Progress on the Efficiency and Innovation Agenda

We face huge challenges in Wales in seeking to maintain and improve public services in the face of the deep cuts to public spending instigated by the UK Government. The challenges we face are not just financial but also reflect the impact of significant demographic and other socio-economic changes in Wales, coupled with rising expectations for better, fairer and more tailored services.

We are working closely with partners across Wales to address these challenges and improve the efficiency and effectiveness of our public services. Our distinctive Welsh approach reflects our belief in the value that public services bring to the quality of life for people throughout Wales, especially the most vulnerable in society.

The Public Services Ministerial Statement ‘Better Outcomes for Tougher Times’ in 2009 paved the way for a concerted drive for efficiency and innovation. We have driven this agenda forward over the past year through a series of Public Services Summits and the Efficiency and Innovation Board (EIB) and its Programme – which have helped to build a collective will amongst public service leaders and the workforce to respond to the challenges we face, and have supported specific policy reforms underway in health, education, social services and other areas.

The contribution of the EIB has been to bring together public service leaders, trades unions and the Wales Council for Voluntary Action to support action and collaborate on seven specific priorities: collaborative procurement, asset management, ICT, workforce development, leadership, business transformation opportunities (for example, shared support services) and developing new service delivery models.

These areas have been identified as offering the potential to give public sector organisations – where decision making responsibilities and accountabilities rest – significant opportunities to improve the efficiency and effectiveness of public services in their area. This is not a theoretical exercise. We are in a very challenging economic climate. Every pound that we save through becoming more efficient can help to support front line services, and every investment and innovation leading to better services directly adds to the quality of life for people and communities across Wales.

A focus for the Board in the last year has been to support the adoption across the public sector of common systems and platforms such as:

- **procurement**: the e-sourcing and e-trading platform *xchangewales*, and a set of framework procurement contracts which each have the potential to deliver significant financial savings across public services;
- **ICT**: the innovative Public Sector Broadband Aggregation (PSBA) platform available to public sector organisations in Wales; and
- **asset management**: a shared property management system, ‘ePIMS’, which will help to enable efficiencies in managing the public estate.

Illustrations of the savings and benefits these platforms, systems and approaches offer were outlined in the Draft Budget. For example:

- Denbighshire Council has approved its business case for *xchangewales* adoption which could deliver £1.5m savings over a 5 year period for the authority;
PSBA roll out across NHS Wales and a number of local authorities and higher education institutions is realising a saving of approximately £5m relative to previous baseline costs; and

through active property management and rationalising its estate Carmarthenshire Council has realised nearly £0.5m revenue savings per annum and over £1.2m capital receipts from vacating 8 buildings.

Support provided under the umbrella of the EIB has contributed to good progress being made on adoption of these common platforms and systems.

Significant developments supported by the Programme over the last year also include:

- **workforce development**: saving money by avoiding consultancy, redundancy and recruitment costs through assisting the creation of Adapt - Career Transition Support for Public Sector Workers, which will help employees in making effective choices about their future, help to match those who might otherwise be made redundant to opportunities in other organisations, and provide financial support for employee training and employer recruitment subsidies supported by the Welsh Assembly Government; and

- **asset management**: making better use of assets through the development of a new land transfer protocol to help dispose of, or transfer, publicly-owned assets to other public services or third sector organisations where a better alternative use has been identified;

- **ICT**: taking steps towards rationalising the number of public sector data centres, which is expected to help achieve significant savings;

- **business transformation**: supporting an approach for sharing support services between organisations, for example, in North Wales between the six local authorities, the police force and the health service; and

- **new models of service delivery**: identifying and disseminating best practices for public services to work together proactively across organisations to create teams (covering for example, police, education, health and social services) that can support vulnerable families, rather than base activity around individual, costly, reactive interventions; and

- **sharing new approaches for organisations to work together to support people to live independent lives, which have the potential to deliver better services for vulnerable people as well as cost savings;**

- **leadership**: promoting development programmes for public sector leaders, particularly focused on change management; and

- **showcasing and supporting the development of good practice models from other areas and the broader efficiency and innovation agenda.**

Alongside making good progress on these immediate priorities, work is underway to develop a robust approach for demonstrating progress on the overall efficiency and innovation agenda over the longer term. An annex sets out the approach being developed, which also recognises the nature of the Programme as an ‘enabler’ to the wider public service improvement agenda.
This longer term measurement approach reflects the fact that the Programme is not seeking to generate a separate stream of savings. Instead, the measurement framework seeks to set out the wider financial savings and outcomes to which the Programme is seeking to contribute, as well as indicators that will help to demonstrate the progress being made. The framework will also seek to reflect the way in which the Programme is contributing, through activities to engage, mobilise and influence public service leaders, and to harness this collective leadership to support innovative approaches and the adoption of good practices.

Setting the role and work of the EIB and its Programme in this wider context will help to illustrate the contribution it is making to improving the efficiency and effectiveness of public services, for the benefit of people across Wales.

Jane Hutt AM
Minister for Business and Budget
Annex: Efficiency and Innovation Measurement Framework

The approach for measuring and reporting progress on the efficiency and innovation agenda is being developed by a specific Measurement Working Group. The group is chaired by the Director of Finance for Health and Social Services in the Assembly Government and comprises representatives from across public services including finance practitioners, policy makers and statisticians as well as independent experts from the Wales Audit Office and academia.

The robust approach being pursued reflects lessons from previous efficiency programmes in Wales and elsewhere, recognising the importance of avoiding the risks of seeking a single measure of efficiency gains. This could distract from more important outcomes.

As illustrated in the box below, the approach is based around developing a balanced measurement framework comprising both financial and non-financial indicators. Moreover, as some efficiency and innovation gains are not readily quantifiable, the framework also seeks to capture qualitative examples of initiatives supporting improvements in efficiency and innovation in public services that give a richer context to hard-edged measures.

![Measurement Framework Approach diagram]

Work is currently underway to develop a set of balanced indicators and qualitative evidence that best captures the progress being made in each of the priority areas identified — namely:

- areas of common expenditure across public sector organisations which provide scope for significant savings and improved services (collaborative procurement, asset management and ICT);
- developing innovative approaches for front line and support services (‘transforming the business’ and ‘new models of service delivery’); and
- helping our public service leaders and workforce to seize opportunities related to other priority areas and to drive forward the wider public service improvement agenda (leadership and workforce development), as achieved in the signing of the Memorandum of Understanding between Local Government Leaders and public sector trade unions.
Where appropriate, specific up front ambitions and trajectories are being set against which progress can be assessed, although there are cases where tracking progress is more appropriate than setting an explicit benchmark.

A key part of this work is the identification and development of robust baseline information from which progress can be assessed. Reflecting the innovative nature of the agenda, in many instances this baseline information does not exist at present, and may require a significant investment of time and / or resource to develop a robust approach. In this context it is essential to be confident that the effort required to develop a clear baseline in a particular area will be justified by the benefits that it will enable. In some instances it would require disproportionate resource up front to develop the baseline and on an ongoing basis to assess progress against the baseline, and a different proxy indicator or qualitative approach will be more appropriate.

The indicators cover both financial and non-financial measures, with the balance between them varying according to the nature of the area. Some areas, such as collaborative procurement, tend to lend themselves well to financial measurement, although non-financial indicators such as the take up of specific initiatives such as PSBA also have an important role to play. Non-financial indicators are particularly valuable for assessing progress on other areas – for example, the leadership agenda.

The broad approach in relation to each of the seven priority areas is set out below. Alongside the specific indicators described, consideration is being given to the challenges and costs involved in establishing new baseline information. Where new baseline information can be gathered, this will enable further indicators to be added to gain a wider picture of progress.

Reflecting lessons learnt from previous efficiency programmes, it is not claimed that changes in the indicators or savings will arise solely as a result of a specific workstream nor the Efficiency and Innovation Programme on its own. For example, some of the key initiatives such as xchangewales have been in development for longer than the Programme has been running. In these instances the contribution of the Programme is to emphasise to senior public service leaders the importance of these initiatives and the opportunities they present, and through this help to speed up their adoption and impact.

Across the seven priority areas, measurement frameworks will therefore comprise a balance of activity to influence and contribute to improvements in the efficiency and effectiveness of public services, as well as broader intermediate and outcome measures. Improvements may not be attributed directly to the Programme but they can be important indicators of better services and outcomes for people and communities.

The activities to influence will be different for each priority area, but could include action on communicating the case for change, identifying and sharing good practice, supporting expert communities of practice, and direct engagement with public service leaders, the workforce and social partners. Through this, the measurement framework is intended to illustrate the contribution of the EIB and its Programme to the broader public service improvement agenda.

The short sections below provide an overview of the approaches being taken across the seven priority areas. These approaches will continue to evolve to reflect the nature of activities undertaken and the availability of information, as well as developments on the overall efficiency and innovation agenda.
Indicators of progress

Since a key feature of the Programme is the interdependency between the different priority areas it is not intended to directly attribute specific efficiencies and achievements rigidly to individual areas. For example, both the ICT and the procurement priority groups are supporting the development of a new framework contract for ICT equipment. However, for descriptive ease the indicators of progress are grouped thematically under particular priority areas.

- Collaborative procurement: a specific ambition will be set to achieve significant savings over the next 5 years from improved value for money collaborative deals, with further substantial savings expected from the continued roll out of xchangewales and specific reviews of functional procurement areas (e.g. construction). Non-financial indicators of progress include the volume of electronic financial transactions and the proportion of organisations using all-Wales collaborative procurement contracts, developed under the National Sourcing Strategy, as well as adoption of approaches which will lead to the delivery of wider economic and social benefits.

- Asset management: use of a new land transfer protocol to facilitate the disposal and transfers of land assets to those best able to use them will be tracked, along with estimates for associated financial savings. Proxies for costs avoided through the roll-out of ePIMS and a standardised application for property finance functions will be used, and progress will also be assessed non-financially by the use of ePIMS (measured through the number of data entries). Examples of significant savings from sharing buildings across the public sector will also be recorded as information becomes available.

- ICT: a new framework procurement contract for common ICT products is being developed, led by Value Wales, and is expected to help deliver better value for money and significant efficiency gains. Savings will be assessed although in the absence of a comprehensive baseline of ICT expenditure across the public sector in Wales a specific upfront ambition is not appropriate. Examples of specific savings from sharing ICT support services across organisations and from rationalising data centres will be collected.

- ‘Transforming the business’: the framework in this area is based around measuring progress related to individual projects being taken forward, once these have been completed. Projects currently at an exploratory stage on managing sickness absence and sharing back office services have the potential in the medium term to support significant efficiency savings. A specific cost saving ambition is intended for procuring expertise on business process re-engineering and ‘LEAN’ systems as a result of a framework contract for these services, and significant savings are expected from the resulting reforms of structures, systems and processes (as seen in the ‘1000 Lives’ campaign to improve the quality of patient care and reduce avoidable harm across NHS Wales).

- ‘New models of service delivery’: the framework in this area again reflects the project nature of the work. The first output in this area has been the publication of a report on best practices for public services to work together proactively across organisational boundaries to create teams – covering, for example, police, education, health and social services – that can support vulnerable families, rather than base activity around individual, costly, reactive interventions. There is huge
potential for innovative approaches such as this to deliver much improved and more efficient services to vulnerable families and wider communities. Progress will be assessed through the adoption of best practices, along with indicators on improved outcomes (for example, in this case on educational attainment, calls on health and social services and crime) and estimates of cost savings where possible. The impact of further projects on: encouraging independent living; reducing the number of young people not in employment, education or training; and tackling domestic abuse will be measured similarly.

- **Leadership**: the development of leaders across the public services in Wales is crucial to progress in the other priority areas, and as such the leadership and workforce development areas play a supporting role to many of the measures and ambitions described above. Specific progress will be assessed through the numbers participating in development and training opportunities, particularly where these are set up to support projects and proposals from the other priority areas. Ambitions will be set where appropriate for numbers attending courses, and the impact of particular courses will be gauged through follow-up contact with participants in the months following the course, which will collect important qualitative evidence and examples. This is part of a longer term agenda of understanding the personal and organisational impact of leadership learning experiences. Some specific savings are expected as a result of Public Services Management Wales developing and providing training courses at a lower cost than pure private sector alternatives.

- **Workforce development**: in addition to its crucial supporting role to the other priority areas, the numbers using the Career Transition Service will be an important indicator of success – with savings arising from avoiding redundancy, recruitment and consultancy costs. Updates on particular projects and sign up to initiatives such as the Charter of Corporate Social Responsibility will also help to assess progress. Furthermore, consideration will be given as to how the significant potential benefits arising from the agreement of a Memorandum of Understanding between local authorities and the trades unions to protect local government jobs and services can best be captured.

Existing reporting systems and processes – such as established performance management frameworks and national surveys – will be used wherever possible to avoid large new data collection exercises. The measurement framework will be in use from the start of the financial year 2011/12, with development of the measurement framework continuing as the agenda evolves. Regular updates on progress and achievements on the efficiency and innovation agenda, using the measurement framework, will be made publicly available.
Performance of West Wales and the Valleys in a Wider Context

Economic context

In Wales, as across the UK, Europe, and indeed much of the rest of the world, the period since 1999 has been characterised by almost a decade of steady growth followed by the financial crisis and deep recession. The economy in Wales, as elsewhere, is now in the early phases of recovery, but uncertainties remain as to the future course of that recovery, and major risks remain.

Taking the period since 1999 as whole, however, the longer run trends have continued to assert themselves. These trends include:

- the increasing importance of knowledge, skills and qualifications, and growing difficulties faced by those in the labour market with low skill levels;
- increasing globalisation, with the rise of the so-called “BRIC” economies;
- ongoing economic re-structuring, with the share of employment (and to some extent output) accounted for by manufacturing declining and services playing an increasing role;
- a shift towards more specialised and higher technology sectors within manufacturing;
- the growing importance of city regions and of larger “agglomerations” more generally.

Many of these trends are intimately connected with the processes underpinning long run economic growth, and will resume as growth recovers.

Relative economic performance

In assessing the relative performance of Wales and its sub-regions, a natural comparator is the average for EU-15. The EU-15 formed the benchmark for the design of the Convergence programmes in 1999. Furthermore, alternative comparators including more recent members of the EU are liable to be unduly influenced by the rapid transition that is only possible in countries which had a relatively low level of economic output on entry.

**GDP per capita** is a standard measure of economic performance, and as it plays a key role in setting the criterion for eligibility for Structural Funds, it is a natural place to start. However, GDP per capita has a number of limitations which make it vital also to examine complementary measures, and Primary Income, in particular, is considered further below, as is the more familiar measure of Gross Disposable Household Income.

Over the period 1999-2007, GDP per capita in Wales fell slightly (by less than one percentage point) when compared with the average for the EU-15 (see Chart 1). Wales underperformed the UK as whole much more markedly.

The UK grew much more strongly than the EU-15, and Welsh performance relative to the UK needs to be seen in this context. Further light can be shed by comparing Wales to the UK excluding London and the South East. London and the South East grew very rapidly over the period, perhaps in part due to an unsustainable increase in the output of the financial services sector. This explains part, but not all, of the UK’s strong overall performance.
West Wales and the Valleys performed a little less well than Wales as a whole and less well than the average for the Objective One regions across the EU-15 (and these regions in fact substantially out-performed the average for the EU-15 countries as a whole). However, East Wales performed rather better, outperforming the EU-15 average.

While a focus on GDP per capita is unavoidable in the present context, this measure has several important weaknesses which are particularly relevant to West Wales and the Valleys. As it measures the economic output produced in an area per head of population, comparisons between areas can be unduly influenced by demographic differences, such as in the proportion of children or people of retirement age (who generally produce little economic output).

Furthermore, the economic well-being of people in an area will be determined by the income they receive from economic activities, even if those activities take place outside the area. So, for example, the wages of out-commuters will not be included in the measure of GDP per capita for an area, even though they add to the economic income of the residents. On the other hand, economic income earned in an area that is received by non-residents, for example business profits and the return on capital investment, will be included in GDP per capita.

These limitations of GDP per capita have become increasingly acute as commuting has played an increasingly important role, and are particularly relevant to both Wales and the Objective 1 region of West Wales and the Valleys, both of which experience out-commuting. In the case of West Wales and the Valleys, the relevance is particularly acute, as much of the commuting involves flows to Cardiff and other locations which, while just outside the sub-region, are part of the larger city-region in South East Wales.

These issues are crucial in the context of the assessment of the impact of Structural Funds, since many of the programmes are designed to improve employability, or access to employment, even if the employment takes place over the boundary of the areas eligible for funds. And the implications are likely to become even more important in the future, if, as seems likely, agglomeration plays an increasing role in economic performance.

The measure of Primary Income per capita addresses many of the limitations of GDP per capita. It represents the income earned from economic activity by the residents of an area, wherever that economic income is earned. (Unlike Gross Domestic Household
Income, it excludes taxes and benefits, so is not influenced directly by transfers under the UK tax and benefits system.

In respect of Primary Income per capita, over the period 1999-2007, Wales has outperformed the EU-15 by around 4 1/2 percentage points, although it has performed a little less well than both the UK and the UK excluding London and the South East.

**Chart 2: Primary Income per capita change relative to EU-15, 1999-2007**

West Wales and the Valleys did not perform quite as strongly as Wales as a whole but still better than the average for the Objective One regions across the EU-15 (which in turn outperformed the average for the EU-15 countries as a whole). This result therefore contrasts strongly with that for GDP per capita.

East Wales performed even better, outperforming the EU-15 average by more than six percentage points, and even outperforming the UK excluding London and the South East (though not the UK as a whole).

The more positive picture painted by Primary Income per capita is also broadly reflected in indicators of relative labour market performance over the period. (These indicators include employment rates, unemployment rates, inactivity rates and wages.) This provides further grounds for a focus on Primary Income in assessing changes in the economic circumstances of the residents of an area.

As noted above, Primary Income does not include transfers under the UK tax and benefits system. Disposable Household Income does include such transfers. As such, it is a better measure of living standards, but less satisfactory as a measure of the economic performance of residents. Performance in respect of Disposable Household Income is shown in Chart 3.
As can be seen, the impact of transfers during this period has been to reinforce the picture presented in Chart 2 in respect of Primary Income per capita. As measured by net household income per capita, the increase in living standards in Wales has been well above that in the EU-15 over the period. East Wales has done particularly well, but living standards in West Wales and Valleys have also increased a little more than in the UK as a whole (and more than the average of Objective 1 regions).

The differential picture painted by GDP and income measures is also seen when the performance of West Wales and the Valleys is compared with Cornwall. (See Annex.) The increase in GDP in Cornwall appears to reflect, at least in part, higher in-commuting rather than higher incomes for residents.

Other Indicators

As would be expected, trends in other indicators of economic performance, for example, the rate of business start-ups, self-employment, and spending on research and development, paint a mixed picture. While important for tracking progress, these indicators do not seek to capture ends-in-themselves, and can be volatile. They should be interpreted in the context of the overall picture as described above.
Annex

Comparative economic performance of West Wales and the Valleys and Cornwall, relative to the EU-15

Change relative to the EU15 (1999-2007)

- Household Income (Net)
- Primary Income
- GDP

West Wales and the Valleys
Cornwall & The Isles Of Scilly
How progress on eliminating child poverty is measured

The Welsh Assembly Government uses a measure of child poverty based on relative income (After Housing Costs). Children living in poverty are those living in households below 60% of the median income (for households of that type). By way of example, the median weekly income for a couple with two children (aged between 5 and 14) is £555 per week (After Housing Costs). 60% of this figure is £333 per week, so children living in this type of household with an income below £333 per week (After Housing Costs) would be regarded as living in poverty.

Child poverty is measured using Household Below Average Income (HBAI) data – which is published on an annual basis. The HBAI data uses household disposable incomes, adjusted for household size and make-up, as a proxy for material living standards. It is based on sample data from the Family Resources Survey (FRS) and longitudinal data from the British Household Panel Survey (BHPS). The most recent HBAI data for Wales covers the period 2006/07 to 2008/09. This shows that nearly one in three children in Wales (32%) are now living in poverty (using the relative low income measure) – which is around 200,000 children.

The revised child poverty strategy sets out the following key indicators to measure progress.

1. Percentage of children living in workless households
2. Percentage of working age adults with no qualifications
3. Percentage of children living in households below 60 per cent of median income after housing costs.
4. Percentage of learners eligible for free school meals who achieve the Level 2 threshold including English/Welsh and mathematics at Key Stage 4.
5. Percentage of live births weighing less than 2,500 grams.
6. Number of looked-after children per 10,000 population under 18.
7. Percentage of children living in workless households/low-income families reaching health, social and cognitive development milestones when entering formal education.

The Welsh Assembly Government also reports annually against a set of proxy indicators in the areas of early years, income and work, education, health, housing and community. These indicators seek to measure those factors that often correlate with poverty and poor outcomes for children. Interim milestones and 2020 targets have been set for each of these indicators. Of the indicators assessed, half show a clear improvement against the baseline year. Where there has been a deterioration, or little change, the Welsh Assembly Government will continue to monitor these targets and seek to speed up progress, such as in the area of teenage pregnancy, with the introduction of new pilots.

The Welsh Assembly Government intends to review the full range of indicators to ensure that the data collected are consistent and appropriate for future monitoring of the revised Child Poverty Strategy for Wales.

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1 The figures published in the HBAI publication for Government Office Regions and devolved administrations are 3-year moving averages. That is, an average of the current year and the previous two years. This reduces any unreliability in the single year estimates caused by sampling variation and allows for better comparability over time.