the suppression of certain low priority vacant posts and a reduction in consultancy spend.

Furthermore, a significant element of the overall efficiency savings have been delivered by phasing out the Waste Management Grant Scheme which funded district councils to implement their waste management plans to put in place minor infrastructure projects to meet waste recycling targets. At a lesser cost the Department established the Programme Delivery Support Unit (PDSU) in conjunction with the Strategic Investment Board (SIB) to assist the waste management partnerships (representing the district councils) on procurement and delivery of their waste management plans through the Strategic Waste Infrastructure Fund (SWIF). The Executive allocated £200m to the SWIF over the Budget 2008-11 period (2008-09 to 2010-11).

The above measures have had minimal effect on the Department's ability to deliver frontline services for 2008/09 and the first 6 months of 2009/10.

AQW 1444/10

To ask the Minister for Employment and Learning what services in his Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

A number of service improvements have been made as a result of the application of the monies generated from the efficiency savings made by the department. These have resulted in an enlargement in the skills base in NI and contributed to the strengthening of the local economy. The improvements include: increased investment via the Further Education colleges in the essential skills of literacy, numeracy and ICT; an increase in the provision of PhD places by 100 per annum and an increase in research funding in the two universities. It has also enabled the Department to provide effective support to both people and businesses, in light of the significantly increased demand as a result of the economic downturn.

AQW 1404/10

To ask the Minister of Education what services in her Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

The spending areas in my Department impacted by the efficiency savings in 2008-09 and 2009-10 are set out in the table below:

Spending Area
DE Administration
RPA – Establishment of ESA
Effective Workforce Management
MAGS 2
Classroom 2000
Earmarked Sums
Community Relations
ELB Teacher's and Non Teachers' Pay
Aggregated Schools Budget
Capital Efficiencies

Further details are contained in the Efficiency Delivery Plan published on the Department's website and can be accessed at the following link:

http://www.deni.gov.uk/de_edp_introduction_rv.pdf

AQW 1316/10

To ask the Minister of Health, Social Services and Public Safety what services in his Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

While I have always expressed deep concern about the pace of efficiencies, I have obtained assurances from the Health Trusts that in implementing their CSR efficiency proposals the quality of services for patients and clients will be maintained or improved and that Priority for Action targets and commitments will be delivered. All efficiencies are being reinvested in service developments.

However due to pressures arising from pandemic flu, increased demand across all specialities and a low settlement above inflation budget settlement have made delivery of cash releasing efficiencies, and consequently financial breakeven, more challenging in 2009/10. As a result several Trusts have had to develop contingency plans containing proposals to bring themselves back into financial balance and these are currently being considered. I would emphasize that no decisions have been made and the proposals are still just proposals. My priority is to protect frontline services.

AQW 1397/10

To ask the Minister of Finance and Personnel what services in his Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

No services in the Department of Finance and Personnel have been adversely affected by efficiency savings either in the last financial year or in the first six months of this financial year.

AQW 1306/10

To ask the Minister of Culture, Arts and Leisure what services in his Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

The efficiency programme is designed to release funds to front line services, not to diminish them in any way. All NICS departments have produced Efficiency Delivery Plans to provide assurance that they are able to deliver the required level of efficiency savings in a strategic and planned manner rather than through arbitrary cuts to front line services.

AQW 1305/10

To ask the Minister for Social Development what services in her Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

During 2008/09 and in the first six months of 2009/10, my Department has succeeded in fully protecting frontline Social Security and Child Maintenance services from the effects of challenging efficiency targets. However, cyclical maintenance in Housing and delivery of Environmental Improvement Schemes were affected in 2008/09 and funding for some Voluntary and Community Sector projects had to be discontinued. In the first half of 2009/10, reinvestment of efficiency savings has assisted in protecting key service delivery priorities such as the Children and Young People's and

Modernisation Funds. However, there have been further efficiencies in respect of planned and cyclical maintenance, some regeneration programmes have been reprioritised and there have been further reductions in the funding made available for the Voluntary and Community sector.

AQW 1304/10

To ask the Minister of Agriculture and Rural Development what services in her Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

My Department has in place 12 Efficiency Delivery Plans (EDPs) in place to deliver the 3% efficiency savings required under the Budget 2008-11. Services affected are noted below in association with the relevant EDP: AFBI - In 2008/09 AFBI ceased to provide certain services to DARD. Work on Food Microbial Technology & Food Biofilm Research. Agroforestry research was reduced to demonstration-only status and some aspects of work on plant rhizobia were phased out. In the first half of 2009/10 efficiency savings have not affected provision of services to DARD although some minor aspects are to be discussed and agreed for cessation with DARD by 31 December 2009.

Rural Development: savings associated with new Rural Development Programme - During 2008/09, DARD officials were working with Councils, Social Partners and Rural Representatives to constitute the Local Action Groups in preparation for delivery of Axis 3 of the Rural Development Programme 2007-2013. The procurement process for the Delivery Agent for Axis 1 was also ongoing. The efficiency saving did not affect this process significantly, although progress was slower than might have been expected. In the first six months of 2009/10 the Local Action Groups were fully constituted and working to deliver Axis 3 of the Rural Development Programme. The Delivery Agent for Axis 1 was in place and in the process of implementing the various measures. While the efficiency savings did not affect this process significantly, we had to use staff input from other parts of Service Delivery Group to assist.

AQW 1275/10

To ask the First Minister and deputy First Minister what services in their Department have been affected by efficiency savings (i) in the last financial year; and (ii) in the first six months of this financial year.

As part of the Budget 2008-11 process the Executive agreed that all departments would deliver the same 3% per annum efficiency savings over the years 2008-09 to 2010-11. As a consequence, the Office of the First Minister and deputy First Minister will deliver £13.83 million of savings by 2010-11.

Efficiency savings in OFMDFM have been achieved through an improvement in and refocusing of the delivery of programmes and functions. Efficiency savings have been delivered through the exercise of control over discretionary spend, restructuring to avoid duplication of work, and the streamlining of processes across the Department.

Performance and Efficiency Delivery Unit (PEDU) - DCAL Response

FROM: Deborah Brown

DATE: 7 May 2010

To: Dr. Kathryn Bell

GM/285/2010 PERFORMANCE AND EFFICIENCY DELIVERY UNIT (PEDU)

1. You have asked whether the Department has used the services of PEDU or would be willing to in the future.
2. DCAL has recently undergone an organisational change programme and intends to build on this with further work in collaboration with DID. The Department is therefore very mindful of the aims and objectives of PEDU although it has not used its services to date.
3. DCAL would be willing to work with PEDU in the future should the need arise.
4. I am, of course, happy to further discuss with the Committee.



DEBORAH BROWN
DIRECTOR OF FINANCE

Committee for Employment and Learning

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To: Shane McAteer
Clerk to the Committee for Finance and Personnel

From: Peter Hall
Clerk to the Employment and Learning Committee

Date: 24 May 2010

Subject: Performance and Efficiency Delivery Unit

1. At its meeting of 21 April 2010, the Committee for Employment and Learning considered correspondence regarding the Department of Finance and Personnel Performance and Efficiency Delivery Unit (PEDU) and agreed to write to the Department for Employment and Learning to ascertain whether the Department uses, or would consider using, the services of this Unit.
2. The Committee further agreed at its meeting on 19 May 2010 to forward the attached reponse from the Department to the Committee for Finance and Personnel.

Peter Hall
Committee Clerk

247



Department for
**Employment
and Learning**

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Clerk to the Committee for Employment and Learning
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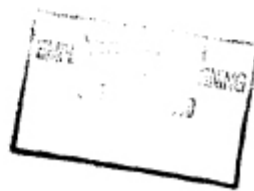
COR/119/10

IQ, May 2010

Performance and Efficiency Delivery Unit

At this point in time DEL has no definite plans to use PEDU in the foreseeable future; however we clearly recognise the benefits of using their expertise when the appropriate opportunity arises.

FIONA STANLEY
Departmental Assembly Liaison Officer



peopleskillsjobs

Committee for Enterprise, Trade and Investment

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To: Shane McAteer
Clerk to the Finance & Personnel Committee

From: Jim McManus
Clerk to the Enterprise, Trade & Investment Committee

Date: 6th May 2010

Subject: Performance and Efficiency Delivery Unit

At its meeting on the 22 April, the Committee for Enterprise, Trade & Investment considered correspondence from the Committee for Finance & Personnel regarding the Performance and Efficiency Delivery Unit (PEDU).

The Committee has asked DETI to respond to the issue. The Committee also agreed that I write to suggest that the Finance & Personnel Committee encourage and recommend to other statutory committees that, where a committee considers that an aspect of its department's remit would benefit from an intervention by PEDU, the committee should write to its department to that effect.

Please feel free to contact me if you have any questions.

Shane McAteer
Clerk, Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont
BELFAST
BT4 3XX 11 May 2010

Dear Shane

Performance and Efficiency Delivery Unit

1. The ETI Committee Clerk has passed on your request on behalf of the Committee for Finance and Personnel regarding this department's use of the Performance and Efficiency Delivery Unit (PEDU).
2. DETI has exceeded targets for the delivery of 3% per annum cumulative efficiency savings for 2008-09 and 2009-10 set out in Budget 2008, and is on target to deliver the required savings for 2010-11. The department has also delivered targeted savings of £4.6m (2.2%) Current and £6.6 (8.2%) Capital in 2010-11 as part of the review of 2010-11 Spending Plans.
3. The Independent Review of Economic Policy (IREP) was conducted in 2009 to advise on the extent to which existing strategies, policies, programmes and resource allocations could be better aligned to help deliver the productivity goal contained in the Programme for Government. Working groups have been set up to consider and take forward the recommendations contained in the review.
4. We have also engaged with DFP/PEDU and the DETI casework process has been identified as best practice which departments may wish to adopt.
5. An organisational change programme is currently under consideration within the department supported by DFP's Delivery and Innovation Division.

6. DETI has therefore demonstrated that it plays a full role in delivering efficiency savings, and has taken steps to improve performance through the Independent Review of Economic Policy and other initiatives.

7. The department has already engaged with DFP/PEDU to identify best practice for the casework process, and we will continue to engage with DFP/PEDU in future when a need is identified.

TREVOR COOPER
Head of DETI Finance & EU Programmes Division

cc PS/DETI Minister
David Sterling
Colin Lewis
David Thomson
Bernie Brankin
David Mc Cune
Andrew Crawford
Jim McManus, ETI Committee Clerk
DETI Assembly Liaison Unit
Private Office
Press Office

Committee for Justice

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From: Christine Darrah
Clerk to the Committee for Justice

Date: 14 May 2010

To: Shane McAteer
Clerk to the Committee for Finance and Personnel

Subject: Performance and Efficiency Delivery Unit (PEDU)

Further to your correspondence of 16 April 2010 on whether the Department of Justice has considered employing the services of PEDU, I enclose for your information a response from the Department on this matter. This letter was noted by the Committee for Justice at its meeting on 13 May 2010.

Regards

Christine Darrah
Committee Clerk

FROM THE OFFICE OF THE MINISTER OF JUSTICE



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Your ref:
Our ref:

**Committee Clerk
Committee for Justice**

10 May 2010

Your letter of 26 April asked if the Department of Justice is willing to consider employing the services of DFP's Performance and Efficiency Delivery Unit (PEDU).

The Minister intends to ensure that the Department operates as efficiently and effectively as possible and has asked officials to consider how PEDU could be best used to deliver this.

I will keep you informed of these considerations.

PP *J. McManey* -
JANE HOLMES
Departmental Assembly Liaison Officer

Committee for Social Development

Stephen McMurray
Director of Financial Management

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Clerk to Committee for Social Development
Mr Peter McCallion
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BELFAST
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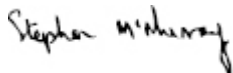
Dear Peter

Thank you for your note of 26 April in which you asked for information relating to the Department's use of the Department of Finance and Personnel's Performance and Efficiency Delivery Unit.

I can confirm that, apart from side-copying the results from Public Service Agreement monitoring which is standard practice across all Departments, the Department, as yet, has had no direct engagement with Performance and Efficiency Delivery Unit, although we have received information about the work it has done for other Departments which, we believe, has been well received. While the Department has no plans to use the Unit's services in the immediate future, we are aware of the opportunity it presents and, when appropriate, we will be happy to check if it can help us.

I hope this information is sufficient for your needs.

Yours sincerely



STEPHEN McMURRAY

Department for Regional Development



Shane McAteer
Clerk to the Committee for Finance & Personnel
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Telephone: (028 905) 41140
Facsimile: (028 905) 40064
Email: alan.doherty@drda.gov.uk

Your reference: DALO 381
Our reference:

6 May 2010

Dear Shane

PERFORMANCE AND EFFICIENCY DELIVERY UNIT (PEDU)

I refer to your memo of 16 April 2010 to Statutory Committee Clerks regarding the services provided by PEDU. The DRD Committee has considered this matter and the Committee Clerk has asked me to respond directly to you.

This Department recognises the importance of PEDU's work. While we have not at this stage identified a suitable project where PEDU might add value, I can confirm that we would be happy to consider making use of this service, where appropriate, in the future.

Yours sincerely

A handwritten signature in black ink that reads "Alan".

ALAN DOHERTY
Departmental Assembly Liaison Officer

cc Roisin Kelly, Clerk to the Regional Development Committee



08/05/2010 13:30:06

NIAO Efficiency Good Practice Checklist



Kieran Donnelly
Comptroller & Auditor General

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Mr Shane McAteer
Committee Clerk
DFP Statutory Committee
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COMMITTEE FOR

11 MAY 2010

F & P

18 May 2010

Dear Committee Clerk

The Northern Ireland Audit Office, Audit Scotland and the Wales Audit Office have drawn on our combined knowledge and experience to develop a good practice efficiency checklist. In order to meet the challenges presented by the current economic climate, public bodies need to take stock and consider how they will secure greater efficiency and improvement. The intention of the checklist is to promote improvement and facilitate detailed review, reflection and self-assessment by audited bodies.

The checklist is intended as an aide-memoire for board members, elected members and senior managers to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. It sets out questions which can be used to assess the organisation's development and to challenge existing arrangements.

The checklist is structured around three key elements that should be included within a fundamental approach:

- Priority-based budgeting and spending;
- Improving information on productivity, efficiency and outcomes; and
- Better collaboration and joint working.

Please note that this checklist is intended to offer only general support to public bodies. It does not replace organisations' own financial guidance or relevant guidance produced by DFP, HMT or other relevant authorities. Nevertheless, we are recommending to public bodies that those responsible for leading efficiency and improvement work should consider assessing themselves against the checklist, and recording the results.

You may wish to bring this publication to the attention of your committee to help their considerations on efficiency-related issues within the Department.

Yours sincerely

Kieran Donnelly
Comptroller and Auditor General

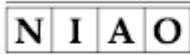
*Office of the Comptroller and Auditor General for Northern Ireland
Promoting accountability and best use of public money
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Improving public sector efficiency

Good practice checklist for public bodies

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
19 May 2010

Improving Public Sector Efficiency Good Practice Checklist for Public Bodies



Northern Ireland Audit Office

Report by the Comptroller and Auditor General for Northern Ireland

Ordered by the Northern Ireland Assembly to be printed and published under the authority of the Assembly, in accordance with its resolution of 27 November 2007

Improving public sector efficiency

Good practice checklist for public bodies

BELFAST: The Stationery Office

£5.00

This report has been prepared under Article 8 of the Audit (Northern Ireland) Order 1987 for presentation to the Northern Ireland Assembly in accordance with Article 11 of that Order.

K J Donnelly
Comptroller and Auditor General

Northern Ireland Audit Office
19 May 2010

The Comptroller and Auditor General is the head of the Northern Ireland Audit Office employing some 145 staff. He, and the Northern Ireland Audit Office are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to the Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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Improving public sector efficiency

Good practice checklist for public bodies

Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on our combined knowledge and experience to develop this good practice checklist. We intend for the checklist to promote improvement and facilitate detailed review, reflection and self-assessment by audited bodies. We hope that by setting out the key principles that apply to public bodies in all of the devolved administrations, there will be a consistent tool to help you assess your own approach to efficiency during these challenging times.



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Part One:
Introduction

Part One: Introduction

The need to review public services

1. From mid-2008 until the end of 2009, the UK's economy was in recession.¹ The long-term implications of the recession for the public finances and the pressures on service delivery are not yet known but it is clear there will be significant reductions in resources for the public sector at the same time as needs and demands continue to increase.²
2. In December 2009 the Chancellor delivered his pre-budget statement setting out the UK Government's tax and spending plans.³ Using information contained within this statement the Institute for Fiscal Studies estimates that by 2013/14 there will be a real term fall in UK Government spending averaging 3.2 per cent a year. This is a reduction of £35.7 billion over the three years from 2011/12 – 2013/14.⁴ It is very unlikely that this scenario, or something very like it, can be avoided.
3. While there is recognition across the public sector that there are serious financial challenges ahead, making the required savings through efficiency will become increasingly difficult. Public sector bodies need to be considering workforce flexibility, rationalising the assets used and considering alternative ways of delivering services. Without considering such issues, public bodies have limited discretion to reduce their costs while maintaining the levels and quality of front line services.

What is required?

4. To meet the challenges presented by the current economic climate public bodies need to take stock and consider how they will secure greater efficiency and improvement. This is urgent because financial year 2009/10 is likely to be the peak year for public spending for some time to come.
5. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It also requires strong leadership and engagement from the very top of organisations. This checklist is to help board members, elected members and senior managers to give this leadership and to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The main audience for this checklist includes everyone concerned with identifying and monitoring efficiency improvements, but in particular leaders and senior decision-makers.
6. The checklist sets out questions key decision-makers can use to assess the organisation's development and to challenge existing arrangements. The checklist is structured around the three key elements that should be included within a fundamental approach:
 - Priority-based budgeting and spending;
 - Improving information on productivity, efficiency and outcomes; and

1 A recession is a period during which economic output declines, usually only being termed a recession after two or more quarters of negative growth. However, sustained below trend growth is often also viewed as recessionary. Although the UK economy is now officially out of recession, forecasts predict a slow recovery in 2010, with only modest growth likely.

2 Scotland's public finances: preparing for the future (Audit Scotland, November 2009) highlights that Scotland's public sector is under the greatest financial pressure in the ten years since devolution http://www.audit-scotland.gov.uk/utilities/search_report.php?id=1146

3 Pre-Budget Report 2009: Securing the recovery: growth and opportunity, HM Treasury, December 2009.

4 Public spending, Institute of Fiscal Studies presentation, December 2009.

- Better collaboration and joint working (Exhibit 1).

About the checklist

7. A key role for UK audit agencies is that they work to support the achievement of value for money in the public sector. This is reflected in recent reviews and work undertaken by audit agencies, including:
- Audit Scotland's report on the Scottish Government's efficiency programme⁵
 - The National Audit Office's review of reported cash releasing savings⁶
 - The Northern Ireland Audit Office's work on efficiency related issues, such as managing sickness absence⁷
 - The Wales Audit Office's work on efficiency, including a range of efficiency-focused topics on its Good Practice Exchange website⁸
 - A joint report by all UK audit agencies into the value for money of public sector corporate services.⁹
8. Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on our combined experience to develop the detailed good practice checklist in Part 2. It is in the form of a series of questions about good practice, organised under the three key elements in Exhibit 1. It is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.
9. We suggest you record the results of your assessment to show separately:
- whether you have considered each question for your organisation;
 - comments to support or explain your assessment; and
 - required actions.
10. The overall aim is to help identify whether any action is needed to improve the delivery of efficiency and productivity improvements for your organisation.
11. Please note that this checklist is intended to offer only general support to public bodies. It does not replace your own organisation's financial guidance or relevant guidance produced by the UK, Scottish or Welsh Assembly Governments, the Northern Ireland Executive or other relevant authorities.

⁵ *Improving public sector efficiency*, Audit Scotland, February 2010 (<http://www.audit-scotland.gov.uk>)

⁶ *Independent Reviews of reported CSRO7 Value for Money savings*, National Audit Office, December 2009.

⁷ *Managing Sickness Absence in the Northern Ireland Civil Service*, Northern Ireland Audit Office, May 2008.

⁸ For example sickness absence, fleet management, buildings management and smarter ways of working, see <http://www.wao.gov.uk/goodpracticesexchange.asp>

⁹ *Value for money in public sector corporate services*, Public Audit Forum, June 2007.

Part One: Introduction

Exhibit 1

Key elements to securing greater efficiency and productivity

Adopting a priority-based approach to budgeting and spending

The public sector is facing difficult decisions in the current economic climate. It needs to adopt a priority-based approach to budgeting and spending, consider competing priorities and decide where to target the limited funds available.

Leaders need to promote systematic innovation and learning to support improvement.

More work needs to be done to demonstrate a clear link between priorities, budgets and the performance of services. A priority-based approach to budgeting means that leaders in public sector organisations should:

- identify the money available;
- clearly demonstrate how services contribute to national and local objectives and outcomes; and
- review each policy and service and decide if they deliver value for money.

In considering whether policies and services deliver value for money, leaders should consider which ones:

- are absolutely essential to delivering agreed outcomes and are already being delivered as efficiently and effectively as possible;
- should continue but need to be redesigned or reshaped to deliver them more efficiently and effectively; and
- could stop without significantly affecting public services and outcomes.

Strong leadership is needed across the public sector to respond to these challenges effectively.

Improving information on productivity, service quality and performance

Making good decisions and being clear about priorities requires good information. In particular, the public sector needs to understand better the relationship between the costs, volume and quality of services to get improvements in productivity and reductions in cost.

Public bodies also need to be able to demonstrate that efficiency savings have not resulted in a cut in services delivered (either the level or quality), or if cut, cut following a rational analysis of priorities.

To do this, public bodies need to have good information on costs, activity, productivity and quality of services and demonstrate how these are linked. Public bodies should also assess the scope to improve and streamline their business processes to remove unnecessary activity.

Improving collaboration and joint working to deliver efficient and user-focussed services

A step change in public sector efficiency will require more effective joint working and the elimination of duplication between services.

This requires strong leadership across the public sector, increased flexibility, identifying innovative approaches to how services are provided, and breaking down any traditional barriers to making this work effectively.

Good quality information is essential to inform collaborative decision-making.

Collaboration and joint working can take a number of different forms, including contracting with alternative providers, shared support services and integrated approaches to delivering front line services.

Part Two:
Good practice checklist for public bodies



Part Two: Good practice checklist for public bodies

Good practice area	Key points to consider	Considered (Yes/ No)?	Comments to support or explain your assessment	Required actions
<p>Adopting a priority-based approach to budgeting and spending</p> <p><i>We have left these columns blank, for completion by readers</i></p>				
Managing resources in a tight financial climate	<p>1. Does the organisation have a clear purpose and objectives setting out, for each main service, the desired outcomes, quality and level of services to be provided for users?</p> <p>2. What are the most important external factors affecting each service? How has the organisation engaged with users, local communities, partners and other stakeholders to ensure it understands these properly?</p> <p>3. Do the organisation's services priorities take full account of predicted levels of funding and future financial pressures – and help to manage them successfully?</p> <p>4. For the most important services that the organisation provides, does the strategy explicitly reflect:</p> <ul style="list-style-type: none"> • A clear analysis and understanding of current spending? • A cost benefit review of the service to delineate strategic priorities for investment and divestment? • A clear understanding of current and future demand for key services from the citizens' perspective? • How services users' needs may change? 			
Supporting innovation and learning	<p>5. Does the organisation have a systematic approach to learning, innovation and learning?</p> <p>6. Do the organisation's leaders support effective learning and innovation by:</p> <ul style="list-style-type: none"> • Encouraging transparency, openness and a constructive approach about performance, without covering up or ignoring failures? 			

Good practice area	Key points to consider	Considered (Yes/ No?)	Consents to support or explain your assessment	Required actions
	<ul style="list-style-type: none"> • To bring networks outside the organization, to share information and learn from others? • Showing responsiveness to outside ideas and opinions, including seeking to learn from service users, from the staff and suppliers of services? 			
Telling a strategic approach to efficiency and improvement	<p>7. Does the organization have a clearly articulated strategic approach to delivering efficiency, innovation and improvement, with plans that:</p> <ul style="list-style-type: none"> • Are clearly linked to its wider objectives for service improvement and organizational development? • Aim for long term gains and service improvement, alongside short term savings? • Consider key elements of efficiency within the organization and across partnerships, such as staff costs, procurement, asset management, ICT and business process redesign? <p>8. Does the organization have a clear idea of the efficiency and productivity outcomes that it wishes to achieve and how it could engage with partner agencies (including the independent and third sectors) to achieve these?</p>	We have all these criteria listed, for completion by readers		
Ensuring ownership of the efficiency	<p>9. Have the organization's leaders helped shape the strategy, efficiency, innovation and improvement strategy and how will they ensure it works:</p> <ul style="list-style-type: none"> • Has the strategy been approved at board or council level or equivalent? • Has responsibility for promoting and monitoring efficiency and improvement, including reporting progress, been allocated to a specific individual? • How often is performance against the strategy reviewed? 			

Part Two: Good practice checklist for public bodies

Good practice area	Key points to consider	Considered (Yes/ No?)	Comments to support or explain your answer	Required actions
		We have left these columns blank for completion by readers		
Regularly reviewing services	10. Do the services and individuals who must deliver the efficiency plans know what is required of them and by whom?			
	11. Does the organisation require all services to regularly undertake a review of service delivery and performance?			
	12. Do service reviews report on how services are structured, delivering against key priorities, legislative requirements and the cost and quality of service delivered?			
	13. Do the reviews seek to identify opportunities to improve core business processes by improving the flow of services for users and by removing unnecessary activity?			
	14. Do the reviews consider alternative methods for delivering services, such as outsourcing or joint working arrangements?			
	15. Are those who carry out service reviews sufficiently objective e.g. independent from those who deliver the service?			
	16. Is there systematic follow-up to make sure the findings of service reviews are addressed and, where appropriate, actioned?			
	17. Does the organisation have a workforce strategy which sets out plans to ensure staff are deployed according to its strategic priorities?			
Engaging with staff and workforce planning	18. How does the organisation involve staff in identifying potential areas for efficiency savings? <ul style="list-style-type: none"> Are frontline staff involved in reviewing services? 			



Good practice area	Key points to consider	Considered (Yes/ No)	Comments to support or explain your assessment	Required actions
	<ul style="list-style-type: none"> Are there wider incentives (such as internal award events or recognition in staff communications) to encourage staff to propose efficiency ideas and suggestions for innovative approaches to service delivery/improvement? <p>19. Do director's business plans and individual staff objectives specifically include objectives linked to the efficiency, innovation and improvement strategy?</p> <p>20. Does the organisation have a sufficiently flexible approach to its workforce costs to reduce overall expenditure on salaries? Do all business plans have a linked workforce plan which sets out expected costs and timescales? Is the organisation consulting with workforce representatives to agree arrangements for more flexible use of its people?</p>	<p>We have left these entries blank, for completion by reader</p>		
Engaging with service users	<p>21. Has the organisation communicated its efficiency, innovation and improvement strategy to service users? How do you know users understand and support it?</p> <p>22. How does the organisation involve service users and customer feedback and suggestions in identifying potential areas for redesigning services and delivering efficiencies? Does it do this with its partners to maximise efficiency?</p> <p>23. Can you demonstrate that feedback and suggestions from users and customers have been taken into account in pursuing efficiency and productivity improvement?</p>			
Looking ahead	<p>24. Are there areas where spending is needed now to deliver significant recurrent savings in the longer term? Has the organisation considered how can this be funded?</p>			

Part Two: Good practice checklist for public bodies

Good practice area	Key points to consider	Considered (Yes/ No/)	Comments to support or explain your assessment	Required actions
	<p>25. What are implications of an ongoing workforce for the staffing of your frontline services? How does the efficiency strategy reflect this factor?</p> <p>26. Is the current capital investment programme sustainable in the current economic climate? How has the organisation set investment priorities against the likelihood of future capital spending reductions?</p>			
Improving information on productivity, service quality and performance				
Understanding the costs of providing services	<p>27. Does the organisation identify and analyse the input costs for all major services? For each service:</p> <ul style="list-style-type: none"> • Is there hard information and an indication of cost pressures? • Does the organisation have a clear understanding of how costs change in response to changing levels of activity? • Can the organisation report what are the unit costs of delivering the service and how this is changing? 			
Understanding the quality and level of services provided	<p>28. Does the organisation identify and analyse the level and quality of all major services in terms of outcomes for citizens?</p> <p>29. For each service:</p> <ul style="list-style-type: none"> • Is there clear information on the level of service provided in respect of purpose and outcomes? • Does the organisation provide reports on the quality of service delivered? • Can the organisation report how quality and level of service have changed over time? • Can the organisation demonstrate the links between cost, activity and quality? Do performance monitoring reports show these links? 			

We have not done this/considered this/for completion by next

Good practice area	Key points to consider	Considered (Yes/ No/)	Comments to support or explain your assessment	Required actions
Reporting efficiency savings	30. Are there robust measures of success for efficiency that reflect purpose and outcomes?			
	31. Has the organization set baselines for the cost, quality and level of service of each main service? Are the baselines robust?			
	32. In reporting efficiency savings, does the organization: <ul style="list-style-type: none"> Report on a consistent basis over time and between projects? Use both to measure gains that are consistent and reliable? Make like-for-like comparisons with baseline data? Show how efficiency savings are affecting its baseline for cost, quality and level of service, to show the full impact of changes? 			
	33. Does the organization regularly report progress against its efficiency approach to: staff; those charged with governance; partners; service users; and other stakeholders?			
Improving collaboration and joint working to deliver efficient and user-focused services	34. Is the organization able to demonstrate what efficiency gains have been achieved from individual projects and how these gains have improved the services delivered?			
	35. Has the organization assessed opportunities for efficiencies and better outcomes through better collaborative working as part of its strategic approach to efficiencies? For example, pooling of resources, removing duplication, shared services or radical redesign of service delivery?			

We have left these columns blank for completion by readers

Part Two: Good practice checklist for public bodies

Good practice area	Key points to consider	Considered (Yes/No?)	Comments to support or explain your assessment	Required actions
		We have not done this, for completion by reader		
	36. Does the organization know its own areas of good practice and share this across its sector and widely as appropriate?			
	37. Do all services review assess the potential for collaboration to deliver better services across the whole system in a more cost-effective way?			
	38. For each main service, has the organization worked with key local partners to identify potential for better outcomes and efficiency through collaboration?			
	39. Is the work that goes into partnerships delivering clear improvements in the accessibility, quality and efficiency of public services? How can this be demonstrated?			
	40. Has the organization faced any difficulties or resistance in establishing partnership working arrangements? Do partnerships need additional support to make any necessary changes? What role should leaders play in providing this support?			
Using benchmarking to identify potential efficiencies	41. Does the organization have a clear strategy for benchmarking each of its main services?			
	42. For each main service is the organization clear about: <ul style="list-style-type: none"> • The type of benchmark information required?¹⁰ • The potential benefit to learn sharing benchmark information? 			
	43. Is the organization able to monitor and benchmark all frontline services?			

¹⁰ Benchmarking of a service can involve comparisons of policies, outputs and outcomes; comparisons of organisational structures and processes; and comparisons of costs and activity levels.



Good practice area	Key points to consider	Considered (Yes/No)?	Comments to support or explain your assessment	Required actions
	44. Is the organisation finding any barriers in providing and obtaining benchmarking information? What will it do to overcome any barriers?			
Using continuous improvement methods	45. Has the organisation adopted continuous improvement methods to review systems and practices for delivering services? What scope is there for extending this review work?			
	46. Does the organisation know what models of continuous improvement are being used in other similar public sector bodies? How can it learn from this activity?			

Appendix 5

Assembly Research Papers

Research and Library Services



Research Paper 9 October 2009

Efficiency Savings

Colin Pidgeon
Research Officer
Research and Library Service

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.

Library Research Papers are compiled for the benefit of Members of The Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

Key Issues

- 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.

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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	3.8	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	637.3	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 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.[\[8\]](#)

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
- 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?
- 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.

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.

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.

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 is in 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.

[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

[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://archive.niassembly.gov.uk/finance/2007mandate/moe/2008/090429_budget.htm

[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

[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

[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

[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

[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>

Research and Library Services



Research Paper 628/09 January 2010

Methods of Budgeting

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A paper that presents different approaches to budgeting in the public sector along with case studies of their application by various organisations internationally.

Library Research Papers are compiled for the benefit of Members of The Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

Key Issues

- As a budget is a forward plan expressed in money terms, it is unlikely that any refinements to the budgeting process will ever enable budgets to be perfect. By nature they contain a level of assumption about uncertain conditions.
- Budgeting in the public sector can be viewed as more problematic than in the private sector. There is no profit or loss bottom line by which the performance of organisations can be measured. Further, measurement of the outcomes of public-spending programmes can be problematic. This makes the alignment of the budget process with intended outcomes a complex task.

- Public sector organisations such as government departments are large and complex. They design interventions across a wide range of policy areas and have to balance competing pressures.
- The current process of incremental budgeting for departments in Northern Ireland has a number of drawbacks. Some of these problems could probably be lessened by moving to alternative approaches to budgeting. But any alternative approach will also have its own drawbacks. And some of the approaches outlined in this paper can be very resource-intensive.
- It is often difficult from the budget documents presented to see how departmental spending is aligned with the priorities of the Programme for Government. For example, the tables presented following the quarterly monitoring rounds indicate departments' reduced requirements. They also show proposed reallocations. But there is no explicit link between the reallocation of money and departmental objectives or performance.
- Alternative approaches to budgeting outlined in this paper attempt in various ways to make more explicit the link between budgets and performance and outcomes.

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6. Adjusting the Budget

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Introduction

In June 2007 consultants PKF published a review of the forecasting and monitoring of financial information in the Northern Ireland Civil Service on behalf of the Department of Finance and Personnel (DFP). The report highlighted examples of good financial management practice in departments but also made a number of recommendations for improvement.

Recommendation 4 of the report was that in the medium term:

the planning and budgeting process should move away from the existing incremental approach.[emphasis added] This would first involve the development of a more transparent link between inputs and outputs, and would require, and indeed facilitate, greater challenge by Board members based on historic performance, thus enabling the setting of budgets that are better linked to performance targets. Performance would be subsequently monitored on a monthly basis through an effective monitoring and forecasting regime. This would ensure that Departmental budgets are more realistic and more closely managed, which in turn would facilitate, as a minimum, a significant reduction in the extent of the existing over commitment process which currently leads to budgets that are inherently overinflated and creates a climate within which there is increased pressure to seek to claw-back funding in-year.[1]

In the Republic of Ireland, a report by a Special Group on Public Service Numbers and Expenditure Programmes was released in July 2009. Similar to the PKF report on NICS departments, the McCarthy report recommended a more explicit link between spending by public bodies and outcomes. In particular it recommended that:

Every proposed new spending programme should be accompanied by a Public Service Performance Charter, which sets out clearly the business case for the programme, the resources that will be required and output/impact indicators that can be used to measure success or failure of the programme.

Further, these proposed Public Service Performance Charters are to be linked into other existing publications:

The annual Estimates of Expenditure should be produced on a programme-by-programme basis, fully consistent with the Annual Output Statements and our proposed Public Service Performance Charters with full allocation of administrative and staffing costs.[2]

DFP officials indicated in evidence given to the Committee for Finance and Personnel on 15 October 2008 an aspiration to move towards linking performance management with what is known as zero-based budgeting:

Dr Farry: I turn to the issue of the PKF report. What is the status as regards the implementation of the report's recommendations? Bearing in mind the wider discussions on budget processes, could consideration be given to starting from the current baseline and making adjustments up or down, setting goals and working out what resources to allocate against them, rather than starting the budget processes every three years?

Mr Pengelly: The PKF report contained a series of recommendations. The Department appointed an individual from its financial management directorate — which is the other side of the house from us — to work specifically on that matter. Much good work has been done and continues to be done. A short-term issue has arisen in that that individual has been promoted and moved to another Department — fortunate for him, but not for us. His promotion is perhaps an indication of his success in dealing with those recommendations. Therefore, some progress has been made, but more remains to be done. It is one of our key objectives, and we continue to focus on it.

Essentially, your question is whether we should carry out zero-based budgeting. Ideally, yes, we should. The scale of the task for public services is huge. Equally, incremental budgeting takes one into some very bad places. The combination of the enhanced performance-management framework and system, and better information about delivering on targets, will go a long way towards bridging the gap.

Separately, the central finance group wants to start a programme of rolling-baseline reviews. It would be a task beyond us to carry out a zero-based review of everything as part of every Budget cycle. Over a period of three or five years, I would like to subject 100 of each Department to that sort of zero-based analysis — that could mean doing 20 a year in a five-year cycle or 33 in a three-year cycle. That would fall very much to Jack's side of the house as part of the normal supply dialogue. We want to build an information base to do that.^[3]

DFP's Central Finance Group's Balanced Scorecard for 2009-10 includes targets in relation to baseline reviews. Objective 1 in its Business Results Quadrant ('To secure, plan, manage and monitor public expenditure, including EU Programme expenditure, in line with the priorities set by the Executive') was underpinned by the following target:

No less than 15 per cent of departmental baselines to be reviewed (as first step towards full coverage over 5-year period)

The associated action was to undertake a rolling programme of baseline reviews. It should be noted, however, that the Department has confirmed^[4] that the process of baseline reviews does not indicate a move towards zero-based budgeting. The baseline reviews are intended to give DFP a better understanding of departments' positions to enhance Central Finance Group's challenge function.

The purpose of this paper is to describe in this context the theoretical approaches to budgeting that may be applied in the public sector. Analysis of the advantages and disadvantages of different approaches is also presented alongside some case studies. Some considerations for the efficiency agenda are also presented.

1. Budgeting Basics

1.1 Definition of a budget

A budget can be defined as a quantitative economic plan in respect of a period of time.^[5]

1.2 Functions of a budget^[6]

Budgets can fulfil one or more of the following functions:

1. mapping. A budget can be used to detail the road to be travelled in fulfilment of an organisational objective. It details all the steps to be taken, and therefore can act as a check on the overall viability of the organisation's objectives.

2. controlling. The budget can ensure the achievement of objectives by placing a planning control framework over the steps to be taken.

3. co-ordinating. By spelling out the linkages between parts of the organisation's plan, the budget can help to co-ordinate activities.

4. communicating. The budget is a means for management to explicitly inform staff and the wider public what the organisation will be doing.

5. instructing. A budget is often just as much a form of executive order as an organisational plan since it lays out the requirements of the organisation – it may therefore be regarded as a managerial instruction.

6. authorising. As well as an instruction, the budget is an authorisation to take action within the specified limits. In that respect, the budget performs a delegating function.

7. motivating. Budgets can act as a motivational tool to encourage managers to perform within targeted limits.

8. performance measurement. A budget may provide a benchmark against which actual performance can be measured.

9. decision-making. A well-designed budget can be a useful tool in evaluating the consequences of proposed changes in actions, since it should be possible to track the effect of any change throughout the organisation.

Different budgeting methodologies allow the budget to perform these roles in different ways and to differing extents. For example, the planning programming approach (see section 4.3) can be clearly seen as underpinning the decision-making function. Conversely, one of the criticisms of the incremental approach is that it does not allow for full consideration of proposed changes in action as it is a more backward-looking method; it could be argued that incremental budgeting does not support decision making very well.

1.3 Economic theory and budgeting

Economists have developed various tools and concepts for considering the allocation of resources in the public sector. These include analysis of when and how the public sector should intervene in failing markets; measuring marginal utility and cost effectiveness; allocative efficiency and cost-benefit analysis.^[7]

Ultimately, however, all the economic techniques have their problems. For example, how to measure the benefits of decreased mortality as a result of a public health programme. One way of approaching this might be to try to value a lost human life in terms of potential income that is forgone.

One difficulty of using such an opportunity-cost approach is that it would value the life of a healthy male in his mid-thirties over that of a healthy female in her mid-thirties because the income not earned by the male if he dies is likely to be higher than that of the female – simply because male earnings tend to be higher as a result (at least in part) of gender-income inequality. What if the male had a severe disability? His potential earnings are then much reduced.

In public policy terms, is an intervention aimed at reducing a disabled males' mortality 'worth' less than a healthy female because his earning potential is lower?

This is just one instance of the difficulties of applying economic theory to budgeting. In 2001, Fozzard concluded:

After a search of sixty years for a comprehensive theory of budgeting that would resolve the basic budgeting problem, it is somewhat disappointing to arrive at a conclusion that no such theory exists and it is unlikely that such a theory can ever be formulated [...] nevertheless, considerable progress has been made in the development of analytical techniques that support the appraisal of public expenditure decisions. Individually these techniques do not provide a satisfactory basis for resource allocation decisions, though they are more powerful when combined so that spending decisions are subject to an analysis of the underlying rationale for

public intervention, the relative costs and benefits of alternative interventions and the distributional impact of spending.^[8]

If, then, economic theory is imperfect in resolving the budgeting problem, what remains is to look at different approaches that have been used in the public sector and consider the advantages and disadvantages of different models.

2. Incremental Budgeting

2.1 What is incremental budgeting?

Public sector budgets in Northern Ireland and elsewhere in the UK typically rely on the incremental approach (although the Comprehensive Spending Review 2007 process did involve a series of departmental baseline reviews). The previous year's budget for a department or division is carried forward for the next annual budget. It is adjusted for known factors such as new legislative requirements, additional resources, service developments, anticipated price and wage inflation and so on.

It is known as incremental budgeting because the process is mainly concerned with the incremental (or marginal) adjustments to the current budgeted allowance. In that respect it is rather similar to the NI block funding: any changes are up or down from the existing funding for particular activities.

According to the Chartered Institute for Public Finance and Accounting (CIPFA), a key characteristic of the approach is that budget preparation is a process of negotiation and compromise. "Incremental budgeting is therefore based on a fundamentally different view of decision making than more rational approaches."^[9]

This is because negotiated settlements between interested parties require a willingness to compromise. If consensus breaks down, compromise cannot be reached and the incremental process becomes invalid. According to CIPFA, use of this model, therefore, requires a relatively stable form of representative government.

The process itself is straightforward. The key stages are:

- establishing the base: decide what is committed expenditure and then make adjustments to reflect unavoidable changes, for example:
 - i. full-year effects of staff appointments;
 - ii. full-year effects of the capital programme;
 - iii. salary increments;
 - iv. non-recurring items which should be removed;
 - v. external factors e.g. changes in legislation or government funding regimes;
 - vi. changes in price levels for labour, goods and services;
- adding to the implications of the development budget to reflect proposed savings and growth;
- aggregating and producing the new budget.

2.2 Advantages of incremental budgeting

- easily understood (as it is retrospective), makes marginal changes and secures agreement through negotiation;
- administratively straightforward (and therefore cheap);
- allows policy makers to concentrate on the key areas of change. Ministers, elected representatives and senior officials are not required to study long and detailed budgetary documents;
- particularly useful where outputs are difficult to define/quantify; and,
- stable and, therefore, changes are gradual.

2.3 Disadvantages of incremental budgeting

- backward looking – focus more on previous budget than future operational requirements and objectives;
- does not allow for overall performance overview;
- does not help managers identify budgetary 'slack';
- often underpinned by data or service provision which is no longer relevant or is inconsistent with new priorities;
- encourages systemic inertia and 'empire building';
- tends to be reactive rather than proactive; and,
- assumes existing budget lines are relevant and satisfactory.

2.4 Further considerations

Certain characteristics of public service organisations mean that the incremental budgeting system fits quite well into the overall public finance system. Departments and their agencies are often large and complex and fulfil a range of functions in different policy areas. Decisions can, however, sometimes be made very quickly. It can be easier to accept the distribution of most expenditure as given and to concentrate on deviations from the existing pattern. This approach, therefore, reduces the need for Ministers and senior officials to frequently spend large amounts of time dealing with reviews of budgets.

CIPFA argues that business area managers "find it easier to communicate a few changes to politicians within the annual decision making process. Slow adjustments to budgets are often easier to implement than sudden shifts in priorities."^[10] From a business-management perspective it's generally better to introduce change gradually; it can therefore be argued that the incremental approach is rational for public services as the effects of changes can be monitored and alterations made as the need becomes apparent.

The biggest difficulty is that it can be problematic for managers and Ministers to get an overall picture of performance. Also, the potential for inertia is a source of possible concern; the inefficient and ineffective use of resources can be perpetuated and creative thinking could be stifled.

3. Zero-Based Budgeting

3.1 What is zero-based budgeting?

Zero-based budgeting – unlike the incremental approach – starts from the basis that no budget lines should be carried forward from one period to the next simply because they occurred previously. Instead, everything that is included in the budget must be considered and justified.

According to CIPFA, zero-based budgeting in its purest form "involves the preparation of operating budgets on the assumption that the organisation is starting out afresh in the new planning period – it as is the life of the organisation exists as a series of fixed-term contracts."^[11]

The approach relies upon the involvement of all executive managers. It requires the organisation's objectives to be clearly stated – as with any budget process – but also considers and assesses different ways of delivering those objectives before the budget is allocated. It is, therefore, less 'how should we deliver this service with the money available' and more 'here's what we have to achieve, different options for achieving it and the budget required for each of those options'.

The process requires specification of minimum levels of service provision, the current level, and an 'incremental' level – either between the minimum and the current or an improvement over the current level. Options for delivering at each level can then be evaluated and a justification put forward along with the request for resources.

Essentially, this is a process of providing business justification for each activity undertaken by an organisation. According to CIPFA, "the analysis should also extend to considering the benefits of the activity, alternative courses of action, how to measure performance, and the consequences of not performing the activity."^[12] Activities are then ranked in order of priority and this is where resources are focused.

3.2 Advantages of zero-based budgeting

- allows questioning of the inherited position and challenge to the status quo;
- focuses the budget closely on objectives and outcomes;
- actively involves operational managers rather than handing them down a budget from above;
- can be adaptive to changes in circumstances and priorities; and,
- can lead to better resource allocation.

3.3 Disadvantages of zero-based budgeting

- more time consuming than incremental budgeting (i.e. it may become overly bureaucratic and produce excessive paperwork);
- need for specialised skills/training;
- difficulties can arise in the identification of suitable performance measures and decision/prioritisation criteria (if there is insufficient information in some areas ranking them could also be problematic);
- the specification of a minimum level of service provision (if below the current level) may demotivate managers;
- questioning of the inherited position can be seen as threatening to organisations and their people (so careful management of the people element is essential); and,
- may be difficult to cost and estimate resource requirements for options different from the current practice (giving rise to greater uncertainty).

3.4 Further considerations

According to CIPFA, the key benefit of a zero-based approach is that it focuses attention on "the actual resources that are required in order to produce an output or outcome, rather than the percentage increase or decrease compared to the previous year."^[13] Clearly the time/resource-consuming nature of the approach is a major consideration for DFP.

CIPFA argues that the technique is usually used most effectively when applied to activities that are wholly or mainly discretionary in nature – and therefore can be ceased. In many areas of public-sector activity this will not be the case because of legislative and regulatory obligations. But CIPFA also cautions that "it is very easy to fall into the trap of assuming that something is non-discretionary for no other reason than the activity has been carrying on at a similar level for a number of years."^[14]

So, there is a need to identify first what the discretionary areas are. Then there is a need to define in measurable terms the outputs and outcomes that are required. There are parallels here with the debate over the efficiency-savings agenda. The public sector traditionally has difficulty in focussing on outcomes rather than inputs (see, for example, Arthur Midwinter's written submission to the Committee for Finance and Personnel in relation to Efficiency Delivery Plans).

CIPFA recommends a phased introduction to a zero-based approach. Initially focus should be on the less complex areas – this is to allow for budget practitioners skills and experience to be built up. Secondly, the approach should be contained to activities that are truly discretionary. Thirdly, it is suggested that the approach should be adapted so that it "becomes a consideration of the impact on service delivery of step changes up or down in resource provision."^[15]

Given the current focus on efficiency savings and the difficulties associated with establishing service-delivery baselines against which to measure the impact of proposed savings, it seems that more wide-spread use of zero-based budgeting techniques could be helpful. There seems to be considerable cross-over between the requirements of the budgeting approach and the requirements for proper efficiency delivery plans.

For example, part of the zero-based budgeting process requires the identification of activities with clearly measurable inputs and outputs which should then be ranked in terms of priority. This is similar to the need to prioritise activities to establish where efficiency savings could be made in the lower-priority programmes.

3.5 Zero-based budgeting in action: case studies

In 2007, the Swedish Institute for European Policy Studies (SIEPS) advocated the use of a zero-based approach for reviewing and setting the EU budget:

After some experiments in various countries [zero-based budgeting] soon disappeared from the budgetary tool-box, but the same reasons that made it unwieldy in the yearly budgetary process should make it much more attractive for the longer budgetary cycle of the European Union.^[16]

In 2005, the Treasury announced the Comprehensive Spending Review 2007 would use a zero-based approach.^[17] But as hinted at in the SIEPS comment above, the methodology has been around much longer than that.

Case study: zero-based budgeting in the United States in the 1970s

In 1979, the US Comptroller General reported to Congress under the title Streamlining Zero-base Budgeting Will Benefit Decisionmaking.^[18]

Zero-based budgeting (ZBB) was used in the late 1970s in putting together the President's budget documents before submission to Congress. The report examined the experiences of Federal agencies, State and County governments and private industry.

The report found that:

Despite popular expectations, some organisations, including the Federal agencies contacted, had an overall sense of disappointment with zero-base budgeting... ZBB has created little change in the Federal budget process and generated limited optimism for the system in the agencies we studied.^[19]

It was argued that the administration was anxious to get ZBB implemented. There was, as a result, no attempt to tailor ZBB concepts to agencies' needs or implementing the methodology in a way that would integrate it with all budget processes: A "strict process" approach to ZBB was used for the executive portion of the Federal budget process, but all other parts (at the lower levels) remained unchanged.

Problems encountered in implementing "strict process" ZBB included inadequate planning, which in turn led to:

1. excessive use of resources, such as staff, paper and automatic data processing systems;
2. useless data and duplication of effort due to unresponsive information systems; and
3. frustrations created when, despite ZBB, management did not cut expenditures, follow proposed priority rankings or adjust programmes.^[20]

But the study also found that, outside the Federal arena, some organisations did manage to incorporate ZBB concepts into their budget systems:

They did not make the mistake of considering ZBB little more than a process. They looked at themselves and they looked at the concepts, and only then did they devise a process – a process to suit their special needs. This spelled success. It can be successful in the Federal Government too.^[21]

The successful organisations did not attempt to apply all the ZBB concepts during the budget cycle. Rather they were introduced in phases: planning, budgeting and reassessment. The analysis of alternative approaches should become part of the planning phase. Decisions made in the planning phase should feed into the budgeting phase – which should incorporate the alternative funding levels and the determination of programmes priorities. Comprehensive information should only be created for those programmes that are scheduled for in-depth review. For others, only minimal information should be produced. The reassessment phase should include the programme effectiveness reviews that feed information into the next planning and budgeting phases.

The report observed that Federal agencies were "not handling the process in phases and are having problems. For example, they are not able to identify realistic, alternative ways of carrying out the programs and activities, and evaluations are not being effectively fed into the process."^[22]

Despite difficulties at the Federal level, a number of US authorities persisted with zero-based budgeting. ZBB was used in Texas from 1973-1991 when it was replaced by a performance-based budgeting system.^[23]

Further, there appears to have been a resurgence in confidence relating to zero-based approaches in recent years. The City of London Police policing plan for 2009-12 describes zero-

based budgeting as one of four interlinked key strategic processes – the other three being control strategy, risk assessment and business planning.^[24]

Further afield, on 31 March 2009 the Latvian Cabinet of Ministers agreed to institute a zero-based approach to develop amendments to its 2009 state budget.^[25] The aim was to reduce the Latvian budget deficit to 3% of GDP – one of the Maastricht criteria for membership of the Euro. The decision was taken against a background of falling GDP and average earnings, a decline in the balance of payments and reducing tax revenues.

Case study: the Idaho Department of Water Resources

The Idaho Department of Water Resources is responsible for managing water resources in the state, including the development of hydro-electric power, management of river basins and regulating the use of water.

It began a zero-based budget review in summer 2008. This included review of the statutory basis of each programme and analysis of the impact that an increase or decrease of twenty percent in funding would have.

Following this initial assessment, additional ZBB analysis was carried out, focussing more on individual business processes and cost centres. Managers were directed to critically evaluate each of their business processes using evaluation questions and guidelines developed by the Department's Division of Financial Management.

The aim was to enable managers to evaluate the individual cost centres and identify potential areas of improvement, through streamlining or modifying the approaches taken. Some cost centres put forward for modification while others were put forward to be eliminated. Where streamlining measures or alternative approaches were identified within the Department's authorities, cost-saving measures were implemented and resource savings reallocated to priority work.

Coupled with this assessment was the development of spreadsheets showing the amount of personnel time devoted to each business process. This is intended to allow managers to monitor and then manage the resources necessary to deliver the organisations objectives.

According to the Department's website:

Zero-based budgeting has proven to be a valuable management tool for assessing program requirements systematically, to help managers identify work efforts to achieve desired results.^[emphasis added] The Department's Senior Management Council (SMC) will continue to review progress and implement necessary course corrections on a periodic basis to ensure that we continue to meet requirements in a logical fashion with overall best use of available staff resources. Savings have been applied to priority programs within the Department and this approach should result in gradual elimination of the considerable backlogs in several of our programs. With respect to backlog reduction, we anticipate it will take several years of continued high intensity performance to draw-down current backlogs to an acceptable level.^[26]

So, the zero-based approach is not seen simply as a means of better budgeting alone, it is viewed as a means to driving better achievement of business objectives. It appears to have enabled the Department to reprioritise and reallocate funding to non-discretionary duties.

But, importantly, the measurement of performance, and accountability for that performance, can be viewed as crucial to the zero-based budgeting approach. The right information has to be

presented to decision makers and this doesn't seem to necessarily follow if ZBB is implemented as a stand-alone initiative.

Case study: Oklahoma

In 2003 the State of Oklahoma passed a zero-based budgeting law. In an attempt to control government spending, ZBB was mandated for the whole budget and every agency covered by its requirements.

In that first year, budget appropriation hearings listened to the Oklahoma Department of Human Services (DHS) describe increases in child support collections. However:

What zero-based budgeting didn't require DHS to report was that if Oklahoma's efficiency at collecting on these deadbeats would have merely matched the 50-state average, DHS would have collected 44 percent more for Oklahoma children. Instead of the \$143 million in deadbeat dad collections in 2003, DHS would have secured \$206 million, or an additional \$63 million for Oklahoma children.^[27]

Oklahoma's legislature then required each agency to design performance measures. However, some performance measures "were at best measures of inputs and outputs and at worst a mockery of the concept." The Energy Resources Board, for example, submitted a measure that required it to "increase the number of positive media stories".

It has been argued that the failure of the state authorities to penalize the failure of agencies to meet their own performance measures further undermined accountability. Also in the first three years since the inception of ZBB, Oklahoma state budget appropriations rose by nearly 20%.

So the lesson from this example appears to underpin the assertion by CIPFA that full business justification is need for each area – not simply in terms of alternative levels of service, but also in respect of benchmarking performance with comparable agencies.

4. Alternative Budgeting Techniques

What follows is a brief summary of alternative budgeting techniques that may also be of some use or interest in the public services.

4.1 Priority-based budgeting

Priority-based budgeting is a modification of the zero-based approach. It focuses on corporate priorities and allocates growth and savings in budgets accordingly. It is based on a thorough on-going review of departmental services. According to CIPFA, the review requires a statement of:

1. the objectives/purpose of the service;
2. targets/standards the service is trying to achieve, and;
3. various thresholds at which the service could operate.

Base on analysis of these statements, elements of spending by each business unit could be classed as essential/highly desirable/beneficial and this information would be presented to decision makers.

4.2 Decision conferencing

This approach is computer-software aided. It allows participants in decision-making conferences to identify key service areas and the resources committed. Costs and benefits of levels of activity are given scores and plotted on a graph – these can be varied to allow the implications for service delivery to be evaluated. While it can be an effective tool, CIPFA suggests that the focus is largely at service level and is more difficult to apply across services. Also, it is time consuming and expertise with the associated software is required across organisations.

4.3 Planning Programming budgeting system

This system is primarily associated with corporate management and identifies alternative policies, the implications of their adoption and provides for their control. The key difference from traditional approaches is that it relates cost estimates to programmes using a cross-cutting method rather than attributing costs on a traditional departmental basis.

This approach was first used by the US federal government half a century ago. In the UK the Ministry of Defence and a number of English local authorities also experimented with the system. However, according to CIPFA, from 1970s it became apparent that the model was flawed with the following criticisms:

- it is costly and time consuming;
- it is difficult to identify and quantify objectives in the public sector;
- it can depoliticise the budget process by taking decisions away from elected representatives; and,
- outcomes from activities can be difficult to measure (for example the populations increased wellbeing from reducing crime) as they may be intangible;

Also, there are difficulties with developing budgeting systems on a programme basis because departments contribute to more than one programme at a time:

For instance, a police authority could have objectives such as accident prevention and crime prevention. The provision of a police patrol car in an area could contribute towards both of these programmes, but how should the costs be split between two objectives? The problem is that two budgeting systems would be required:

1. departmental – for expenditure control in relation to departmental responsibilities e.g. controlling the cost of the police car fleet, and;
2. programme – the budget for crime prevention.[\[28\]](#)

4.4 Performance-based budgeting

The main aim of this approach is to connect performance information with the allocation and management of resources. Performance-based budgets need to contain information on the following elements:

- inputs (measured in monetary terms);
- outputs (units of output);
- efficiency/productivity data (cost per activity);
- effectiveness information (level of goal achievement).

Similar to zero-based budgeting, the performance-based approach should begin at a policy level with the organisation developing goals and explicit policy objectives. Managers then must develop relevant performance measures which will track the achievement of these objectives.

These performance objectives are then integrated with budget preparation to allow for the alignment of spending plans with performance reporting at the time the budget process is initiated. At the end of each budget period performance-based audits can be completed, which measure the results of programmes using the same performance measures produced in the budgeting process. In this way, the approach seeks to avoid the problems associated with trying to establish baselines after the event which gives rise to difficulties in the measurement of delivery of efficiency savings, for example.

A fundamental question arises though. To what extent is performance information available? Secondly, is that performance information used at each stage of the budget decision-making process (i.e. preparation, approval, execution and audit evaluation)? Research in the United States where the approach was pioneered found that many states reported performance measures alongside their budget, but this is not the same thing as using the information in decision making.^[29]

The UK Government put in place a system of public service agreements in 1998 (and this has been replicated in Northern Ireland) which also sought to align objectives with spending. At local government level, a duty of best value was placed on authorities to secure continuous improvement in the economy, efficiency, and effectiveness of services. This has forced authorities to give prominence to performance information by publishing best value performance plans. Again, however, according to CIPFA, the evidence suggests that authorities published these documents alongside separate budget documents – which does not suggest that the processes of budgeting and performance management are fully integrated. CIPFA acknowledges that there has been insufficient research in this area to draw full conclusions.

CIPFA identifies the following issues as possibly contributing to the slow development of performance-based budgeting:

1. public entities need to be clear about what they are trying to achieve. Therefore, there needs to be clear strategic direction in the organisation (which may not always be the case);
2. translating strategic goals and objectives into performance measures can be very difficult. In many public services, outcomes are difficult to measure and there is a tendency to fall back upon less appropriate output and input measures;
3. systems for collecting cost and performance information may need to be developed. Costing out services can be difficult and in particular decisions on how to deal with overheads are problematic;
4. problems may exist in respect of presenting this information to those making decisions on budgets. Information may need to be presented in appropriate formats to a variety of users. If information on performance is separated from accounting operations then this will hinder the ability for it to penetrate decision-making processes associated with the operations;
5. there may be procedural problems caused by failure to change existing budgeting rules and processes. Organisations continue to publish budget and performance in separate documents;
6. a lack of political acceptance of reform may prevail. Performance information represents a threat to the 'political' aspect of budgetary decision making since its explicit measurements tend to limit the discretion politicians can exercise. It has to be said, however, that in a complex

environment of competing interests it is difficult to see how any rational, planning-based system can be expected to totally replace political decision making, and;

7. management may not accept a performance budgeting process. There are often problems in defining who is accountable for performance and managers may fear that they will be reprimanded for failure to achieve published performance targets, and thus may try to avoid being accountable.^[30]

Once again, many of these issues have been aired previously, in this paper and elsewhere, and seem to present fundamental difficulties with public sector budgeting. Others, in relation particularly to the reduction of political control over budgeting, are different considerations from those identified with other budgeting approaches.

The case study presented below addresses, amongst other things, CIPFA's observation at point 4 in the above list about the need for the appropriateness of information that is presented.

Case study: performance-based budgeting in Arizona

Arizona [...] uses a budgeting system that combines strategic planning, performance measurement, and program evaluation. The system, called Program Authorization Reviews (PAR), requires all agencies to submit a one-page overview of its performance measurements for the upcoming fiscal year along with its regular detailed budget request. The recent FY 1998-1999 budget also required an extensive PAR budget submittal from 14 select agencies that included complete performance information and data on 30 programs and subprograms.

More specifically, PAR required these 14 agencies to answer four main questions in their budget submittals. One question addressed how programs and their objectives related to their agency mission statements. Another question asked was how efficient and effective programs were in carrying out their activities and in attaining their objectives. The two remaining questions inquired as to how well programs measured up in comparing expected to actual results and, additionally, as to the use of cost-effective alternatives.

Arizona's PBB approach has been applauded for not "overloading" its budget document with superfluous performance information and data. Providing decision-makers with a manageable, yet thorough, set of performance data for making good spending choices is a time-consuming and hard won endeavor. Arizona appears to have proven that this can be done.^[31]

A further case study illustrates how the problem of aligning performance and budgets may be addressed. The approach used in Oregon also integrates a considerable element of participatory budgeting, which is discussed further in section 4.5.

Case study: performance-based budgeting and strategic planning in Oregon.

Oregon is recognized, arguably, as the most sophisticated or highly evolved state in terms of model strategic planning and PBB initiatives. Called "Oregon Benchmarks" – and alternately "Oregon Shines" – the model system was introduced in 1989 when over a hundred citizens and policy-makers came together to develop a multi-year strategic plan for the state. The state legislature also created that year the Oregon Progress Board to maintain, revise and oversee the implementation of the state's comprehensive strategic plan "well into the twenty-first century."

In 1991, with plentiful input from all levels of government and the people of Oregon, the Progress Board adopted 158 indices or "benchmarks" that they considered of the greatest

priority to the progress of the state. These measures were oriented to performance and not effort. The Progress Board was interested, for example, not in measuring or monitoring school expenditures to assess school performance, but rather, in measuring student achievement as predicated on standardized testing.

In 1994, the Progress Board implemented a program to facilitate performance by restructuring many of the state's intergovernmental and programmatic relationships. For instance, it managed to relax federal guidelines and restrictions to implement more efficiently and effectively programs dealing with child services, disabled employees, wildlife preservation, juvenile justice, and welfare recipients. As of 1997, 32 agencies were participating in the Progress Board's "restructuring" program.

In 1997, Oregon's legislature mandated that the Progress Board's strategic planning/PBB process be a permanent fixture of the state's government. The law required that the Progress Board report to the state legislature as to the general status of efforts in strategic planning and PBB among Oregon's agencies. A detailed and "complete update" of Oregon Benchmarks is to be completed and reported to the legislature every six years.

Today, agencies in Oregon's state government are required to develop "results-oriented" performance measures that are tied directly to both agency strategic plans and budgets. Input is encouraged not only from internal agency personnel but also from other state agencies, elected officials, service delivery clients, interest groups, and the public at-large. Participants and observers alike believe that this input is invaluable to the planning and budgeting process and ultimately reflects the values and priorities of all Oregonians.^[32]

4.5 Participatory budgeting

This approach is used primarily by local government in Great Britain and elsewhere (it originated in Brazil in the mid-1980s) and attempts to give local groups ownership of the budgetary process. Local communities have a say in prioritising services or projects through activity such as community-led debate, neighbourhood votes and public meetings.

Participatory budgeting is based on the following principles:

- citizens' groups have as much power as possible in the decision-making process.
- representation must be fair and equitable.
- appropriate training is given to participatory groups. This may require a dedicated council team.
- there is some commonality/theme in the type of budget/grant being allocated e.g.
 - regeneration;
 - neighbourhood development;
 - project based;

so that decision making can be made by reference to some benchmark or standard.

- the process is linked directly to the council's budget-making process.
- it is generally targeted at 'hard to reach' groups not otherwise involved in decision-making processes – thus making the biggest gains.^[33]

It can be seen clearly from these principles why this approach to budget setting is more common at the local tier of government. In Northern Ireland, where many functions that are delivered by local government in Great Britain are delivered by central government departments (and will continue to be even after local government reorganisation in 2011), there may be scope for

departments to use a more participatory approach in certain areas. For it to be possible, selected projects and programmes would have to be localised in nature: trying to organise true community participation in budgeting at the regional level would appear to be problematic (see case study below for an example of using technology to facilitate participatory budgeting).

Potential advantages of the approach include:

- improved decision-making;
- better understanding of budgeting processes;
- people will take ownership of actions where they have been involved in the decision-making process;
- projects more likely to be delivered;
- democratic, and transparently so;
- commitment to further development of PB;
- less cynicism or apathy towards the local authority;
- reducing the 'democratic deficit';
- reaching parts of the community otherwise excluded from decision-making.^[34]

Possible disadvantages are:

- the council may be seen as abrogating its responsibilities;
- participation may be low;
- decisions may be biased towards those groups who can articulate their need over true need;
- it is limited generally to grant-type budgets rather than core activity;
- budget allocations may be one-off and give rise to problems of continuity of funding;
- it is not a substitute for true community budgeting and is a long way from neighbourhood controls over local services;
- it may be seen as undermining the council;
- many key local services, of community interest, are outside local government control (e.g. doctors' surgeries, policing) and may need formal partnership arrangements to make progress;
- it could potentially be seen as bypassing the democratic process;
- organisations which benefit from additional funding may not necessarily adhere to the same budgetary/financial disciplines and procedures as other public bodies.^[35]

In some respects, certainly, participatory budgeting has potential to empower communities and raise the level of democratic input to decision making. However, its nature limits the scope of functional areas to which it can be applied.

Case study: participatory budgeting in Cologne, Germany

Participatory budgeting was introduced in Cologne as part of a wider agenda in the city of 'services for citizen participation'. The municipal administration recognized that to put citizens at the centre of governance it is necessary to give them a say over public funds.

Participatory budgeting has been piloted in the city through an e-participation internet platform. The platform empowers citizens to participate in planning the budget by submitting proposals, comments and assessments, and submitting votes for or against specific proposals. The system encourages ongoing online discussions, rather than dialogue always being part of a tightly time-limited event. To manage the flow of conversation and to target contributions, the interactive website was carefully and transparently overseen by forum facilitators.

The success of the project is due, not least, to its high profile across the city – the project was publicly advertised and information leaflets were sent to each household. The levels of involvement in Cologne surpass comparable projects elsewhere in Europe – around 5,000 proposals were submitted during the first trial and more than 52,000 votes were entered. There were around 120,000 unique visitors to the website. The pilot phase of the project cost approximately €300,000 to set up and run. The initiative is now developing towards the introduction of improved systems in 2010.[\[36\]](#)

Other innovative methods have been used in the UK as forms of participatory budgeting:

Case-study: empowering communities in South Somerset

The South Somerset district area is divided into four sub-district areas, each serving around 40,000 residents.

Forums are held in these sub-district areas. These give a voice to community aspirations and a local dimension to the delivery of services. They also provide the link between community needs and decision making through building consensus among representatives.

Area forums are currently being used for:

1. prioritising of projects
2. funding of projects
3. planning
4. buying in enhancements to service delivery, should the community desire them.

They are also being used as the mechanism for operating the 'community kitties' and community 'calls for action'.

Each area has been allocated £40,000 for buying in services. Area forums can then engage with the public to agree what the money should be spent on.

Area forums help to give a voice to community aspirations. They give the delivery of services a local dimension, which provides a link between community needs and decision making.

An independent doorstep budget 'trade off' exercise was undertaken to feed into the budget setting process. Residents were allocated a set number of points that they could 'spend' on their preferred services. They were presented with a list of services and had to make choices and trade-offs using their points. This helped members to make budget decisions based on community preferences. It also sent the message to residents that councils had limited funds.

Some area forums have taken it further. They are empowering their communities to make decisions about 'small pots of money'. However, these are often significant in the eyes of the community. Area committees are given an additional £40,000 to begin the process of better aligning service need with service delivery.[\[37\]](#)

4.6 Resource-restricted budgeting

Resource-restricted budgets are similar to cash-limited budgets (see section 6.4 below). Limits are applied to particular resources (i.e. staff or equipment) and works rather like the incremental approach but in reverse.

It begins with the supply aspects (for example the number of staff that are available to meet future needs) and it is assumed fundamentally that these are fixed. From this point it works backwards to the required incremental change.

According to CIPFA, "the process offers control over resources in question and provides clear unambiguous direction but tends to ignore the practicalities of service delivery and may make the service unmanageable because of the restrictions imposed."[\[38\]](#)

5. Budgeting in Uncertain Conditions

5.1 Rolling budgets

A rolling budget can be defined as "a budget constantly updated by adding a further period, e.g. a month or quarter and removing the earliest period."[\[39\]](#) A quarterly rolling process, therefore, would mean that a budget would be prepared every three months, each time rolling forward for one year. The first quarter would be planned in great detail and remaining quarters less so, reflecting the uncertainty about the long-term of the organisation. According to CIPFA, "on the control side the budget will provide a more reliable standard against which to judge performance."[\[40\]](#)

The potential advantages of using rolling budgets are that:

- they reduce uncertainty in budgeting which is important in highly volatile industries where sales levels and prices may fluctuate;
- managers need to reassess the budget frequently;
- more realistic budgets will aid motivation;
- planning and control will always be based on up-to-date information which covers a significant period into the future.

The disadvantages of rolling budgeting are that:

- it is time and resource intensive;
- managers may find the constant revision of budgets disruptive and unsettling;
- continuous updating may not be justified where the changes are not continuous.

There are fairly evident problems with attempting to introduce rolling budgets in the public sector. Public bodies usually have fixed limits over the budget period, and unless the overall system of budgeting was changed, it would be difficult to introduce for certain departments or business units. CIPFA states that in the public sector, rolling budgets could be "somewhat pointless".[\[41\]](#)

5.2 Contingency budgeting

Contingency budgeting is useful for new organisations where detailed budgeting is difficult because there is no past experience to draw upon. The absence of reliable detail is compensated for by a contingency budget to cover as many areas as required.

According to CIPFA:

The use of contingency budgeting ultimately assists in ensuring best practice as it requires organisations to evaluate alternative scenarios and develop contingency plans to ensure that project implementation risk is minimised. Sophisticated techniques using contingency budgeting are increasingly being used to deliver IT projects where up to 50% of allocated budgets may be set aside after the essential or minimum expenditures are determined. This means that alternative strategies can be used in the event of project failure or delay. In these scenarios budgets are viewed more as a guide to an efficient expenditure pattern.^[42]

Case study: contingency budgeting in New York State^[43]

Contingency budgeting models have become increasingly prevalent in the public sector within the US where annual budgets are subject to direct approval by district or state electors. Under the 1997 Education Law introduced by the State of New York, school boards are required to place a contingent budget as well as their preferred budget including proposed growth and savings items to the electors to enable them to make informed decisions about tax levies.

The initial stage of contingency budget preparation is to determine what is contingent or mandatory expenditure. In the New York case these are considered to be expenditures which are deemed to be absolutely necessary to maintain and operate schools, as well as any statutory items prescribed by law. This minimum expenditure would include all expenditure associated with:

1. the maintenance of the education programme including appropriate extra-curricular activities;
2. preserving property;
3. salary increases for contracted employees who have a negotiated increase; ensuring the health and safety of all staff and students.

It would exclude items such as:

1. subsidised cafeteria services;
2. non-recurring items of expenditure in prior year budgets;
3. costs related to increases in school enrolments;
4. relative increases in the proportion of the overall budget incurred on administrative costs;
- 5 capital improvements and equipment purchases other than those necessary to preserve property and the health and safety of all staff and students.

The mandated spending cap for the contingency budget would be linked to the retail price index applying in that financial year. The contingency budget would then function as a fall back budget should the proposed budget be rejected.

The obvious difficulty with contingency budgeting for the public sector in Northern Ireland is that it would be difficult to sustain long term. Contingency budgets lack detail or links to service planning. There would be difficulties therefore in associating contingency budgets with departmental objectives or performance.

6. Adjusting the Budget

6.1 Fixed/flexible budgeting

Most public sector budgets can be regarded as fixed budgets as the level of resources often determines the level of activity and service provision. These resource levels are usually established in advance of the financial year. Although described as fixed, they can be varied through revisions made to reflect changing circumstances (i.e. through the quarterly monitoring rounds).

A flexible budget, however, is designed to be changed in line with variations of the level of activity. At the preparation stage, variable and semi-variable costs are identified, changing the budget as activity levels change. Typically, this type of budget is used in manufacturing industries where there may be changes to the planned levels of production; this results in changes to the necessary budgets for raw materials or components, for instance.

Flexible budgets are uncommon in public services; although changes in demand for services do arise, budgets are often fixed. This means that unanticipated demand cannot be catered for, or a department is pressurised to deliver higher volumes of services with existing resources. An example might be a hospital pathology unit budgeting for a given level of activity. But a new government initiative to reduce waiting lists could increase the number of tests being requested, and the budget may not be sufficiently flexible to deal with this.

6.2 Activity-based budgeting

Activity-based budgeting is an approach developed from activity-based costing used in the private sector. Rather than assuming that overheads are related to volumes of production or service, the technique attempts to identify what drives costs by linking overheads to activities. This provides more robust information for budget preparation as planned changes in production or service can be connected to changes in costs.

According to CIPFA, to date "this has limited application in the public sector due to the lack of detailed work on activity bases and cost drivers."^[44] In theory, nevertheless, budgets can be designed to reflect an activity-based costing approach. In practice, though, it is an under-developed approach as little financial information is currently available on activity bases and the associated cost drivers.

The result is that all costs – including overheads – are allocated to activities on the basis of the characteristics which are felt to drive these costs. CIPFA argues that this is "potentially an effective way of addressing the issue of high fixed costs in a public sector environment."^[45]

The key stages in activity based budgeting are to:

The key stages in activity based budgeting are to:

- identify the organisation's activities;
- determine the cost drivers;
- spread departmental costs to costs drivers;
- calculate budgeted activity levels.

The potential advantages of the activity based model are that:

- it identifies the cost of activities;
- it allows for resource allocation at different activity levels;
- it establishes a link between decision making and cost behaviour;

- it fits in with control systems.

The potential drawbacks are that:

- there may be problems in defining cost drivers;
- it is not possible to monitor on a frequent basis in the short term;
- it requires a total review of an organisation's accounting and possibly managerial systems.

6.3 November price-base budgeting

This approach was used by local authorities up to the early 1990s, but has mostly now been superseded by cash-limited budgets. The November price base approach takes the current year's budget and increases it in line with the known pay awards at 31 October of that year, affecting the following financial year, along with the organisation's own best estimates of price changes up to that date including, where appropriate, local price movements. Known increases in taxation e.g. employers' national insurance contributions are also included.

This budgetary model does not incorporate assumptions about likely inflation or pay increases which are not known on 31 October in the base service budgets. Instead, a provision for inflation and unconfirmed pay awards is held back as a contingency and released to services budgets during the course of the financial year as and when pay awards or inflationary pressures become known.

The detailed steps are illustrated below:

- calculate increase in price levels from last year's base budget date up to the current base budget date;
- estimate effects of further price increases to the end of the budget period in overall terms;
- provide contingency for this amount and retain it centrally.

Example: preparing budgets at November 2008, with a financial year running from April–March.

Original budget for 2008/2009 – five employees at £20,000 each at November 2007 price base. Employees then received a 5% pay award in July 2008 and it is estimated that they will receive 4% in July 2009.

Using the November price basis the budgets would be as follows:

2008/2009 revised budget $£100,000 + (£100,000 \times 0.05 \times 9/12) = £103,750$

2009/2010 original budget $£100,000 + (£100,000 \times 0.05) = £105,000$

(In contingencies an amount of $£105,000 \times 0.04 \times 9/12 = £3,150$ would be allowed, but not allocated to the departmental budget.)

CIPFA explains that the main reasons for authorities moving away from this approach are "because it limits the ability of managers to manage their budgets and is administratively complex requiring constant revision."^[46]

6.4 Cash-limited budgeting

Under this approach. Budget holders are required to plan their activities to ensure that their net expenditure does not exceed a pre-set cash limit. It relies on assumptions about inflation and pay awards, for instance, which are not known at the time the base budget estimates are made.

Example: preparing budgets at November 2008, with a financial year running from April–March.

The original budget for 2008/2009 was five employees at £20,000 each at November 2007 price base with the assumption that there would be a 5% pay award in July 2008. At November 2008 it is now known that the staff did receive a 5% pay award in July 2008 and it is now estimated that they will receive 4% in July 2009.

The original 2008/2009 budget would have already included an allowance for effect of the pay award:

2008/2009 original budget £100,000 + (£100,000 x 0.05 x 9/12) = £103,750.

Similarly the 2009/2010 budget will include an allowance for the pay award expected in July 2009.

2009/2010 original budget £100,000 + (£100,000 x 0.05) = £105,000
plus £105,000 x 0.04 x 9/12 = £3,150.

Total 2009/2010 original budget = £108,150.

The advantage of this approach is that managers know what their budgets are going to be from the outset – and there is an incentive therefore for them to deliver within budget. But, it is not directly linked to service planning. Also if the prediction for inflation is too low, it may result in a requirement for reductions in services.

Continuing the example above, if the July pay award were to actually be 7%, then to maintain a steady level of service the actual budget required would be: £105,000 + £5,512 (i.e. 105,000 x 0.07 x 9/12) = £110,512.

7. Concluding Remarks

This paper has not answered the question of which approach to budgeting will lead to NICS Departments achieving the optimum allocation of resources. As was noted in section 1.3 there may be no theoretical model that will provide the perfect solution.

Nevertheless, it has been shown that a variety of approaches have been employed across the public sector, in the UK and internationally. It seems reasonably clear that NICS Departments could benefit from using the different approaches where the circumstances fit. The main benefit from zero-based, planning programme and performance-based budgeting is the link between budgets and business objectives. Even participatory budgeting, which is quite a radical departure from the incremental approach, appears to offer some strong benefits in this regard.

Clearly, any approach will also have some associated drawbacks. Significantly for the public sector, these tend to revolve around the amount of time and energy that has to be devoted to the analytical exercises to support the budgeting. But this effort could be repaid through improved performance.

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Research and Library Services



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Systems Thinking and Public Sector Efficiencies

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This paper introduces a business improvement approach known as 'systems thinking'. Following a theoretical explanation of the principles, some case studies of the implementation of the approach are presented. Finally some considerations for the Northern Ireland efficiency agenda are raised.

Library Research Papers are compiled for the benefit of Members of The Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

Key Issues

- The systems-thinking approach has been proven to work – first in industry and later in the public sector in both England and Scotland.

- There is little available evidence of systems thinking having been applied in Northern Ireland.
- It is apparent that with the careful selection of departmental functions and appropriate business areas the methodology could deliver benefits to the Northern Ireland public sector - in terms of specifying output measures, driving the effectiveness of some programmes and delivering efficiencies as a consequence.
- It is also clear that the systems-thinking approach is not suitable for all programme areas: it is not likely to be effective for application in highly complex interventions and spending programmes.

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11. The Performance and Efficiency Delivery Unit (PEDU)
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Appendix A - Efficiency Savings in N.I. Departments: Memorandum by Professor Arthur Midwinter

1. Introduction

The Northern Ireland Assembly's Committee for Finance and Personnel has recently been considering and taking evidence on the issue of efficiency savings. It also has an interest in the workings of the Department of Finance Personnel's (DFP) Performance and Efficiency Delivery Unit (PEDU).

The purpose of this paper is to draw the Committee's attention to an approach to improving performance and efficiency called 'systems thinking'. Essentially, this is a business-improvement methodology, and, as such, is one of a range of approaches that have been developed in management theory and practice. In the last few years, the methodology has been applied with some success in the public sector in England and Scotland.

This paper is intended to inform the Committee's consideration of departmental efficiency in the light of the shortcomings in the NI Departments' Efficiency Delivery Plans that have been highlighted by experts in evidence.^[1]

The paper begins with a theoretical discussion which is necessary to understand how the approach works in practice.

2. What is 'Systems Thinking'?

In 2005, the Office of the Deputy Prime Minister published a report on three pilot projects applying systems thinking in local authority housing services. It explains systems thinking as follows:

Systems thinking takes many forms, but in all of those forms it examines issues from a 'whole system' approach. That is to say, it considers the system as a whole and not as a collection of separate parts. Failure to recognise the relationship between the parts of a system leads to a silo mentality. This focus on parts of a system, rather than the whole, can be the cause of numerous organisational problems such as resistance to change.^[2]

So, there are a number of ways of taking a 'whole system' approach. One way that has been tried and tested (in these pilot projects and elsewhere) is to consider organisational purpose. Importantly, the pilots sought to understand purpose in customer terms rather than in terms of the organisation itself.

The table below illustrates the difference between systems thinking and the traditional management approach of 'command and control':^[3]

Command and Control Thinking		Vanguard's Systems Thinking
Top-down	Perspective	Outside-in
Functional specialisation	Design	Demand, value and flow
Separated from work	Decision-making	Integrated with work
Budget, targets, standards, activity and productivity	Measurement	Designed against purpose, demonstrate variation
Extrinsic	Motivation	Intrinsic
Manage budgets and the people	Management Ethic	Act on the system
Contractual	Attitude to customers	What matters...?
Contractual	Attitude to suppliers	Partnering and co-operation
Change by project/initiative	Approach to change	Adaptive, integral

The principles of the methodology have been summarised in the following terms:

Principles of systems thinking^[4]

- The work must be understood from the outside in. The system established to do the work must be based on customer demand and therefore must consider the work from the customer's perspective.

- The system is designed against predictable demand. The demands of the service need to be analysed to understand what the customer wants from the system.
- Understanding the flow of the work through the whole system is critical. This means developing a complete understanding of the work from end-to-end. Work done in Toyota found that economies come from understanding the flow of the work, not from scale of production.
- Pull. This means that work is done against demand. Only do something when it is needed but when it is needed the right resources are pulled at the right time. At Toyota, the concept of Just in Time describes how material should be processed and moved in order to arrive 'Just In Time' for the next operation.
- The people on the spot have the responsibility and capability to do what is needed. This is not empowerment for its own sake. The proper design of jobs ensures that people doing the job have the responsibility to act. With this responsibility comes an ownership of the work and a pride in it. The organisation should make intelligent use of its intelligent people.

Systems thinking theory is based originally on an industrial process developed by Toyota. In recent years attention has again been focused on an adaptation of the model by John Seddon.^[5] He argued that:

Instead of treating all demand as 'units of production', demand [should be] understood in customer terms and action against value and failure demand improves productive capacity. Instead of management acting on the workers (inappropriately) both parties learn to act on the work, using measures that illustrate the organisation's capability to respond. The consequence is liberation of method – people learn through developing the method, they learn how to work against customer demands.^[6]

In other words, to develop an understanding of purpose in customer terms, organisations must first understand the nature of demand for their services. This will enable them to design their systems against the demands of their customers, rather than against the internal demand of their systems and processes themselves.

3. Understanding Demand

One way of understanding demand is to divide it into two parts: 'value demand' and 'failure demand'.

Value demand – people wanting what your organisation(s) exists to provide.

Failure demand – demand cause by your organisation(s) failing to do something for the customer or failing to do something right first time for the customer.^[7]

A value demand becomes a failure demand when something goes wrong with the provision of the service.

For example, a value demand on the Northern Ireland Housing Executive would be: "I need a home. Can I rent one from you?"

A failure demand could be: "you have rented me a home but the boiler doesn't work."

Work can also be understood in these terms. Value work is activity that solves customers' problems and fulfils their demands. Everything else is waste.

The primary purpose of understanding demand is not to increase efficiency. The purpose is to increase effectiveness. The focus, in other words, is: satisfy customers' needs more effectively, rather than more efficiently. These must be understood as fundamentally different. It is argued that increased efficiency will come as a by-product of more effectiveness.

The Housing Executive, for example, could increase the efficiency of processing requests for new homes by implementing measures that reduce waiting times. If the end result is that houses are being let more quickly but the heating doesn't work, it cannot be considered an effective service – the customer's demand for a habitable home has not been satisfied.

4. Understanding an Organisation's Systems

There are a range of techniques that can be applied to understand how the systems and processes within an organisation interact. These include workflow mapping and more mathematically-based tools like systems capability charts and process behaviour charts.

Mapping the flow of work

To understand how well demand is being dealt with, it is possible to map the flow of work from first point of contact with a customer to the point where the demand has been met - even where this crosses organisational boundaries.

This was performed in Hull City Council, working with social workers, to map the flow of work from their customers' demands. In terms of adult social care there were 12 different services that a social worker could ask to be provided for a customer (ranging from home help to full domestic care). The process map showed that there could be more than 120 different work steps in each process from start to finish. When these individual steps were evaluated it was found that between 25-33% of these steps added value.^[8]

It follows, therefore that 67-75% of the work was 'waste'. Some 'waste' steps were necessary because of legal requirements (irrespective of the customers' perspective) and therefore could not be eliminated. But the process of identifying the 'waste' work, allowed the improvement of effectiveness to be focussed – the work should be designed to satisfy value demand. Any work that does not directly do that should ideally be eliminated.

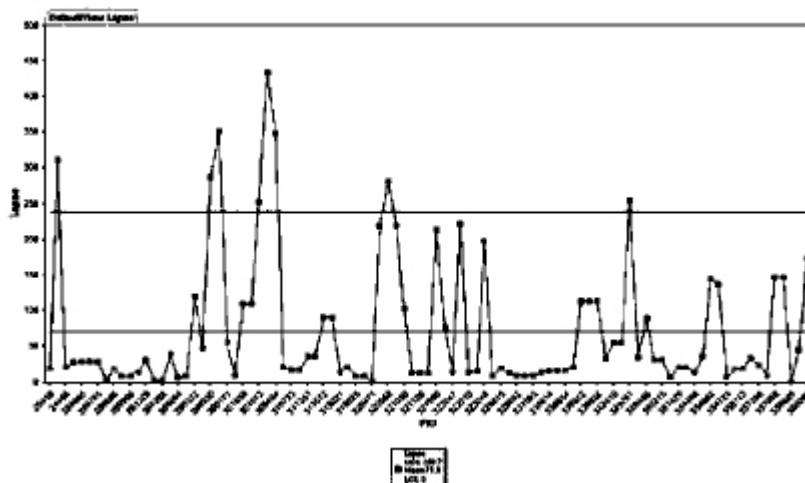
Process behaviour or capability charts apply mathematical techniques not simply to identify trends or averages but also the predictability around those averages. This shows what the system is achieving and how predictable performance is.

The key to the success of these techniques is that they reduce confusion of the data required for reporting purposes with that which will provide insight for understanding and improving the way work is organised. In the words of Wheeler, "the process behaviour chart filters out the probable noise in order to detect the potential signals in any data set."^[9] Therefore, they help analysts focus on what the source of a problem is: they shift emphasis from the results and toward the behaviour of the system that produced the results.

Data for reporting and data for understanding

In the work performed at Hull City Council mentioned above a process behaviour chart was produced that looked at the number of days that elapsed from the first point of contact by a customer requesting some form of social care provision to the eventual satisfaction of the demand.

Below is a process behaviour chart for these cases:



Each dot indicates a case. The vertical axis indicates number of days in the system before a demand is satisfied.^[10]

It can be seen plainly that there were huge variations in the number of days that elapsed from significant numbers of cases taking fewer than 50 days, to one case being in the system for 450 days before the demand was satisfied.

The performance data required from the Council masked this variation. The average (represented by the black horizontal line) was 71.9 days. But there were a large number of cases that took considerably longer than that, at least hinting at systemic problems.

5. Designing Against Demand

Once the nature of demand and the behaviour of the system are understood the next stage is to redesign processes to eliminate waste.

Some waste cannot be eliminated:

Many activities, though not important from the customer perspective, are essential for the continued existence of the organisation. For example, adherence to sound audit principles is a cornerstone of good governance and if it is not done, the organisation is put at risk.^[11]

Under the systems thinking methodology, audit is not of direct benefit to the customer so is, strictly speaking, considered waste. But it is not suggested that audit be abandoned – there are indirect benefits to the customer that might not be clearly stated. For example, proper audit reduces the risk of fraud and improper use of resources.

But though some waste cannot be eliminated, there will probably be some that can. According to CIPFA:

This stage is about moving the picture of the process from the 'as is' to the 'should be' by identifying courses open that could be used to speed the flow by eliminating, simplifying, re-designing and/or combining steps to reduce waste and chances of error or other blockages. The effect is to minimise the number of hand-off's in the system and maximising the clarity and availability of information available to the staff operating the system. From these ideas, the most promising courses open are identified that may be feasibly pursued in the organisation.^[12]

Essentially, one uses the insight provided by the analysis and moves back to the workflow map identifying areas where flow is disrupted and where the work is not designed to satisfy value demand. Ideas for improving the process are considered and introduced – not just in one work area but throughout the whole system.

Ideally this should be performed by process by a project team working in the system rather than external to it – though external expertise can usefully be brought in.

6. Checking

After new processes have been introduced or road tested in pilot form, it is then important to check that they are effective. This can again be achieved through a range of approaches, such as redoing the process behaviour chart. Also external validation through customer satisfaction surveys can complement this evidence. If effective, the new procedures can be rolled out across the organisation. If not, the process of redesign begins again.

7. Culture

For systems thinking to be truly effective it needs to be embedded in the organisation's culture. It has been argued that this requires a shift to a culture that allows for failure. Rather than blaming someone for a process-improvement idea that hasn't worked, the emphasis should be on praising that individual for having come up with the idea in the first place.^[13] This, in turn, can help to develop the skills and motivation in the workplace that are needed to identify possible improvements that should lead to increased effectiveness and, therefore, greater efficiency.

8. Systems Thinking In Practice

Published documentation relating to the implementation of systems-thinking methods in Northern Ireland – in departments or elsewhere in the public sector – is hard to find. There is however some evidence of its effective application in England and Scotland. A couple of case studies are presented in this section.

Case Study: Homelessness in Hull

This case is particularly helpful to illustrate the difference between performance data and targets for the purposes of reporting and for understanding/improvement of a system.

Hull City Council's homelessness service had a target to have no-one on B&B accommodation for longer than six weeks whilst they were awaiting re-housing and/or having their circumstances investigated.^[14] The effect of this target was to put pressure on the system to focus on length of stay in isolation and not the proper satisfaction of the demand.

Individuals and families were 'churned' by the system in an attempt to meet the target: people were moved out of B&B accommodation and into a homeless hostel when their stay was approaching six weeks. They were then either re-housed or returned to a B&B some time later; there was an evident commitment to meeting a target rather than satisfying a need.

Systems thinking was applied and focused on the underlying causes of delays in the end-to-end process for assessing the claims of homeless clients. It was found that "the six-week target inadvertently absorbed valuable staff time in fire-fighting one symptom, rather than tackling the underlying causes of problems in the homeless assessment process."^[15]

The systems-thinking approach was subsequently taken to understanding the homeless service at Hull. The process for dealing with B&B stays was refocused away from direct satisfaction of the external reporting target and the council was able to save £90,000 from its spending on B&Bs in less than one year (from over £250k in 2005/06 to £160k in 2006/07 – a reduction in operating costs of around 35%).^[16]

A further case study from Hull illustrates the benefit of involving those who actually do the work in the redesign of processes. It also illustrates how an understanding of value and failure demand can contribute to service improvement:

Case study: housing benefits applications in Hull

Applications for housing benefit – amongst other customer requests for services in Hull - are processed through a customer contact call centre. A systems-thinking analysis of demand found that 60% of calls to the call centre were housing related – in a contract worth £2m per year this equated to £1.2m of activity. Further, 60% of those calls (i.e. 36% of the total calls to the centre –worth around £720,000 per year in terms of the contract) related to failure demand. Initial contacts led to a request for information from the customer in order for the housing assessors to process a claim.

It was found that 82% of new work arriving with the housing assessors was wrong in some way – either proof of identity was absent, or some other aspect of the required paperwork was incomplete. This gave staff a clear picture of where the problems lay, yet those who needed the information did not directly interface with the customers. Neither did staff in the call centre understand the process well enough to ensure all the necessary information was provided by the customer.

After redesign involving both housing assessors and call centre staff, processing times for housing benefit claims were reduced by more than 80% (on average from 25 days to just three). Not only did this increase the effectiveness of the service in terms of meeting the customers' demands but it also released efficiencies. Call centre staff were freed up from handling large volumes of calls helping customers provide the correct proofs and information and were therefore able to concentrate on dealing with other enquiries. Housing assessors were able to assess claims (i.e. value work) first time rather than bounce them back to the call centre (i.e. waste).^[17]

Further evidence of the success of systems thinking as an approach is provided by three pilot projects run (also in relation to housing) under the sponsorship of what was the Office of the Deputy Prime Minister – now Communities and Local Government. The three projects sought to address service provision in different aspects of housing and in different local authorities: voids and allocations (Leeds South East Homes); debt recovery and rent collection (Preston City Council), and; responsive repairs (Tees Valley Housing Group).

In summary, each systems thinking pilot found that service was improved: repairs were carried out more quickly from a tenant's perspective, voids were let more quickly and payments of rent were made more quickly. In each case tenants were found to be supportive of the changes.

However, the study cautioned that "service improvements were affected when the work moved from initial testing to the whole organisation."^[18]

The initial study was followed up one year later to reassess whether the service improvements had been maintained and whether or not efficiency had improved as a result. This follow-up study found that:

Efficiency gains arising out of the amount of waste have been maintained in two of the three pilots. Each system had significant amounts of waste and, though there have been isolated examples of processes being re-introduced, the majority of waste removed initially has remained out of the system.

Many of the efficiency gains made are quality gains, where time and resources are better employed to improve the service to the customer. Cash savings have also built up over time (e.g. reduced number of voids leads to lower rent lost, more repairs work in-house reduces contractor charges).

Staff morale increased in the successful pilots. Employees have increased team working and the process also allowed external partners to become an integral part of the system.^[19]

Overall, then, the findings can be viewed as encouraging. As the case studies from Hull illustrate, systems thinking has subsequently been shown to be a valid methodology for improving customer service, organisational effectiveness and organisational efficiency in the housing arena.

9. Can Systems thinking be Applied to Non-Housing Sectors?

All of the case studies listed above are in housing. Nevertheless there is evidence that whole-system approaches can be applied in other sectors. For example, there are a number of case studies relating to an approach called 'lean' (which is another label for systems thinking) in NHS Pathology services.^[20]

There is also evidence from Scotland that a range of public-sector bodies can benefit from working to the principles of systems thinking. A study in 2006 found that across a range of sectors (including national health agencies, local government and also the military) there was:

strong evidence that Lean can work within the Scottish public sector, conditional upon an effective approach to implementation. Scottish public sector organisations can use Lean to focus on developing more seamless processes, reducing waste, improving flow and developing an understanding of customer value.^[21]

Professor Jackson, author of the ODPM housing pilots study concluded that systems thinking could be:

Recommended as a powerful methodology for bringing improvements in the housing sector. [It is] best equipped to function well in situations of medium complexity where it is possible to provide clarity around specific circumstances.^[22]

It would seem from the evidence in Scotland and the NHS that it is not the sector that is important but the approach to implementation. Nevertheless –echoing Professor Jackson's comments - there is a recognition that systems thinking will not work with highly complex programmes such as health promotion, for example, because of the range of influences that can come into play and because of the wide range of 'customers' – many of whom may not actually know they are customers. They would not, it follows, be able to clearly articulate their demands of the organisations involved.^[23]

It does seem convincing that for less complex functions, there are considerable gains to be realised through systems thinking. Some possible implications for the Northern Ireland public sector are considered in the next section.

10. What Does this Mean for the Northern Ireland Efficiency Agenda?

It was noted in the introduction to this paper that Northern Ireland Departments' Efficiency Delivery Plans and the responses of Ministers to questions related to efficiency have been criticised – in particular by Professor Arthur Midwinter (see appendix A).

The criticisms are particularly in relation to the focus on inputs. It is immediately clear that the systems thinking approach is not overly concerned with inputs. Its focus is on demands on an organisation from the customer's viewpoint. This fits with the need to specify output measures that has been highlighted – the satisfaction of customer demand could certainly be described as an output measure.

It does not require a huge leap of logic, therefore, to see that a systems thinking approach could help departments and their agencies determine their efficiency plans with a clearer focus. But there are important caveats.

Firstly, it has been stated above that it is effectiveness rather than efficiency which is the primary focus of systems thinking. That said, the methodology can inform an understanding of an organisation's purpose in customer terms, and this in itself could be used to help to develop and refine output measures.

Secondly, it has been noted that systems thinking is not an appropriate methodology for highly complex functions. It is likely that there will be a number of government programmes which are operating in fields that are too muddled by external factors for the approach to be of much benefit.

Having said that, it is possible to think of a number of service-delivery functions where it would seem that systems thinking could be applied. Examples might be in Planning, MOT testing, benefits processing, HR services and social housing, to name but a few. It may be useful to recognise at this point that 'customer demand' does not exclusively have to mean citizens, but could also be applied to client organisations or internal customers for advice services (such as the Departmental Solicitor's Office or Account NI, for example.)

11. The Performance and Efficiency Delivery Unit (PEDU)

PEDU was established on a model rather similar to the Prime Minister's Delivery Unit (PMDU). Information on PEDU is rather difficult to come by – it does not have its own webpages on the DFP site, for example. This may be, in part, due to a desire for PEDU to be a low-profile unit.

In the Finance Minister's statement to the Assembly on PEDU of 15 April 2008^[24] he set out that the focus of PEDU's work would be on the Programme for Government, Executive priorities, and those areas where funding is not translating into desired outcomes (note the overlap with the principles of performance-based budgeting).

PEDU methodology

I have looked at the PEDU report on Land and Property Services (LPS) and a presentation PEDU made to Ministers on Planning Service^[25] – the two agencies which it has so far been asked to review. The LPS report is available online at:
http://www.lpsni.gov.uk/index/publications/lps_pedu_review.htm

LPS review

The PEDU review of LPS comprised:

1. desk research
2. a staff survey
3. staff workshops (involving approx 25% of staff)
4. interviews with Board and senior staff members
5. action-planning workshops

The staff survey looked at various aspects: organisational strategy, delivery of core functions; development of clear roles and responsibilities and so on. The focus was on staff attitudes to these elements.

Planning Service review

This looked at agency performance against targets for processing applications and trends in performance. It then itemised a number of issues that had been identified by staff as causing difficulties:

1. agent performance
2. consultee performance
3. staff and management
4. divisional performance
5. performance management.

The striking aspect of the methodology is its internal focus in both cases: there does not seem to have been an attempt to engage customers (whether individuals or client organisations) in the reviews. This may not actually have been the case, but it is certainly the impression that is given from the reports available.

12. Concluding Remarks

Evidence has been received by the Committee for Finance and Personnel from Professor Midwinter, amongst others, in relation to departments' efficiency targets that:

Cash-releasing efficiency savings should provide the same service at a lower cost. That requires both financial (input) baselines and service (output) baselines for each saving proposal so that efficiency gains can be validated. The N.I. approach, in the main, reports economies, not efficiencies.^[26](emphasis added)

The criticism is that departments' Efficiency Delivery Plans do not really report efficiencies because they are not necessarily tied to output baselines.

Professor Talbot, giving evidence on 18 November 2009, stated that:

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.^[27]

It seems that systems thinking could be a useful technique in developing public sector outputs given the focus on understanding systems and processes from the customer's perspective. However, a drawback is that it does not appear suited to highly complex programmes. Nevertheless it may provide a useful approach in programmes of lesser complexity.

This process in itself could help in making departments' plans and targets more meaningful. A consequence of that would be that PEDU's focus could be more specifically directed at service areas where there are concrete output baselines rather than the more generalised, higher-level targets in the Programme for Government.

Beyond that, it is hard to make concrete assessments of the PEDU methodology and whether it embraces any of the Systems Thinking principles on the basis of the information available. On the face of the evidence uncovered in this research, it would seem that – correctly applied – the systems thinking approach could be a useful tool for Northern Ireland departments seeking to improve the effectiveness and efficiency of their activities.

Appendix A

Efficiency Savings in N.I. Departments: Memorandum

**From: Professor Arthur Midwinter
Institute of Public Sector Accounting Research
University of Edinburgh Business School**

Context

1. The Research Paper refers to the reduction of £129 million in planned expenditure through Barnett consequentials for 2010-11. It should be made clear to members that this is a reduction in the rate of growth, not the current budget baseline. It does not therefore require savings from existing programmes.

Terminology

2. The Guidance Paper on Efficiency Delivery Plans (EDPs) is mostly concerned with inputs – how financial savings will be delivered and monitored. Whilst there is reference to impact on services and the need "to provide evidence there has not been a detrimental impact on services to the public" (para.iv), this is not a systematic approach.

3. Cash-releasing efficiency savings should provide the same service at a lower cost. That requires both financial (input) baselines and service (output) baselines for each saving proposal so that efficiency gains can be validated. The N.I. approach, in the main, reports economies, not efficiencies.

The DFPs Efficiency Programme

4. The EDP states that efficiencies will not compromise service delivery, but deliver more and better outputs. However, no output measures for any of the five categories of savings are provided.

Increase Charging

5. Increased income from charging is not included in the Efficient Government Programmes in Whitehall or Edinburgh, as these constitute a reduction in service. Increased charges are an economy measure, commonly used to deliver budget savings, but they do not result in efficiency gains.

Accommodation Savings

6. This saving arises from staff reductions which reduce the need for accommodation. This is not a pure efficiency saving as it arises from a loss of output from the staff reductions. It too is an economy, not an efficiency.

Land and Property Services

7. This narrative provides no clear basis for the savings assumption made. Does rationalisation involve job loss? There is no output baseline provided to validate efficiency gains.

Targetted GAE and Staffing Review

8. This is obviously not an efficiency proposal, but a reprioritisation of policy areas. Outputs are not provided, but if staff are lost, the quality and timelines of staff outputs cannot be assumed to be unaffected by these savings.

Rate Collection

9. This is a cost reduction. It lacks the robust information needed to assess the realism of the savings assumptions.

Conclusions

10. This is not an efficiency delivery plan, but a budget savings plan. The proposals are unclear on how savings will be delivered, and offer no baseline data on which to validate efficiency gains.

11. It is therefore a matter of concern that the savings are being assumed and monies reallocated prior to savings being delivered.

12. I would advise the Committee to draw its concerns over the poor quality of information to the other departmental committees, and seek the following information for each programme:

(a) Identification of the budget lines in which savings will be made, the current allocation and the scale of savings sought so the realism of the proposal can be assessed;

(b) Identification of an output baseline for each proposal – a quantified statement of what is provided for the funding – so efficiency gains can be validated; and

(c) Identification of budget lines to which the savings have been reallocated with a statement of the expected outputs/outcomes from this spend.

13. The N.I. Efficiency Programme shows the same weaknesses of information as the Scottish Programme that makes it difficult to subject to rigorous scrutiny. Lack of transparency is a major

problem that needs to be tackled. Describing these budget savings as efficiencies is misleading the Assembly and the public.

Professor Midwinter retired as Dean of the Faculty of Arts at Strathclyde University in 1999. Since then, he has concentrated on research and consultancy in public finance. He wrote a review of the Impact of the Barnett Formula for the ARLS in 2002. Midwinter was Budget Adviser to the Finance Committee of the Scottish Parliament from 2002-2007, and then to the Shadow Cabinet of the Parliament since September 2007.

Supplementary Note

1. These responses from departments confirm my view expressed in my evidence. The "efficiencies" are mainly conventional budget savings options. Most provide little or no evidence that efficiencies have not reduced services, whilst some provide evidence that services have been cut. Others do not spell out any savings at all. The responses are not fit for purpose, and do not facilitate robust scrutiny of current practice.

2. Enterprise, Trade and Investment

Dropping a buy-out initiative is not an efficiency. An efficiency saving requires current input/output baselines against which to demonstrate the efficiency improvement. This option looks like a hypothetical saving on a new development. Did the 5% saving in administration result in staffing reductions? If so, the department cannot guarantee that the quality and volume of its output has not been reduced.

3. Regional Development

This response simply asserts that efficiencies have been made, it does not provide evidence to validate the claim. How were savings made in water subsidies? Additional income is an economy, not an efficiency. Cutting capital budgets is not an efficiency, but asset sales do count in the Gershon framework. Cutting the Budgets is not an efficiency, it is a saving.

4. Environment

Cutting running costs, freezing vacancies, and cutting consultancy spend are conventional savings, not efficiencies. Neither is cutting out a Grant Scheme. There is no data provided to show these had "only minimal effect" on the frontline, and that does infer they had some adverse effect.

5. Employment and Learning

This response fails to provide any costings or details of how savings were made. It is completely useless for addressing Jennifer McCann's concerns.

6. Education

This response spells out a number of budget lines in which savings have been made. It does not provide information on the service impact, nor even costings.

7. Health, Social Services and Public Safety

The Minister appears content to have "obtained assurances" from health trusts that frontline services are being protected. In Scotland, several health boards reported service reductions as efficiencies. I would advise the Committee to seek the relevant information direct from trusts, given the Minister's warning in para.7.

8. Finance and Personnel

This response avoids answering the question. Is the minister trying to be unhelpful?

9. Culture, Arts and Leisure

Ditto! The response is unhelpful, and bland assurances are no basis for rigorous scrutiny.

10. Social Development

This list is mainly cuts in frontline services, often to the most disadvantaged households. There is not a single efficiency saving in the list.

11. Agriculture and Rural Development

I am not familiar with these functions, but they appear to be cuts in services to DARD and agroforestry research. The statement on rural development does not say whether or how savings were made.

12. FM/DFM

This response provides no information on the scale of savings made through "improving and refocusing", "controlling discretionary spend", "restructuring" and "streamlining". Did these result in staffing reductions?

Arthur Midwinter
14th November 2009

[1] See the following links to recent evidence sessions on the efficiency agenda:

<http://archive.niassembly.gov.uk/record/committees2009/FinancePersonnel/091202DepartmentaIEfficiencyDeliveryPlan.htm>

<http://archive.niassembly.gov.uk/record/committees2009/FinancePersonnel/091118EfficiencySavings.htm>

<http://archive.niassembly.gov.uk/record/committees2009/FinancePersonnel/091111EfficiencySavings.htm>

See also this link to the evidence session on PEDU's review of Land and Property Services:

<http://archive.niassembly.gov.uk/record/committees2009/FinancePersonnel/090923PEDUReviewLPS.htm>

[2] The report is available online at:

<http://www.communities.gov.uk/documents/housing/pdf/138058.pdf> (accessed 03 February 2010)

- [3] Source: the Systems Thinking Review
<http://www.thesystemsthinkingreview.co.uk/index.php?pg=3>
- [4] Jackson 'A Systematic Approach to Service Improvement' (2005), ODPM, Available online at: <http://www.communities.gov.uk/documents/housing/pdf/138058.pdf> (accessed 03 February 2010)
- [5] Seddon, J 'Freedom from Command and Control' (2003) Vanguard, Buckingham
- [6] Seddon, J 'Freedom from Command and Control' (2003) Vanguard, Buckingham (see page 49)
- [7] Presentation arranged by CIPFA on Efficiency and Measurement by Gavin Betts, Hull University Business School on 19 January 2010.
- [8] Presentation arranged by CIPFA on Efficiency and Measurement by Gavin Betts, Hull University Business School on 19 January 2010.
- [9] Wheeler DJ 'Understanding variation: the key to managing chaos' (2000) SPC Press Knoxville, 2nd edition.
(see page 54)
- [10] Source: presentation arranged by CIPFA on Efficiency and Measurement by Gavin Betts, Hull University Business School on 19 January 2010.
- [11] Jackson 'A Systematic Approach to Service Improvement' (2005), ODPM, Available online at: <http://www.communities.gov.uk/documents/housing/pdf/138058.pdf> (accessed 03 February 2010) (see page 31)
- [12] 'Introduction to Lean Thinking' CIPFA (2006)
- [13] Source: presentation arranged by CIPFA on Embedding Efficiency by Penny Blundell, CIPFA Training and Development Services, 19 January 2010.
- [14] Buxton, P 'The Illusion of Control: How Government Targets and Standards Damage Local Government Services' available online at http://www.thesystemsthinkingreview.co.uk/images/ARTICLE/139_The_Illusion_of_Control_v3_0.pdf (see page 7) (accessed 08 February 2010)
- [15] Buxton, P 'The Illusion of Control: How Government Targets and Standards Damage Local Government Services' available online at http://www.thesystemsthinkingreview.co.uk/images/ARTICLE/139_The_Illusion_of_Control_v3_0.pdf (see page 7) (accessed 08 February 2010)
- [16] Source: presentation arranged by CIPFA on Efficiency and Measurement by Gavin Betts, Hull University Business School on 19 January 2010.
- [17] Source: presentation arranged by CIPFA on Efficiency and Measurement by Gavin Betts, Hull University Business School on 19 January 2010.
- [18] Jackson 'A Systematic Approach to Service Improvement' (2005), ODPM, Available online at: <http://www.communities.gov.uk/documents/housing/pdf/138058.pdf> (accessed 03 February 2010) (see page 57)

[19] 'A Systematic Approach to Service Improvement – an update' Northern Housing Consortium (2006) available online at: http://www.northern-consortium.org.uk/assets/northern_futures/performance/systems_thinking_sustainability.pdf (see page 16) (accessed 08 February 2010)

[20] An index of case studies in NHS pathology can be found at: http://www.pathologyimprovement.nhs.uk/View.aspx?page=/lean_case_studies.html (accessed 08 February 2010)

[21] Dr Radnor, Z et al 'Evaluation of the Lean Approach to Business Management and its Use in the Public Sector' Scottish Executive (2006) available online at: <http://www.scotland.gov.uk/Resource/Doc/129627/0030899.pdf> (see page 71) (accessed 08 February 2010)

[22] Jackson 'A Systematic Approach to Service Improvement' (2005), ODPM, Available online at: <http://www.communities.gov.uk/documents/housing/pdf/138058.pdf> (accessed 03 February 2010) (see page 72)

[23] Source: presentation arranged by CIPFA on Efficiency and Measurement by Gavin Betts, Hull University Business School on 19 January 2010.

[24] See http://www.dfpni.gov.uk/inv_135_statement_as_at_15_apr_9.22am.pdf for the full text of the statement. (accessed 09 February 2010)

[25] Presentation supplied to Assembly Research by DoE

[26] See paragraph 3 of Professor Midwinter's paper at Appendix A

[27] See <http://archive.niassembly.gov.uk/record/committees2009/FinancePersonnel/091118EfficiencySavings.pdf>