House of Commons

Committee of Public Accounts

Cost reduction in central government: summary of progress

Eightieth Report of Session 2010–12

Report, together with formal minutes, oral and written evidence

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Committee of Public Accounts

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume.
Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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Contents

Summary

After the 2010 election, the incoming government reduced departments' budgets for the 2010-11 financial year by a total of £6 billion. Departments successfully lived within these reduced budgets in 2010-11 and reduced spending within their control by 2.3% in real terms compared to 2009-10. The Committee welcomes this successful implementation of policy. Most departments now face a more significant challenge: to reduce spending by a further 19% over the next four years with the prospect of further savings being required thereafter.

The bulk of the spending reductions must be delivered by individual spending departments and their arm's length bodies. Departmental financial planning has not yet made it clear how these cost reductions will be achieved. Departments lack clear information on costs which, when coupled with the difficulty of linking inputs with outputs, raises the risk that future spending cuts may not maximise efficiency in delivery and may have a greater than intended impact on frontline services.

There is an essential role for the central departments to lead a more structured cost reduction programme across government so that spending is reduced, as far as possible, by improving value for money, not cutting services. The Treasury and Cabinet Office do not yet have a firm enough grip on the cost reduction programme as a whole and need to set out exactly what they expect of departments in planning for, and reporting on, cost reductions.

Accounting officers are responsible for achieving cost reductions while securing value for money. In the past, the failure to achieve value for money has had no apparent consequences for senior civil servants. Accounting officers must be held accountable for the successes and failures of their departments not just to reduce spending in absolute terms, but to deliver more with less.

We took evidence from the Cabinet Office and the Treasury on the basis of a Report by the Comptroller and Auditor General[1], on recent progress made with cost reduction by central government departments and planning for the current spending review period from 2010 to 2015.

1 C&AG's Report, Cost reduction in central government: summary of progress, HC 1788, Session 2010-2012

Conclusions and recommendations

1. **It is commendable that departments delivered the spending reductions required in 2010-11**. As their budgets were reduced after the start of the financial year, a 2.3% fall in spending in year one was a good start to making the reductions needed over this Parliament. The challenge set by the Spending Review that is facing most departments, of reducing spending by 19% over the next four years, will be difficult to meet. Furthermore, the need for cost reductions will continue into the next Spending Review period extending the time over which savings will need to be found to at least eight years. Living through a longer period of austerity demands a radical approach by departments. An informed lead should be given by the centre if arbitrary cuts are to be avoided.

2. **Most departments cannot link costs to outputs to identify the consequences of changes in spending.** This lack of basic management information is a serious impediment to making sustainable cost reductions that minimise the impact on frontline services. An understanding of how spending relates to key outputs is a necessary prerequisite of good decision-making and is essential if departments are to understand the impact of changes in spending. We expect departments to have management information in place within a year that enables them to link costs to their key priority outputs, and to use that information to drive efficiency savings, where possible, before making cuts.

3. **The Centre does not yet have a firm enough grip on departments' ability to make the cost reductions required, on understanding how these reductions will be achieved, and on monitoring the progress being made.** Departments' plans are at different stages of development and key legislation required to make some financial savings is still under consideration. Central coordination is required to identify and manage interdependencies between departments' individual plans so that cuts in one department do not lead to increases in spending in another department. It is also important for the centre to monitor whether short-term cuts will not lead to increases in expenditure over time. Further, the centre must monitor departmental performance if it is to identify outliers and instigate early remedial action.

4. We expect the Treasury and the Cabinet Office's Efficiency and Reform Group to drive a structured cost reduction process across departments, not just to monitor piecemeal changes. The Treasury and the Efficiency and Reform Group must develop an overarching strategic framework which sets out:

- specific actions and milestones for individual departmental strategies to allow the centre to assess progress and identify outliers;
- how major legislation and policy developments impact on the programme;
- how wider reforms such as those in the health, education and justice sectors will contribute to the delivery of real net savings by the end of the Spending Review period;
- the high level risks and the key interdependencies between departments;

- the impact of cuts in one department on other departments
- the long-term effects of short-term decisions
- how the centre will assess the capacity and capability of departments to deliver savings; and
- contingency plans in the event that departments fail to deliver their targeted savings.

5. **Accounting officers are responsible for financial management and value for money in their department, but there is no evidence that they suffer any consequences for failure in practice.** The Treasury is accountable for delivering the overall cost reduction package and the Efficiency and Reform Group for ensuring cost savings are achieved through efficiency and reform measures, rather than arbitrary cuts. The Accounting Officer of each department is responsible for delivering cost savings within their spending area. Accounting officers must be held accountable for achieving the required cost reductions and be rewarded for success or penalised for failure.

6. **It is not enough to deliver the required spending reductions by cutting annual budgets in real terms without considering the impact on services.** The cash savings that have been achieved in the first year are commendable, but they are only a first step. Departments' performance reports must distinguish between what has been saved through efficiencies and reducing waste, and which services have been affected. These statements must be capable of withstanding robust scrutiny.

7. **There is tension between the drive for efficiency savings and the localism agenda that results in a lack of clarity about the best procurement route.** The centre can contribute to cost reduction by making economies of scale through coordinating activities, for example in procurement. There needs to be greater clarity and transparency on where localism will prevail and where Government will seek economies of scale through centralised activity. The Cabinet Office is centralising procurement of common items while localising commissioning of local services. There is still a gap which could impact on value for money. For example, high-value medical equipment and PFI schemes will continue to be procured locally although our reports demonstrate that better value could be secured by a more centralised approach. In our recent report on the Efficiency and Reform Group, we stress the need for the Cabinet Office to lead procurement across the public sector to maximise public sector purchasing power. The centre should have the option of mandating actions to secure best value.

1 The challenge ahead

1. The government's spending plans require most departments to reduce their spending in real terms. The incoming government reduced departments' budgets for 2010-11 by £6.2 billion and the Spending Review reduced most departments' budgets by a further 19% in real terms over the period from 2011-12 to 2014-15.[2]

2. Departments reduced spending by £7.9 billion in 2010-11, a reduction of 2.3% in real terms compared to 2009-10.[3] Departments achieved this by reducing back-office costs and capital spending, and through reductions of some 44,000 staff, approaching 10% of the civil service. The Cabinet Office introduced tighter controls over spending on consultants and other temporary staff which resulted in savings in these areas. The Cabinet Office believes that many of the savings achieved so far are not just short-term expedients, and will be sustainable.[4]

3. The Cabinet Office told us that central government efficiency savings of at least £5 billion have been achieved so far in 2011-12. But departments face an even greater challenge as the Treasury now expects the austerity programme to last for at least eight years requiring further major savings during the next Parliament. The Treasury is beginning to discuss with departments how this will impact on their financial planning.[5] A long-term forward strategy is needed and departments must look increasingly to wider reforms to deliver more fundamental and systemic change in how government delivers services.[6] The Cabinet Office is looking to develop more online services, as a means of substantially reducing administrative costs while improving the quality of these services. Major reforms in health, education, justice and defence, are planned to contribute to cost reduction. For example, the Ministry of Justice is looking for changes in sentencing policy and legal aid to generate half of its present £2 billion savings target.[7] But Treasury told us they would need to revisit this package to meet the further cuts likely to be required in the next Spending Review.

4. We have noted instances of good planning for cost reduction. In our hearing, Reducing Costs in the Department for Transport, it was clear that the Department had prepared for the Spending Review early and made a more systematic assessment of budget reductions. The Cabinet Office told us that the Ministry of Justice and the Ministry of Defence had also made good progress with forward planning and the Treasury considered that a number of local authorities and primary care trusts had made good progress in planning for and achieving efficiency savings.[8] But the National Audit Office found late last year that not all departments had clear strategies for cost reductions containing a detailed understanding of

2 C&AG's Report, paras 2.1, 3.1

3 Qq 1, 46

4 Qq 2, 35-36, 42-45

5 Qq 4, 6-7, 14, 16, 28, 29, 41

6 Q 3

7 Qq 5-6, 48-49

8 Qq 17-18 please add reference to the Committee's report on Reducing Costs in the Department for Transport]

costs or the relationship between inputs and key outputs.[9] Major reforms required to achieve cost reductions depend on the passage of legislation and in some areas detailed cost reduction plans have not yet been produced.[10]

5. A common theme in this Committee's reports over the years has been that weaknesses in the cost accounting information and capability within the Civil Service, combined with inherent difficulties of linking inputs with outputs and outcomes. This means that decisions are often made without due regard to value for money. Lack of appropriate and useful data on unit costs and lack of robust and timely ways of measuring the effectiveness of services impedes good decision-making.[11]

9 Qq 9-10, 16,

10 Qq 11-13, 21-22

11 Qq 35, 37-39

2 The need for a central role

6. The Treasury and the Cabinet Office have key roles to play in managing the cost reduction programme. They have established the Joint Efficiency and Reform Board to monitor overall progress in improving efficiency. The Cabinet Office has taken central action in introducing strong controls on spending in specific areas such as consultancy, marketing and IT projects.[12] It is also leading on a range of initiatives aimed at reducing costs such as involving social enterprises in delivering services and the use of Social Impact Bonds to finance social provision.[13]

7. The Cabinet Office and the Treasury accept that they must also ensure that departments make cost reductions in the most sensible way.[14] This includes ensuring that actions taken now do not limit options for further savings. The Treasury told us that central funds are not available to assist departments who identify opportunities to invest in cost reduction measures. Departments need to find further savings – save to spend – if they are to release funds for such investment.[15]

8. We asked whether there would be an overall strategy setting out how the cost reductions required will be achieved over the spending review period. The Cabinet Office referred to every department having "some form of planning that will crystallise and change over time"[16] and strategies for reducing costs in specific areas such as property and moving services online. But there was no date by which an overall cross-government plan would be prepared.[17]

9. The primary responsibility for delivering the planned reductions in spending required by 2014-15 remains with the accounting officers of individual spending departments and their arm's length bodies. Accounting Officers are accountable individually both to Parliament and Ministers for the successes and failures of their departments in reducing spend whilst delivering value for money. Strong official as well as political leadership is needed to push through savings opportunities. We have noted that the culture of the Civil Service does not value financial management skills and the failure to achieve value for money in the past has had no apparent consequences on the careers of the senior civil servants responsible.[18]

12 Qq 2, 15, 27, 42, 49

13 Qq 59-61, 72-77, 90

14 Qq 30, 31, 34

15 Q 28, 78, 79

16 Q 80

17 Qq 14, 19-20, 27, 80-86

18 Qq 25, 31-33, 67-71

3 Impact on service delivery and the delivery chain

10. The Government's deficit reduction plans require public spending to fall by some £77 billion by 2014-15 compared to the pre-2010 Budget assumptions of public spending growth. The Cabinet Office is now predicting that £16 billion of cost reductions will come from efficiency savings in central government and £20 billion from the wider public sector. The Cabinet Office considers that these efficiencies will not impact on services, but there is no system or criteria for assessing whether that will be the case.[19] The previous system of Public Service Agreement indicators has been replaced by Quarterly Data Summaries which present input and impact indicators alongside each other without linking them.[20]

11. The Cabinet Office's estimates of potential efficiencies mean the wider public sector will need to deliver greater savings than central government. Some departments will need arm's length bodies to deliver savings, either through reorganisation, tighter controls or wider reform of the delivery system.[21] The Cabinet Office is centralising commodity procurement while localising commissioning of local services. This leaves a gap where non-commodity spending would benefit from a central grip. The Centre can contribute to cost reduction by taking advantage of economies of scale not available to a local body acting independently. For example, we recently took evidence on the procurement of medical equipment and PFI schemes which can both benefit from prescribing a centralised approach.[22] Currently, the wider public sector may make use of Cabinet Office contracts and some are already doing so: some £1 billion a year by the health sector alone. In our previous report on the Efficiency and Reform Group we recommended that triggers be set for intervening more directly in the wider public sector if progress towards integration is slow.[23]

19 Qq 36, 40, C&AG's Report, paras 1.1 and 1.7

20 Qq 35-37; C&AG's Report, paras 2.23-24

21 Qq 23-24

22 Qq 89-97

23 Q98, Committee of Public Accounts, Forty-ninth Report of Session 2010-12, The Efficiency and Reform Group's role in improving public sector value for money, HC 1352, recommendation 5

Formal Minutes

Monday 26 March 2012

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon	Fiona Mactaggart
Stephen Barclay	Mr Stewart Jackson
Jackie Doyle-Price	Austin Mitchell
Matthew Hancock	Nick Smith
Meg Hiller	Ian Swales

Draft Report (*Cost reduction in Central Government: summary of progress)* proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 11 read and agreed to.

Conclusions and recommendations 1 to 7 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Eightieth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Wednesday 18 April at 3.00pm

Witnesses

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC’s management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail’s efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18-year olds	HC 1116
Forty –third Report	The use of information to manage the defence logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
Forty-sixth report	Transforming NHS ambulance services	HC 1353
Forty-seventh Report	Reducing costs in the Department for Work and pensions	HC 1351
Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group’s role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397

Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426
Fifty-second Report	DfID Financial Management	HC 1398
Fifty-third Report	Managing high value capital equipment	HC 1469
Fifty-fourth Report	Protecting Consumers – The system for enforcing consumer law	HC 1468
Fifty-fifth Report	Formula funding of local public services	HC 1502
Fifty-sixth Report	Providing the UK's Carrier Strike Capability	HC 1427
Fifty-seventh Report	Oversight of user choice and provider competition is care markets	HC 1530
Fifty-eighth Report	HM Revenue and Customs: PAYE, tax credit debt and cost reduction	HC 1565
Fifty-ninth Report	The cost-effective delivery of an armoured vehicle capability	HC 1444
Sixtieth Report	Achievement of foundation trust status by NHS hospital trusts	HC 1566
Sixty-first Report	HM Revenue and Customs 2010-11 Accounts: tax disputes	HC 1531
Sixty-second Report	Means Testing	HC 1627
Sixty-third Report	Preparations for the roll-out of smart meters	HC 1617
Sixty-fourth Report	Flood Risk Management	HC 1659
Sixty-fifth Report	DfID: Transferring cash and assets to the poor	HC 1695
Sixty-sixth Report	Excess Votes 2010-11	HC 1796
Sixty-seventh Report	Whole of Government Accounts 2009-10	HC 1696
Sixty-eighth Report	Ministry of Defence: The Major Projects Report 2011	HC 1678
Sixty-ninth Report	Rural payments Agency – follow up of previous PAC recommendations	HC 1616
Seventieth Report	Oversight of special education for young people aged 16-25	HC 1636
Seventy-first Report	Reducing costs in the Department for Transport	HC 1760
Seventy-second Report	Services for people with neurological conditions	HC 1759
Seventy-third Report	The BBC's efficiency programme	HC 1658
Seventy-fourth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 1716
Seventy-fifth Report	Ministry of Justice Financial Management	HC 1778
Seventy-sixth Report	Department for Business, Innovation and Skills: reducing bureaucracy in further education in England	HC 1803
Seventy-seventh	Reorganising Central Government Bodies	HC 1802
Seventy-eighth Report	The Care Quality Commission: Regulating the quality and safety of health and adult social care	HC 1779

Seventy-ninth Report	Accountability for public money – progress report	HC 1503
Eightieth Report	Cost Reduction in Central Government: Summary of progress	HC 1845

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 22 February 2012

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Stephen Barclay
Jackie Doyle-Price
Matthew Hancock
Chris Heaton-Harris
Meg Hillier
Fiona Mactaggart
Austin Mitchell
Ian Swales

Amyas Morse, Comptroller and Auditor General, **Paula Diggle**, Treasury Officer of Accounts, **Gabrielle Cohen**, Assistant Auditor General, National Audit Office, and **Keith Davis**, Director, National Audit Office, were in attendance.

Report by the Comptroller and Auditor General

Cost Reduction in Central Government: Summary of Progress

Examination of Witnesses

Witnesses: **Ian Watmore**, Permanent Secretary, Cabinet Office, and **Sharon White**, Director General, Public Spending, HM Treasury, gave evidence.

Q1 Chair: Welcome, Sharon, for the second time this week.
Sharon White: It is. I don't know whether it's for good behaviour or bad behaviour.
Chair: Welcome. Ian, I think this is the second time we've talked to you about the programme for deficit reduction. Sharon, for you it's the first time. Let me start by saying this. Great: you achieved the financial target you had set yourself for 2010–11—2.3% net. That's good, although I have to say, slightly sceptically, that I think it's dead easy—I hope you agree with this, Ian, and probably Sharon will as well—to find anything less than 3% in any organisation without any great effort. That has always been my view, and you can do it annually. But, looking forward—you are pulling a face, Ian.
Ian Watmore: It has never happened before, easy or not.

Q2 Chair: I've always felt, whenever I've had responsibility for budgets, you can pull out about 3% without impacting a lot, although I accept you might have started a bit later. Looking forward, you have this task of 19% over a four-year period, which is twice as much per annum, each year, and sustainable. We'll come back to what's sustainable in what you pulled out in 2010–11. Reading this Report, I am filled with real concern about the capability of the civil service—all of the departments—to achieve that. How confident are you?
Ian Watmore: First, I welcome the Report. Thank you for that. I thought that it was a very useful document. Lots of good facts were on the table and lots of good recommendations for the future. In any turnaround, which is what this was—let's be clear this was like walking into a company that was going bust. Glasgow Rangers or whatever the analogy was—the first thing you have to do is to stop spending on the stuff that does not matter. That is much harder than it sounds. I take it as a particular badge of honour that we have the consulting and temporary labour spend down by 70% in one year. That is not because I hate all the people who work in that sector—I used to come from that industry myself—but because the system had become reliant on those people.

Q3 Stephen Barclay: Why are we spending money on stuff that does not matter in the first place?
Ian Watmore: You may ask previous regimes that question. The point I am making is that to stop something that people have become reliant on is really quite tough to do. It took the shock tactics of the system to do that. That is what the Government have delivered. However, in any company turnaround, you turn the thing around not just by stopping spending money, but by having a forward strategy for coming through and out the other side. That is where the reform part of the agenda kicks in. This Report rightly points out that for the second half of the Parliament, it will be the reform agenda that is most required to get systemic change. The first half of the Parliament, it will be stopping the spending.

Q4 Chair: I will come back to you on 2010–11 because I don't think that it was as difficult as you said it was. What you have not answered is about when it gets much tougher down the line. You have 2.3%, and you have to get 19% over the next four years, which is just under 5% per annum.
Ian Watmore: It is tougher in the second half.

Q5 Chair: Are you going to get it?
Ian Watmore: I think the reforms that we are laying down now will get us there, but they have to be

implemented rigorously and consistently. For example, we believe that there are big financial savings and customer service improvements from putting more public service online digitally. If we can do that, it will not only be a better service for the public but a cheaper one. We are at the point where we now have the capability recruited into the system to do that; it is new, it is different. We are launching the new websites as we speak, and it will be that sort of programme that cuts through the second half of the Parliament that will deliver the systemic long-term change from a management point of view. Equally, there are political reforms in the system, which are primarily the province of the Departments concerned—Health, Education, Justice and Defence.

Q6 Chair: In a sense, you have not really answered the question. Perhaps Sharon will. You guys at the centre are responsible for ensuring that 19% comes out over the next four years. How confident are you? I accept that we get more online, which is brilliant. That is something that everybody has been trying to do for decades. It is not great, fantastic, transformational change. Sharon, how confident are you?
Sharon White: May I say a couple of things? We are reasonably confident, but this is the biggest fiscal consolidation that we have ever seen. We will get to 40% of GDP, with GDP at a much lower place than we ever anticipated. A lot of what we spend will go on debt interest. Your first point, which is the enormous scale of the challenge, is the right one. The thing I would say that backs up Ian's latter point is that what we are inevitably seeing in the first half of the Parliament are efficiency savings, so it is the squeeze in the back office, amalgamating corporate functions and so on. What we will begin to see in the second half of the Parliament has got to be policy redesign. For example, when I was at the Ministry of Justice, it was £2 billion out of an £8 billion budget, £1 billion of which was efficiency savings—basically from having a single finance function and a single HR function. The other half will come through sentencing and legal aid reform, which is still going through parliamentary scrutiny. Inevitably, one of the things that we are seeing is that Departments that are having to find the same amount of savings every year are saying, "In the first couple of years, we will focus on trying to slim down our headquarters. In the second half, it is about redesigning higher education and how we are going to live within a shrunken schools budget." It is a different balance of state/non-state—

Q7 Chair: Are you confident?
Sharon White: I am as confident as I can be.

Q8 Chair: Let me just take you through why I do not share that confidence.
Sharon White: Please do.

Q9 Chair: I'll have to let other people come in on this, but the Report states that most Departments do not even have a strategy underpinning the way forward—I cannot remember the figures.
Matthew Hancock: Have you got the quote?
Chair: Where is the quote?
Ian Swales: Page 7, paragraph nine: "Most departments have yet to develop a clear picture of their future state or a detailed plan based on a strategic view".

Q10 Chair: So you say, "They're going to do this. This is great. We're just waiting for Parliament." It is not; it was scary for me to see that.
Again, the experience of being a Minister is that you chisel away at the margins, and that is what your 2010–11 thing was about. I understand why 2010–11, because you needed time to turn the machine around, so I am not criticising that, but if you are saying that in the second half of Parliament most of this will have to come out of fundamental change, you do not fill me with confidence, because most Departments do not even have a strategic framework in which to develop fundamental change from which they can go on. They have not got that, they do not know what input leads to output. If you look at the recommendations to Departments on page 8, they have none of that yet according to the NAO analysis. That is scary.
Ian Watmore: I think most Departments would dispute that they had none of it. They would say—

Q11 Chair: You signed off that Report, Ian.
Ian Watmore: They would be saying that they are preparing those plans for the second half of the Parliament. The fieldwork for this was done late last year, I think. Something like universal credit—it had not even become an Act of Parliament, so the Department is developing its change agenda to deliver the new welfare reforms while taking account of what Parliament is saying should or should not be.

Q12 Matthew Hancock: Are you saying that there is a distinction between not having a full plan and not having a plan?
Ian Watmore: Absolutely. Most Departments have quite well advanced reform plans for the second half of the Parliament, based on their policy.

Q13 Chair: Do you accept that, NAO?
Keith Davis: We certainly saw elements of plans in place. We saw elements of wider work force plans to get to a lower cost way of delivering services, but we did not see that across the board in Departments. We did not see that happening very often at a strategic level, organisation-wide, across Departments.
Ian Watmore: It is a mixed picture, I am sure, but as you heard Bob and Jeremy say, their job is to try to harness the whole civil service on to a change plan. That is what they are trying to do.

Q14 *Amyas Morse:* Like you, I am not particularly critical of what happened in the first period, because I recognise that you have to start somewhere. That was a start. A lot of resolution was shared on it, and now the Chair is giving you a hard time about that.
Frankly, what I am worried about is that I would expect to see a more coherent drive than we are seeing now if we are really to get these costs out. I was listening to Sir Nick speaking brilliantly this morning at a conference on performance management. He told

us that he thought it was quite feasible that, far from talking about a short period of austerity, we might be talking about eight years of austerity.
Sharon White: At least.
Amyas Morse: That means that we must be thinking about delivering services in a different way, not just bit by bit, looking at bits of policy, but understanding that this is a whole new model of running things—a whole new way of working. You know very well, Ian, that that must be driven coherently, as well as on a disparate basis. We are not seeing a degree of grip and real push from the centre. Is that going to be taken? When we talk about civil service reform, is it going to be voluntary or really strongly driven from the centre?
Ian Watmore: I think if you asked most Departments about the grip that the centre has, they would say it has too much rather than too little, actually.

Q15 ***Amyas Morse:*** Where is the evidence?
Ian Watmore: The evidence for that is the strong controls regime that Francis Maude and Danny Alexander put in place to ensure that the change agenda, particularly on the management side, is brought to the centre for review and approval before being driven through. We only accept those when they are consistent with the long-term strategy, so I disagree that we do not have a grip at the centre. I don't disagree with the point that to make long-term sustainable change is really hard and that this is not a flash-in-pan thing, as a quick fix to cyclical readjustment. I did not hear Nick Mac's phrase, but if he says that it is an eight-year austerity regime, then that is a good mindset for people to have. You cannot do things for the long term just with the mechanisms so far. I am agreeing with you that the future is hard, but I do not agree that we do not have a grip and I do not agree that—

Q16 Chair: Do you have a plan B, if plan A doesn't work? That is my sort of feeling. Is there a plan B there?
Ian Watmore: I think it is working so I don't feel the need for one at the moment. The Minister announced only on Friday that he expects to get to £5 billion this year, from £3.75 billion last year, so this is now starting to become systemic and repeating.
Sharon White: May I make a quick point, partly relating to Amyas's? Departments are in slightly different places. Some Departments really understood before the last election just how stark this fiscal arithmetic was and, to be frank, had the political space to start some early preparatory work on some quite big policy reform, but there are other Departments. We had a spending review only a few months after the formation of the coalition Government, and it is inevitable that some of the planning for radical change is a work in progress. What has happened with the last autumn statement, as Nick said this morning, is that we had thought that this was going to be for four years, but it is not four years—it is already clear that the spending cuts in the first two years of the next Parliament will be at least as steep as they have been for this Parliament. This gives Departments a very different frame: it is not four years and then back to the sunny uplands, it is actually an enduring, longer-term period of consolidation.
Chair: I think we all accept that. We have seen a number of Departments and, of those—I don't know if my colleagues agree—the only one that we felt was really on top of it was Transport, which had started early. In all the other Departments, we felt that they did not know what input leads to what outcome, they hadn't really got a strategy, they were doing short-term cuts and not long-term change—all the stuff that comes out here. There is Transport and probably one or two other ones.

Q17 Matthew Hancock: Why don't we ask? I do not agree that it is just Transport. You are here to answer for the strategy from the centre, the strategy as a whole, and I want to come on to that—I appreciate that I have just jumped in front of you, Ian, sorry—but, first, you have just said that some Departments are good and that some Departments did not start well or did not have the political space to prepare before the elections. Which ones? Or which are the best examples, to be positive?
Sharon White: Tempting as it would be—
Ian Watmore: The MOJ would be a good starting point. It started off very well. It has had to readjust its plans in the light of some of the changes on the policy side, but it is in a good place—I can say that, because Sharon was there at the time and she would not want to brag. An interesting Department is the MOD which, six to nine months ago, you might have thought was not in a good place. I think that it has now strongly pulled its plan and budgeting together and, for the first time, I feel more confident about the MOD getting through. The DWP has taken to heart all of its reforms—the universal credit, the Work programme—as well as the management and systemic changes. Departments such as DCMS are very interesting because they are tiny in the scale of civil service organisations but hugely important in terms of their ability to manage the arm's length bodies. It is doing an extraordinary job of managing the Olympics and all the transformation in its arm's length bodies with a staff that is heading down to fewer than 400 people.

Q18 Mr Bacon: You did not mention HMRC in your list of good ones.
Matthew Hancock: Or Education.
Sharon White: I would add Health, rather importantly. It was interesting with Health that, before the election, David Nicholson and the team broadly speaking guessed the right number in terms of expected efficiency savings of about £20 billion. They were able to get that message out to PCTs, which began not only to do some of the planning but to take some things forward practically. Also a number of local authorities—many Members around the table know this—got into the practical efficiencies early on.

Q19 ***Amyas Morse:*** I think that is fine. Can I just ask this, though: what you have illustrated there—and I think the MOD is a good example—is that when you decide you really want to get moving you can move pretty quickly. It is actually quite a long time since the election, now. We can't continue using that as a

reason why we haven't moved forward, can we? You don't really think that now?
Ian Watmore: No, I wouldn't.

Q20 *Amyas Morse:* So we should have these plans in place?
Ian Watmore: I think there are some areas where the legislation still has to pass.

Q21 Chair: You can plan on the basis that on the whole there is a majority—they'll get it through.
Ian Watmore: Exactly. And then you adjust it when legislation comes through.

Q22 Chair: Yes. That is not a good excuse—
Ian Watmore: No, I am just saying there are areas where I think the landscape is yet to be clear. I think there are other areas where it is clear, and people should have plans in place.

Q23 Ian Swales: Can I pick up the issue of arm's length bodies? Often in our hearings we talk about large areas of spending that are not directly managed by Departments and go out through other bodies. If anything, that has been increasing rather than reducing. We have expressed concerns as a Committee about access and whether for example the NAO ought to have access. Can you comment on how far, given that your savings are at the level of radical—they are not just using 3% less paperclips every year; we are actually talking about radical—are you satisfied that the current access and relationships and so on with arm's length bodies are going to enable you to achieve that part of the target?
Ian Watmore: I would use the phrase "mixed picture" on it. As we discussed, I think, a few weeks ago on the arm's length body review, a number of bodies have been reformed and/or abolished, and therefore some of the landscape is clearer there. Other arm's length bodies are just different in kind. I don't think for example that the XYZ Agency is the same sort of beast as the BBC or the Royal Shakespeare Company. There are different types of arm's length body arrangements. Higher education is another area of complexity, where the institutions are all in the private sector, yet a lot of the money comes from the public sector. So across the board it is very trite to say one answer fits them all; but I think the combination of tighter controls, the arm's length body review and the policy reforms that are now going out there enable it to be put in place.

Q24 Ian Swales: Can I refer you to paragraph 3.15 in the Report, on page 33, which actually turns that around and says that in some cases the arm's length bodies actually have the information, and so on, in order for you to achieve your savings? There is an example here, from DEFRA, where it was actually the arm's length bodies that were able to do it, rather than the Department. I suppose—and obviously it is difficult without aiming at one particular arm's length body—the real question is do politicians need to do anything different to make sure that you can both leverage those arm's length bodies in the way that you want to, but also that you are picking up the opportunities that they themselves might hold, as illustrated in this example here.
Ian Watmore: It's interesting, because I used to run a Department that had a lot of arm's length bodies and you look at each one and they are all subtly different; and that's one of the complexities here. Sometimes the Department is a very small Department and a very big spender. The Department for Education is an example: a huge budget; tiny Department. So therefore, inevitably, if you are going to make savings it is going to be through the arm's length body regime. I think broadly they form into two categories, though, in my mind. One is those that are really extensions of the Department; they happen to be in some arm's length structure, where I think the review that we've gone through, and so on, and the controls, means we've got more grip between the Department and those ALBs. The others, however, are more part of the system reform—you know, whether it is health or whether it is education; whether it is some aspects of the justice system and the policing system. This is where systemic reform is happening, and that is obviously different in style and more complex.

Q25 Ian Swales: My final question: typically politicians have never run huge organisations. There aren't many who have. Some have, obviously. Typically civil servants are very civil, and serve. How are you getting the civil service to be aggressive in suggesting what needs to happen to the point where they are pushing the politicians hard? For example, the previous head of DWP knew that £1 billion a year was probably an irreducible minimum for loss through the benefit system because of complexity. Now, that is a very strong message for politicians. Are you satisfied that the civil service is geared up and doing its job in pushing us as hard as possible to say, "If you cut through this nonsense then there are huge opportunities?
Ian Watmore: I have been on both sides of the divide on private and public. The thing that is different about the public sector is the combination of leadership from the ministerial class and the civil service class. There is no corporate analogue for it. People talk about the way it analogises to the business world—I don't think it does; it is different. So my simple answer to you is that I do not think anything works in Government unless you have strong ministerial leadership backed up by strong official leadership. I work on a daily basis with Francis Maude. I am not going to make any political comments about Francis, but as a man I feel that he cares about what he is doing, he knows his stuff and he drives us very hard. In response, I give, shall we say, robust advice in return. Mostly, he listens and sometimes I defer to him and we come back to the same place we started, but more often than not we flesh out the differences behind closed doors and then we come out on a united front. I think that is the best way to get civil service and ministerial leadership. If you have a weakness in one part or the other, the whole thing breaks down.

Q26 Ian Swales: Are you systematically collecting ideas from lower down the organisation?

Ian Watmore: Absolutely. For example, apart from the initial thing that the Chancellor did in the first round, when he invited ideas from the public as well as from officials, we have set up our own website called "Tell Us How", which is open to any public servant anywhere; they can put ideas into the system. We regularly review those and feed them back in.

Q27 Matthew Hancock: We have looked at the arm's length bodies and talked about some of the Departments. My primary concern, having read this Report, is to get answers from you on how, strategically, the Treasury and Cabinet Office are making sure that this can be driven through; I am talking about both what you call efficiency savings in the short-term—that is, just stopping employing people who are not adding enough value, such as consultants—and the more radical, long-term reforms. What strategy have you got in place to ensure that the 19% is delivered on time?

Ian Watmore: I will let Sharon talk about the overall spending review arrangements, because that is the bigger picture, but specifically within efficiency and reform, which are subsets of that, we have a Joint Efficiency and Reform Board, which is chaired jointly by Danny Alexander and Francis Maude. It has six or seven—I cannot remember exactly, but I think it is seven—non-exec directors who are people you will have heard of, such as Lord Browne, Peter Gershon, Patrick Carter, and Martha Lane Fox. We regularly bring the progress on the overall efficiency of the reform agenda and the forward strategies to that board for sense-checking. We then take it to a ministerial group, which is a sub-group of the public expenditure group. From there, it becomes the official Government policy way of doing things and is rolled out, through the usual mechanisms, across Departments. We have quite a systematic approach to putting in place everything from digital by default and the property strategy to more localist reforms. Those together are what we are implementing first in central Government and then expecting to roll out across the wider public sector.

Sharon White: I have a couple of things to add to that. Obviously, one of the big jobs of my spending teams is to monitor delivery against the previous spending review. We have a monthly conversation with the Chief Secretary, listing the five, six, or seven key areas where we are worried that things might be off track, which he will follow up through a pretty pointed and focused bilateral with the relevant Secretary of State. We have also asked Departments to set out what we call a contingency for 5%. If you find that you are unable to deliver savings in one area, we want you to have marked out in advance what you might do to recoup that. We are also starting to think about how the length of this fiscal consolidation feeds back to some of the Department's current plans. That is the big challenge before we have the next spending review.

Q28 Matthew Hancock: That is the second question that I wanted to ask. The 19% reduction in real terms in the Report, which we all know about, is until 2014–15. It is now clear, however, that this is going to last longer; according to the autumn statement, it will last for three more years, which is the length of the spending review. How can you ensure in your strategy that actions that are taken now open up, rather than close down, options for further savings, which, according to these figures, will be necessary in the next spending review?

Sharon White: That is exactly the conversation that my teams have started to have with Departments. Even though the starting gun has not fired on the spending review, and we do not know formally when the next one is going to be, broadly speaking we know what the arithmetic is. To be practical, on legal aid, for example, which is the area of the business spending review on which I led from the Ministry of Justice, we took 20% out. That is not going to be enough next time round, and it may be that for some of the contracts that could be signed over the next two to three years, and which will last for five years, we need to start thinking about whether we need a different basis for the way that we negotiate with our legal aid providers.

In other areas it might be worth spending a bit of extra money now to save more money further down the line. Prisons, which I am sure you have had conversations about, are a classic example. We have incredibly inefficient Victorian prisons, and if we could only spend a bit more money now, the running-cost savings of having modern buildings would be significant.

Q29 Matthew Hancock: And there would be the impact on rehabilitation.

Sharon White: Exactly. Those conversations are beginning to happen.

Q30 Matthew Hancock: Conversations are beginning to happen; is that tied into your strategy?

Sharon White: Yes, absolutely.

Q31 Chair: With whom does accountability for achieving the financial cuts rest? You, Ian, or you, Sharon? Who is accountable for it?

Sharon White: Well, I guess it is on an area-spending-by-area-spending basis. It is the accounting officer; the Permanent Secretary for Education will be responsible for ensuring that the 10% reduction has been achieved. My job is DG for public spending, so I will not be in the job for very long if we get to the next spending review and we have not delivered against this one. My top job objective is to ensure that the Government's fiscal consolidation plan in its entirety is delivered, even if there has to be some adjustment.

Q32 Stephen Barclay: Could you give me the name of anyone who has previously been held accountable for failing to hit their savings targets?

Sharon White: Within Departments?

Q33 Stephen Barclay: Take CSR 2007 to '11 as an example. You just said that people will be held accountable.

Sharon White: I guess I would say that the world we have been living in since the financial crisis, since 2008, is a very different world—

Q34 Stephen Barclay: No, it has increased; it has got worse, but it has not changed. Target savings had to be made. The world has not changed. I have huge sympathy; I think that actually you have an impossible job. This Report says that you have nine Departments where over 50% of their budget is spent through arm's length bodies, and the Departments do not have the full capability to assess the savings. They are outsourcing the challenge without any ability to assess at the centre whether that challenge is being met simply through cuts, or through working more smartly—a point that the Comptroller and Auditor General made. To use the supermarket analogy, are they closing the bakery store to hit their savings targets, or are they managing their suppliers more effectively and doing more for less? I cannot see how you can do that at the start. I come back to the point that you made, Ms White, about accountability sitting with accounting officers. That governance structure has not changed; we still have the same approach. The frustration that we have in this Committee is the sense that no one is ever held accountable. Who has been held accountable?

Ian Watmore: The point that you make and your question are right. Savings will be made. Money will not be given to Departments, and Departments will not spend the money. Financial guys in the Departments know how to land the plane on a sixpence, so the money will come out of the system. The real test is: does it come out of the system in a way that means that we can all sit around this table and feel it is the least bad way of doing it? Both Sharon and I have a responsibility to ensure that Departments make their savings in the most sensible way.

Q35 Stephen Barclay: The point this Report is making, Mr Watmore—this underlines the Comptroller and Auditor General's comment—is this. You used the example of the Ministry of Justice. What we saw in that Report was a Department collecting 3,000 data sets, but unable to say which rehabilitation programmes worked best and to socialise that elsewhere in the country. That goes to the heart of what you are driving at. The likelihood is that the Ministry of Justice will cut local authority youth offending work, which is not a statutory obligation, and keep the things that are statutory obligations, putting costs on to the police and the courts. That is exactly what we were then told Sir Bob Kerslake's working group was addressing. Yet from reading this Report, it seems that that working group cannot work effectively. This Report is saying that they do not have the data on which Sir Bob's committee would operate. I come back to this point: how can people be held accountable if this Report is correct, in that the data are not there to asses them?

Sharon White: I can say maybe a couple of things. The point about data is a serious and long-standing one. There are a couple of things that we have tried to do from the centre to address this. As you know, there has been a big reduction in capital spend—almost 27% over the SR is expected. One of the things we have given to Departments is a way of being able to judge the economic value of one piece of investment relative to the next. I would not say that it is perfect, but we have tried to protect the elements of investment that are most productive to the economy. The other thing we have done and put into the public domain is what we call the distributional analysis of the spending review, showing which income groups have been hit by what measure. Again, that gives some sort of metric to the degree of "fairness" and the progressivity of the changes. Improving the data so that, as Ian says, this is not a arithmetic exercise—

Stephen Barclay: But there is a 2014–15 deadline.

Q36 Fiona Mactaggart: Is not that exactly the problem that this Report is highlighting? I am very interested in the report you have just mentioned. It would be interesting if we could see it, and see which income groups are most affected by most policy.

If you look at the Report, information about the consequences of changes in spending is less good than knowing whether you can land the plane on a sixpence. There is no consistent way of identifying whether specific savings measures have improved efficiency or affected services. There is no real link between inputs and impacts. It seems that the NAO is telling us that you can cut the budget and get the right answer, but you do not know if you can get the policy outcome that you want and cut the budget.

Ian Watmore: That is the core that I was trying to open out, because it is a really good area to debate. In the first year, the savings were unambiguously about overhead and back office.

Fiona Mactaggart: And other people's spending, not central Government's.

Ian Watmore: But in most areas, nobody is going to tell me that saving on Government property was affecting the front line. I would say that that is reasonably axiomatic. However, going forward, as the reforms cut in, we have to show as a Government—not just as an individual pair of Departments—that they both save money and deliver the outcomes that people want. That is where this reform agenda cuts in. You talk about measurement of that. It is notoriously difficult to link the two, as we all know, but this year we have at least pioneered the so-called quarterly data summary, which has a mixture of numbers in it. For each Department, we put out the financial metrics, the people metrics, the operational efficiency metrics and the management stuff, alongside the impact indictors, such as health, education, front-line areas and so on.

In the end, it is that balance that individual politicians in ministerial jobs and civil servants in their accounting officer jobs have to reflect. You can cut costs in one way and have a negative impact on the front line; we all know that. Can you do it in a way that has a better outcome, or at least as good an outcome, and save the money? Let us take the DWP as an example. I know that you had a hearing on this not very long ago. Chris Grayling and his colleagues would argue very strongly that the Work programme is an attempt both to save money and to get people back into work. You can take a political judgment about whether that is the right way of doing things, but it is an attempt to do both. If you went through all the Departments at the moment, you would see that we are trying to do both—we are trying to save money and improve the public service.

Q37 Fiona Mactaggart: If you are trying to do both, and the evidence is that people do not know what input has what output or impact, how can you do both?
Ian Watmore: The complexity of the system in government is such that people think you pull a lever here and something over there happens, but it does not work like that, as you well know. Systemic reforms, in particular, are the most complex ones to carry out. You have to take the metrics, in terms of the way that the public receive the services. Are they public health measures, deprivation measures or worklessness/ work measures?

Q38 Fiona Mactaggart: We know that the time lag on that is enormous.
Ian Watmore: Of course it is.

Q39 Fiona Mactaggart: This Government came in and said that under the last Government people did not get healthier and the NHS did not work, and it turns out that it did.
Ian Watmore: In the impact indicators, you are laying those things out alongside the management indicators, and you are trying to balance the two. That is the job of public service management; that is why it is difficult. In a private sector setting, those two types of indicator are more explicitly linked. You pull the lever and, more often than not, it is attached to something. In government, you are actually changing a system, which then has a whole load of complicated impacts. That is why we are measuring those things simultaneously and why I think you are right, as a Committee, to question whether the reforms are going to save money and deliver good enough outcomes, or better outcomes, in the medium term.

Q40 Chair: Are you still confident in the other statistic that you gave us the last time you came—that 50% of the savings would come out of efficiencies, rather than services?
Ian Watmore: Yes, I think I said last time that roughly £16 billion—that was the figure I had in my head—would come out of central Government, and about £20 billion out of the wider public sector.

Q41 Chair: And you are still confident about that?
Ian Watmore: Yes, because we are already achieving a minimum of £5 billion in savings this year towards the £16 billion figure, and that is in line with our step up. It gets harder as you go on, for obvious reasons, but if we see it through and deliver on the major changes that we have in the pipeline, then, yes, I am confident.

Q42 Austin Mitchell: There is a stumble at the starting gate, because I do not see that saving 2.3% is all that great when the Chair tells us that it is easy to save 3% from a departmental budget, and when so many of the savings for this savings programme—for example, a saving on capital spending of £1.6 billion—involve picking low-hanging fruit, which will not be repeatable. You have got the spending moratoria, a freeze on recruiting permanent civil servants, and a public sector pay freeze for two years, which you cannot really prolong unless we are Greece—perhaps the Chancellor should start wearing Grecian 2000, or even Grecian 2012—but we are not Greece. You have moratoria on employing consultants, on Government advertising, and on essential business travel. All those things are temporary expedients; you will not be able to maintain that rate of saving.
Ian Watmore: You mentioned Greece; I heard Robert Peston say the other day, "Beware gifts bearing Greeks", which I thought was quite a nice way of putting it.
The point that I was trying to make at the beginning is that you start the journey by doing those things. I do not accept that they all have to be temporary; some of them will be temporary, but most of them will not be. I do not see why we need to go back to the same levels of marketing spend and consultancy spend as before.

Q43 Austin Mitchell: It is a conjuring trick: you pick the low-hanging fruit; you say you have made a big saving; and you postpone the bigger savings for some time ahead, when they will not materialise. That is a conjuring trick.
Ian Watmore: But I don't think that is what we say. I think the first part of the plan was to stop spending money. Let's be clear: this started two months into the financial year, for which budgets had already been set. To say that it is easy to stop that in that time frame is not true. It is hard; it required a lot of sustained effort from a lot of people to slam on the brakes on overspending, go out there and renegotiate supplier deals and all of that, and take the money out of the system in ways that did not have an impact on the front line. That is what we did in the first year. Much of that is repeating in the second year, so the civil service numbers are falling. They were, I think, 17,000 smaller in the first year, and they are now something like 44,000 smaller than they were—

Q44 Chair: What percentage is that?
Ian Watmore: Of the civil service?
Chair: Yes.
Ian Watmore: It was on a base of about 480,000. I cannot do the maths in my head.

Q45 Chair: 1%.
Sharon White: Getting on for 10%.
Ian Watmore: We are now at a 10% reduction. For this Report we were 17,000 people smaller and, of course, most of those people left towards the end of the year, so the in-year saving was quite small, but the saving from them now gets full-year. This year we are up to 44,000; next year that will repeat, and so on. These are savings that will repeat and recur. We will still have to find the bigger savings, as you rightly point out, that come with the more radical systemic reforms.

Q46 Matthew Hancock: On this point about the early stuff, broadly I think your argument that you do the efficiencies early is pretty well accepted in the Committee, but a better way to measure it, rather than looking for a straight line, especially given that it started in-year, is to ask where you are compared to what you expected and what the plan was. I seem to recall an argument around £6 billion in spending reductions in 2010–11. At least at a political level, that was the figure that I remember using a lot. On page 4, it says that you got £7.9 billion in 2010–11. Does this mean that you were, in that one year, ahead of schedule?

Ian Watmore: Which page are we on, sorry?

Matthew Hancock: Page 4, the key facts.

Chair: Matt, it is because there was some in already.

Ian Watmore: The figure that you remember, correctly, is that when the Government came in, it set a target of a £6.2 billion reduction over and above that which the previous Government had already set.

Q47 Matthew Hancock: And that comes to £7.9 billion.

Ian Watmore: And that was achieved.

Sharon White: It is also worth saying that, as you know, there has been a history of underspends, which has continued, even with the greater stringency, and we are expecting an underspend again in this current year.

Q48 Austin Mitchell: One of the ways that you have been cutting costs is by driving down IT costs. Surely, if you are to provide greater efficiency, you will have to spend more on information technology. We know, from past experience, how many bungles there are in contracts, and how much overspending and wasteful delivery there is in this area. This is going to increase costs again, surely.

Ian Watmore: No, because we are at a point—I do not want to go into this at length—where the IT industry is changing the way it does business. The days of the very large, integrator-led, complex mainframe contracts, which are the things that have bedevilled us all over many years, I think are numbered.

Q49 Austin Mitchell: Little contracts are more easily manageable.

Ian Watmore: People are now doing things through the internet and through digital channels much more cheaply than before. Coming back to grip, if you ask Departments where they get most frustrated, they will say that it is on this, because they bring forward their case for spending £100 million on one IT contract or another, and we are saying no a lot. We are saying, “Actually, you could do it completely differently and do it for £10 million”, and they go, “Don’t be ridiculous”, and we get into that sort of dialogue. Now, we are actually beginning to win that argument. I believe that if we change the nature of the way we do the technology, we ought to be able to do the sort of enablement that you rightly point to, but more cheaply than we were doing it in the past. It will require us to do some complex contract renegotiation, because we have a large number of contracts that run for many years and we are going to have to break those in.

Q50 Austin Mitchell: I am dubious, but I wish you luck in that endeavour. One final question: I notice that in the health service and local government, a lot of the staff cuts are really a simple transfer or outsourcing of staff, usually to some kind of social enterprise; the same people—most of them—are doing the same job, and it is still a drain on public funds. Frank Dobson has been asking questions that indicate that when staff are transferred—outsourced—like that, they count as new jobs created and losses in the local authorities’ staff. Is that happening in these cuts in the civil service?

Ian Watmore: I am familiar with that story and I’d like to talk about it in a sec. In central Government at the moment that has not happened. In fact, I am criticised too often by the outsourcing industry on the grounds that we have not done enough outsourcing of the civil service. The reductions in the civil service were genuine reductions. They were marginal moves from inside to out.

In the wider public sector, I think you are right. There are more changes coming from very localised approaches into social enterprises, voluntary bodies and the like. That is a topic in which this Government believes politically very strongly. Part of the argument is not that it is just a conjuring trick to get rid of head count on the books but that they believe if people have more local control over their own business in a smaller entity serving the public in their locality, they are more likely to do a better job and do it more efficiently. The evidence of the mutuals agenda so far backs them up, so we are now pushing forward in the civil service on that. We have a 500-staff unit in the civil service which is in the latter stages of being mutualised and will become the first of those public sector mutuals.

Q51 Mr Bacon: What is the timetable for that?

Ian Watmore: It will be done before the end of the financial year.

Q52 Chair: And what service is it?

Ian Watmore: It is the 500 people who administer the pensions for the civil service. It is called My Civil Service Pension. If we do that well—

Q53 Chair: Then you can do it elsewhere.

Ian Watmore: Then we can do it elsewhere. I think Mr Mitchell has a very valid point. If we just say, “That’s 500 off the job numbers,” that would be a weakness. I think we should find a way of including those in the numbers—

Q54 Chair: Hang on a minute. Can I just hang on a minute on Government? We took evidence last week on the Work programme. The Work programme—I don’t know whether you might count it as civil service—is people who were in Jobcentre Plus, who are presumably now being either TUPEd over or are not losing their jobs and are working for private contractors, where we had big question marks over value for money. It isn’t just other services. It isn’t

just health, education and things like that. It is happening as well, I hope you'll accept, in some areas of central Government.
Ian Watmore: Yes, I think it is, but not in the period in which this Report is being measured, is my point.

Q55 Chair: No, but over the spending review period, there will be some transfer of jobs.
Ian Watmore: Absolutely.
Chair: Okay. What I'm interested in—
Ian Watmore: And there have been two prisons outsourced since we were—

Q56 Chair: Prison outsourcing would be another one. Are you tracking that?
Ian Watmore: Yes.

Q57 Chair: Could you let us have data which tell us how many of the private sector jobs created come out of or are funded through public funds?
Ian Watmore: I am not sure I quite understand the specific question. We can certainly say if a group of civil servants has been outsourced or transferred—

Q58 Chair: It won't be that. If the probation service gets pushed into the voluntary and private sector, which is a policy choice, I would be interested in knowing. Our interest is always in following the taxpayer pound. It would be really interesting to know how many of those jobs emerging in the private sector are actually job transfers from the public sector.
Ian Watmore: I think from the civil service, we can do that. I'm not sure I have the—

Q59 Chair: Could you do it, Sharon, from the data you are collecting?
Sharon White: It is not as straightforward. It may be that for some big programmes, like the Work programme, we can specifically ask Departments for the data. Whether we can do it comprehensively, I am less sure, but we can check.
Ian Watmore: A lot of these payment by results contracts are actually going to start-ups, voluntary bodies and social enterprises.

Q60 Chair: I wish that were truer of the Work programme.
Ian Watmore: But I think it is happening.

Q61 Chair: That is our experience, and whether we are getting value for money is—
Ian Watmore: Another point I was going to make on that is that if we are releasing businesses of that type into the private sector, part of the objective is growth enablement. In other words, can we create something that will do the job that it is meant to do for us more cheaply, but create a new business opportunity in the process? For example, we have just let a new travel contract for civil service travel. It has gone to an SME based in Yorkshire called Redfern Travel, which now has the lion's share of the Government travel budget going through it. That has been a growth enhancement for an SME in Yorkshire.
When we are doing the My Civil Service Pension mutualisation, part of that is whether it can become an administrator of other public pension funds apart from the civil service one. That has become a new business. Some people might remember 15 or 16 years ago when the Laboratory of the Government Chemist was released into the market in that way and became the so-called LGC. It has become a very vibrant business now. It is now doing large chunks of the police's forensic service. There are lots of examples where releasing a public sector-owned group of staff not only does a better job for the public sector, but actually becomes growth-enhancing as well, and that is part of the agenda.

Q62 Ian Swales: You used a phrase earlier: landing the figures on a sixpence. As someone who used to have to do that for a living, I know what you are talking about, but it does lead to this question of the extent to which the claimed savings are real. That is not just a wild comment. This Committee reviewed the 07–11 spending review claimed savings. The NAO found that only 38% of the savings that were claimed were actually real, and 18% were simply not there at all. There was a grey area of whether they were real or not. So my first question is—presumably, that Report is looked at carefully—what learning have you taken from that Report?
Ian Watmore: I very strongly want any numbers we quote to be backed up, auditable and publicly defensible. I think it was in the summer of last year when I talked to this Committee about the number likely to be just under £4 billion. We called our internal auditors in. We had them crawl over every number, and we changed them as a result of that. Then we made them available to the NAO. From my point of view, the methodologies are different in how we have done the calculations, but we have come out with the same number in the broad scheme of things. So I think they are substantial, they are real, and if ever they stop being real, I want to be hauled up and we will change them.
Sharon White: The one point I was going to add is that obviously the difference between the last spending review and this one is that we now have an independent Office for Budget Responsibility, which, in terms of the global picture, is a very useful watchdog in making sure the numbers add up, and indeed that our forecasts for the future are in good shape.

Q63 Ian Swales: That is an interesting point, because that is something that I had not thought about. To what extent are they involved in the minutiae or even the management of this spending programme?

Q64 Mr Bacon: Do you ever talk about it at home?
Ian Watmore: Below the belt, Mr Bacon.
Sharon White: I am always saying to people that, because I am married to the excellent Chair of the Office for Budget Responsibility, we spend more time on child care arrangements than we do on the minutiae of public spending.

Q65 Ian Swales: So, to be serious, are the OBR involved in this?

Ian Watmore: The OBR set the framework for the economy. In this particular case—the subset that we are talking about, which is the auditable savings programme—we record the figures in the Cabinet Office and Treasury. We get the internal auditors in Government to crawl all over it and we then make it available to the NAO.

Q66 Ian Swales: But the OBR will not have any hands-on involvement in this?
Ian Watmore: No, not in deciding that the property lease is reduced by whatever.
Sharon White: But they sign off the public finance numbers. In terms of the aggregate picture, that is important.
Ian Swales: That is important. My last question goes back to something that Mr Barclay raised earlier. To get the savings of the level we are talking about—and beyond, which we have also discussed—is clearly a culture change. I remember some stuff from way back that McKinsey did about high-performing organisations. One of the phrases was: performance shortfalls change careers. I prefer to be optimistic and say, "Performance changes careers". So, will performance change careers in this regard in the civil service? If we go to some of those key accounting officers and their staff and finance directors and so on, would they say, "A key part of my personal review is whether I deliver on this, and I expect my career to be affected either for better or worse"?
Ian Watmore: I would be surprised if they didn't.

Q67 Chair: I have to say that in our experience, even in this short time under this Government, Permanent Secs moving from one job to another with questionable records is a really irritating thing. Everybody always says it, but when you look at it and whether it happens in practice, off the top of my head I can think of two promotions in this Government of people whose past performance—

Q68 Ian Swales: From a financial point of view.

Q69 Chair: From a financial point of view, it was really questionable.
Ian Watmore: Speaking personally, I set the budget for the efficiency reform group to reduce by 40% in the first year, and do all this extra stuff—

Q70 Chair: But across Government?
Ian Watmore: I hold it very tightly, and I think every Permanent Secretary does the same thing.

Q71 Ian Swales: Just finishing on that then, if an area is clearly not achieving, you think that the careers of senior people responsible—not just the person, but the people—will be affected, and vice versa; if you find a really innovative Department beating it out of sight, their careers will be affected.
Ian Watmore: Part of our joint job is to promote best practice, so if we see it, we try to spread it. Equally, we have a mechanism. So if we take the example of the Major Projects Authority, which I heard you debating with Bob and Jeremy before, it was set up to try to drive better performance in major projects. Sharon and I have a joint role on ensuring that that happens. Obviously, if projects get into difficulties, we have the ability to move in.
Ian Swales: Personal accountability is what we are talking about here.

Q72 Stephen Barclay: Can I go back to a couple of points that you made, Mr Watmore? First, you talked about the very welcome news that Redfern, an SME, had got a major contract, perhaps to the value of £1 million. You say that it is an SME. Can you just clarify that it is not owned by any holding group and how many people, in broad, rough terms, work for it?
Ian Watmore: It will probably stop being an SME as a result of this contract, for good reason.
Stephen Barclay: Indeed. There would be a risk in giving such a big contract to an SME, so I am just trying to understand that.
Ian Watmore: I do not remember how big the company is, but it certainly is a separate entity, founded, led, based and staffed in Yorkshire.
Stephen Barclay: It has been around for 70 years. I am just trying to confirm that when we talk about an SME, we are excluding those SMEs that are part of a much wider holding group.
Ian Watmore: Yes, if that is the definition that BIS has of SMEs.
Mr Bacon: In August 2008 it employed 25 people. It saw its turnover grow by 60% from £9 million to £14 million from 2007, so I think it was a genuine SME.

Q73 Stephen Barclay: I think that is to be applauded and is extremely welcome, in terms of getting SMEs into the market.
One related area, which you also mentioned, is IT contracts. My concern sometimes is that IT contracts can ask lots of process questions rather than a proof of concept. Can you confirm, even within your own Department, the Cabinet Office, that during your time, tender processes for IT work have focused on and asked for a demonstration of proof of concept, rather than asking for lots of paperwork to be filled?
Ian Watmore: Absolutely. The change in technology and the change in commercial procurement processes go hand in glove. For example, we are building the successor product to Directgov. Directgov is very successful—30-odd million people use it every month. It is fantastically useful, but we want to move it to the next level. So we have built something that we have called alpha.gov, bunged it out there, done very quickly, put it out there and invited comment from right across the spectrum. All those flip-flop wearing IT geeks have pored all over it and given us their views. We then factored that back into the beta release, which is similarly getting that treatment. When that is done, that will be the basis for the successor product.

Q74 Stephen Barclay: That is a slightly different thing to what I was asking. What I was asking was, during your time, when you have done tenders for IT, have you always required proof of concept—in other words, whenever people are pitching, for them to demonstrate? Often, otherwise, if someone is truly

innovative, your tender process may not reflect that innovation.
Ian Watmore: I agree with that. What we are trying to do before we tender is—I forget the jargon—effectively to have a discussion with the marketplace before we put the final tender out, so that we are not using the tender process to be the place in which we flush out all of that and level the playing field. Then we do a short, sharp procurement, and then we get on with the project.

Q75 Matthew Hancock: Can you guarantee that not having done a similar project before is no longer a block on entering a tender process?
Ian Watmore: There were a lot of "nots" in that. I think I can guarantee that for small contracts, we have now eliminated the need for the pre-qualification questionnaire, which is the typical trap that catches people who do not have the track record.

Q76 Matthew Hancock: Is it true that there may still be cases where not having delivered something similar before disqualifies you from the tender?
Ian Watmore: I do not think it will ever disqualify. I think it will be a factor in the procurement process.

Q77 Stephen Barclay: What I am driving at is someone doing things differently and how they can demonstrate the proof of concept. Perhaps, as an example, you could look over the past 12 months and send me a note detailing how many pages of tender documentation would have to be filled out for the largest tender that the Cabinet Office alone—not Whitehall—has done on IT, so quite specific. I appreciate that you would not know that off the top of your head.
Ian Watmore: I will happily send you a note on the procurement. We have just this week announced the CloudStore, which is the idea of having, in so-called cloud computing land, a place where people can go and buy from the small and medium-sized digital new entrant companies. I cannot remember the exact number of people who are out there, but we have, in a very short space of time, let 100 plus contracts to small and medium-sized firms. Government Departments now have the rights to buy from them, a bit like you might go on your i-phones into the app store. That would not have happened a year ago; that is different.

Q78 Stephen Barclay: That is very welcome. Flowing on from Ian's question, in terms of the staff reduction, one of my concerns is whether money is being paid into people's pensions for many years to come, which offsets some of the savings. Anecdotal evidence has been given to me of people who are perhaps in their mid-50s getting their pension paid up to 60, so the notional saving being booked and what is actually paid are not aligned.
Ian Watmore: The accounting treatment on this is complicated, and I would happily take you through it offline. If somebody is over 50 and they get a voluntary redundancy scheme—that is the scheme that the Government negotiated with the unions and legislated on last year—the cost of that scheme through to their 60th birthday, or whenever the normal pension would have kicked in, is taken in year by the Department. The cost of exit—redundancy or, in this case, early retirement—hits the Department in the year you do it, so the cost is taken up front. The cash obviously flows at a later point, but the actual cost is reflected in the severance costs. I think that is common across business, if I remember my accounting treatment from the past, and that is what we do in Government.

Q79 ***Amyas Morse:*** I would like to ask a couple of small things. Sharon, I wanted to make sure that I had heard you correctly; I think I heard you say that you would be more welcoming to spend-to-save propositions in the Treasury. Did I hear you say that?
Sharon White: I did not say that we would be more welcoming of spend-to-save propositions; what I said is that Departments, thinking ahead to eight years of pain—
Amyas Morse: Having to spend money to achieve it?
Sharon White: The Treasury is not, I am afraid, going to be offering largesse for them to spend to save.
Ian Watmore: We have actually inverted that, in that we said to people that they have to save to spend.
Amyas Morse: I thought for a moment that that was some exciting news, but it is not, obviously.
Sharon White: No, it is not.

Q80 ***Amyas Morse:*** Going back to the subject of longer-term planning, which you have said you want to do—you have kindly welcomed a lot of the things in our Report and said that things are all moving in the right direction—when can we be sitting here or in the NAO and looking at a reasonably comprehensive set of plans for Government, looking forward over a number of years, saying how all this will be carried through? What is a realistic expectation of having that in place? This is not meant to be a trap, but we are really very interested to see it. What is a realistic time when that would build up from the Departments' having decent plans?
Ian Watmore: Every Department has some form of planning that will crystallise and change over time. There is not a date where there will suddenly be a mega plan.

Q81 Chair: You want to have a more confident Report, right? What you have said is that this Report was based on fieldwork done last year. I think as you read it, without any knowledge of what is happening, it does not read brilliantly. It reads with a lot of question marks on it. When are we going to be able to get that?
Ian Watmore: I did read it differently, actually. I read it as the first time I had ever read an NAO Report on an efficiency programme that actually said, "Well done, you got the savings in. We counted the numbers up and we were consistent." I thought that that was a positive.

Q82 ***Amyas Morse:*** I am not trying to put a negative spin on it, nor is it meant to be a trick question, but I think it is fair to say, that you two are the architects of driving this through to a large extent. We are

interested in value for money. When can we reasonably expect to see something that hangs together rather more than it does now? That is not to say that what has been done is not good; we are not interested in all that. When can we reasonably sit down with you and be looking at something that has got a more comprehensive feel than where we are now?
Ian Watmore: I think we might have to have a discussion offline about what you are looking for. The MOD now has a pretty good plan for the next 10 years, which it did not have six months ago. It will change in six months' time; it will be different again. We are going to go round the loop again and say, "Each of these Departments is formulating its plans according to"—
Chair: You have not really answered the question.

Q83 Mr Bacon: Come up with an interim scorecard of the kind you described earlier in a slightly different context to show where each Department is so that we can look at it and see the red lights and the amber lights. From what you have just said, the MOD would now have a green light, which would be a remarkable thing, but, apparently, that is the case. *[Interruption.]* You would disagree?
Ian Watmore: Less red.
Mr Bacon: Less red, okay. Let's have a scorecard so we can see.

Q84 Jackie Doyle-Price: I think where we are in the same space is that the Report says the direction of travel is positive, which is the message you are trying to give us. It also says some Departments have been a bit more forward looking and a bit more proactive than others. We want to be sure where the outliers are, because we want to hold them to account here.
Ian Watmore: Let me take that away as a challenge, and we will come back to you with a suggestion on how we do that.
Mr Bacon: And also on how policy changes and changes in the way existing proposals end up being implemented may impact on all that. I am thinking specifically of universal credit and the relationship between DWP and HMRC. There is a maelstrom there, as far as I can see, and it is not at all clear to me how it is all going to pan out. All I know, Miss White, is that it appears that every time a Department—the DWP is a good example of this, although there is a general problem—explains something to the Treasury and gets it on board so that progress can be made, that Department will come back a few years, or even months, later and find that things were perhaps not so clear after all, and it has to explain everything all over again. Why? Because if you have a 28% turnover in your Department, which, for most organisations, would be a sign of critical weakness, half your people will have flown the nest, and you will have to start all over again. That is not a basis for stable government. So it would be helpful if we could have a scorecard of the kind described and if we could have included within it—if necessary, as an appendix—something about the key risks in relation to changes in the way it is planned to implement existing policies.

Q85 Matthew Hancock: May I just push on precisely what you are planning to deliver? Are we expecting something within a week, which we can therefore take into account in our Report?
Ian Watmore: I am going to think about what you have said and consult with colleagues about how we might address that.

Q86 *Amyas Morse:* If you will forgive me for saying so, Ian, you reply in terms of each Department, but we are really looking for something we can throw a blanket over so that we can see a comprehensive picture. The Committee had a great appetite for this in looking at whole of Government accounts. You are in the centre, driving a comprehensive approach. We have an appetite to see a comprehensive picture, as well as the picture in individual Departments. Finding outliers is one thing, but we want to see the picture taking shape holistically. The exercise you are driving is an holistic exercise to drive down the deficit, isn't it? So it is right to look at all the components, not just to look at things bit by bit. That is what we are really interested in.

Q87 Chair: What would be useful to us would be to have something in time for the publication of our Report, if you cannot give us the document setting out a time frame. Can I just ask one final question, and then I think we will be there? This takes us back to an earlier point. What you tend to see when Departments are given their expenditure limits is that one Department will decide to cut, which leads to additional expenditure elsewhere. I am thinking of a recent letter I had from one Member of Parliament, who asked us to take this issue up, because DCLG is encouraging higher rents for affordable housing to finance its development, which will have an impact on the benefit bill. Given your roles at the centre, how are you tackling cuts in one area leading to growth elsewhere?
Sharon White: It may be a point about the way in which we structure the public spending bit of the Treasury. In addition to having teams that face each Department, we also have something called the general expenditure and planning team, which has an horizon-scanning view across all Departments. They are the people who advise the Chief Secretary on where the key risks are or on where universal credit fits in with the delivery of other issues. They will also have a sight of this balancing, so if they can see that, on the one hand, the DCLG is going to do something that seems sensible but, on the other, that the welfare bill will rise commensurately, it will bring those two together.

Q88 Chair: Who has the power? Do you two have the power in that instance?
Sharon White: Certainly. Ultimately, it is me advising the Chief Secretary who will then sit down with Iain Duncan Smith or Eric Pickles or some other combination.
Ian Watmore: I think your example is core Treasury in relationship with the Departments. If it was something that was more aligned with the

management side rather than the policy side, it would probably come to me.

Q89 Chair: The very final thing is localism—we touched on it on Monday. Where there is a tension between the policy drive for localism and the savings that can be got from procurement—whether it is MRI scans, which we did not so long ago, or PFI, which we looked at on Monday—how are you resolving it?
Ian Watmore: Part of our agenda is more of a localism agenda, so some of the mutual stuff that we were talking about earlier is very much that.

Q90 Chair: So you are putting localism before the saving?
Ian Watmore: No, I am saying that it is part of the agenda. I have in my team the group of people who you would have known as the Office of the Third Sector in the previous Government and now the Office for Civil Society, who are the people who are looking at more innovative ways of getting social finance in, such as social impact bonds and big society capital, which is aiming at getting private sector capital in to fund very localist projects to deliver public services with a social outcome. That is part of our reform agenda.

Q91 Chair: That doesn't really answer it. There is a tension. If you want to get cheaper PFI, you centralise it. If you want to get it locally, you localise it. The same with the MRI scans. It was classic in the hospital capital equipment area.
Ian Watmore: A good example in the procurement space is that we think it is better to centralise commodity procurement but better to localise the commissioning of the local public services.

Q92 Matthew Hancock: This is tight-loose, isn't it?

Q93 Chair: Where is that argument ending?

Q94 Q94 Mr Bacon: Just a minute, a linear accelerator is not a commodity; it is highly sophisticated.
Ian Watmore: So I believe. They are all the same.

Q95 Mr Bacon: They are not all the same. If you talk to Sir Robert Naylor of UCL hospital, he will tell you that they are not. Some people have more leading edge ones than others. That is something that is not a commodity, but is plainly better done with central grip than everyone going for their own thing.
Ian Watmore: There are then the big strategic procurements, particularly in defence and so on, where you have to do certain things. I was thinking of the commissioning of some local service. It is not best done nationally; it is best done locally. The infamous paper clip procurement is best done centrally.

Q96 Chair: Will you prescribe that? Where in procurement terms it is better to centralise and specialise and maximise your power, will you prescribe it?
Ian Watmore: We have prescribed. We are now doing it.

Q97 Chair: Well, we didn't see capital equipment in the evidence.
Ian Watmore: We, for example, have a team, primarily in Liverpool with some in Norwich, doing the procurement of these commodities. Energy, on behalf of Government, is now done almost 100% through them. Travel has gone through them. All these contracts that are classic commodity contracts are going through them.

Q98 Chair: As I understand it, that is all around the civil service; it is not around the public sector.
Ian Watmore: It is central Government spend, yes, but we are increasingly making those contracts available to the people in the wider public sector to use if they so wish. We have, I think, health procurements worth some £1 billion going through there now, so it is starting to happen. The primary job that we were given was to get the central Government commodity spend out of Departments and into the single unit, which is primarily in Liverpool, and then allow the Departments to focus on those big strategic procurements, such as defence equipment, and to allow the localist agenda to pick up on the commissioning of local services. That is the broad procurement strategy in a nutshell.

Q99 Chair: Do you want to add anything to that, Sharon?
Sharon White: No.
Chair: Thank you.

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