

or he could extend freedom from them to the entire EU, and see transfer prices fiddled to show profits in, for instance, Ireland (corporation tax 12.5%, against Britain's 30%) or one of the several about-to-join EU countries with low rates.

For companies that have barely bothered their heads about intra-group prices or interest rates, keeping track, and being able to prove it, will be a real hassle. The

initial cost, says PricewaterhouseCooper, could be up to £200,000, with yearly running costs up to half that. Companies have had to hurry: as the CBI laments, it is not four months since Mr Brown announced his plans, let alone the details. And it will be rash to go slow or skimp: an Inland Revenue inquiry might cost £500,000. No vast sums in turnover terms, but on profits of, say, £2m-£3m not peanuts. ■

ing. There is a dire shortage of skills: less than a quarter of purchasing staff are qualified in procurement. There are 250 accounting systems across central government which makes it difficult to benchmark prices and to compare departmental spending.

Nor is it clear that specialist buying agencies will help that much. The OGC has already established one, employing over 200 people, which runs electronic catalogues for services like management consultancy and IT. But civil servants say that the prices it secures are not necessarily the lowest and that better value can sometimes be obtained from smaller suppliers.

Potentially, there may be big economies from streamlining support services and by doing more business online with citizens. But William Heath of Kable, an e-government research firm, says "it has proved very hard to date to get efficiency in government from IT". Mike Davis of the Butler Group, an IT consultancy, says that weaning the public off paper will be difficult; and that civil-service resistance to the reforms will prove formidable.

Another reason for caution is the long history of IT projects going wrong in government, both overrunning their budgets and incurring protracted teething troubles. "Given the record of IT in government you should not be booking the savings now," says David Heald, professor of financial management at Sheffield University Management School. Mr Heald also points out that staffing cuts could cost more money than they save in branches of government like the Inland Revenue where mistakes are costly. Over-payments of tax credits in recent years may have wasted as much as £2 billion.

Few doubt that there is scope for economies in government. What is in contention is the scale of savings and the timescale in which they can be achieved. They should be banked only when they are realised—not before. ■

Public-sector efficiency drive

Soft money

Why it will be hard to make big savings

IF PATRIOTISM is the last refuge of a scoundrel, wars on public waste are the last refuge of politicians who can't make their sums add up. In last week's budget, Gordon Brown announced large efficiency savings, amounting to £20 billion a year by 2008. The public is sceptical: a Populus poll before the budget showed that 57% of people think it unlikely there will be a reduction in waste and inefficiency under either Labour or the Conservatives after the election. Of 150 businessmen polled by PricewaterhouseCoopers, an accountancy firm, 44% dismissed the efficiency drive as "pie in the sky".

The scepticism is understandable. Politicians like to campaign against waste because it offers a free lunch: higher effective spending or lower taxes with no pain to the users of public services. This time, however, it is supposedly different because of the potential of information technology. The chancellor bases his notional savings on a report by Sir Peter Gershon, head of the Office of Government Commerce (OGC) within the Treasury.

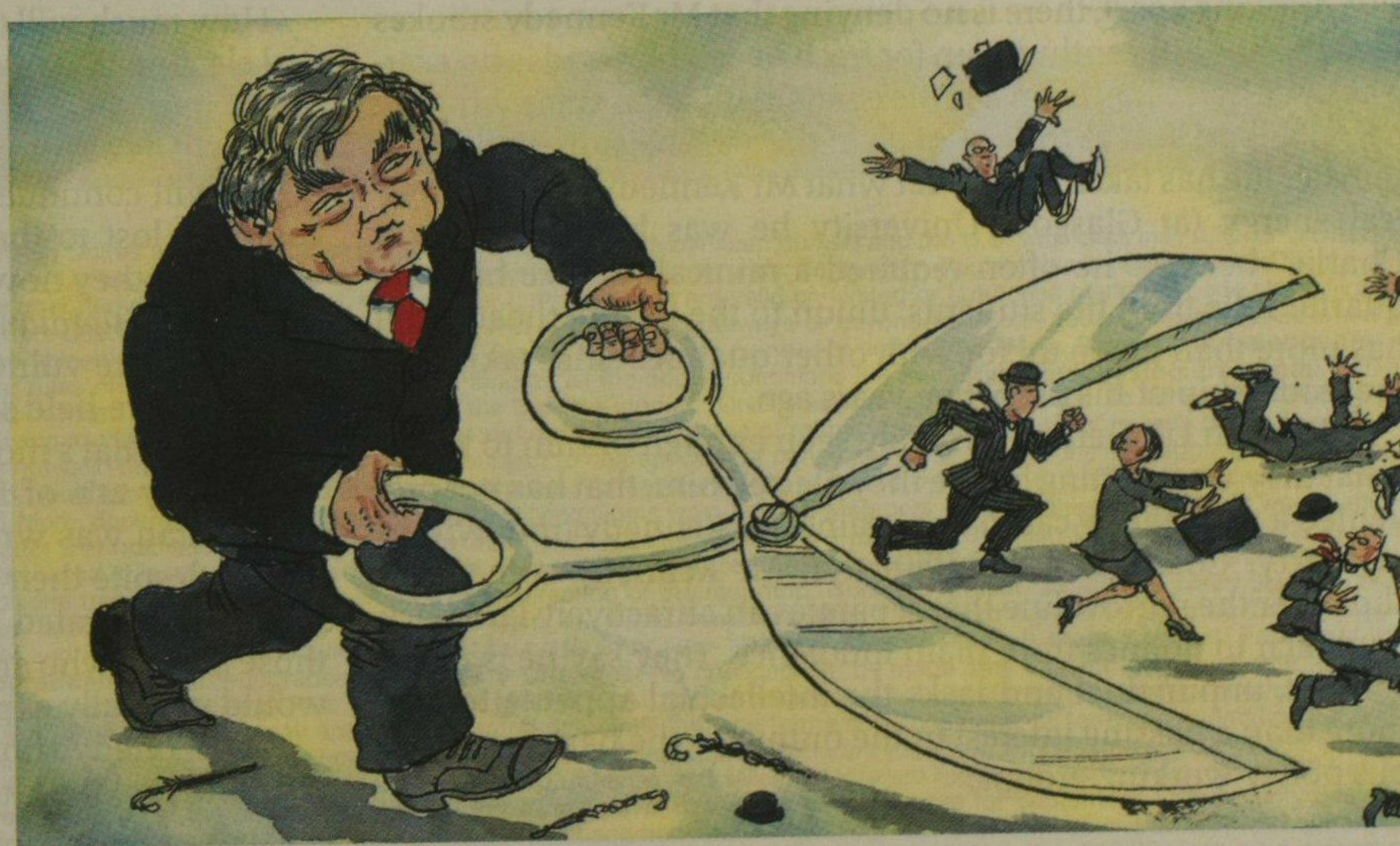
The report, leaked in February and due to be published in its final version shortly, spells out how IT will lead to big efficiencies in government. Jobs will go; the government's multi-billion procurement bill will be honed through the use of buying agencies; "back-office" support functions will be streamlined; the government will save money by paying benefits, handling forms and receiving taxes online.

It is an enticing vision, but one that will be difficult to realise. Start with savings from job losses. Mr Brown revealed that 40,000 civil-service jobs are going to be axed, a number that is likely to increase to 80,000 in the final report. That sounds a lot, but the public sector employs more than 5m. Assuming the civil servants are on an average public-sector wage of around £24,000, the saving from a cull of 80,000 will amount to around £2 bil-

lion—a useful start but a long way off £20 billion. And Carl Emmerson of the Institute for Fiscal Studies points out that the government's spending plans until spring 2006 already take into account some 15,000 of the 40,000 job losses.

With £120 billion—on a very wide definition—spent on buying goods and services a year this might seem a potentially lucrative target. However, a recent report by the National Audit Office on the £15 billion procurement budget of central government, excluding defence and health, suggests that there are not many low-hanging fruit to pick here. In the three years to March 2003, there have been only modest annual savings of about £550m—3.6% of the total bill. The savings have been concentrated in a few departments, with a quarter made in just one, the Department for Work and Pensions.

Even so, apply this rate of saving to that total procurement bill of £120 billion and you get a handy economy of around £4 billion a year. But the NAO report shows the many pitfalls in the road to better purchas-



"Soft money." *Economist*, 27 Mar. 2004, p. 35. The Economist Historical Archive, 1843-2015, <https://link.gale.com/apps/doc/GP4100343912/ECON?u=glasuni&sid=ECON&xid=4a7d1692>. Accessed 27 May 2020.