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A Picture of Public Services

Financial challenges facing public services
and lessons learnt from our work



A Picture of Public Services

I have prepared this report for presentation to the National Assembly under the Government of Wales Acts 1998 and 2006.

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**Report presented by the Auditor General to the
National Assembly on 16 March 2010**



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Foreword



Public services are facing their biggest challenge for at least a generation. The figures in this report show that public services in Wales face significant reductions in their budgets in the coming years. Although the exact scale remains unclear, a real terms reduction of around £0.5 billion a year seems likely and significantly sharper reductions are not unthinkable. My message is that while public services will experience considerable pain, they need to ensure that their response is strategic, systemic and based on sound analysis. This report is intended to help public services develop that response, by setting out the scale of the challenge they face and the key lessons from our work.

Public services are alert to the scale of the financial pressures they face. The Wales Audit Office conference last year focused on the impact of the recession on public finances and the challenges ahead. The speakers, including the First Minister and Public Services Minister, emphasised the tough times we are in and that public services would need to take action. There are now groups that have been developed to bring together different parts of the public services in Wales to develop innovative approaches to improving the economy, efficiency and effectiveness of public services.

But public services need to move beyond being alert and start to take action now. Public services are going to have to deal with major change very soon. Our experience suggests that public services tend to change incrementally over time. But if they carry on with business as usual, they will simply run out of money. Change will come one way or another. The challenge will be getting those changes right with good planning and timely decision making.

Public services need to start preparing themselves for the coming changes immediately. That means looking at different ways of delivering services with a focus on new and innovative ways of working in order to maintain and improve outcomes for citizens. It also means using evidence to identify priorities and refocusing resources away from non-priority areas. Just focusing on costs is not going to be enough. Arbitrary, top-slicing of budgets could make the impact of reduced income very much more detrimental than it needs to be, because it takes no account of the priority of services and the impact on those who need public services the most.

The lessons from our work over the past five years show that public services will need to base their responses around:

- a a sustainable strategic approach that is well thought through, based on sound analysis of evidence, links financial and delivery planning and sets out a robust approach to measuring progress towards outcomes;



- b** an approach to collaboration that is focused on delivering shared outcomes from a citizen perspective;
- c** a mature approach to risk that balances the need for robust governance and management with the need for public services to take calculated and well-managed risks in order to change and improve services;
- d** getting the best from the many people who work in public services, including flexible and smarter ways of working; and
- e** a more comprehensive and radical approach to efficiency that focuses on innovation and improving outcomes rather than just cost-cutting.

The Wales Audit Office will support public services in responding to the tough times ahead. Our programme of work will prioritise work that helps public bodies tackle the significant financial pressures they are facing.

Gillian Body

Auditor General for Wales

Part 1 – Public services face major challenges and change as a result of the tough economic climate

1.1 This *Picture of Public Services* report looks at some of the key issues for public services in Wales. **Part 1** highlights the scale of the financial pressures facing Welsh public services as they experience the most difficult economic conditions for generations. It looks at the key challenges for services in terms of adapting to significant cuts in budgets. **Part 2** identifies some of the key lessons from our work over the past five years and how they can help public services to prepare for future challenges. As our work covers most public services in Wales¹, the Wales Audit Office is in a unique position to help public services to work in the radically different ways that will be required to provide the services that the public needs and deserves.

Public services have seen above inflation rises in budgets in recent years

1.2 Over recent years, devolved public spending in Wales² has increased above the rate of inflation. The total devolved budget has risen from £12.1 billion in 2005-06 to £15.2 billion in 2009-10, with an average rise of 5.9 per cent a year over a period where inflation has averaged around 2.5 per cent. These increases have not been uniform across public services, and some areas have seen higher increases than others. The devolved budget is expected to grow again in 2010-11, by 3.3 per cent, to £15.7 billion. **Figure 2** (Pages 10-11) shows how the money is distributed between the various parts of the Welsh public service.

Figure 1 – Devolved budget in Wales 2005-06 to 2010-11

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Budget (£billion)	12.1	13.2	13.8	14.6	15.2	15.7
Increase (%)	-	9.0	5.3	5.0	4.1	3.3
Inflation rate (%)	1.9	3.0	2.9	2.5	c.1.5	-
Real terms increase (%)	-	6.0	2.4	2.5	2.6	-

Source: Wales Audit Office analysis of Assembly Government budgets

Note: These are budget figures and may differ from the actual expenditure in that year.

The inflation rate is based on the Treasury GDP deflator at http://www.hm-treasury.gov.uk/data_gdp_index.htm

¹ The Wales Audit Office covers all sectors of government except those reserved to the UK Government.

² By 'devolved public spending in Wales' we mean spending on matters that have been devolved to the Assembly Government using the block grant from the Treasury to the Assembly Government.



1.3 There is further public spending in Wales, on top of the £15.2 billion devolved budget. Each year the Assembly Government receives funding from the UK Government for schemes that are demand led, like some housing grants. In 2009-10, the Assembly Government expects to spend around £0.5 billion on such schemes. Councils and police services expect to raise a total of £1.2 billion Council Tax in 2009-10. Around £1 billion of this goes directly to councils to spend on local services. Council Tax accounts for an average of 21 per cent of councils' total revenue budget, but this varies from 17 per cent to 29 per cent. The total 2009-10 budget for police authorities in Wales is £590 million, of which a third comes from Council Tax with the rest mostly coming from the Home Office. The £108 million 2009-10 budget for fire and rescue services comes primarily from local councils' budgets. Other major UK Government expenditure in Wales includes social security benefits, like unemployment and housing benefits, and defence. In 2008-09, planned identifiable spending in Wales totalled £27.4 billion³.

The number of people employed by public services has increased steadily since 2005

1.4 Wales has a relatively high proportion of people employed in public services. At the end of 2008, nearly a quarter of Wales' working population (24 per cent) worked for one of the public services. The UK average is around 20 per cent. Wales has the second highest proportion of its workforce employed by public services, behind Northern Ireland. The number of people working in public services has increased by 17,000 since April 2005. These 319,000 public servants in Wales work across various sectors (**Figure 3**).

Figure 3 – Distribution of public servants in Wales by sector



Source: Stats Wales, SB27/2009. Local Government includes people employed in local services, such as schools, police, fire and rescue.

³ HM Treasury *Public Expenditure Statistical Analysis (2009)*, page 160, table 9.1, http://www.hm-treasury.gov.uk/d/pesa09_chapter9.pdf

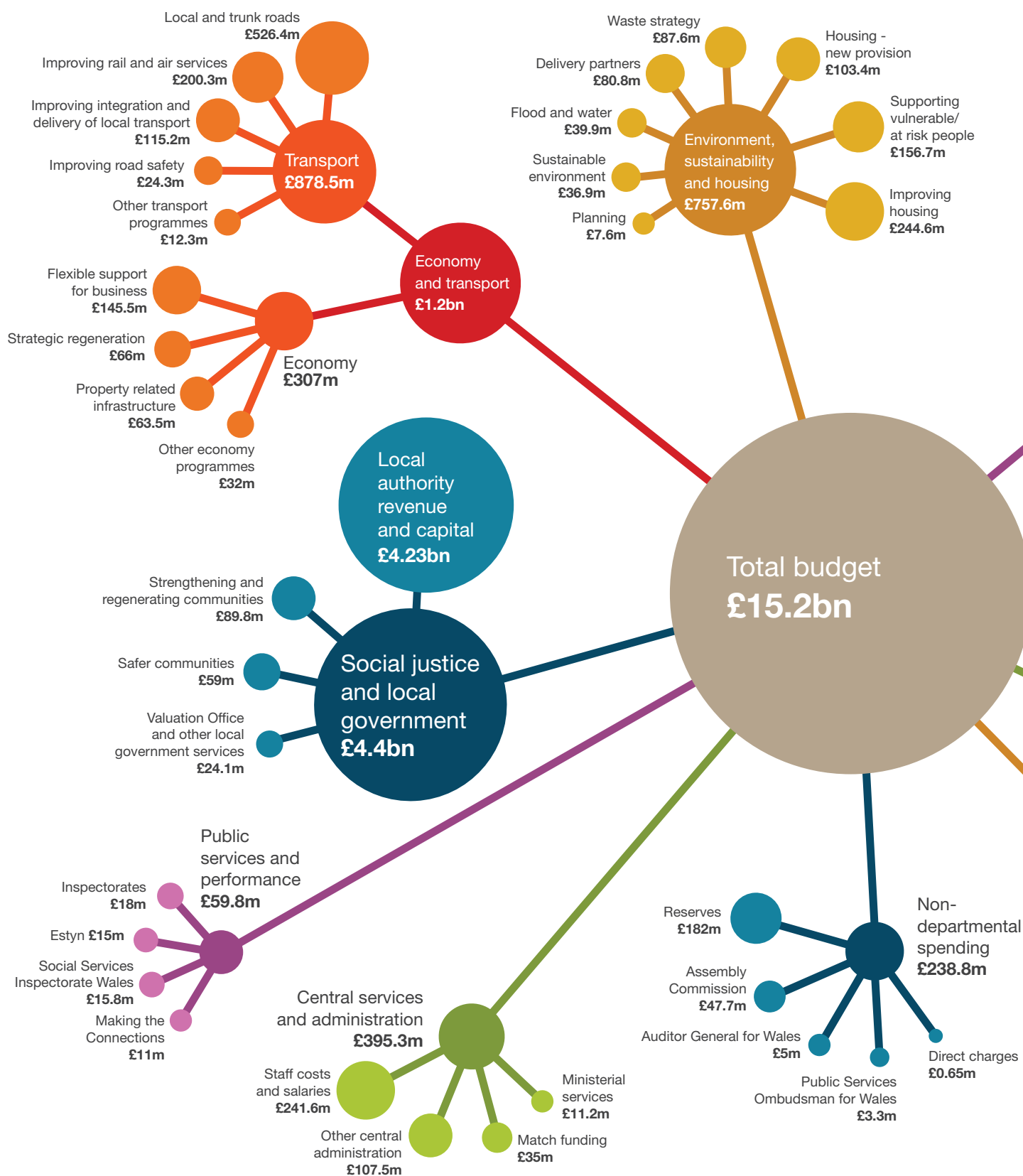
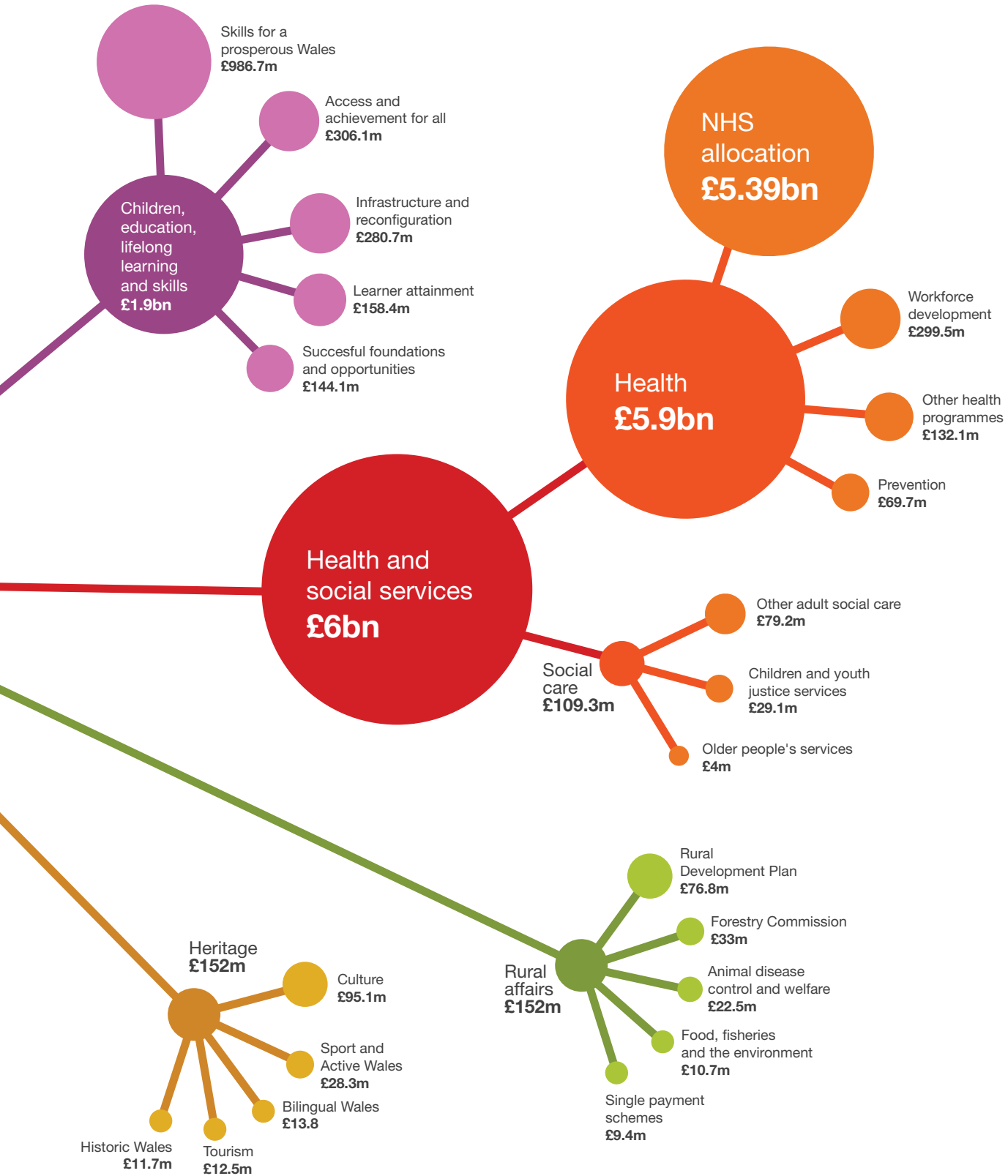




Figure 2 – Allocation of the Welsh block budget 2009-10 by spending areas



Public services are facing major reductions in their budgets as a result of pressures on public finances

- 1.5** The days of rising public service budgets and employment in Wales are almost over for the foreseeable future. Public services, throughout the UK, including Wales, face major real terms⁴ cuts in their budgets from 2011-12 onwards. Total public spending across the UK from 2011-12 to 2013-14 is expected to rise. However, a significant proportion of that public money will be used to pay off the national debt built up over the recession and to cover increased spending in areas like social security benefits as result of the recession. The result is that there will be real terms cuts in funding for public services across the UK.
- 1.6** Forecasting budgets is inevitably a difficult task. There are many economic and political variables that impact on public spending, not least of which is how quickly the UK Government chooses to pay off the debt and the rate of economic recovery in the coming years. It is particularly difficult to forecast

budgets in Wales because of the way devolved budgets are calculated under the Barnett formula. Under the current arrangements, the Welsh budget is calculated on the basis of spending plans for the UK Government departments. Therefore, the budget for Wales can only be known with a high degree of certainty once the UK Government has agreed its departmental budgets. The UK Government has set out its budgets until 2010-11, but has not set a date for a Comprehensive Spending Review to set budgets for beyond 2010-11.

- 1.7** It is possible to set out estimates for future public spending based on existing data. Drawing from HM Treasury figures, the Institute for Fiscal Studies (IFS) forecasts overall real terms reductions in spending of around 3.2 per cent a year from 2011-12 to 2013-14 across the UK, rising to 3.4 per cent once commitments on overseas aid are taken into account⁵. **Figure 4** shows that such a reduction would be equivalent to around £0.5 billion year-on-year real terms reductions in the devolved budget. In this scenario, the real terms devolved budget would be around £1.5 billion lower in 2013-14 than the current 2010-11 budget.

Figure 4 – Impact on Welsh budget of a real terms 3.4 per cent reduction

	2011-12	2012-13	2013-14
Real terms budget (£billion)	15.2	14.7	14.2
Annual difference (£billion)	-0.5	-0.5	-0.5
Difference from 2010-11 (£billion)	-0.5	-1.0	-1.5

Source: Wales Audit Office analysis of Assembly Government budget

⁴ 'Real terms reductions' means reductions in budgets after taking account of the impact of inflation. Any inflationary rises are not increases in 'real terms'. To illustrate, if inflation is two per cent and the budget rises by one per cent, there has been a one per cent cut in 'real terms'.

⁵ <http://www.ifs.org.uk/projects/314>



- 1.8** There is, however, a possibility of a more challenging scenario. If, for example, there is a so-called double-dip recession which delays recovery or if the UK Government opts to pay off the national debt at a faster rate there will be greater reductions in public funding. It is not possible to predict with any accuracy how public service budgets might look in such a scenario.
- 1.9** The impact and challenge for public services are potentially even more significant than the figures on real terms cuts suggest. Public services in Wales are not used to even standstill budgets. Budgets in Wales have risen by an average of around 2.4 per cent above inflation since 2007-08. If public service funding had carried on in line with recent trends, real terms budgets for 2013-14 would be around £17 billion (**Figure 5**) whereas they will probably be around £14 billion. There could be a total gap of around £5.5 billion over three years between where public services would have gone had they continued with business as usual and where they are likely to end up.
- 1.10** Public services in Wales, particularly councils, are reporting a reduction in the income that they raise directly. With businesses closing down and earning less, councils report a reduction in the business rates that they collect. And with the recession hitting the construction and housing sector particularly hard, there is a reduction in the amount that councils receive from charges for planning applications. Councils have predicted that they will raise around £35 million less from their investments in 2009-10 than in 2008-09⁶. Further, councils have been able to pursue some of their objectives through conditions on developers, for example requiring them to build new schools or play areas as part of the planning approval process. With less development taking place, this source of in kind benefit is likely to reduce substantially. Finally, many public services have taken advantage of EU Structural Funds over the past decade, but the current round of funding, worth around €2 billion, ends in 2013 and is unlikely to be continued.

Figure 5 – Forecast spending based on current trend of real terms increases of around 2.4 per cent

	2011-12	2012-13	2013-14
Real terms budget if 2.4 per cent trend continued (£billion)	16.1	16.5	16.9
Forecast real terms budget (£billion)	15.2	14.7	14.2
Difference (£billion) between forecast and current trends	-0.9	-1.8	-2.7

Source: Wales Audit Office analysis

⁶ Welsh Local Government Association, Expenditure Sub Group: Final Report 2009 <http://www.wlga.gov.uk/english/wlga-corporate-publications/esg-final-report-july-09>

The impact of spending cuts may fall more heavily on some parts of the public services, particularly if specific budgets are ring-fenced

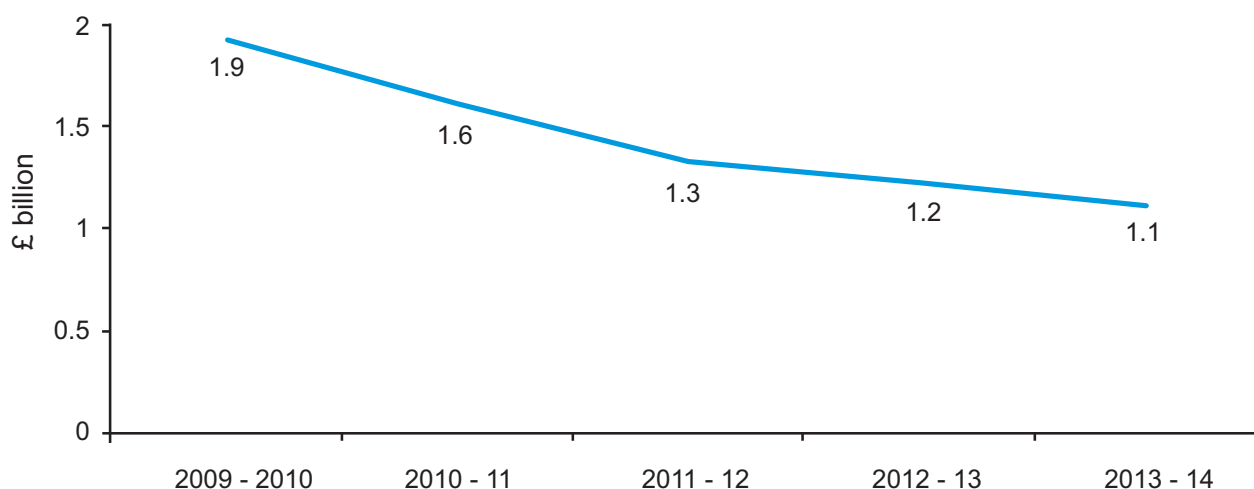
- 1.11** The figures above show the scale of the financial pressures across the whole public service. However, the impact is likely to be different for different sectors and services. There are debates about where cuts should fall and whether to ring-fence spending in certain areas, particularly the NHS and education. Applying such an approach to Wales would mean that other services and programmes would potentially see greater reductions in funding.
- 1.12** There are particular challenges for public services that rely on capital spending. The Chancellor of the Exchequer's pre-budget report⁷ shows a sharp reduction in capital spending across the UK public sector. Capital budgets are set to fall by around 40 per cent, in real terms, between 2009-10 and 2013-14. Such a reduction would equate to a real terms reduction from around £1.8 billion to

£1.1 billion in the devolved capital budget (Figure 6). However, the impact is potentially greater than suggested by the headline figure. Capital budgets include depreciation, which is not actually new expenditure but a way of accounting for the reduction in value of existing assets, due to age or wear and tear. With depreciation excluded, capital investment looks set to be 59 per cent lower in 2013-14 than 2009-10 in real terms. This level of reduction will pose particular challenges in areas such as highways and housing, which currently have relatively high levels of capital spending.

While budgets are falling, public services face rising demand and cost pressures as a result of the economic circumstances

- 1.13** Not only are public services facing the prospect of major spending cuts, they are also likely to see increased demands being placed on them. At the time of drafting this report, 122,000 people in Wales were unemployed; around 8.7 per cent of the workforce⁸. The direct costs of meeting

Figure 6 – Real terms reduction in capital budget in Wales if it followed the rest of the UK public service



⁷ http://www.hm-treasury.gov.uk/prebud_pbr09_index.htm

⁸ <http://wales.gov.uk/docs/statistics/2010/100219sb112010en.pdf>



demand for social security do not come directly from devolved budgets. However, high levels of unemployment and economic inactivity can result in additional demands being placed on public services. For example, people who are out of work will seek training and education services. Unemployment can impact on people's health and well-being, generating increased demand for health and social services. Also, there is likely to be increased pressure on housing services where people struggle to pay for their own homes or private rented accommodation and look for social housing instead.

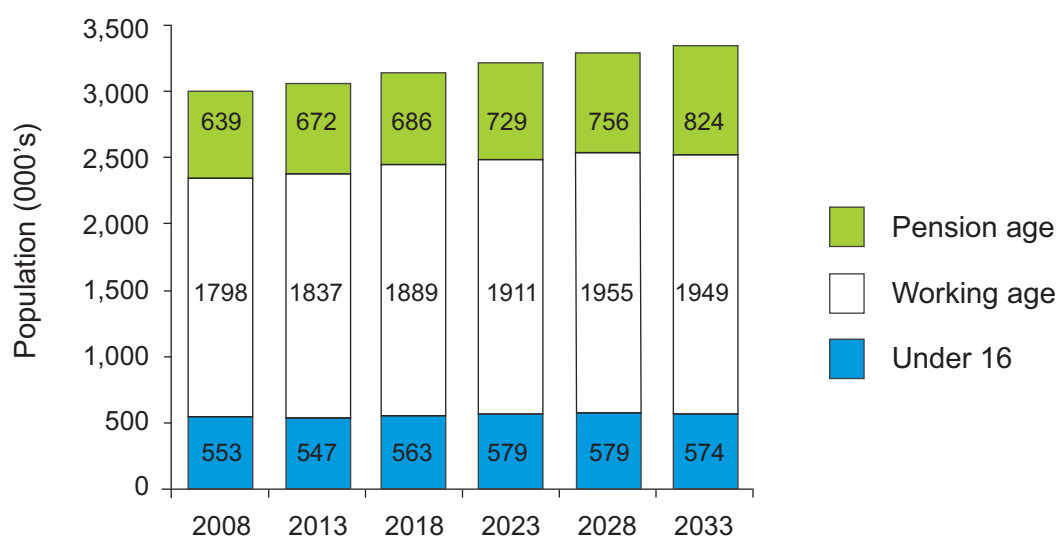
1.14 There may also be new cost pressures on public services. In particular, the impact of the recession on investments, such as the value of shares in the stock market, may impact on pension funds. The value of the FTSE 100 has fallen by around 22 per cent, from a high of around 6,700 points in mid 2007 to around 5,200 points in December 2009. Many public services rely on investments to fund their pensions.

Public services also face cost pressures from demographic changes and climate change

1.15 There is a demographic challenge facing public services. Improved healthcare is resulting in people living longer, and a low birth rate means that the proportion of the population above retirement age is increasing significantly. So while the total population in Wales is expected to increase by around 12 per cent by 2033, the number of pensioners is set to grow by around 29 per cent (**Figure 7**). The number of people aged over 85 is set to more than double. The result is the number of people likely to be economically inactive will increase more quickly than the working population.

1.16 The demographic changes create pressure on public services because older people tend to have increased demand for services, particularly health and social care services. Figures presented by the Assembly Government at a recent Chartered Institute of Public Finance and Accountancy (CIPFA)

Figure 7 – Changes in the age profile of the Welsh population



Source: Stats Wales website, www.statswales.wales.gov.uk

conference showed that a person aged over 85 typically uses £2,800 in NHS services each year. This is five times greater than the level used by a person aged 15 to 45. With an increasingly ageing population, public services will need to face up to the challenge of how to provide and fund the health and social care that an older population will require.

- 1.17** Public services will also face as yet unknown cost pressures as a result of climate change. Our recent report on coastal erosion and tidal flooding highlighted predictions that the cost of damage from flooding will at least double and possibly increase 20-fold over the next 80 years.

Public services will need radical change if they are to achieve more with less

- 1.18** Public services in Wales have few options to respond to the financial challenges. Unlike the UK Government and the Scottish Government, the Assembly Government cannot raise taxes and it cannot borrow money to fund services. While local government can in theory raise some local tax, there are restrictions and rises can be capped, and there are also political reasons why raising taxes would be difficult. Therefore, the most realistic response is to cut spending. The CIPFA and the Society of Local Authority Chief Executives (SOLACE) recently identified three strategies for public services to respond to the financial crisis, all of which require radical changes across the piece (**Box A**).
- 1.19** Public services in Wales recognise the need for change as a result of the recession. Some of the activity currently under development and in train is set out in **Box B**.

Box A – The CIPFA and SOLACE report – *After the Downturn*

CIPFA and SOLACE have identified three strategic options for public services to respond to the financial pressures:

Option 1: Redefine the relationship between the state and the individual, so that the individual provides more for themselves and the state does less. This could involve the state identifying core services, with any extras paid for by citizens.

Option 2: A 'de-layering' of the state, with more decisions taken locally and less central direction and oversight through targets and inspection.

Option 3: A major initiative to maximise economies by much more effective collaboration between public bodies.

CIPFA and SOLACE report that public services will need to adopt a mixture of the three strategic options. More detail can be found at www.cipfa.org.uk/pt/cipfasolace

Public services will need a new approach to efficiency, improvement and innovation

- 1.20** Part of the response to the financial squeeze must be to deliver real and significant financial savings. This will require a much more radical approach to improving economy, efficiency and effectiveness than what has gone before. Our work shows that public services have struggled to demonstrate that they have achieved the £600 million efficiency savings target over a five-year period (see **Part 2**), during which budgets have been rising. Given the scale of the gap between current and likely future budgets, it is clear that continuing with incremental changes to deliver marginally improved efficiency will simply not be enough. Public services will need to make a strategic commitment to radical change, and the innovation needed to deliver that change, if they are to respond effectively to the financial situation.



Box B – Work in train to respond to the financial challenges

There a number of strands of work across public services which are designed to respond to the significant financial challenges being faced. For example:

- a** NHS Wales has developed a five-year Service, Workforce & Financial Strategic Framework, focused on a vision of integrated care to improve patient experience and engagement, citizens' well-being and practitioners' effectiveness. The framework is underpinned by 14 national programmes to identify, generate and implement best practice to improve services and create efficiencies.
- b** The Welsh Local Government Association has established a new Improvement Board and its regional partnerships are pursuing a wide range of collaborations to improve efficiency and effectiveness.
- c** Local service boards are developing around 90 projects to improve the way public services work together and deliver for citizens.
- d** The Assembly Government's civil service is undertaking change programmes as part of 'Managing with Less' that are intended to improve efficiency and effectiveness.

The Assembly Government has established a Wales Efficiency and Innovation Programme, led by the Minister for Business and Budget. The current themes for the programme are:

- a** *Improving business operations and processes:* improving operational efficiency and improving service delivery. Key strands include: collaborative procurement and commissioning; public service ICT; asset management; and transforming business processes.
- b** *New models of service delivery:* promoting take-up of successful innovation and good practice to make a much greater impact and encourage further innovation
- c** *Developing the workforce:* developing a stronger cross-public service approach to workforce planning and development, delivering more joined-up and simple solutions so that Welsh public service employees have the right skills, in the right place, at the right time.
- d** *Enablers:* including strengthening management and leadership capacity, communication and funding programmes.

1.21 One idea that needs to be challenged is that services must '**do** more for less'. Trying to do more of the same with less money, fewer staff and less time can ultimately result in a squeeze somewhere else, for example, poorer quality services. What is needed instead is a focus on '**achieving** more or the same for less'. That requires an approach to identifying, delivering and measuring efficiency savings that takes account of outcomes as well as inputs. Rather than focusing on financial savings alone, it requires a more holistic approach, focusing on both efficiency and improvement. This approach would make sure that managers undertake a more fundamental reshaping of systems, service models and business processes, so that they are focused on delivering their core purpose and outcomes from the point of view of service users and citizens.

1.22 Developing efficient citizen-centred services will require a more robust understanding of demand and what matters to service users. In particular, public services will need to much better distinguish between 'value' demand and 'failure' demand. Meeting 'value' demand involves providing users and citizens with services when and where they need them. Too often, public services waste time and effort managing 'failure' demand, unnecessary and avoidable activity caused by problems elsewhere in the system (**Box C**).

1.23 To reduce this avoidable activity, public services need to develop a thorough understanding of how people experience their services, and how they move through the system from the point of contact to receiving a service. Public services can then identify where the system is over-complicated, and develop more innovative service models that reduce unnecessary obstacles that create waste and act as a barrier to users getting a good service in the first place. Public services

will also need to develop performance measures that relate to delivering 'value', rather than measuring activity and cost, which they tend to do at the moment (see **Part 2**). We are undertaking some work in this area, looking at public services' approaches to supporting innovation and efficiency.

Public services will need to collaborate more effectively

1.24 Collaboration and partnership will also be crucial in achieving more or the same for less. At a fundamental level, collaboration helps achieve more because it is rarely possible for one organisation or department alone to deliver improved outcomes, like a healthy society, a prosperous economy, or a clean

environment. It also helps public services work better for users. Too often, users of services have to struggle to find their way across organisational boundaries to get the services they want or need. Not only is this frustrating for users, but the complexity creates opportunities for scarce resources and time to be wasted. We will help support collaboration in the public sector through a programme of work using the Results Based Accountability framework, which supports better planning to deliver shared outcomes (**Box D**). We will also help ensure that citizens can access more efficient joined-up public services by carrying out further reviews focusing on whole systems, like our reviews of unscheduled care and delayed transfers of care (see **Part 2**).

Box C – Value demand and failure demand

'Value demand' and 'failure demand' are concepts that inform systems thinking and LEAN approaches to service improvement. In essence, value demand is about delivering the service that the user wants, wherever possible when they want it. It is based on the fundamental purpose of the service – the outcomes it wants to achieve for users. 'Failure demand' occurs where services spend time and effort managing things that have either gone wrong, or could have been avoided up front.

Such avoidable demand includes:

- a** people getting back in touch to check progress because they have been waiting for a response;
- b** having to go back to people to get additional information that could have been gathered in the first place or that has been mislaid; and
- c** having to go back to people because they have not filled forms in correctly.

Our commissioned academic research on systems thinking in the public sector focused on councils, and identified some excellent case studies including:

- a** Neath Port Talbot County Borough Council has not only delivered savings in its Disabled Facilities Grants but also improved service waiting times considerably; while
- b** Blaenau Gwent County Borough Council's Housing/Council Tax Benefit service has achieved a faster (new claims down on average end-to-end time from 45⁹ in 2007-08 to 18 days after redesign), more personalised service with significant reductions in the backlog and in counter visits because of the removal of waste. Another positive side effect has been a significant improvement in staff morale.

More details of the commissioned research on systems thinking in public services can be found at www.wao.gov.uk

⁹ The 2007-08 figure differs from the published performance indicators. The commissioned research found that the published performance indicators allowed for 'clock stopping' in certain circumstances and did not capture the full time that the client would have to wait to receive their service. The actual end-to-end time was significantly higher than recorded in the indicators. Blaenau Gwent now records the full end-to-end time from the client's perspective, with no clock stopping.



Box D – Results Based Accountability

Results Based Accountability sets out a broad framework to enable organisations to focus on delivering better results. The approach distinguishes between population results and performance results. Population results cover outcomes for the population, such as happy children, independent older people, or a prosperous society. Such results cannot be delivered by one organisation or agency alone. It is therefore counter-productive to make any single organisation accountable for results it cannot deliver. The RBA approach proposes that organisations need to agree a common approach to achieving shared population results. This approach needs to be based on a common understanding of the current position and a shared plan for moving towards the desired population result. Individual organisations then focus on managing and improving their contribution to population results. In particular, they use performance management to measure and improve the impact of their services on service users. Results Based Accountability links to the systems thinking approach (Box B) by helping organisations develop measures that focus on the core purpose of their services – improving outcomes for people.

Public services will need to make tough decisions about cutting services and reducing staff costs

1.25 Given the state of public finances, it is unlikely that even the most robust programme of efficiency and improvement work will result in sufficient savings to bridge the funding gap. It is therefore likely that public services will have to make tough decisions about disinvesting in some services. Assembly Government Ministers have made clear that simply cutting an arbitrary percentage off budgets will not be the answer. Public services will need to prioritise services based on evidence of what works and what provides value to citizens and service users. Only then can they start to produce the robust assessments needed to support disinvestment in services and programmes that are no longer a priority.

1.26 Staff costs make up the bulk of most public services' spending. Even money spent on procurement often supports staff either in another part of the public services, voluntary sector or a private company. In considering disinvestment, public services will need to identify novel ways of reducing their staffing bills. One of the notable features of the current recession, compared to others, is that the rate of employment has fallen less sharply. This is in part because people have begun to work more flexibly, with reduced hours or moving from full-time to part-time work. Public services may need to adopt similar approaches in order to retain experienced staff while reducing overall costs.

1.27 There are specific challenges on staff costs for different sectors. In the NHS, there has been a reduction in the number of health bodies. This situation presents an opportunity to reduce management costs, although there are risks in losing experienced staff during a period of change. In local government, local authorities are grappling with the consequences of equal pay. Some have already been through the process, but some have as yet unidentified costs that may impact as a result of job evaluations.

1.28 While financial pressures are a challenge, they should also be seen as an opportunity. Common sense would suggest that it is better and easier to reform public services when there is more money in the system. That extra money can be used to support innovation, to develop and pilot new ways of working. But the truth is that there is always a temptation in times of plenty not to make hard decisions and to just use any extra money to do more of the same. Challenging times on the other hand can mean that public service managers have to take the tough decisions needed to make sure that they achieve more or the same for less.

Public services will need to find new ways of informing and engaging with citizens in rolling out radical changes to public services

- 1.29** Public services face a growing communications challenge. Firstly, there is increasing pressure on public services to be more transparent and to be accountable for their use of public money. Nothing has brought this home like the furore surrounding MPs' expenses. In tough economic times, the public rightly expects public servants to be able to show that they are making good use of taxpayers' money. The public has come to expect that they can see how their money has been spent, and that public services demonstrate that their use of public money is making life better. There are also major challenges for public services to engage the public in the changes needed to respond to the financial climate, particularly where changes involve new models of service delivery that are unfamiliar.
- 1.30** There is evidence that the public is not being well enough informed about how well public services are performing. A recent Assembly Government¹⁰ survey found that in 2008 just 34 per cent of people believed that they were kept informed about the performance of local council services, dropping from 41 per cent two years earlier. Health is also an area where citizens struggle to see how well their local services are performing. In the Assembly Government's recent survey, just 28 per cent of people thought that they were kept informed about the performance of their local health services.

- 1.31** As well as informing people, public services are also under pressure to involve people more in the way that services are designed and delivered. Advances in technology have enabled a more interactive environment where people can influence the results of television competitions through voting, create their own online media content and participate in blogs on everything from their hobbies to the inner workings of political life. People increasingly want a say in how things are run. The challenge for public services is to find ways of enabling citizens to have a meaningful say on things that matter to them, whilst managing those citizens' expectations on what is possible with finite resources.
- 1.32** A recent survey by the Assembly Government highlights some of the challenges of engaging people with public services. Around 15 to 18 per cent¹¹ of people wanted to participate in making decisions about the running of local services but did not do so, and a further two per cent already participated. Although proportionately small, 15 per cent of the population of Wales is around 450,000 people – a significant untapped source of ideas and views. It is likely that many of the 85 per cent of people who have not expressed a general interest in participating in decisions, will have a much stronger interest in decisions that directly affect the way they access and receive services. There is increasing talk of 'co-production' which involves frontline service providers collaborating with service users to produce much more personalised and tailored services.

¹⁰ <http://wales.gov.uk/topics/improving-services/peoplefirst/research/liwsurvey2008/>

¹¹ Fifteen per cent said they wanted to participate in decisions about local authority services but had not. Eighteen per cent gave the same response in regard to local health services.



1.33 Engaging with citizens will be important in developing public services' responses to the public service funding challenge. Serious and radical changes to services will be needed and the public will need to understand the consequences of such change. And service users have a good deal of useful information and ideas about how services can be improved by reducing complexity and frustrating delays that cause waste. Public services would do well to learn from the experiences of the NHS, which has faced a great deal of challenges in trying to engage the public over the reform of services. Unless the public is properly informed about changes, the pressing reasons and the benefits, it can be very difficult for people to understand why things need to change. This is especially the case if it appears that they are losing services or buildings which people have come to rely on and the arguments for change seem counterintuitive. For example, without robust engagement it is harder to make the argument that reducing the number of hospital beds actually means more people can be treated and can get a better service because it frees up resources to ensure that people can access care in more appropriate and efficient community settings.

Part 2 – Our work shows important lessons for the Welsh public service in developing their response to future challenges

2.1 This part of the report looks at some of the key lessons from our work with Welsh public services since the Wales Audit Office was formed in April 2005. These key lessons shed light on the challenges that public services have faced, and are also a guide to some of the issues they will need to address and take account of in future. It is important to stress that these lessons are not intended to represent a comprehensive analysis of the whole public sector – they are based on the results of work we have completed which has inevitably not considered all aspects of public services. Further, some of the specific issues identified here may have been addressed since we carried out our work; our follow-up review of *Work Based Learning* is an example of public services improving following audit work.

2.2 It is also important to highlight that the nature of our work means that we tend to often focus on weaknesses and high-risk areas. As a result, our picture of public services focuses on areas and examples where public services need to do more. We know that public services are doing a lot of good things already. We run a Good Practice Exchange website, which shares learning about good practice by public services and encourages others to adapt the good practice for their own organisations. It can be found at <http://www.wao.gov.uk/goodpracticeexchange.asp>

Our work shows a story of incremental improvement in public services with significant progress still needed

2.3 Over the past decade, spending on public services has risen substantially. Naturally, with this increased spending, the public can reasonably ask the question: 'have public services got any better?' Unfortunately, the answer is not that simple. Our audit and inspection work has pointed to areas of improvement across public services, but also identifies areas where considerable progress is still required. In general, public services have adopted an incremental approach to improving services, rather than fundamentally reviewing the way services are planned and delivered and making radical changes. As **Part 1** makes clear, financial pressures mean that this gradual approach will not be sufficient in future.

2.4 Our reviews of NHS services paint a mixed picture of improvement. The major headline improvement has been in NHS waiting times. In 2006, we did a follow-up on earlier work by the National Audit Office in Wales on NHS waiting times. Our follow-up work showed that the number of people experiencing very long waits for outpatient appointments and routine surgery had fallen substantially. Since April 2008, the NHS in Wales has adopted a new target of 26 weeks maximum wait from referral to treatment by December 2009. The Assembly Government reports that it met the 26-week target in December 2009. In future, the challenge will be to sustain lower waiting times in a more difficult financial climate.



- 2.5** There are signs that the NHS still needs to be more efficient and patient-focused. The key issue for the NHS is that there are still too many people being treated in hospital when they could be seen elsewhere. Patients treated in hospital are, on average, staying longer than clinically necessary. Hospitals are expensive places, costing around £250 per day per bed¹², and they may also not be the best place for some people; they are exposed to risk of hospital-acquired infection and away from familiar surroundings. Day surgery is generally better for patients wherever possible, and more cost effective than long stays in hospital. Our work has shown that despite some progress, the NHS is not making enough use of day surgery. There is still an over-reliance on using hospitals to treat people with long-term or chronic conditions. While there are community-based services, their coverage is patchy and in parts of Wales are still not sufficiently developed to provide an alternative to hospital admission and enable people to be discharged from hospital more quickly.
- 2.6** Services for people who need emergency or urgent care are in need of improvement. There are lots of different components of the urgent and emergency care system and it can be difficult for people to understand where to go to seek help. Once they have made contact, people face delays in getting the care they need, largely because of problems across the whole care system. There are signs of improvement in ambulance response times at an all-Wales level, but too many people continue to suffer delays. There is still a problem with ambulances waiting outside many of Wales' main hospitals because of delays in transferring patients from the ambulance to Accident and Emergency units. Patients attending Accident and Emergency units sometimes face long waits for treatment. More work is needed to manage demand, develop alternative options to treating people in hospital, and improve the patient's experience of emergency care.
- 2.7** There are problems with services for specific groups of people. Our work in 2005 showed that services for adults with mental health problems fall short of the required standards and have not received the priority they need. Our 2009 joint report on child mental health services showed that in too many instances the specific mental health needs of children and adolescents are not being met. Our work has also shown that important aspects of maternity care need improving, guided by a better strategic approach across Wales.
- 2.8** There have been significant recent changes in the structure of the NHS. Part of the rationale for the changes, alongside the five-year framework (see **Box B** in **Part 1**), is to make the NHS more efficient and patient-focused. On 1 October 2009, the system involving local health boards commissioning services from NHS trusts came to an end. In its place, seven health boards are now responsible for planning and delivering healthcare services in seven regions. Two of the NHS trusts remain and are responsible for providing specialist services: the Welsh Ambulance Services NHS Trust and Velindre NHS Trust which provides specialist cancer services. There is also a new Public Health Wales NHS Trust. We have worked closely with the new organisations to help them make the transition to the new structure. Our work has shown that although they have generally overseen the transition well, there remain major challenges for them to address in order to ensure that the changes to structure and the new framework result in improved services to the citizen.

¹² Wales Audit Office (2007) *Tackling Delayed Transfers of Care across the Whole System – Overview report* Appendix 3
http://www.wao.gov.uk/assets/englishdocuments/DToC_Overview_eng.pdf

2.9 Our work with councils shows variation between services and individual councils. Problems with published data make it very difficult to assess whether services really have got any better. Our local work with councils paints a mixed picture with good and poor practice. Our 2008 review of the Wales Programme for Improvement at all councils across Wales concluded that while authorities generally continue to work to deliver better services, they overemphasise risk and their approach to measuring performance can actually hinder improvement. The report found that the information that councils were gathering and reporting did not provide a comprehensive and consistent picture of performance. One of the key weaknesses is the lack of comparability between councils. We know from our local work that performance is widely variable across Wales, but the public has been unable to make any meaningful comparisons to know how well their local services compare with others.

2.10 From April 2010, there will be a new approach to improvement in local authorities under the Local Government Measure. Councils will be required to set improvement objectives every year. There will be a much stronger focus on delivering real and demonstrable improvements for service users and citizens. We will carry out an annual 'Improvement Assessment' with two parts. We will carry out a 'Corporate Assessment' of each council looking at whether its arrangements are likely to support continuous improvement. We will also carry out a robust annual 'Performance Assessment' of whether or not each council has actually improved over the past year. Our work will focus on whether they are actually delivering real outcomes, whether they are improving the lives of people who use their services and whether they are making the local area a better place to live and work. As part of this work we will provide

insight to councillors and officers about where we think they need to do better, and we will also publish an Improvement Assessment report to inform local citizens about our assessment of the Council's efforts to secure continuous improvement.

2.11 One council service we have looked at in detail through joint inspections with the Care and Social Services Inspectorate Wales (CSSIW) is social services. Between 2005 and 2008, 10 councils in Wales had a joint review of social services, managed and carried out jointly by the Wales Audit Office and CSSIW. A recent overview report published in June 2009 concluded that there have been some modest improvements in the social services being delivered. The greatest area of improvement has been better access to help and better public information. Councils have made progress in expanding the range of service provision with a greater focus on supporting independence and enabling people to live in their own homes and communities. There has also been a significant improvement in the range of preventative services for children and families and better service partnerships with the voluntary sector.

2.12 The report also noted that there remained marked differences across councils and within councils across different services. Those areas found to be the weakest include inconsistent assessment processes to understand people's needs, with many falling below the standard required. The quality of risk assessments was found to be particularly poor and there needs to be significant improvement in risk management in order to better protect vulnerable adults and children. As with the NHS, there has been a shift towards developing services which support independence and care closer to the individual. However, the transition from more



traditional and institution-based forms of support is too incremental and is taking too long. Services for carers remain badly developed. More carers are being identified but dedicated support is too scarce.

Public services need clear strategies and plans showing what they want to achieve, how they intend to achieve it, and how they will measure progress

2.13 ‘Strategy’ and ‘strategic’ are words that are frequently used without much reflection on what they really mean. From our perspective, strategy and planning is about much more than documents with the words ‘strategy’ or ‘plan’ on their cover. The most important thing is the quality of thinking, analysis, reflection and communication on the best way of tackling a problem, or providing a service. Strategy and planning will be increasingly important as public services develop robustly thought through and sustainable responses to the financial pressures. Some of the key elements of strategy and planning involve setting out what success looks like, including a vision and clear statement of the intended outcome – how things will be better as a result of the strategy. Services need to work out how they will use the resources they have to hand – financial, staff and other resources – to deliver their goals. And they need to set out how they will measure progress along the way, with a particular focus on the purpose of the service or strategy and the outcomes it is supposed to achieve.

Public services need to set out clearly what they want to achieve and how

2.14 It is common practice to set out the overall direction of an organisation, strategy or plan in a ‘vision’. The Assembly Government has set out an overall vision for public services in its *Making the Connections* initiative. Its approach involves public services working together to deliver services that are based around the needs and aspirations of citizens. Each part of the public service has its own visions. For example, the health sector has a strategic vision, involving improving the health of the population and moving clinical services closer to patients so that fewer people are treated in hospitals. Councils also set out their vision for the future in their community and corporate plans. And there are also individual strategies and plans for particular services or to address particular problems, which have their own visions. It tends to be at this more detailed level that we have identified some specific areas where strategic visions are limited. Our work on maternity services concluded that there was no coherent strategic vision at an all-Wales level and our work on unscheduled care found that many stakeholders felt the national strategy for emergency care was neither specific nor prescriptive enough.

2.15 Our work has identified that there is sometimes a gap between high-level visions and the strategic thinking and planning about the practical steps – the what, who, how, where and when – needed to deliver those ambitions. Our work on coastal flooding showed that the Assembly Government’s strategic approach was not sufficiently clear in terms of objectives, roles of stakeholders and the resources needed. Our review of the Communities First programme showed that the Assembly Government had clear objectives, but that when it designed the

programme it had not analysed what resources it would need – financial or staffing – nor did it have a clear idea as to how the programme would deliver its objectives. Whilst our inspections of housing associations have concluded that nearly all associations have a clear strategic vision, many associations had not developed effective plans for delivering those visions.

- 2.16** There are some key issues that are so important that they are expected to be part of every public service's strategic thinking. One of these is sustainable development, which is defined as 'development which meets the needs of the present without compromising the ability of future generations to meet their own needs'. Delivering the Assembly Government's vision for a sustainable Wales requires the principles of sustainable development to be a practical consideration in public services' decision making. Given the current financial pressures and key decisions that will need to be made, it is important that public services take account of the long-term impact of their decisions for future generations. Our recent work has shown that sustainable development has not been well integrated into strategic decision making in the Assembly Government. And earlier work in 2006 showed that sustainable development has not been a sufficiently important consideration in local government.

Effective planning needs to be based on good information to support tough choices and clear priorities

- 2.17** Public services need robust information to do the kind of detailed analysis necessary to link their vision and objectives to plans for delivery. However, too often, the quality of information is poor or the delay in getting good quality data makes planning more challenging. In particular, public services often

do not have a clear understanding of the demand for their services and the quality of their services from the users' perspective. A clear example of the consequence of poor data and planning can be seen in our report on the home oxygen services. We found that local health boards were unable to provide their new contractor with robust data about the number of people who received home oxygen services before a new service was rolled-out. Within days the new contractor was overwhelmed by unexpectedly high levels of demand. The Assembly Government had to revert to previous arrangements, with community pharmacists providing oxygen alongside the new arrangements, at significant additional cost. Our unscheduled care report looked at the system for delivering emergency and urgent medical care and found that the various NHS organisations involved did not have a clear understanding of demand across the system when planning services. As a result, they were trying to solve problems, like long waits for patients in getting care, that they did not fully understand. Similarly, our work on maternity services showed that planning was being undermined by poor information about the cost and quality of services.

- 2.18** Our work suggests that some public services struggle to identify clear priorities for delivering their strategies. Frequently, many different actions are required to deliver a strategy. Public services do not have infinite resources and time, so they need to prioritise effectively. Our work on the Welsh Ambulance Services Trust in 2006 found that although it had a sound plan, it did not have clear priorities, raising serious doubts about whether it knew how it would go about actually delivering service modernisation. Our review of Forestry Commission Wales found that its strategy did not clearly prioritise which objectives were most important.



This lack of prioritisation had led to staff conflict and a lack of clarity about how they should prioritise tasks involved in the practical day-to-day management of Wales' forests.

- 2.19** Our report on coastal defences and tidal flooding highlighted some of the tough choices that public services will need to take as a result of climate change. The report showed that, with forecast rises in sea levels, building ever higher sea defences to protect communities from coastal flooding might not be sustainable. Public services will need to consider whether it is more cost effective to prioritise some areas but recognise that the investment needed to protect some coastal communities might be disproportionately large. As a result, a managed retreat might be needed for some coastal infrastructure and communities.

Plans and strategies for public services need to link with financial plans for the medium and long term

- 2.20** Public services generally need to get better at linking their strategies and plans for services to financial planning in the medium and long term. Too many public bodies are focused on immediate short-term financial pressures, and do not look further ahead to the medium and long term to support the achievement of broader strategic goals. Too many just plan their budgets based on small incremental annual changes, rather than carrying out a fundamental review of what services are needed to deliver the results they require and how much they cost. This kind of short-term and incremental financial planning is inconsistent with the need to develop plans and take decisions that address the long-term challenge of ensuring increasingly scarce resources are used sustainably.

- 2.21** Our work has identified several specific examples of short-term financial planning and its drawbacks. In the NHS for example, there is scope to better use financial arrangements to support the goals of transformation and modernisation. In particular, organisations with deficits tend to focus on the short-term financial pressures and find it difficult to fund new or innovative ways of working. This creates a vicious circle – to break free of deficits they will need to adopt new ways of working that are more efficient and effective. In local government, our work on Good Practice in Special Educational Needs Funding showed that most councils base their special educational needs budget on previous years' expenditure, and that most overspend on a regular basis. Financial planning tends to focus on ways to manage overspending, rather than addressing the underlying causes. However we identified some examples of longer-term financial planning in special educational needs funding, which show the benefits of investing to save in the longer run. The benefits include, for example, avoiding the need for expensive placements for pupils outside of the area, and boosting the capacity and confidence of local schools to manage pupils with special educational needs.

Risk needs to be understood and managed but public services should not be risk averse

- 2.22** One of the key areas where public services need to think strategically is risk. Risk is a huge area, and covers things like the major risks to services and the public – like the recent Swine Flu epidemic. Our work suggests that public services are thinking strategically about how best to respond to, and have put arrangements in place to manage, this risk. Our ongoing study regarding the Civil Contingencies Act in Wales is looking at the way that public services are working together to manage the risks related to major emergencies.

2.23 It is very important to emphasise that good risk management is about identifying, assessing, and where possible mitigating risks – it is not about avoiding taking risks all together. It is important that public services are able to take managed risks. Indeed, if they are to respond effectively to the current financial pressures, it is vital that officials start to take risks in order to innovate and change the way they do things. Our report on the funding for the Wales Millennium Centre identified good practice by the Assembly Government in taking a managed risk in funding the construction of an iconic building. We also recognised that Welsh public services generally acted reasonably in identifying and managing risks involved in the *Red Dragon Project* to safeguard aerospace jobs and develop an aerospace park at the RAF St Athan site, despite the fact that the project is yet to deliver its intended benefits.

Public services need to be careful when using targets and ensure that they use performance measures that focus on purpose and outcomes

2.24 Many public services use targets as part of their strategies. Our work points to possible benefits from using targets to focus activity, but also warns that they involve risks and need to be used carefully. On the one hand, our follow-up work on NHS waiting times shows that fewer people face long waits for their appointments and operations, suggesting that increasingly tight waiting targets can provide a clear focus for action. There is also evidence that councils are focusing much more on increasing recycling rates because they will have to pay large fines if they do not meet EU targets. However, our report *Minimising Healthcare Associated Infections in NHS Trusts in Wales* found that inappropriate emphasis on performance and financial targets can lead to wards being

reopened too soon after outbreaks. This focus on short term pressures can put patients at increased risk of infection. Our report on lessons learnt from housing inspections found that some housing associations focused too narrowly on a small number of financial or national indicators and targets, at the expense of improving services for tenants. There is a real risk that public services will hit their targets but miss the point from the perspective of the user and citizens.

2.25 While there may be some debate about the effectiveness of targets, there can be no doubt that having unclear targets and measures of success is unhelpful. We have found numerous examples where public services do not clearly define how they will measure the success of their strategy or services. Our work on the Assembly Government's approach to implementing the Home Energy Conservation Act found that the target being used was unclear and councils had inconsistent approaches to measuring their progress. Our report on *Increasing Physical Activity* showed that of the 11 targets in the Assembly Government's *Climbing Higher* strategy, just four had any mechanisms for measurement. Our report on the Assembly Government's National Homelessness Strategy found that of the 10 objectives, just three had measurable progress targets, with a further two in development. The same is true of the efficiency targets established as part of the *Making the Connections* initiative; the approach to setting and then measuring performance against those targets is unlikely to have successfully promoted or facilitated either efficiency or improvement. In some cases, public bodies are not clear what they are expected to do or why, and they have been subject to perverse incentives.



2.26 It is important that public services use a balanced set of performance measures that reflect the purpose and intended outcomes of services and strategies. Using measures that reflected outcomes and purpose can help ensure that services focus on the right areas and also enable services to measure their progress in areas that matter most. Our work in the NHS, for example on unscheduled care, has shown that many targets and measures focus on access, such as waiting times, not on the quality of the service or patient outcomes. Similarly, our work with local government has shown that many of their performance monitoring measures focus on narrow activity indicators that do not reflect the fundamental purpose of the services or their intended outcomes. Our report on the agricultural environment scheme *Tir Gofal* found that although the Assembly Government monitors some of the outputs from the scheme, there is little outcome data showing what impact has been achieved in terms of woodland habitats. Additionally, our review of Fleet Management in Wales found that there was only limited monitoring and comparison of performance through performance indicators and benchmarking.

Public services need to work together to deliver improved outcomes for citizens

2.27 The Assembly Government's vision for public services is based around all organisations working together to make life better for people in Wales. Collaboration is particularly important because individual public services cannot deliver the desired improvements in the economy, health, environment and community life of Wales on their own. And when public services do not work together effectively the results are extra costs and

poorer services for service users and citizens. When we talk about collaboration we also mean collaboration within organisations, because frequently the barriers that exist between different departments and teams in the same organisation can be as difficult to break down as those that exist between different organisations.

2.28 Our work presents a mixed picture in terms of the Assembly Government's approach to collaboration at a strategic level. Our review of the National Homelessness Strategy in 2007 showed that the Assembly Government had been relatively successful in developing a strategy that set out the expectations of collaboration between its own departments, other parts of the public services, the voluntary sector and the private sector. On the other hand, our report on the Assembly Government's Communities First programme identified problems getting the rest of the public services, including the Assembly Government's own departments, to support the programme. We also concluded that it was inappropriate to expect community partnerships to take responsibility for outcomes that they could not achieve: responsibility for outcomes needs to be shared with the wider public service. Our review of the Assembly Government's 20-year Climbing Higher strategy for increasing physical activity found that there was no clear responsibility for delivering the strategy, and integration into other key policy areas was inconsistent and effective partnership working was patchy. Our work shows that there is a need for co-ordination of effort on the part of all those involved, with stronger leadership at a national level and a greater alignment of strategies and plans across local and national government.

2.29 Our work shows that public services need to take a more holistic view in their planning and understand individual services and processes as part of the wider systems. In particular, our work looking at joint working between the NHS and local government consistently points to the need for better collaboration to address problems across the whole system of health and social care. For example, poor collaboration between the NHS and council social services departments were contributing to a quarter of the £69 million direct cost of bed days occupied by people classified as delayed transfers of care in Wales in 2006-07, with people staying in hospital beds when they are clinically fit to leave. Such delays not only cost public services money: they also result in people losing their independence and expose them to the risk of hospital-acquired infections. We found some good local examples of collaboration, for example, around delayed transfers of care in the Gwent region. There, local health bodies and councils are working together with the voluntary sector to implement the Pan Gwent Frail Older Person Project. The partners on the project are working towards a clear shared outcome: that frail older people should be happily independent. The project aims to achieve transformational change by moving the focus for frail older people from acute and institutional care to independent living. On the other hand, our *Unscheduled Care* report raised concerns that there was insufficient co-ordination of the Assembly Government's strategies that impinge on unscheduled care, for example chronic conditions management, ambulance service modernisation, primary care development and the community nursing strategy.

2.30 Our work in local government shows that councils have a track record of collaboration with local partners but success is variable and there is a risk that some partnerships end up as 'talking shops'. There are some good examples, particularly some of the regional waste partnerships, where partnerships have been driven by clarity of purpose. But sometimes councils can be unclear about what kind of collaboration is best for particular circumstances. Formal partnerships are not always necessary or even a good idea. Our work found that where councils are in partnerships, there can be a lack of clarity about the formal governance arrangements, particularly financial accountabilities. Sometimes loose networks or more informal joint working arrangements work better. Our work suggests that there remains scope for councils to identify and share good practice to develop a clearer and more effective approach to partnership working.

2.31 One area where public services have traditionally struggled has been shared services and pooled budgets. Our local work suggests that there are some good examples but shared services have been slow to progress. Some local services have experienced practical difficulties which they have struggled to overcome. Evidence of pooled budgets in partnerships is also very limited. However, there have been some small-scale local initiatives to share health and social care staff and examples in some areas of jointly funded schemes such as community equipment stores. Our auditors and inspectors in health and local government are concerned at the slow pace of development of some local service boards, which have been set up to take forward local collaboration.



Public services have a solid foundation of financial management and governance to build on although there are lessons to learn from specific problems

- 2.32** Sound financial management and good governance are the bedrock of public service management. The public needs assurance that public services are using their money in line with the legal requirements. And the public also needs to know that public services are accountable for their use of public money. These issues will be increasingly important in future, given the financial squeeze. Public services will need to make very tough choices about how and where to spend their money, and it is important that those choices and decisions are taken with the appropriate level of scrutiny. And it is also important that public services become subject to scrutiny where they are not making those choices, so that there is robust questioning of whether carrying on as normal with services and programmes is justifiable in the changed circumstances.
- 2.33** Our reviews of central government and NHS finances have showed that standards of financial probity are high. Our work with local government has similarly found that the accounts are generally accurate and spending is correctly accounted for. Since 2005, there have been some major changes to the rules for accounting for public spending, and our work shows that public services have responded well to these changes. In particular, public services have had to produce their accounts much more quickly and have done so while also improving their quality.
- 2.34** Some councils have also had to respond to unexpected challenges such as the Icelandic banking problems. Welsh councils had deposits totalling some £60 million in Icelandic banks at the time that the latter collapsed in October 2008. The Wales Audit Office worked closely with Welsh councils, the Local Government Association and CIPFA to ensure that a consistent approach was adopted to account for this issue, and to ensure that lessons are learned to update councils' Treasury management arrangements and avoid similar problems in future. Nonetheless, it is unlikely that those councils will recover all of their money.
- 2.35** One of the most topical issues around governance and accountability in recent months has been the question of politicians' expenses and allowances. Although media interest has largely focused on MPs, it is fair to state that the National Assembly has led the UK in reacting responsibly to the issue of allowances and expenses. In 2008-09, the National Assembly instigated the Independent Review Panel, on which the Auditor General was an audit observer. In 2009-10, the panel recommended significant changes to the payments made to Assembly Members (AMs), including the way in which their core salaries are set. The National Assembly for Wales Commission accepted all of the recommendations and these recommendations included the need for increased audit scrutiny (beyond the statutory audit) and audit reporting on payments made to AMs. The increased audit scrutiny and reporting is being adopted from 2009-10. Also, for the first time, in July 2009 the National Assembly for Wales Commission (NAWC) made all 2008-09 payments to AMs available publicly, via the internet. This is now being done at monthly intervals throughout each year.

2.36 In local government, we have done a lot of work with scrutiny committees, which are the committees of councillors that scrutinise whether local policies, plans and services are being delivered effectively and offering value for money. Our work with local government indicates that the overview and scrutiny function has generally improved since 2005. In most councils it has gained greater prominence, but it is rarely viewed as essential to the council's operations or as a powerful lever for change and improvement. Where scrutiny is effective and challenging, the council's executive and senior officers have fully appreciated the powerful benefits of effective scrutiny, and have afforded it equal high status and respect as that of the decision makers. But the role of scrutiny in policy development varies between councils. There is often a lack of understanding of the full range of scrutiny functions and how and when they could best be applied. Local auditors report that some committees spend their time discussing parochial or irrelevant issues rather than using their limited time to scrutinise important issues. In future, the scrutiny function will be important in challenging and scrutinising the use of increasingly scarce public funding.

2.37 Some of our work has identified specific difficulties with governance arrangements in individual organisations. Our work on corporate governance at the Isle of Anglesey County Council in 2009 identified the corrosive impact of conflict and inappropriate behaviour by a small group of elected members, which had contributed to weaknesses in leadership and direction that left the Council poorly placed to meet future challenges. Our corporate governance review of Denbighshire County Council in 2008 showed that, despite clear political leadership, the Council had not then developed corporate arrangements that would enable it to deliver its plans to improve. More recent work has

shown that a good start has been made to improving the running of the Council. Our review of the Welsh Ambulance Services Trust in 2006 found weaknesses in leadership, and that governance arrangements were ineffective. The Trust had gone through a turbulent period, with rapid changes in leadership causing serious damage to the organisation. We found that the internal governance by the Trust's Board was not effective, with little evidence of it holding senior executives to account for their performance. Also, external governance of the Trust by the Assembly Government and Health Commission Wales was not sufficiently well-co-ordinated. We have followed up this work, and found in 2008 that the Trust had improved its leadership and governance arrangements.

Public services need to make better use of their resources to ensure value for money

Public services have struggled to deliver real efficiency savings

2.38 All public services have been required to make efficiency savings over the past five years. As part of the *Making the Connections* agenda, the Assembly Government set a target for the Welsh public sector for the delivery of £600 million of efficiency savings by 2010. Improving efficiency is not just about saving money, it is about doing things better, and the benefits that this can bring to citizens and in the case of energy efficiency, to the planet.

2.39 We reviewed the efficiency gains declared by local government bodies for 2005-06, and the efficiency gains declared by all other public sector bodies for both 2005-06 and 2006-07. The Welsh public sector had made only limited progress in achieving, measuring and



demonstrating efficiency gains. The overall level of efficiency gains for 2005-06 and 2006-07 was certainly overstated and we concluded that at the rates of progress exhibited at the time of our review, the overall national efficiency target of £600 million savings by 2010 would be missed by some considerable margin.

- 2.40** Public bodies have generally struggled to provide robust evidence of efficiency gains. Most public bodies have developed plans for efficiency gains projects and have successfully demonstrated that they have saved money from those projects. However, they were unable to consistently demonstrate that they had made those savings by being more efficient. They were frequently unable to show that the service level and quality had been maintained or, if the service had been cut, that cuts followed a rational analysis of priorities. We identified several public bodies where it was not possible to validate any of their declared efficiency savings. Even public bodies which had demonstrated a clear commitment to achieving efficiency gains had made insufficient progress in actually measuring the success of their efficiency gains projects.
- 2.41** Our work has also shown how services could be more efficient and reduce costs by helping to reduce demand through changing public behaviour. The clearest example is the Welsh Ambulance Services Trust, which experiences a significant burden because of people calling 999 to request an ambulance for fairly minor ailments. We also looked at public services' efforts to increase physical activity, which can have an indirect impact on the costs of providing services by improving people's general health and well-being, and reducing the likelihood that they will need to access health and care services.

There is a challenge for public services to make best use of their staff

- 2.42** People are the most valuable asset in the public services. Most public services spend most of their budgets on staff. Public services rely on staff to deliver their services to citizens, to implement strategies, and to come up with new ideas and better ways of working. So, sound people management that gets the best out of their staff is fundamental to the effective working of any public service.
- 2.43** One of the key messages from our work is the need to ensure that the systems for setting out what staff should be doing, how they should be developing, and assessing how well they are performing should be linked to the key objectives of the organisation. Our inquiry into the Welsh Ambulance Services Trust in 2006 found that fewer than one in five staff reported that they had received a performance appraisal in the previous 12 months. Our follow-up work has shown that the situation is slowly improving. Our original report concluded that the lack of an effective performance appraisal and personal development framework was a major barrier to the delivery of the Ambulance Service's plans to improve the service to patients. Our report on *Minimising Healthcare Associated Infections in NHS Trusts in Wales* recommended that trusts should ensure that infection control is made everybody's responsibility by incorporating it into job descriptions and staff appraisals. Our report on the *Operations of the Forestry Commission Wales* recommended that staff objectives should be aligned with corporate objectives, in order to clarify how everybody contributes to the organisation's goals. Our joint work with CSSIW has shown substantial improvements in the training and development of social care staff, which is helping to support better services.

2.44 Over the past four years, we have carried out a number of reviews into the management of staff sickness absence across the public services. Almost everybody will be unwell at some point and need to take time off work. Good management policies and practices can help make it easier for staff to stay healthy, thereby preventing sickness in the first place. Good absence management can also help to make it easier for staff to return to work more quickly following a period of sickness. Reducing sickness absence can have a huge impact on a public service. Reducing the average number of days lost each year in the Welsh public sector by only one, is the equivalent of a cash injection of around £27 million to the public services in Wales.

2.45 Our work has shown that there is a growing awareness of the need to manage sickness absence actively. Most public services that we looked at are adopting practices like return to work interviews, trigger points to identify patterns of absence that cause concern, and using occupational health services to help staff on long-term sickness leave develop a phased and supported return to the work environment. There is still a way to go in ensuring that public service managers effectively implement the best policies and practices. Our work has shown that while absence levels have fallen in the Assembly Government and in the NHS, they have remained fairly static in local government. We have also supported more effective sickness absence management through the development of a range of guidance, tools and advice on our Good Practice Exchange website.

2.46 Many public services support their staff in working flexibly, or intend to do so. Flexible working has benefits for staff. Our work regarding smarter ways of working is also published on our Good Practice Exchange website which presents case studies where public services have secured benefits from initiatives such as promoting home working, using flexible hours and contracts, and introducing technological solutions such as videoconferencing and mobile working. Making smarter use of staff will be crucial in the financially challenging years ahead.

Public services need to be more efficient in their use of energy to save money and reduce carbon emissions

2.47 We have also examined how public services can reduce their environmental impact and save money by being more energy efficient. We looked at energy use in local government, the NHS in Wales and higher education and found that there was scope for all sectors to improve their energy efficiency and reduce energy usage. In some cases this means investing now to save in the future. With high and increasing energy costs, the time it takes for investment in energy efficiency to pay off is becoming shorter. Investing now to save energy in the future was a feature of our review of the way the Assembly Government procured the Senedd, the home of the National Assembly. Our report highlighted the environmental and financial benefits of the 'whole life cost' approach used by the Assembly Government to ensure that the building was designed with energy efficiency in mind.



2.48 Our review of fleet management identified that most organisations have not fully considered the scope to be more efficient in their use of vehicles by:

- a** Challenging whether journeys need to be made, and where they do, improving journey planning.
- b** Promotion of a 'green policy' which encourages greater use of car sharing, walking, bicycles and public transport.
- c** Introducing incentives to drivers to change to more efficient vehicles. This could include introducing car mileage payments which pay higher rates for lower CO₂ emission vehicles.
- d** Providing driver training on fuel-efficient driving techniques such as reducing speed and smooth acceleration and braking.
- e** Consideration of hybrid vehicles along with alternative fuels.
- f** Smarter ways of working such as better use of ICT, videoconferencing and home working.

Public services need to squeeze more value from procurement

2.49 Welsh public services spend around £5 billion every year procuring goods and services. This is around one in every three pounds of devolved spending.¹³ Since the inception of the Wales Audit Office, our work has looked at various aspects of procurement. Getting good value from procurement has potential to realise significant savings for public services. Value from procurement is not just about getting the cheapest price. Public services need to consider issues like quality and

safety. Also, public sector procurement has the potential to impact on local economic development, as we noted in our report on coastal defences and tidal flooding. And given the economic circumstances, public services need to be particularly vigilant about the viability of companies they are contracting with, to ensure continuity of supply.

2.50 Construction procurement is a major part of Welsh public sector procurement. Public services spend around £1 billion on construction every year. Our work has highlighted elements of good practice, in the case of the funding for the Wales Millennium Centre and the procurement of the Senedd – the home of the National Assembly. In both of those instances, public funders followed good practice in ensuring that the projects were procured using the most appropriate type of contract. In both examples this was a fixed price contract, which transferred risk away from public services, and in both cases the buildings were delivered largely on time and to the agreed budget. In its response to those two reports, the Assembly Government has highlighted the work of Value Wales in promoting good practice in construction procurement through its guidance to the whole Welsh public service. However, our reports on the Wales Millennium Centre and the National Botanic Garden of Wales show that public services are sometimes not sufficiently good at understanding the risks involved in the running costs following construction. Once the building work is over the projects need to be run as viable businesses – in both those cases the Assembly Government ended up providing significant and unexpected ongoing revenue funding.

¹³ Value Wales: Adding Value 2008-09

2.51 We have identified some specific weaknesses in procurement processes in the NHS. Our review of the Welsh Ambulance Services Trust in 2006 identified a number of poor procurement processes. The most prominent was the purchase of 46 Renault Master Vans and their conversion into emergency ambulances at a cost of £2.4 million. After these vehicles had been converted it was found that the new ambulances were potentially unsafe and could only be used in a restricted way. We also identified weaknesses in the background checks carried out by Cardiff Local Health Board when it awarded the contract for out-of-hours GP services to a new company with no track record of providing services to patients.

Public services will need to make better use of the assets that they own

2.52 Public services in Wales own a lot of buildings and other assets. The total value of public buildings is more than £9 billion, with the bulk of these owned by councils. The cost of maintaining public buildings is significant at more than £360 million a year. Our work on buildings management has concluded that across Wales, there are opportunities to make significant savings and support service improvement through more effective use of buildings and collaboration, but that these opportunities are rarely being realised.

Figure 8 – Value of, and spending on, public buildings

	Value £million	Annual expenditure £million
Central government	315	30
Fire and police	162	24
NHS	858	50
Councils	7787	262
Total	9122	366

Source: Wales Audit Office