

National Assembly for Wales
Public Accounts Committee

A Picture of Public Services

April 2012



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Public Accounts Committee

The Committee was established on 22 June 2011. The role of the Public Accounts Committee is to ensure that proper and thorough scrutiny is given to Welsh Government expenditure. The specific functions of the Committee are set out in Standing Order 18. The Committee will consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions. Their remit also includes specific statutory powers under the Government of Wales Act 2006 relating to the appointment of the Auditor General, his or her budget and the auditors of that office.

Current Committee membership



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Welsh Conservatives
Clwyd West



Mohammad Asghar (Oscar)
Welsh Conservatives
South Wales East



Mike Hedges
Welsh Labour
Swansea East



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The Committee's Recommendations

The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this Report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

Recommendation 1. We recommend that the Welsh Government takes action to monitor, and make publicly available, its progress in driving up financial management across public services. We anticipate that this will incorporate good practice in financial management being shared across the public sector. (Page 11)

Recommendation 2. We recommend that the Welsh Government takes further action to encourage local authorities to use reserves to support transformation, while ensuring that they maintain a prudent level of reserves to manage future risks and requirements. (Page 11)

Recommendation 3. We recommend that, in line with the views of the National Assembly for Wales's Finance Committee, the Welsh Government holds senior management within Local Health Boards to account for their statutory financial management responsibilities, following the end of the 2011-2012 financial year. In subsequent years thereafter, we recommend that the Welsh Government set out a financial accountability framework for Local Health Boards, to promote effective financial planning and delivery of services in accordance with statutory responsibilities. This should include information on incentives and sanctions for senior managers as appropriate. (Page 17)

Recommendation 4. We recommend that Local Health Boards are enabled to make more effective use of funding across financial years in line with Local Authorities. This would enable improved financial planning in the medium to long-term. (Page 18)

Recommendation 5. We recommend that the Welsh Government ensures that individual NHS bodies make public the plans for service transformation and the analysis that underpins those plans, including the likely impact on patients and the wider community. (Page 18)

Recommendation 6. We recommend that the Welsh Government supports existing methods for disseminating good practice, such as promoting use of the Good Practice Exchange on the Wales Audit Office’s website, to systematically draw together the characteristics of good practice from all areas of the public sector, and to ensure that such practice can be effectively transferred to services at a local level. (Page 25)

Recommendation 7. We recommend that the Public Services Leadership Group identify, learn from and promote examples of good practice implemented by the police and fire and rescue services to deliver services within budget, make good use of collaboration, and deliver transformational change. (Page 26)

Recommendation 8. We recommend that the Welsh Government promotes the Wales Audit Office model for cost reduction to all public services to help mitigate the impacts of cuts and work collaboratively to take account of local and national priorities. (Page 28)

Recommendation 9. We recommend that the Public Services Leadership Group build on the progress of the Efficiency and Innovation Programme by ensuring that the good practice identified through the Lean/Systems thinking and the Kafka Brigade method is actively promoted across the public sector. (Page 28)

Recommendation 10. We recommend that the Welsh Government robustly monitor the performance of its model for regional collaboration. We believe that any model must ensure that councillors and citizens are central to discussions on the way that local services are delivered and that there is appropriate governance and accountability. (Page 29)

Recommendation 11. We recommend that the Accounting Officer provides us with an update within 12 months on the progress in delivering the recommendations made by the Auditor General and our own. (Page 32)

1. Introduction

1. In March 2010, the Auditor General for Wales ('the Auditor General') published his first report into A Picture of Public Services, which estimated the financial challenges facing public services in Wales.
2. In October 2011, the Auditor General published his report A Picture of Public Services 2011, intended to provide greater clarity on the challenges that face public services in Wales during a time of unprecedented levels of financial pressure.
3. The Auditor General found that a number of positive steps have been taken since the first report was published, but that there is still scope to do more to render efficiency savings across public services in Wales.
4. The Auditor General briefed us at our meeting of 18 October 2011. We then scrutinised the Accounting Officer at our meeting on 22 November 2011. Following this, we sought the view of the Welsh Local Government Association at its meeting on 6 December 2011, focusing in particular on the pan-public sector response to the financial challenges. As the Auditor General's report emphasised the particular challenges facing the NHS, we took evidence from the NHS Confederation at our meeting on 21 February 2011, who were also represented by the Chief Executive of the Aneurin Bevan Health Board.
5. In considering the financial challenges facing the NHS in Wales, we were aware that the Auditor General will be publishing a forthcoming report on NHS Finances. Although we have made recommendations to the Welsh Government around NHS Finances on the basis of the evidence received in this inquiry, we anticipate that this will not prevent us from considering the Auditor General's forthcoming report.
6. We have arrived at a range of conclusions based on the Auditor General's report and the evidence that we have taken. We are fully aware that these are testing times for public services and it is clear that public sector organisations need to do all they can to combat waste and inefficiency in order to minimise the impact of financial constraints on services and, most importantly, service users.

7. It is our intention to return to this issue to gauge the Welsh Government's progress in meeting the recommendations set out in this- and the Auditor General's- report.

2. The financial challenges facing public services in Wales

8. The Auditor General's report clearly sets out that, as a result of the current financial settlement for Wales, the public sector in Wales is facing unprecedented cuts. The Auditor General's first Picture of Public Services report used the plans of the previous UK Government to estimate that there would be real-terms reductions of around £500 million year-on-year to devolved public spending, and that the budget in 2013-14 would be around £1.5 billion less than in 2010-2011. The estimate turned out to be accurate, with real-terms cut of £1.6 billion between 2010-2011 and 2013-2014.

9. The Auditor General summarised the current financial settlement for Wales in his report:

“Devolved public funding in Wales will fall in real-terms, with particularly large cuts to capital funding.

“[...] The Welsh Government will see a real-terms reduction of 12.4 per cent in the funding available from the Treasury, using the Welsh Government's baseline. This reduction includes a 9 per cent reduction in revenue funding over that period, and a 40.2 per cent reduction in capital funding.”¹

10. Written evidence provided by the Welsh Government stated that:

“The reality of the cuts imposed on the Welsh budget by the UK Government is that no area of public services can be unaffected. The Welsh Government has been clear about the priorities placed on frontline services, including, but not exclusively, schools and health, and has protected these budgets as far as possible.”²

Local Government services

11. In his report, the Auditor General concluded that “Cuts in funding to Welsh councils are lower than elsewhere in the UK but some council services face significant budget reductions in the short term.”³ The

¹ Wales Audit Office, A Picture of Public Services 2011, 14 October 2011, p.12

² NAFW Public Accounts Committee, Welsh Government paper, 22 November 2011, p.9

³ Wales Audit Office, A Picture of Public Services 2011, 14 October 2011, p.21

Auditor General's report identified that there would be cuts across all major services areas, although some service areas would experience substantially more challenging cuts. The greatest cuts of all would fall on libraries, culture, heritage, sport and recreation services.

12. We sought evidence from the Welsh Local Government Association (WLGA).

13. The WLGA concurred that:

“[...] authorities have tried to protect statutory services as much as possible. Culture, leisure and the arts, unfortunately, have been one of the first areas where authorities have looked to make savings.”⁴

14. The WLGA told us that whilst its financial settlement was not reduced as much as previously anticipated, local government would still face significant financial challenges. Its written evidence stated that:

“In June 2010 [...] we were working on an annual capital cut of 10 per cent and a cut of 3 per cent in revenue. In this financial year, authorities received an average reduction of -1.4 per cent. For 2012-2013, they are forecasting a 0.24 per cent cash increase.

“[...] However, that is not to say that local government is not facing significant challenges. There are particularly acute service pressures in social services, in adult and children's services [...] We have seen demand for services to vulnerable groups increasing”⁵

15. We welcomed the evidence that the financial cuts to council services were not as extensive as first anticipated, although we are concerned that this might lead to complacency in financial planning. When we expressed concern to the Welsh Government about the overall financial position for Welsh public services as a whole, we were told that the Programme for Government set clear priorities, so that the whole public sector has a clear steer as to where it ought to spend the money going forwards.

⁴ RoP 6 December 2011 c.22

⁵ RoP 6 December 2011 c.8

We recommend that the Welsh Government takes action to monitor, and make publicly available, its progress in driving up financial management across public services. We anticipate that this will incorporate good practice in financial management being shared across the public sector.

16. The WLGA told us that reductions in capital were causing great concern to local authorities with regard to their flexibility to deliver services and maintain quality to the level required. General reserves would be available at the discretion of local authorities: however, we heard that these were only to be used to meet any internal and external risks (for example, responding to uncertainties such as severe weather). We were told that this equates to some 3 per cent of gross revenue expenditure.

17. The Auditor General's report asserts that using reserves to meet recurrent revenue funding shortfalls is not a sustainable solution and councils must have due regard to maintaining prudent level of reserves to manage future risks and requirements.⁶ We concur with this assessment, and consider it critical that Local Authorities strategically manage their finances, balancing their overarching priorities.

We recommend that the Welsh Government takes further action to encourage local authorities to use reserves to support transformation, while ensuring that they maintain a prudent level of reserves to manage future risks and requirements.

18. We also heard that, although the Welsh Government had provided local authorities with £32 million to support a council tax freeze, all but one Welsh council increased council tax in the financial year 2011-2012.⁷ We were told that the additional £32 million resulted in a lower cut to the overall grant than was expected:

“Council(s) have used that £32 million to protect front-line services, but at the same time have felt the need to increase council tax to help bridge the funding gap.

“[...] in this financial year we have seen the lowest increase in council tax since devolution. [...] Local authorities recognise

⁶ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.27

⁷ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.24

the pressure on households and have striven to keep council tax increases as low as possible.”⁸

The financial challenges facing the NHS in Wales

19. The evidence gathered in our inquiry indicated that NHS Wales faces significant challenges in meeting its statutory requirement to break even in this financial year, particularly at a time when demand for services is rising and that there is very limited scope for extra funding from the Welsh Government.

20. The Auditor General’s report examined how well prepared the NHS is to face these cuts in budget. His report stated that:

“Given the track record of the NHS in managing within its budget, the scale of the funding gap and with widespread service reconfiguration some way off, it is very difficult to see how the NHS will improve quality and sustain service levels and jobs in 2011-2012 without again requiring a significant cash injection from the Welsh Government.”⁹

21. We note that following the publication of the Auditor General’s report (and subsequent to earlier announcements of such) the Welsh Government formally made an allocation of £93 million from revenue reserves to the NHS delivery action in the second supplementary budget of the 2011-2012 financial year. Of this:

- £63 million is stated to be to “place the NHS on a sustainable financial footing going forward,” and
- £30 million is allocated to Hywel Dda LHB as part of “a four year package to support the transformation of services.”¹⁰

22. However, in their report on the supplementary budget, the Finance Committee commented:

“we remain concerned that potential overspends by Local Health Boards continue to represent a significant financial risk to the Welsh Government’s budget.”¹¹

⁸ RoP 6 December 2011 c.15

⁹ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.43

¹⁰ Welsh Government, Supplementary Budget 2011-12 Narrative, February 2012, page 9.

23. In approaching our consideration of the Auditor General's findings, we sought evidence from the Welsh NHS Confederation.

24. In supporting the findings of the Auditor General's report, the NHS Confederation acknowledged that the NHS needed to balance ambition with realism. Notwithstanding this, they were still confident that NHS Wales would "break even across all of the organisations" even though "there are still some very difficult financial challenges for us to overcome, with a number of weeks to go until the end of the year."¹²

25. When questioned on whether there is an early-warning system to identify potential situations where Local Health Boards are likely to overspend, the Welsh Government assured us that in any situation where it appears that there is a likelihood of overspend, this would be managed on a very tight basis by the additional accounting officer for health. They stated that:

"[...] because the health budget is tied up with the overall Welsh Government budget, the heads of Finance, on a monthly basis, collectively look at the overall Welsh Government position and, as part of that, the health position, because it is part of the overall picture. If pressures are emerging there, we look at what is driving them on."¹³

26. Written evidence provided by the NHS Confederation noted that the risk of an overspend was not unique to this financial year, but was part of a broader context of rising costs pressures upon the NHS, stating that:

"Long term demographic trends, increased patient demand, costly medical advances and new drugs, lifestyle related conditions and the challenge of providing all services across all parts of Wales will have an impact on healthcare resources. Quite simply, if the NHS continues to do the same things in the same way but with less money then it will fail."¹⁴

27. As noted above, during the proceedings of this inquiry, the National Assembly for Wales's Finance Committee scrutinised the

¹¹ Finance Committee, Scrutiny of Supplementary Budget motion 2011-2012 (Spring 2012), c.41

¹² RoP 21 February 2012 c.21

¹³ RoP 22 November 2011 c37

¹⁴ PAC(4) 03-12 (p1) – 21 February 2012 – p.2

Minister for Finance on the Welsh Government's Supplementary budget 2011-2012. That Committee asked the Minister whether further additional funding would be available to Local Health Boards after the supplementary budget, if they did not break even by the 2011-2012 year end. The Minister responded that she believed:

“the levels of financial risk have been significantly reduced by the levels of additional funding the Government has provided... you cannot eliminate all the financial risk but it does give me the confidence that we'll achieve financial break-even.”¹⁵

28. Written evidence from the NHS Confederation stated that the NHS is on track to deliver savings of £310 million this financial year by reducing costs, containing costs, reducing capacity and redesigning services. It also states that in the first two and a half years of establishing new organisational structures, NHS Wales would have managed cost pressures and made savings totalling over £1 billion.¹⁶

29. When questioned on these potential savings, the NHS Confederation told us that:

“[...] to make short term savings, we have to consider the impact in the medium term and long term, because that has an impact on patient care and services.”

30. In reference to contingency plans, should the NHS require additional funding in the financial year, the Welsh Government stated that plans were critical on two fronts:

- The work of the overall public service reform agenda; and
- Delivery of the five-year vision for health, which should be the strategic direction so that the health service can live within its means in the longer term, as well as thinking about its efficiency plans in the short term.¹⁷

31. We heard that many of the savings were about implementing cultural and behavioural change in the service. The NHS Confederation told us that savings had been made with regard to procurement,

¹⁵ NAFW Finance Committee report: Scrutiny of Supplementary Budget motion 2011-12 (Spring 2012) p.18

¹⁶ PAC(4) 03-12 (p1) – 21 February 2012 – p.5

¹⁷ RoP 22 November 2011 c.30

contract changes, the sharing of contracts and seeking the views of staff on how to make efficiency savings.

32. The NHS Confederation highlighted that a significant challenge in making savings in the short term would be implementing change in the workforce and encouraging staff to be flexible.¹⁸

33. The Auditor General found that, although workforce planning was progressing, the NHS needed to develop plans which were fully responsive to current financial pressures and future service models. His report stated that:

“[...] work to identify savings from reconfiguration was often not well developed. Inevitably, savings through reconfiguration will involve reducing staff costs. The challenge is to get that reduction right, so that staff remain engaged and skills gaps are avoided.”¹⁹

34. The Chief Executive of the Aneurin Bevan Health Board concurred that staff moving from delivering hospital based services to those in the community needed to be effectively supported, commenting that:

“it has been interesting to see nursing staff who have traditionally worked solely in a hospital environment feeling that they can move across to these more dependent teams and that they have the right skill set, with a bit of support. The shift also requires a different mindset, and I think that we will have to provide training opportunities for nursing staff in a very different way. As for healthcare support workers moving in those environments, they will clearly need to be aware of the different needs of patients.”²⁰

35. We are concerned that, in line with the Auditor General’s findings, the NHS might need to revisit its ambition to sustain levels and jobs. The Auditor General’s report identifies that the number of NHS staff decreased by 0.4 per cent between September 2009 and September 2010. We are concerned that this may bring additional risks during a period of significant change, with any reduction in budget likely to result in a reduction in staffing levels.

¹⁸ RoP 21 February 2012 c.66

¹⁹ Wales Audit Office, A Picture of Public Services 2011, 14 October 2011 p.42

²⁰ RoP 21 February 2012 c.114

36. We also note the Finance Committee's concerns that significant financial risks remain around overspends by Local Health Boards. We are concerned that this may illustrate the Auditor General's view that medium-term financial planning and workforce planning has not been comprehensive, which we believe has in turn exacerbated current financial pressures.²¹

37. The Finance Committee reported in its scrutiny of the Welsh Government's Supplementary Budget 2011-2012²² that, in the event that Local Health Boards cannot meet their statutory duty to break even, they anticipated that the Minister for Health and Social Services would deliver on her commitment to:

“hold senior management to account for the financial management of their organisations. They have a statutory responsibility. The NHS has to learn to live within its budget”²³

38. In her response to the Finance Committee's recommendation, the Minister for Finance confirmed the stance of the Minister for Health and Social Services:

“[...] NHS managers will be held to account for the financial management of their organisations, with strong action taken if financial targets are not achieved. Welsh Government officials are keeping the situation under close review as part of the in-year monitoring.”²⁴

39. We concur with the recommendation of the Finance Committee that there needs to be more accountability for the financial performance of individual NHS bodies. We also believe that there needs to be a continued drive to provide clarity on the spending of individual Local Health Boards, including all additional financial support provided to Local Health Boards during the financial year 2011-2012.

40. When questioned on the forecasted deficits of each Local Health Board, the NHS Confederation informed us of the 'month 10 position

²¹ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.42

²² NAFW Finance Committee report: Scrutiny of Supplementary Budget motion 2011-12 (Spring 2012) p.18/19

²³ RoP, Health and Social Care Committee, 25 January 2012 c.27

²⁴ Correspondence from Minister for Finance to the Chair of the Finance Committee in response to the Committee report on the Scrutiny of Supplementary Budget motion 2011-2012 (Spring 2012)

for NHS Wales'. We heard from the Chief Executive of the Aneurin Bevan LHB that Local Health Boards have:

"[...] a responsibility to report in public the level of pressures that we are experiencing as boards. We must forecast towards the end of the year. As we approach the last three months of the year, we are able to take some confidence from the level of savings that we are achieving as we go through the year."

41. He also stated that the NHS:

"[...] still have some financial pressures that we are looking to manage towards the end of the year"²⁵

42. We heard that the NHS welcomes more flexible financial planning across financial years in order to address the fundamental changes to the way in which services are delivered. The NHS Confederation told us that with an organisation and budget as large as the NHS's, managing deficits and risks up to 31 March is "a bit like landing a jumbo jet on a postage stamp."²⁶

43. We noted that there are still some very difficult financial challenges facing the NHS leading up to the end of the financial year and that there are still plenty of savings left to make.

We recommend that, in line with the views of the National Assembly for Wales's Finance Committee, the Welsh Government holds senior management within Local Health Boards to account for their statutory financial management responsibilities, following the end of the 2011-2012 financial year. In subsequent years thereafter, we recommend that the Welsh Government set out a financial accountability framework for Local Health Boards, to promote effective financial planning and delivery of services in accordance with statutory responsibilities. This should include information on incentives and sanctions for senior managers as appropriate.

We recommend that Local Health Boards are enabled to make more effective use of funding across financial years in line with Local

²⁵ RoP 21 February 2012 c.19

²⁶ RoP 21 February 2012 c.29

Authorities. This would enable improved financial planning in the medium to long-term.

We recommend that the Welsh Government ensures that individual NHS bodies make public the plans for service transformation and the analysis that underpins those plans, including the likely impact on patients and the wider community.

Health service transformation

44. The NHS Confederation advised us that the perception of traditional hospitals being the focus for care and treatment needs to be challenged and that the NHS has been exploring alternative methods of treating patients in their communities.²⁷

45. When questioned on what could be expected as a result of NHS service reform, the NHS Confederation stated that there would be less reliance on hospital care and there have been recent examples of practice where services are provided in people's own homes and closer to their communities.²⁸

46. When questioned on whether the cuts to budget would result in the closure of services, the NHS Confederation stated that:

“We have a responsibility [...] to deal with finance and to put it alongside the quality requirements of our areas.

“We understand that we have to challenge every penny that is spent within the organisation, and sometimes a judgement call is made. However, we have to bear in mind that we have a responsibility to the population.”²⁹

47. Whilst developing its longer-term approach to NHS planning in its Five Year Framework, the Welsh Government has a goal of bridging the financial gap it faces at the same time as improving the quality of care and maintaining service levels and jobs.

48. The Auditor General's report found that:

“Despite positive examples of progress, health service transformation needs to be accelerated and the NHS is likely to

²⁷ RoP 21 February 2012 c.8

²⁸ RoP 21 February 2012 c.86

²⁹ RoP 21 February 2012 c.44

struggle to meet the immediate financial challenges unless it revisits some of its ambitions.”³⁰

49. Although there are concerns with the financial situation across the NHS, the report highlights that there are a number of examples of innovative ways of working which are aiming to improve the efficiency and effectiveness of hospital services.

50. The NHS Confederation acknowledges that the NHS has to make changes to the way it operates. Its written evidence stated that:

“The way health services are delivered to patients needs to change radically so that more support is provided to people in their homes and communities therefore reducing our reliance on costly hospital based care.

“This is absolutely essential for the NHS to improve services for people in the future as well as reducing costs.

“Our overriding message is that the status quo is not an option.”³¹

51. We heard that in order to work within their budget, NHS bodies in Wales must ensure that they can appropriately manage their services and use their staff to identify problems and deficiencies within the system, encouraging them to come up with solutions and taking services forward.

52. With regard to making savings in the current climate, the Chief Executive of the Aneurin Bevan Health Board provided us with an example of how the NHS in Wales was able to deliver an extra £66 million-worth of savings through contract negotiations and changes in procurement.³²

53. They also emphasised that there would be opportunities to develop services as they go forward with the focus more on quality and the length of stay that patients experience. We were told that any change that leads to a good, positive outcome would be shared more generally across boundaries.

³⁰ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.39

³¹ PAC(4) 03-12 (p1) – 21 February 2012 – p.2

³² RoP 21 February 2012 c.64

54. The Auditor General's report points to the whole system approaches to efficient, collaborative, citizen-focused services which were offered by the Efficiency and Innovation Programme. Lean/Systems thinking and the Kafka Brigade showed how public services can work together to better understand and plan services collaboratively and how services can be re-designed around the needs of the citizen.³³

55. The Auditor General's report found that public engagement is critical to the success of service transformation. His report states that:

“It is difficult to achieve consensus around controversial decisions, particularly when closing facilities and services, such as hospitals, which are often highly valued by local communities”³⁴

56. When questioned on how the NHS implements change when there is likely to be strong resistance from the members of public or from clinicians, the NHS Confederation acknowledged that it was a significant challenge. We were told that:

“We are embarking and actively working throughout the NHS in Wales on a programme of engagement, involvement and discussion.

“[...] we cannot be so naive as to think that we could have the best engagement programme in the world and sail through without people objecting to change.

“[...] particularly issues for rural parts of Wales – the geography and demography – is clearly an extra dimension that we have to take into account.”

57. We believe that in order to address resistance to significant change to NHS services from members of the public and the wider health community, the NHS needs to engage with local politicians. We welcome that the NHS Confederation is undertaking work to gain the support of politicians. They stated that they would be reaching out to Assembly Members to:

³³ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.51

³⁴ Wales Audit Office, A Picture of Public Services, 14 October 2012, p43

“[...] outline some evidence background, with benchmarking regarding the types of services that have been provided in Wales, how they compare elsewhere, and the background to the decisions that the NHS will have to make.”³⁵

Collaboration with Social Services

58. The Auditor General’s report shows that, even though it is amongst the most protected areas, social service budgets still face real terms cuts at almost -2 per cent. At the same time there is increasing demand for the services.³⁶

59. We consider that the findings of the Auditor General suggest that cuts in social care could potentially re-direct service users and costs over the NHS. His report identified a real strategic gap in terms of guidance and direction around cuts.³⁷

60. We heard from the NHS Confederation that whenever a patient has had unavoidably hospital-based treatment they should, as soon as possible, be sent home or to a community based facility.³⁸ We believe that it is crucial that appropriate and effective cross-working between health and social services takes place to handle the specific needs of the patient and that any barriers are broken down, including any cross-boundary issues.

61. When questioned on how the interface between health and social services was addressing bed blocking issues, the Welsh Government stated that:

“A number of local services boards, which work in each individual local authority area and involve health and local authorities working very closely together have taken delayed transfers of care and focused projects around them.”³⁹

62. The Auditor General’s examination found many examples where partnership working had led to changes in the way NHS services were delivered or planned, commenting that:

³⁵ RoP 21 February 2012 c.99

³⁶ Wales Audit Office, A Picture of Public Services, 14 October 2011, p16

³⁷ Wales Audit Office, A Picture of Public Services, 14 October 2011, p28

³⁸ RoP 21 February 2011 c86

³⁹ RoP 22 November 2011 c77

“[...] there is increasing joint working between social services and the NHS, including joint appointments. In some cases though, councils and their partners have not set sufficiently clear intended outcomes and measures of progress to enable them to know whether they are delivering as intended. Also in some cases, the governance and funding arrangements are not sufficiently clear.”⁴⁰

⁴⁰ Wales Audit Office, A Picture of Public Services, 14 October 2011, p47

3. Collaboration and leadership

63. Written evidence provided by the Welsh Government stated that:

“Working in partnership across the public service in Wales and with social partners enables a collective response to the common challenges and opportunities we face to be developed and delivered. Through this, the Welsh Government seeks to protect and improve the public services that people across Wales rely on, in the context not only of rising demand and expectations for public services but also the global financial situation and the sustained public spending squeeze in the UK.”⁴¹

64. We also heard that it was the Welsh Government’s priority to not only work with finance professionals, but to engage with the wider community in the public sector to ‘drive up’ financial management expertise.⁴²

65. The Welsh Government clearly has an important role in setting legislative, strategic and financial environment within which local government operates. The Welsh Government has commissioned reviews of local government structures as well as the two main council services: education and social services. Each of the reviews points to increasing collaboration between councils as key to transforming services so that they are more financially sustainable:

- the Local, Regional or National? What’s Best Delivered Where? Review (the Simpson review);
- sustainable Social Services for Wales: A Framework for Action.

The Public Service Leadership Group

66. In July 2011, the Welsh Government established the Public Service Leadership Group (PSLG) to provide national leadership for public service reform and collaboration, and to drive the pace of improvement in public services of Wales.⁴³

⁴¹ NAFW Public Accounts Committee, Welsh Government paper, 22 November 2011, p.1

⁴² RoP 22 November 2011, c26

⁴³ NAFW Public Accounts Committee, Welsh Government paper, 22 November 2011, p.2

67. The PSLG replaced the Efficiency and Innovation Programme, which brought together senior officials from across the public sector, the voluntary sector and private sectors. The PSLG sits under the Local Government Partnership Council. Its key responsibilities are:

- ensuring coherence in the implementation of overall public service reform agenda in Wales, including oversight of the implementation of the ‘Simpson Compact’ between the Welsh Government and Local Government, and building coherence with the reforms in education, social services, health and other areas;
- sponsorship and mandating of national action to improve the effectiveness and efficiency of public services; and
- the development of effective regional leadership for collaboration, building on existing regional leadership structures and the Welsh Government’s public service footprint as a basis for regional collaboration.⁴⁴

68. Under the PSLG there are three national work programmes on Effectiveness Services for Vulnerable Groups; Asset Management and Procurement; and Organisational Development and Simpson Implementation. These national work programmes focus on establishing strong leadership for collaboration and delivery at a regional level: North Wales; Mid and West Wales; Gwent; Cardiff and Vale; Cwm Taf; and Swansea Bay.⁴⁵

69. The Auditor General found that one of the key challenges for the new PSLG would be to implement ideas developed under the Efficiency and Innovation Programme, which focused on transferring ‘good’ or ‘best’ practice between public services. He reported that the Efficiency and Innovation Programme had:

“[...] made good progress in identifying good practices and approaches [...] it would benefit from greater clarity around how it intends to get public services to share, learn from and adopt or adapt those practices.

⁴⁴ NAFW Public Accounts Committee, Welsh Government paper, 22 November 2011 p.2

⁴⁵ NAFW Public Accounts Committee, Welsh Government paper, 22 November 2011, p.3

“One of the key challenges with good practice is [...] the fact that it can be difficult to work out exactly what elements of a practice caused the improved results.”⁴⁶

70. In terms of lean processing and business re-engineering, the WLGA told us that work was being undertaken across local authorities to generate efficiency, either in terms of greater productivity by removing waste, or cash releasing.⁴⁷

71. We welcome the Welsh Government’s action to engage with public services leaders to encourage them to share concerns and good practice. However, we are concerned that the evidence of inquiry suggests that although good things are happening in Wales, good practice is not applied consistently.

72. When questioned on the advantages of having the new PSLG under the Local Government Partnership Council, the WLGA stated that:

“The Partnership Council provides an appropriate mechanism for formal reporting and accountability.

“If we are moving into a time when we need to see greater collaboration within the public sector [...] it is more than appropriate for the partnership council to be a significant part of that process and a vehicle for reporting and for holding different sectors to account.”⁴⁸

73. We were told that the Local Government Partnership Council also includes representatives from the Police and Fire and Rescue Authorities, who were identified by the Auditor General as having prepared well for financial challenges and for delivering transformational change.

We recommend that the Welsh Government supports existing methods for disseminating good practice, such as promoting use of the Good Practice Exchange on the Wales Audit Office’s website, to systematically draw together the characteristics of good practice from all areas of the public sector, and to ensure that

⁴⁶ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.56

⁴⁷ RoP 6 December 2011 c.112

⁴⁸ RoP 6 December 2011 c.109

such practice can be effectively transferred to services at a local level.

We recommend that the Public Services Leadership Group identify, learn from and promote examples of good practice implemented by the police and fire and rescue services to deliver services within budget, make good use of collaboration, and deliver transformational change.

Collective leadership

74. The Auditor General sets out in his report that short-term cuts may have consequences, and costs, for other public bodies. The Auditor General's report identifies a gap in terms of collective leadership in making short-term cuts. His report stated that:

“While there has been national leadership in relation to cost reduction through efficiency and innovation, there has been no clear, pan-public-service direction around setting priorities for making cuts in services and staffing, and the importance of measuring the impact of such cuts on service users, and the wider community.

“[...] reducing service levels in one area can simply result in demand and costs being shifted to another part of the public service.”⁴⁹

75. Additional information provided by the Accounting Officer outlined the work that the Welsh Government was doing with Local Service Boards to be more ambitious about the pace and scale of improvement. The Accounting Officer's letter states that:

“Single Integrated Plans (SIPs) are designed to drive and support [...] to be rigorous about determining priorities, improve working between organisations, and really drive change in the way services are commissioned and delivered.

“[...] Within the high level framework of Programme for Government, Local Service Board's will determine the local

⁴⁹ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.57

priorities for action and this must be based on rigorous analysis of need”⁵⁰

76. We welcome the good practice which we heard was being undertaken to address short-term cuts. The WLGA outlined a number of examples where public sector organisations are working together to mitigate or limit the impacts of cuts, such as the NHS and local authorities collaborating in projects for child welfare and care for the elderly. We heard that:

“In terms of collective leadership [...] through the Public Services Leadership Group, there has been recognition of the need for organisations within the public sector to come together to understand the scale of the challenge and the impact that it will have on citizens and the services provided across the range.”⁵¹

77. When questioned on the collective leadership approach, the WLGA informed us that individual authorities and their citizens have individual needs and requirements. We heard that there would need to be local decisions about the changes that need to happen in terms of their services and budgets.⁵²

78. We support the Auditor General’s recommendation that:

“The short-term financial challenges are such that some public services may need to consider reducing the level or quality of some services. Public services across Wales should work together in planning cuts, and in monitoring and mitigating the impacts on service users, wider outcomes and other public services.”⁵³

79. The Auditor General’s report sets out that the public sector in the UK faces cuts which have not been experienced in this country for over 50 years. Clearly, public services need wide ranging support and direction in making the tough choices which arise as a result of these extensive cuts in budget.

⁵⁰ Additional information from Permanent Secretary – 27 February 2011

⁵¹ RoP 6 December 2011 c.42

⁵² RoP 6 December 2011 c.44

⁵³ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.11

80. The Wales Audit Office has produced a Cost Reduction Guide⁵⁴ to help support public services in making informed decisions about reducing costs, including making cuts.

81. The Auditor General's report highlights examples of good practice from Lean/Systems thinking and the Kafka Brigade, which showed how public services could work collaboratively to focus on the needs of the citizen. The Auditor General's reported that, in particular, one of the key challenges of good practice is 'causal ambiguity'. His report stated that:

"[...] Getting to the bottom of what might be transferable from one place to another and deliver improvement requires more than simply reading a case study. It requires in-depth discussion and transfer of knowledge and ideas."⁵⁵

We recommend that the Welsh Government promotes the Wales Audit Office model for cost reduction to all public services to help mitigate the impacts of cuts and work collaboratively to take account of local and national priorities.

We recommend that the Public Services Leadership Group build on the progress of the Efficiency and Innovation Programme by ensuring that the good practice identified through the Lean/Systems thinking and the Kafka Brigade method is actively promoted across the public sector.

Collaboration between councils

82. The Auditor General's report refers to the drive for greater collaboration between councils but also identifies uncertainty about costs and benefits and some of the difficulties in making it happen in practice.

83. When questioned on the additional costs associated with collaborative working and issues around governance and accountability, the WLGA stated that a compact between the Welsh Government and local authorities had been developed to respond to challenges, with a particular focus on collaboration at the sub-regional,

⁵⁴ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.58

⁵⁵ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.56

regional and national level. This compact includes proposals for adult care, social services, and school improvement services.⁵⁶

84. We were assured that, as well as providing leadership at a more strategic level, the WLGA provides local authorities with direct hands-on operational support. We heard that the WLGA had:

“[...] developed a benchmarking tool that enables local authorities to look across Wales to see a comparison of their financial performance [...] to help identify opportunities for exploring why costs are different and what measures have been taken by some authorities that could be replicated elsewhere.”⁵⁷

85. The Welsh Government’s evidence referred to regional footprints for cross-public service delivery that would be expected from collaboration. Accounting Officers stated that:

“[...] when regional collaborations in particular are established, we have to ensure that we do not allow a complexity of governance models to emerge.

“[...] Governance areas and geographical areas are already established through the health board boundaries and police force boundaries [...] it would be good to have any future collaborations based on those same areas.”⁵⁸

We recommend that the Welsh Government robustly monitor the performance of its model for regional collaboration. We believe that any model must ensure that councillors and citizens are central to discussions on the way that local services are delivered and that there is appropriate governance and accountability.

Workforce challenges

86. We heard that approximately 1000 staff left the Welsh Government through early severance/voluntary retirement schemes.⁵⁹ The Auditor General’s report states that the total cost of these

⁵⁶ RoP 6 December 2011 c.82

⁵⁷ RoP 6 December 2011 c.89

⁵⁸ RoP 22 November 2011 c.122

⁵⁹ RoP 22 November 2011 c.162

schemes was £29.9 million, with the intention of saving approximately £26 million a year off the pay-bill.⁶⁰

87. When we questioned Accounting Officers on how they were managing the consequences of working with fewer staff – in terms of skills gaps and the impacts on services, we heard that there was an intention to maintain an effort to improve services even though the Welsh Government was faced with reductions. Accounting Officers told us that:

“Some organisations, like ours, have been able to make sizeable reductions in workforce through offering voluntary packages to staff and then managing the consequences, rather than resorting to compulsory moves.”⁶¹

88. In 2010, the WLGA forecasted approximately 3000 job losses over the course of the spending review period, with approximately 1700 voluntary and compulsory redundancies in local authorities in years 2010-11 and 2011-12.

89. When questioned on whether the cuts had had an impact on staff morale, the WLGA stated that:

“[...] local government workers have faced a pay freeze for the last couple of years [...] realistically, it is probably the last year in which it will be possible to support the situation, in terms of morale and in terms of being able to keep people in their jobs before they start to look elsewhere for employment.”⁶²

90. The Welsh Government told us that losing so many staff through their voluntary exit scheme could result in some skill gaps. They emphasised the need to enhance performance management, efforts to re-skill staff in areas where we know there are shortages and encouraging staff to work in larger teams. We noted that the Welsh Government has created a Solutions pool, which has been used to redeploy staff.

91. We are concerned that reductions in the Welsh Government’s workforce could have an impact on the level and quality of services provided to the people of Wales. However, we acknowledge that the

⁶⁰ Wales Audit Office, A Picture of Public Services, 14 October 2011, p.36

⁶¹ RoP 22 November 2011 c.118

⁶² RoP 6 December 2012 c.69

Welsh Government is working with other public bodies in Wales to make public services more efficient, effective and that there is continued support for innovation. We look forward to receiving an update from the Welsh Government on its progress in delivering core services with a reduced workforce in due course.

4. The Auditor General's recommendations

92. We were pleased that the Accounting Officer stated “how much we welcome the follow-up report of the Auditor General on A Picture of Public Services.”⁶³ We look forward to the Welsh Government taking action to address the recommendations made by the Auditor General.

We recommend that the Accounting Officer provides us with an update within 12 months on the progress in delivering the recommendations made by the Auditor General and our own.

⁶³ RoP 22 November 2011 c49

5. Conclusions

93. The Auditor General's report clearly sets out that, as a result of the current economic climate and Wales' financial settlement, the scale of recent public sector cuts is unprecedented. Whilst we welcome evidence that suggests that improvements have been and are being made, we remain concerned that there is a need to build rapidly on the collaboration already achieved, to make further savings and mitigate the impact that a reduction in budget will have on service users.

94. The evidence gathered in our inquiry has also highlighted concerns about the difficult decisions being made by NHS Wales in meeting its financial settlement. We look forward to the Auditor General's forthcoming report on NHS finances in Wales which will provide us with the opportunity to explore these concerns further and in more detail.

95. We note that the Welsh Government's Accounting Officer has set out for us a range of actions being undertaken by the Welsh Government to continue to provide public services during these times of austerity, alongside its efforts to provide leadership across the public service. We are pleased to note that the Welsh Government has implemented measures that can improve services for citizens, and look forward to further progress. We will return to assess the Welsh Government's progress in the future and we expect to see improvements at that time.