

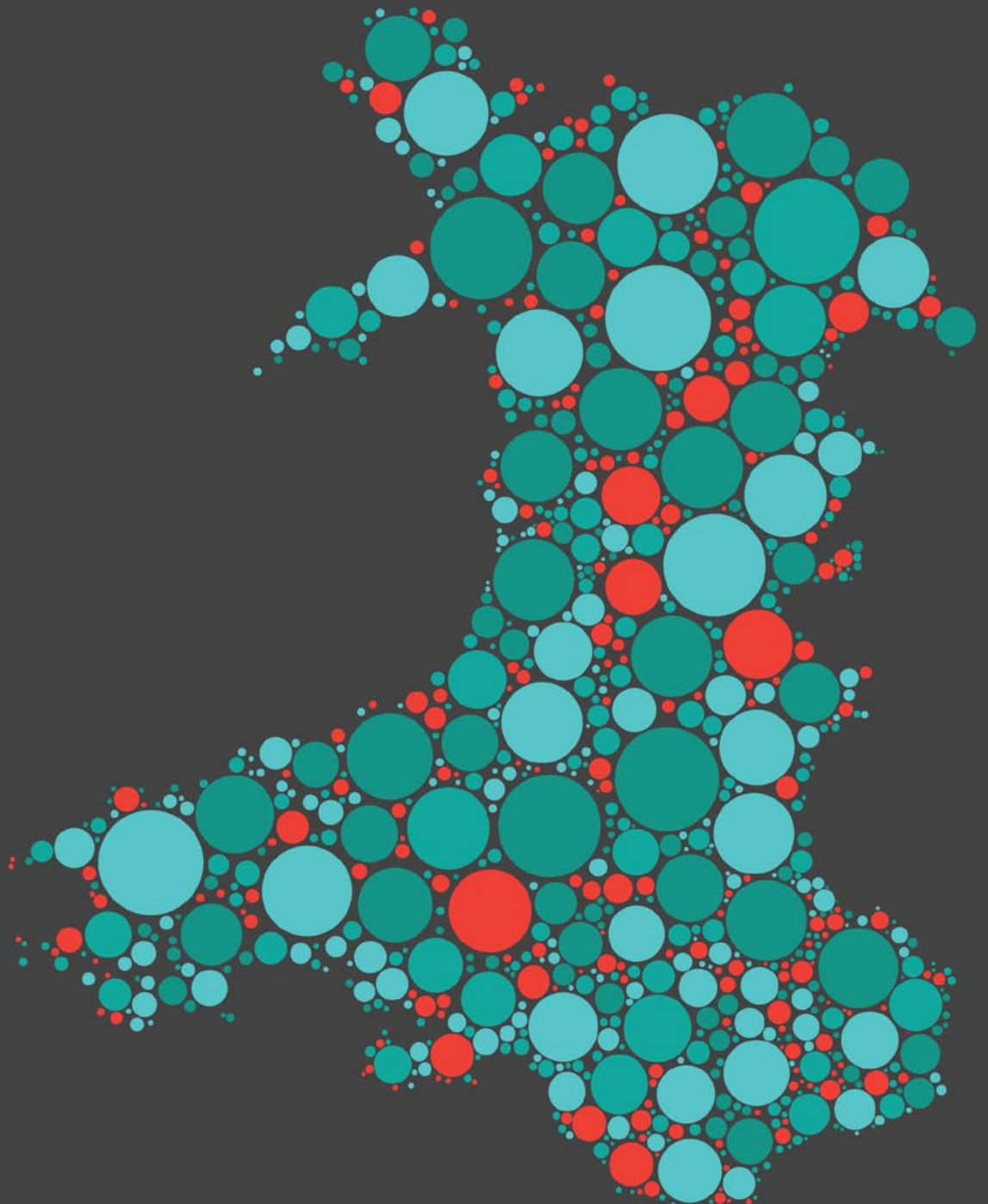
17 December 2015

Archwilydd Cyffredinol Cymru
Auditor General for Wales

A Picture of Public Services 2015



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



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

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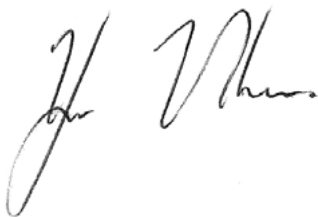
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Foreword

- 1 In October 2011, I published the second Picture of Public Services report. The two previous reports examined the financial challenges facing Welsh public services and how well placed public services were to respond. The period since 2010-11 has, arguably, been the most challenging for public services in the UK since the development of the modern welfare state after World War Two. Certainly, it has been the longest period of sustained real spending cuts.
- 2 I am publishing this report to set out my audit perspective on what has happened with public spending in Wales and the management of public services in the period since 2011. I also set out my perspective on the big issues for public services in the coming years. I need to emphasise that while this report sets out the scale and nature of the funding pressures, **it does not comment on the merits of budget decisions by the UK Government or Welsh Government, including those set out in the draft budget of 8 December.** Those decisions are matters of policy for elected governments.
- 3 With a £1.2 billion cut to the spending allocated to devolved public services, all parts of Wales' public services have faced financial pressures since 2010-11. This report paints a balanced and mixed picture in terms of public services' response. It is positive to see that despite the financial pressures, some measures of population well-being and service performance have got better. But some public services are clearly struggling to sustain service levels and performance in key areas. The report shows that despite some progress, public services are yet to develop the long-term and radical change that is needed to respond effectively to the pressures they have and will continue to face.
- 4 Looking forwards, Welsh public services face the prospect of further spending cuts and continued demand pressures. In this report, I have chosen not to make specific recommendations. Instead, I want to set out my key messages for public services. These are the kinds of things I will be looking out for in my work in future to test whether public services are indeed rising to the growing challenges they face.

Huw Vaughan Thomas
Auditor General for Wales



Key messages to public services

Expand the horizons

Despite some progress, Wales' public services are still too focused on short-term organisational pressures. Many still follow a cycle of managing annual budgets and performance targets. Public services need to expand their horizons in many different directions. They need to better understand and plan for the huge future opportunities and challenges from things like demographic change and technological innovation. They need to go further in adopting preventative approaches that will reduce future pressures on, and demand for, services. They need to do more to get beyond organisational boundaries to find new ways to join up services at the frontline. And there are lessons to be learnt from looking outside organisational and geographical silos to see what is being done well elsewhere. We fully understand that pressures on immediate capacity mean it is difficult. But we need our public services to be changing now to meet the long-term challenges.

Take well-managed risks to innovate

Radical service reform is the sustainable solution to financial and demand pressures on public services. Doing things differently means taking risks. Indeed, the pressures are such that not doing things differently might be a bigger risk. But that does not mean public services should throw caution to the wind. Risks need to be properly identified, mitigated and managed. And where things do not turn out as planned, public services need to be prepared to recognise, share and learn from failure.

Be realistic

Public services need to be ambitious but also realistic about the scale of the pressures they face and what that means. Some of the key areas where we think public services need to be more realistic are:

- the level of savings that can be achieved by individual schemes and the time it takes to achieve them;
- the need for some cuts to service levels and the impacts on the public;
- the financial and capacity consequences of creating new duties and responsibilities; and
- the barriers to radically reshaping services, including political and cultural barriers, and the hard work that will be needed to overcome them.

Measure the things that matter

'What gets measured gets managed' – so goes the saying. While Welsh public services are increasingly adopting 'outcome' measures, there remains a tendency to measure and manage how much activity is going on and how long it takes. Given the growing emphasis on personal and population outcomes, a greater focus is needed on making sure that (a) individuals and communities are better off as a result of what public services do and (b) the efforts add up to an overall improvement in our collective well-being.

Work together to manage the impacts of reductions in the level of services

Our survey shows that most parts of the public services are expecting cuts to service levels. So far, the approach to managing the impact of reductions in service levels has not been sufficiently robust. It is in the interests of all public services to work together through the difficult choices, to have clear and consistent priorities, to understand the short- and long-term impacts for the public and other public services, and to mitigate those impacts where possible.

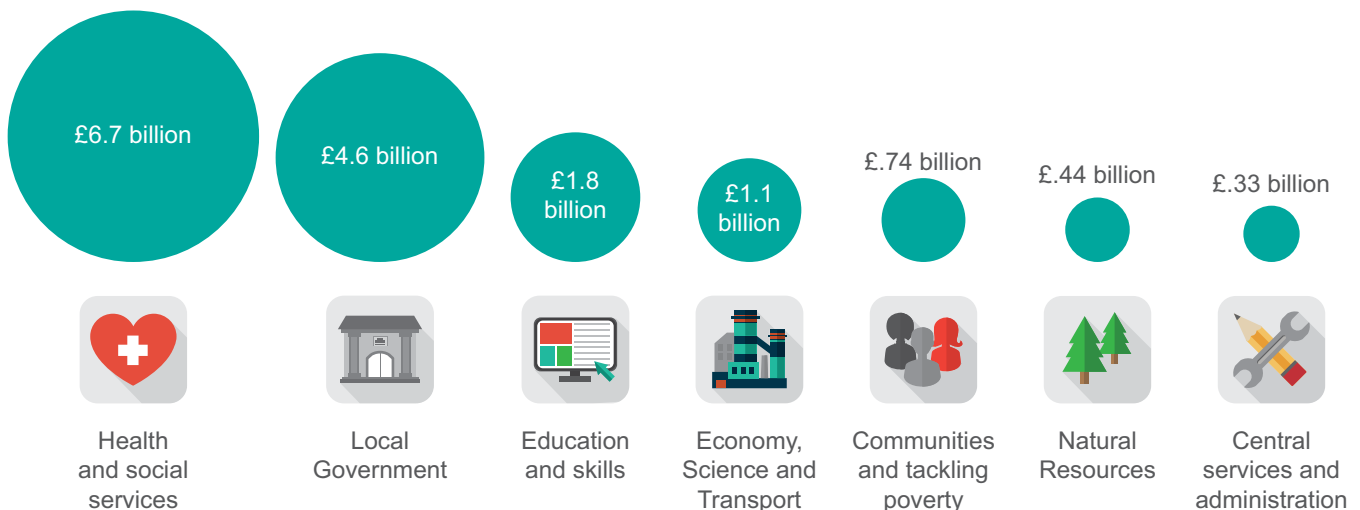
Summary

- 5 On behalf of the Auditor General, Wales Audit Office staff have prepared this report to paint a picture of devolved public services' response to the challenges they have been facing and their plans to face the future pressures. The report is based on a combination of new analysis of published information, a survey of public service leaders, and our national and local audit work. Detail on our methods and the sources of supporting data can be found in the appendices. Some key technical points to bear in mind when reading this report are:
- Not all public policy in Wales is devolved. For the purposes of this report, when referring to the spending and performance of Welsh public services, we mean the devolved functions. That covers the Welsh Government and its sponsored bodies, local councils, NHS bodies, fire and rescue services, and national parks. It excludes welfare payments. However, we are aware that in many cases, non-devolved and devolved services must and do work closely together. So when we talk about reform of public services in Wales, in particular collaboration, we are referring not just to devolved services but to all services. We include those in the voluntary and community sector, that work together to provide services and support to the Welsh public.
 - Throughout this report, all spending figures are in 'real terms'. Real terms means the figures have been adjusted to take account of inflation. Over time, the price of goods and services generally goes up. As a result, the purchasing power of money goes down. To enable us to compare spending and budgets over time, we have adjusted all of the figures using 'GDP deflators' produced by the UK Government. GDP deflators measure inflation across the whole economy. We used the GDP deflators issued in November 2015 to put all figures into 2014-15 prices.
- 6 This report shows that public services have faced significant and growing financial, demand and capacity pressures since our 2011 Picture of Public Services report. Public services have responded through a combination of improved efficiency and some reduction in service levels. Positively, some areas of performance have improved, notably some key indicators of population well-being, service quality in health, measures of educational attainment and some other council services. However, some public services have struggled to sustain service levels in the face of increasing financial and demand pressures. The way public bodies manage their finances is generally getting better but there is still too much of a short-term focus on annual budgets. The Welsh Government and other public service providers have expended considerable effort to lay the foundations for transforming public services, but the pace of change on the ground has been slow. Looking forwards, there is a clearer direction for public services, with a particular emphasis on involving the public more in designing and providing services, but there are still many obstacles to overcome before wholesale transformation can be a reality. And public services still have a way to go to take a whole-systems approach to understanding and managing the impacts of reductions in levels of services.

In managing a £1.2 billion funding cut since 2011, Wales has made some different spending choices to other parts of the UK

- 7 The bulk of devolved expenditure in Wales comes from the block grant that the UK Government allocates to the Welsh Government. The block grant is determined through the Barnett formula (see **Box 1** on **page 20** of the main report). The Welsh Government allocates the block grant across its departments and the block grant also funds other bodies including the National Assembly for Wales and the Auditor General for Wales. **Figure 1** sets out how the Welsh Government allocated its funding across departments in 2014-15.

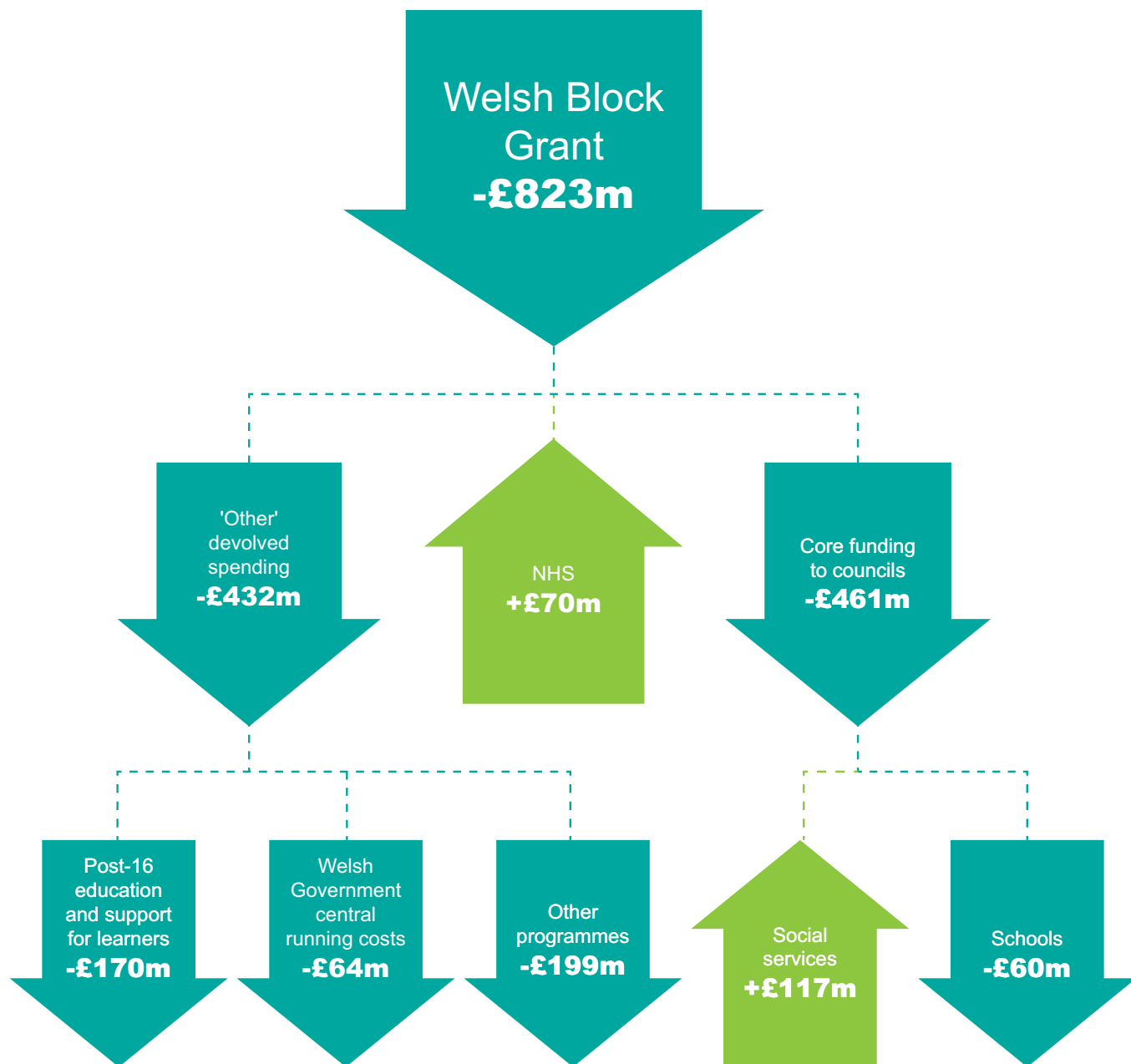
Figure 1 – Welsh Government departmental spending in 2014-15



Source: Welsh Government 2nd supplementary budget 2014-15

- 8 Since the UK Government set its austerity programme in the 2010 spending review, the block grant to the Welsh Government has fallen from £16.5 billion to £15.3 billion; a reduction of £1.2 billion (seven per cent). That cut is made up of a £0.8 billion reduction in ‘revenue’, which funds the day-to-day running of public services, and a £0.4 billion cut to ‘capital’, which funds projects such as constructing new buildings, roads and other infrastructure.
- 9 The cuts from the UK Government have been distributed across Welsh public services through the Welsh Government’s own budgets and then those of individual organisations. Initially, the Welsh Government set out indicative plans to protect spending on the NHS only in cash terms. This planned protection meant that budgets for the NHS would not rise in line with inflation. In practice, the Welsh Government has responded to pressures on the NHS by providing additional funding for health. As a result, cuts to the Welsh Government’s funding for councils have been larger than initially planned and some other bodies have been required to make savings at short notice.

Figure 2 – Allocation of revenue cuts to the Welsh Government’s block grant: 2014-15 compared with 2010-11



Note: this diagram reflects the distribution of cuts to the Welsh block grant. It does not include income, including increases in council tax which have partly offset cuts to local government funding. 'Other' programmes include changes to funding for programmes and grants that are passed on to other bodies, including local government, national park authorities and sponsored bodies.

Source: Wales Audit Office analysis of Welsh Government budgets, HM Treasury Public Expenditure Statistical Analysis and local government revenue settlement

- 10 Devolution means that different countries in the UK will have different priorities, which will be reflected in their budget decisions. Between 2010-11 and 2014-15, health spending per head of population in Wales fell more than in the other UK countries. However, that masks a significant recent change in the underlying trend, with spending on health in Wales rising faster than the rest of the UK in 2014-15. Spending on social care and schools in Wales has seen greater protection than other parts of the UK across the period. Spending on children's social services in Wales has risen particularly sharply.
- 11 Some of the largest spending cuts have fallen outside the relatively protected areas of health and social care and schools. Councils have made some large cuts to spending on economic development and environment initiatives and more modest but still significant cuts in areas like sports and leisure, culture and libraries.

Despite funding cuts, some measures of well-being are getting better, but there are signs of strain in the service and financial performance of some key public services

- 12 To give a broad picture of the overall well-being of Wales, we tracked progress against the Welsh Government's sustainable development indicators and drew from the National Survey for Wales. We recognise that these indicators are not comprehensive and the Welsh Government is currently consulting on a new set of well-being indicators. We found that well-being, as measured by the indicators, showed some good signs. Wales' economy is catching up with most other parts of the UK. Employment statistics show a positive direction of travel. People are living longer and are less likely to die in infancy than in 2010-11. People are more highly skilled and qualified. Overall, people tend to report being more positive about their own well-being and the communities they live in. But there are some areas of concerns. Wales is producing more carbon and greenhouse gases than in 2010-11. Levels of poverty remain high in Wales and are not falling as fast as in the rest of the UK.
- 13 We recognise that it is difficult for public services to continuously improve performance in all areas while seeing substantial reductions in their spending power alongside growing and changing demand from the public. Data on the performance of Welsh public services show a mixed picture. Some key areas, notably education, have shown signs of improvement. Overall, the NHS has improved against some public health measures and against some of its key performance measures on quality. But against a context of rising demand and activity in some areas, notably cancer care, performance against measures of waiting times - for elective care, emergency care and cancer care - have deteriorated. Councils have improved against most of the national indicators of performance. There have been notable improvements in education across Wales, albeit from a relatively low base in some places. But there may be signs of pressures in adult social care, with a significant reduction in the number of people getting any kind of support from councils. While that reduction could reflect a positive trend of reducing demand through prevention, there is a risk that the reduction reflects a tightening of eligibility criteria.

- 14 We recognise that the indicators that public services have used to report performance are not always the best ones. Too often they measure activity and how long things take. In some cases, these indicators may be important but they may not be the best measure of what matters to service users. The Welsh Government has emphasised to us that other measures of outcomes can paint a different picture. For example, cancer survival rates are improving, whereas the tier 1 target focuses solely on how long cancer patients wait for treatment. It is positive that public bodies have recently taken steps to develop more measures that focus on outcomes for people and for the wider population.
- 15 Audit work since 2011 shows that financial planning is generally getting better across public services. In the NHS, the move to a three-year framework that integrates service, workforce and financial planning has been a step forwards. And even though some NHS bodies continue to overspend or require more funding, there is now a more open and transparent discussion between the NHS and Welsh Government about the problems. But there is still much work to be done to move the NHS beyond the focus on the end-of-year position. Councils have so far set, and generally delivered, balanced budgets. However, more needs to be done to develop robust medium-term plans. In particular, councils face potential criticism for continuing to build up reserves without a clear plan for using those reserves to support transformation and new ways of working.
- 16 We have some significant concerns about the way public services have planned and managed reductions to levels of services. Councils have been clear that the financial pressures will impact the nature and level of services they provide. While our survey suggests that most in local government think they have plans in place to manage the impacts of those cuts, our work suggests those plans are often not robust, where they exist. In the NHS, we know that financial decisions have been a factor behind growing waiting times for elective patients. In our view, the NHS as a whole needs to be more realistic and open in its planning and recognise it faces tough choices on priorities and the extent to which it can sustain levels of all services.
- 17 As well as financial pressures, Welsh public services have had to manage rising and changing demand alongside staffing and other capacity constraints. Growing numbers of older patients with multiple conditions have placed particular pressure on emergency services with knock-on effects for other parts of the health system. These pressures have been amplified by capacity constraints. Hospitals in Wales have bed occupancy rates above levels recommended by professional bodies and recent research suggests shows most are full at parts of the day, with almost no spare beds. As a result of capacity pressures, some patients face long waits in emergency departments or having their planned operation cancelled because there are no beds to which to admit them. Many hospitals are struggling with staffing capacity: to recruit doctors and consultants, and to ensure sufficient nurses are on duty to safely staff wards.

- 18 There are also demand and capacity pressures across local government services. In education, there are growing numbers of pupils but falling numbers of teachers. Despite these pressures, results have improved. But there are concerns that workload pressures are not sustainable and some teaching staff may be considering leaving the profession. In children's social care, the numbers of children on the child protection register and being taken into care continues to rise. In adult social care, demographic pressures mean demand is rising. Councils have increasingly focused only on those with high levels of need. There are particular concerns about the sustainability of the residential care home sector in Wales. The Care and Social Services Inspectorate Wales' (CSSIW) annual report suggests Wales is very reliant on small residential care homes that operate at the margins of economic viability.
- 19 The sustainable response to the pressures on public services is to transform services so that they can achieve positive results with less financial and staffing resource. Our survey shows that most respondents think their organisation has changed services, either incrementally or through transformation. We have seen some examples of innovative initiatives in individual organisations and cross-sector collaborative work, for example between health and social care. The NHS has made progress in developing and consulting on plans to reconfigure some services to make them more cost-effective and safe. However in our view, despite an increase in the scale and pace of transformation, it has not been enough to enable public services to sustainably meet future challenges. The promising initiatives and projects do not add up to the necessary sea-change in the way public services are planned, managed and delivered.
- 20 Since 2011, we have reported on some high-profile failings in governance at some Welsh public services. These have included serious concerns about the way that the pay and conditions of senior managers have been set in some public bodies. At a time when the public is seeing services cut and staff see real-terms wage cuts, these kinds of governance failings risk undermining confidence and trust in public services. Our work and other independent reviews have also found significant failings in governance in a small number of NHS bodies and councils, which contributed to weaknesses in safeguarding vulnerable young people and providing basic care to patients.

Continued financial, demand and other pressures mean Wales needs to build on its strengthened vision for reform and radically increase the pace and scale of service change

- 21 The financial pressures that public services have faced are likely to continue over the medium term. Almost all respondents to our survey cited financial pressures as one their three biggest challenges in the future. The November 2015 spending review shows that there will be further spending cuts in Wales, with the overall budget falling by £0.5 billion between 2015-16 and 2019-20. With capital funding protected, the reduction is made up almost entirely of revenue funding. In total, the period of austerity from 2010-11 to 2019-20 will see a like-for-like reduction of £1.8 billion (11 per cent).
- 22 The demographic pressures on public services will continue into the future. The older population and younger population are set to grow both in absolute terms and as a proportion of the population. That we are living longer and more people are having children is undoubtedly a positive outcome for Welsh society. But, it poses challenges. People consume more public resources in their youth and in their old age than at any other period. In the coming years, these demographic changes mean that there will be new demand and cost pressures on schools and for health and social care. Most respondents to our survey cited demographic trends as one of the top-three challenges they face in the future, with NHS respondents particularly likely to see this issue as a key challenge. Looking ahead, there are a range of other opportunities and challenges for Welsh public services (Figure 3).

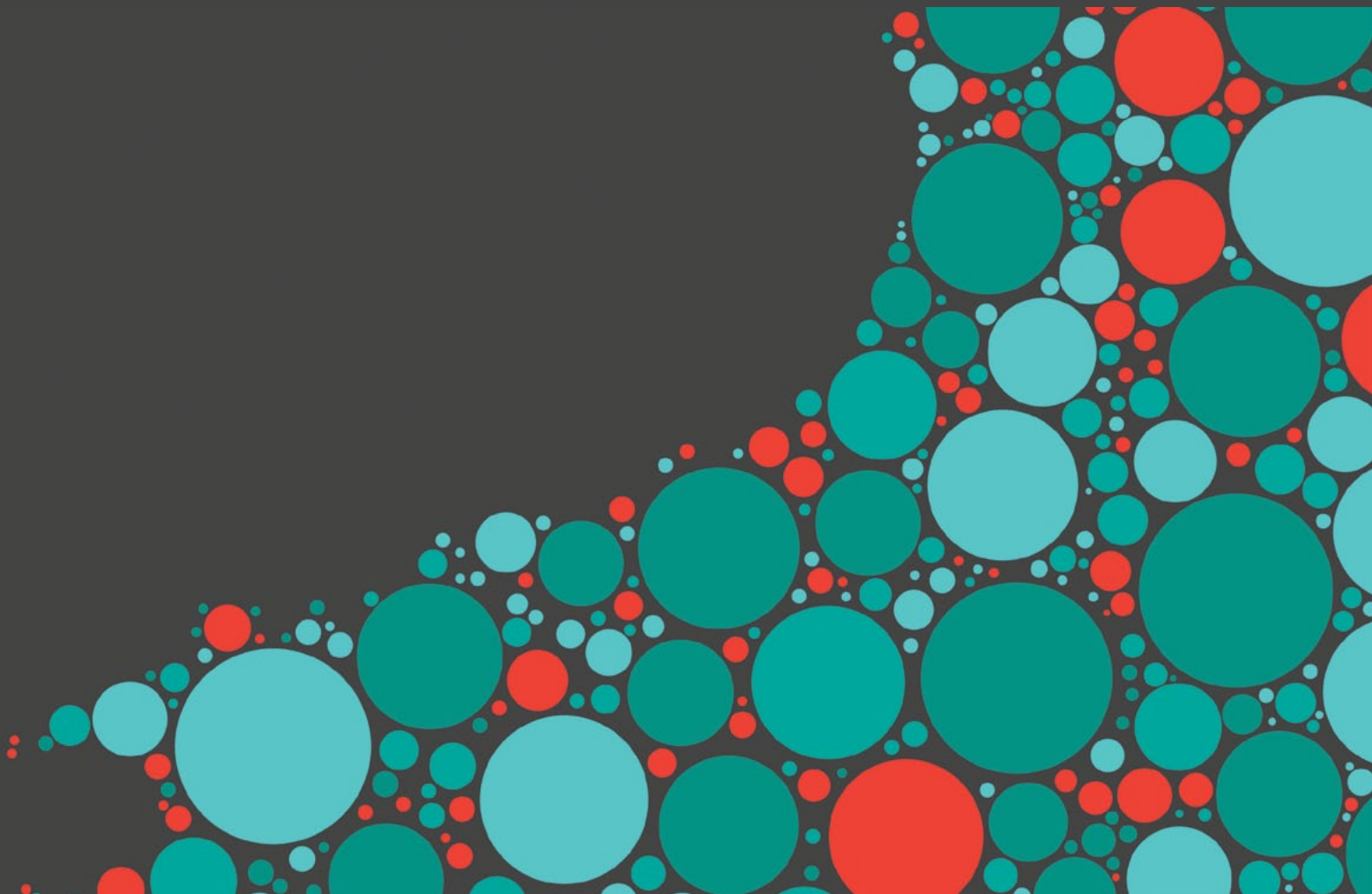
Figure 3 – Some of the key future opportunities and challenges

	Opportunities	Challenges
<p>Local Government re-configuration</p> 	<p>To use process of change to re-shape services</p>	<p>To engage staff worried about their position in the new organisations and avoid focus on structures rather than services</p>
<p>Demographic change</p> 	<p>To draw on skills and capabilities of older people and younger people to help improve outcomes</p>	<p>To manage impact of increased demand for services, especially health, social care and schools</p>
<p>New powers</p> 	<p>To use tax raising powers and new laws to further policy goals</p>	<p>To understand and manage volatility and cost implications of new duties for the wider public sector</p>
<p>Technology</p> 	<p>To find more effective and low cost ways of providing services</p>	<p>To engage and convince a sometimes sceptical public on the benefits</p>

- 23 Looking at service reform, we think that the Welsh Government now has a clearer direction for public services. While the reform agenda will have specific impacts for different parts of Welsh public services, the emphasis is increasingly on working as 'one public service'. So our analysis focuses on the collective challenge rather than those for each sector. The Well-being of Future Generations (Wales) Act embeds important principles of long-term planning, prevention, collaboration, integration and engagement into the governance framework for public services. These principles are also reflected in key policy and legislative developments for individual sectors, including the approach to prudent healthcare in the NHS and the focus of reform in social services.
- 24 The Welsh Government's updated vision and narrative for public services move on from previous versions in key respects. In particular, they recognise that 'more of the same' is not an option and that previous approaches to managing services and reform have not worked as intended. The focus on co-production has potential to reshape services in radically new ways that make the most of the increasingly scarce public sector resources and the capacity, capabilities and commitment of individuals and communities. Our survey shows that public services leaders know that the pace and scale of change needs to increase in the coming years.
- 25 The challenge for the Welsh Government and public bodies is putting the vision into practice and addressing the issues that have hampered change in the past. We set out our view on the risks and challenges in detail in **Part 3** of the report. We do not think the obstacles are insurmountable. Indeed, we point to examples of where they have been addressed. But we need to be clear about the challenges and the need to address them if public services in Wales are to make the journey from where they are now to where they need to be. Public service leaders have told us that reductions in service levels are likely to increase in the coming years. We therefore want to see a comprehensive and collective effort to understand and where possible, mitigate the impacts of these cuts on the public. In this report, we are not making specific recommendations. Instead, **the foreword** sets out the Auditor General's key messages for public services to support them in dealing with continued financial, demand and other pressures.

Part 1

In managing a £1.2 billion funding cut since 2011, Wales has made some different spending choices to other parts of the UK



- 1.1 This part of the report looks at the key changes in public spending between 2010-11 and 2014-15. We are not making any judgements about whether the spending decisions by the UK Government, Welsh Government and councils are the right ones. These decisions are a matter of policy for democratically accountable bodies. Our intention is to provide an objective analysis of spending patterns.
- 1.2 **Part 2** of the report considers in more detail how public bodies have managed and responded to the financial and other pressures they have faced. **Part 3** looks at their plans going forwards. Therefore, this section on spending patterns set the context for **Parts 2 and 3** of this report.
- 1.3 In this part of the report, we have adjusted all figures into 'real terms' to take account of the impact of inflation, unless otherwise stated. We have used the GDP deflators issued by HM Treasury in October 2015 to convert historic budget and spending figures into 2014-15 money. We draw on various sources of data, include Welsh Government budgets, HM Treasury spending data, NHS accounts and local government spending statistics. In some cases, the definitions may vary between different data sources so the numbers may not always reconcile. The methods section at the end of this report (**Appendix 1**) sets out the different data sources and explains any adjustments that we have made to the data.

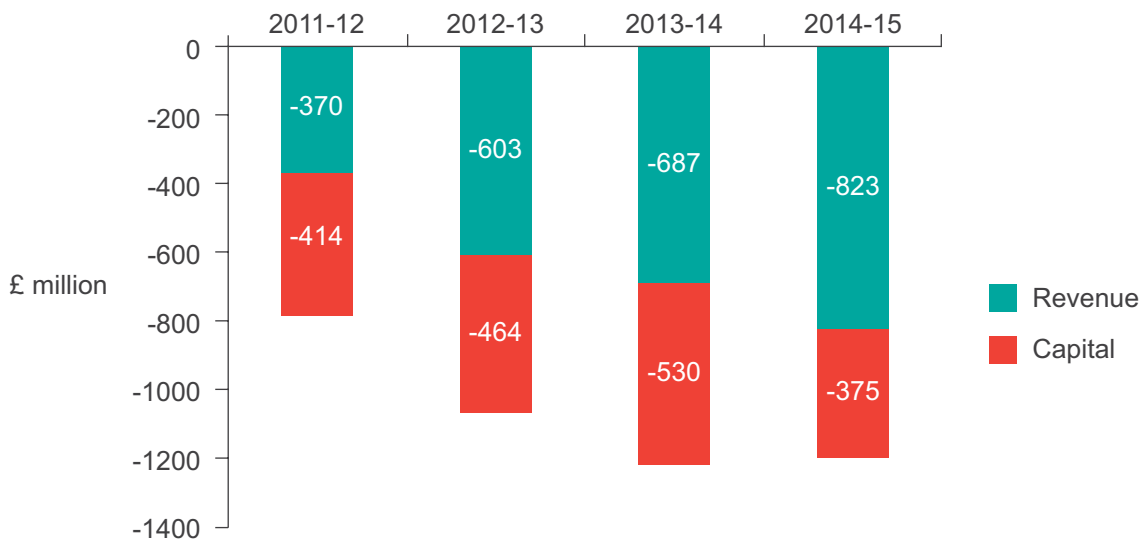
Since 2010-11, the Welsh Government has had less funding from the UK Government and has had to revisit its own spending plans in light of pressures on the NHS

Cuts to overall revenue spending have been largely as set out in the 2010 spending review, and smaller-than-expected cuts to capital spending have been partly due to changes to the way capital is classified

- 1.4 In 2010-11, the UK Government planned to eliminate the UK's structural deficit by the end of 2014-15. It planned to do so by reducing public spending and increasing some taxes. In practice, those plans proved to be optimistic. The UK Government reduced spending on public services largely as it intended. However, slow growth in the economy and wages meant that the UK Government received less tax than it initially expected. As a result it needed to borrow more money, which slowed down the repayment of the deficit. The UK Government now plans to eliminate the deficit and create a budget surplus in 2020.

- 1.5 Changes in the amount of funding provided to the Welsh Government are set through the Barnett formula (Box 1). In October 2010, the UK Government's spending review determined how much funding would be provided in the Welsh block grant, to 2014-15. In practice, cuts to revenue funding have been broadly in line with the October 2010 plans¹. Figure 4 shows that by 2014-15, real revenue spending by the Welsh Government was around £823 million less than in 2010-11 (six per cent). In total, the revenue from the UK Government to fund devolved services has fallen from £14.6 billion in 2010-11 to £13.8 billion in 2014-15.
- 1.6 Capital spending in Wales has fallen much less than was planned in 2010, with a 20 per cent reduction – from £1.9 billion to £1.5 billion – compared to the original plans for a 40 per cent cut. However, the change in capital is partly because capital spending now includes financial transactions. Financial transactions are loans and equity investments in private sector schemes rather than investment in traditional infrastructure projects. Resources earmarked for financial transactions have increased from zero in 2010-11 to £0.1 billion in 2014-15, with a further rise to £0.2 billion in 2015-16. Overall, cuts to revenue spending have been lower in Wales than the UK average but cuts to capital have been slightly higher.

Figure 4 – Cumulative changes to the Welsh block grant, including council tax benefit, from 2010-11 (2014-15 prices)



Note: in 2013-14, the UK Government abolished the existing Council Tax Benefit Scheme and transferred the budget to the Welsh Government. (The Welsh Government used the funding to create the Council Tax Reduction Scheme.) We have included the council tax benefit spending in the Welsh Government spending figures for 2010-11, 2011-12 and 2012-13.

Source: Wales Audit Office analysis of Public Expenditure Statistical Analysis outturn data

¹ In 2011, we calculated that there would be a £1.2 billion reduction in revenue spending. Since then, inflation has been much lower than expected. The difference between the actual £823 million cut and £1.2 billion estimate is almost entirely accounted for by lower inflation.

Box 1 – The Barnett formula

The Barnett formula determines how much the budgets of the devolved nations will go up or down each year. The Barnett formula is not based on need. It is based on a combination of spending decisions in England and population size. If the UK Government chooses to spend more, for example on a devolved spending area such as the NHS, there will be a corresponding increase in the funding available to the devolved countries. If the UK Government chooses to cut spending on education, there will be a corresponding cut to the budget for the devolved governments.

While the Barnett formula determines the annual changes to the overall budget, the devolved governments are free to decide how to allocate the funding across the areas of policy for which they have responsibility. There is no requirement for devolved governments to match the UK Government's increases or decreases in spending on specific areas.

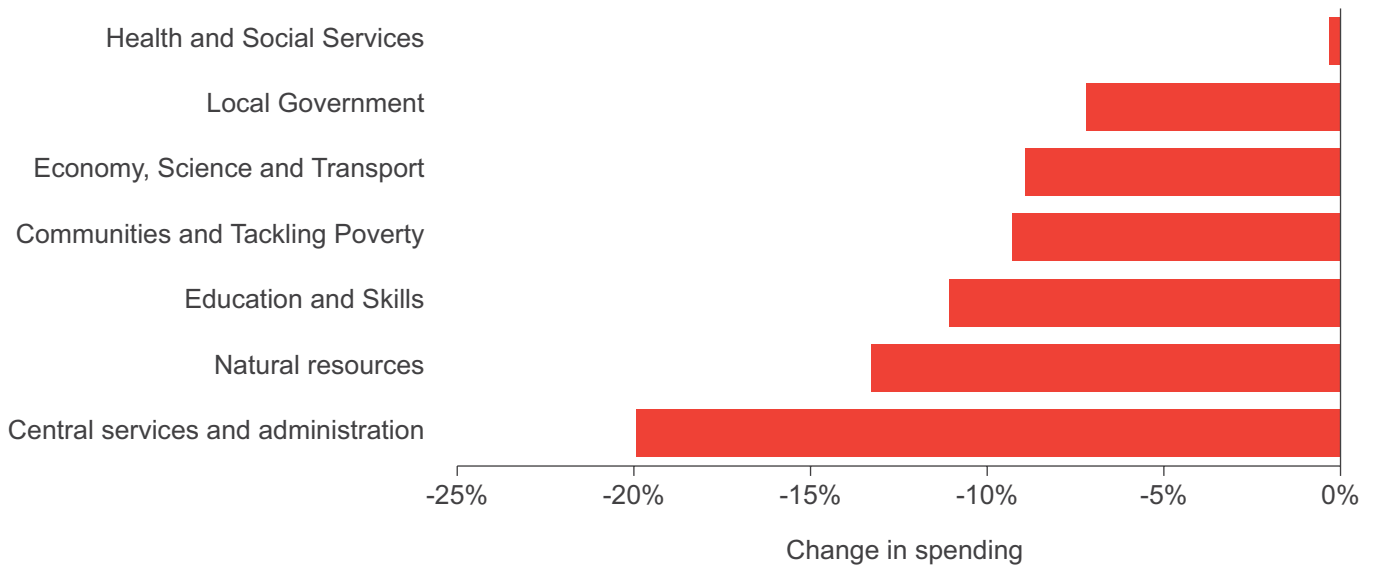
- 1.7 Between 2010-11 and 2014-15, Wales has also received £1.5 billion in European Union structural funds to be distributed among public, third sector and private sector organisations. It is important to note that there are strict conditions limiting the use of European Union structural funds to specific purposes and specific geographical regions. Our 2014 report on the management of the 2007 to 2013 structural funds programme sets out more detail on the funds and how well they have been used in Wales.

Cuts have fallen more heavily on some departments with health and social services having the smallest real-terms reduction of any department and specific areas, including post-16 education, facing large cuts

- 1.8 **Figure 5** shows how the Welsh Government has apportioned the revenue funding cuts across the Welsh Government. Our **Picture of Public Services 2011** report set out the Welsh Government's December 2010 spending plans following the October 2010 spending review. The budget included an indicative 'cash terms' protection for the health budget. In other words, the budget would stay largely the same and not go up in line with inflation or cost pressures. The Welsh Government intended to afford greater protection to local government in order to help mitigate the risk that cuts to social care would increase demand and pressure on healthcare services. When the Institute for Fiscal Studies (IFS) analysed departmental budgets in September 2013, it found that the Welsh Government had indeed given most protection to the Department for Local Government.

1.9 The initial December 2010 plans were ‘indicative’ and in practice the National Assembly approves a new budget before the start of each financial year. Since the IFS reported in September 2013, the spending pattern has changed. In response to pressures in the NHS, including those identified by the Nuffield Trust in 2014, the Welsh Government has increased spending on health. It has also reduced its funding for local government and other areas. Nevertheless, both local government and the NHS have received a higher level of protection than other areas. The largest proportionate reduction has been to central services and administration.

Figure 5 – Change in departmental revenue spending between 2010-11 and 2014-15 (2014-15 prices)



Notes:

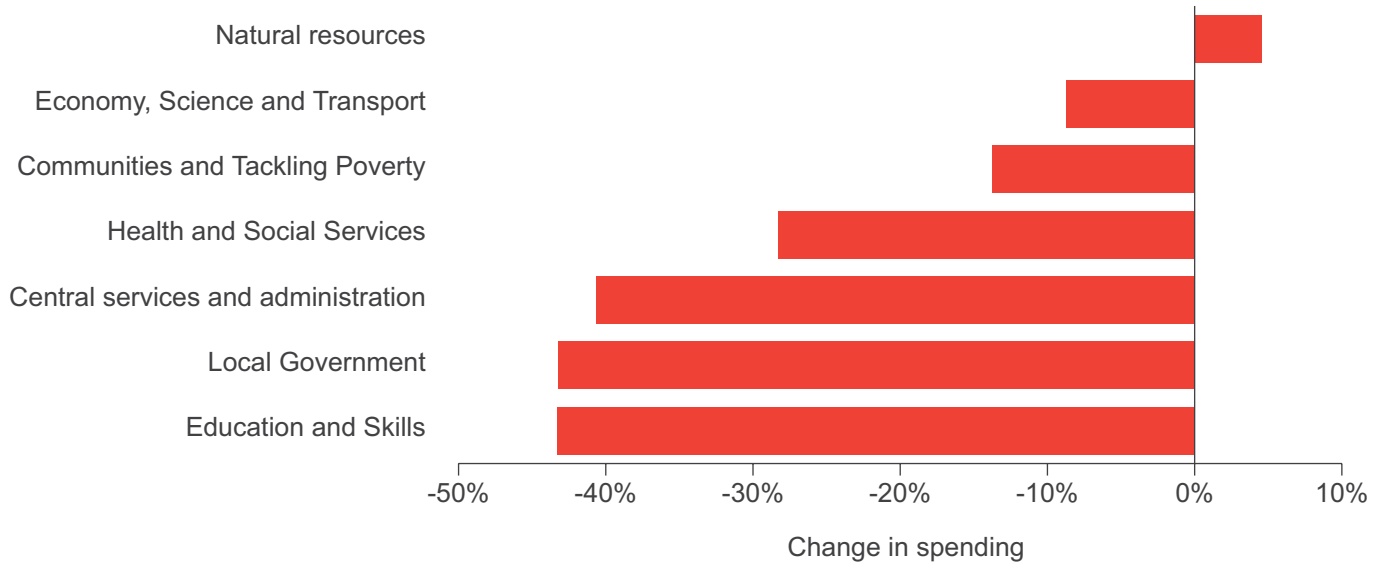
- 1 The local government figure is adjusted for the transfer of budget provision in recognition of the abolition of Council Tax Benefit.
- 2 ‘Education and skills’ does not include the core funding for schools, which is allocated through the budget for the local government department.

Source: Wales Audit Office analysis of Welsh Government 2nd supplementary budgets, 2010-11 to 2014-15

- 1.10 It is important to note that the spending on education and skills excludes core spending on schools. Core schools funding is included as part of local government settlement and has received some protection ([paragraph 1.25](#)). There have been significant changes to other areas of education spending between 2010-11 and 2014-15, particularly post-16 education with a £128 million (20 per cent) cut to the post-16 education budget and a £42 million (61 per cent) cut to 'support for learners'.
- 1.11 The Welsh Government provides funding for the Welsh Government sponsored bodies. The change in core grant funding from the Welsh Government for the largest sponsored bodies between 2010-11 and 2014-15 is set out below²:
- the Arts Council of Wales has seen a 14 per cent reduction;
 - the Sports Council for Wales has seen a 13 per cent reduction;
 - the National Museum Wales has seen a nine per cent reduction;
 - the National Library of Wales has seen a 10 per cent reduction; and
 - the Care Council for Wales has seen a 14 per cent reduction.
- 1.12 The pattern of changes to capital funding has been quite different from that for revenue. The Welsh Government manages capital spending differently from revenue. In addition to departmental core capital budgets, the Welsh Government allocates additional capital centrally to projects in alignment with strategic investment priorities. While [Figure 6](#) shows that the Department for Local Government has faced the largest cut, the specific local government budget line is relatively small. In practice, much of councils' capital spending is funded from grants within the budget lines for other Welsh Government departments, councils' reserves or through using unsupported borrowing. [Paragraph 1.29](#) shows that councils' capital funding fell by just one per cent between 2010-11 and 2013-14. The Welsh Government departments which have seen the smallest reductions or even an increase have been:
- Natural Resources, which has responsibility for major projects such as flooding prevention schemes and energy efficiency schemes to help tackle fuel poverty;
 - Economy, Science and Transport, which includes capital spending on roads, business development and strategic major projects; and
 - Communities and Tackling Poverty which includes significant capital spending on housing projects.

² Natural Resources Wales, the largest sponsored body, was formed in April 2013, bringing together the Countryside Council for Wales, Forestry Commission Wales and the Environment Agency Wales. Between 2013-14 and 2014-15, its core revenue grant from the Welsh Government reduced by 13 per cent.

Figure 6 – Change in departmental capital funding between 2010-11 and 2014-15 (2014-15 prices)



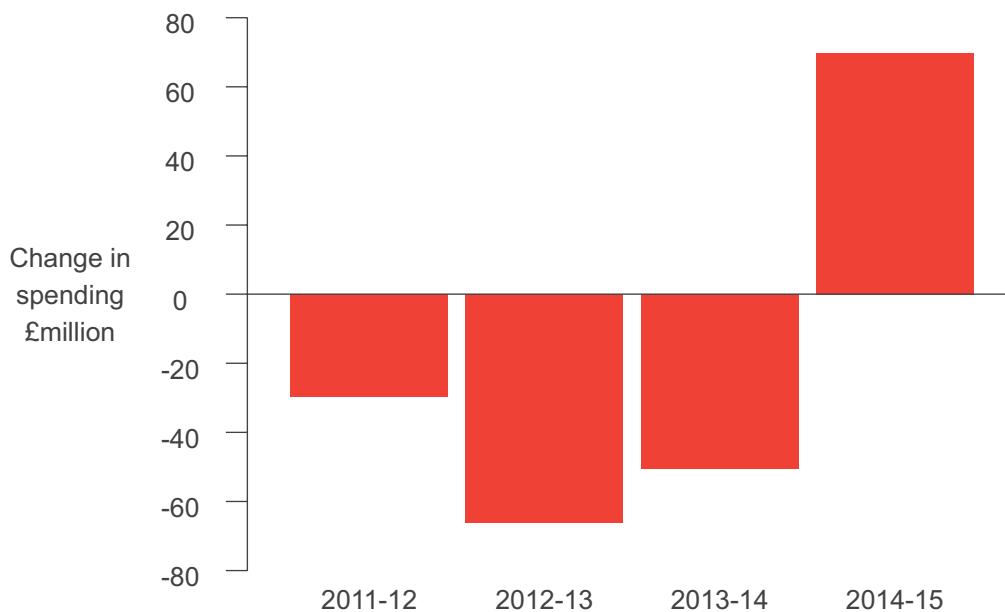
Source: Wales Audit Office analysis of Welsh Government budgets

Overall, revenue spending on health remained below 2010-11 levels until it rose in 2014-15, when the trend of growth in health spending in Wales lagging behind other parts of the UK was reversed

In each year since 2010-11, the Welsh Government has provided more revenue to the NHS than initially planned

1.13 Paragraphs 1.8 and 1.9 set out the Welsh Government's initial intention to protect health spending in 'cash terms' and subsequent changes. Health spending in 2011-12, 2012-13 and 2013-14 was lower than in 2010-11 in real terms. Additional Welsh Government funding to the NHS in 2014-15 means that the £6.3 billion revenue spending on health that year was around £70 million (one per cent) higher than 2010-11 (Figure 7). The Welsh Government intends to provide a further real-terms increase to support the NHS again in 2015-16.

Figure 7 – Change in health spending from 2010-11 baseline (2014-15 prices)



Source: Welsh Government 2nd supplementary budgets 2011-12 to 2014-15

1.14 In part, the additional funding the Welsh Government has provided to the NHS has been managed in a planned way, through revisions to the final budget³, which is set out before the start of each financial year. But each year, in order to manage pressures on NHS bodies, the Welsh Government has also provided additional revenue funding from reserves, other departments or transferring capital to revenue. The Welsh Government has allocated around £1 billion additional funding for health between 2011-12 and 2014-15 compared to the 2010 plan. Of that, £574 million (58 per cent) has come from in-year allocations. Spending on health now takes up a growing proportion of the Welsh Government's revenue expenditure: up from 43 per cent in 2010-11 to 46 per cent in 2014-15.

Health boards' accounts show an increase in spending on hospital and community services and a decrease in spending on primary care that is mostly explained by targeted action to reduce the overall cost of prescription medicines

1.15 The seven health boards are responsible for the vast majority of health expenditure in Wales. They commission and provide almost all primary, community and secondary care services. As well as the seven health boards, there are three NHS trusts: Velindre NHS Trust which mainly provides specialist cancer services; Public Health Wales NHS Trust; and the Welsh Ambulance Trust. Health boards and trusts operate under different accounting rules. We have focused our analysis of NHS bodies' accounts on those of the health boards, but have made adjustments to take account of any significant transfers of responsibility and funding during the period 2010-11 to 2014-15 ([Appendix 1](#)).

1.16 The majority of spending in the NHS goes towards the costs of providing hospital and community based healthcare services. Our analysis of health boards' accounts shows that between 2010-11 and 2014-15, spending on these services has increased by around £52 million (1.4 per cent). Health boards also commission services from other providers on behalf of the patients that live in their area. The total amount that health boards spent commissioning services reduced by about £65 million (three per cent) between 2010-11 and 2014-15. Health boards spent £26 million less on services from other Welsh NHS bodies. The main areas of real-terms spending growth in commissioning were:

- voluntary sector services, which increased by £7.3 million;
- services from non-Welsh NHS bodies which increased by £6.4 million; and
- private sector services, which increased by £6.5 million.

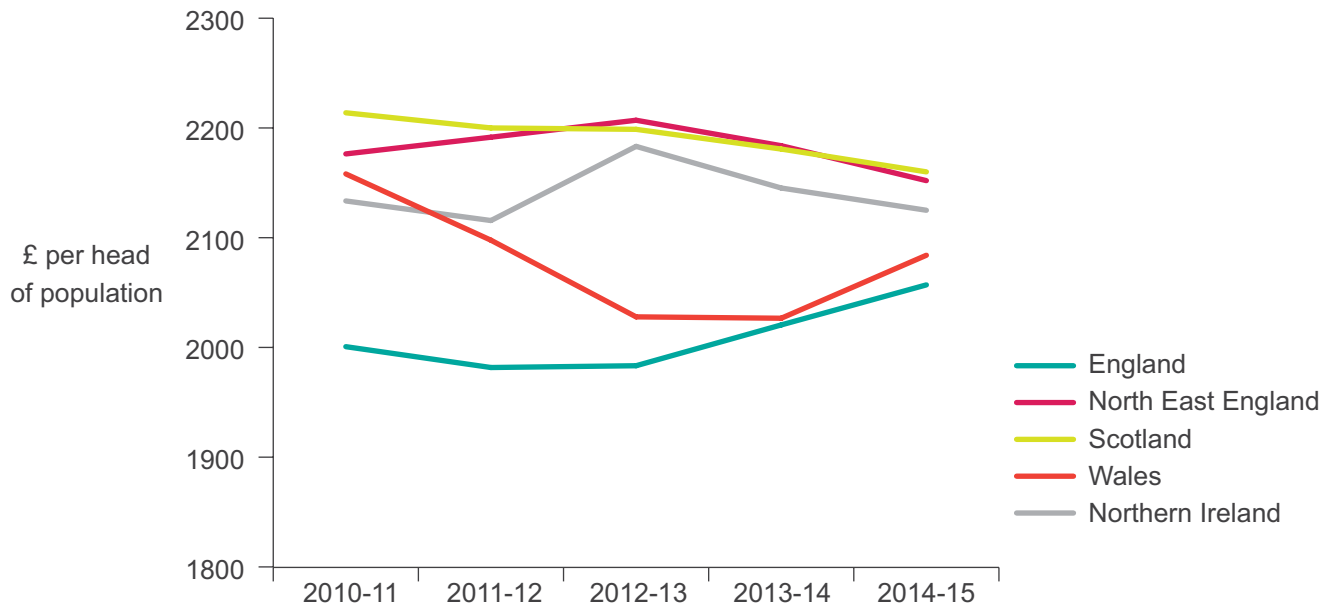
³ The 'final budget' is the budget that the National Assembly votes on ahead of the start of the financial year. Although it is called 'final', the budget is actually updated through supplementary budgets during the year.

- 1.17 Spending on primary care covers the healthcare provided by GPs, including the cost of prescriptions. Our analysis of health boards' accounts showed that spending on primary care has fallen by around £63 million (five per cent). The largest part of the reduction in spending has come through a £43 million reduction in spending on primary care prescribing, which reflects targeted action to secure savings on the overall cost of prescription medicines. There was also a £13 million reduction in spending on 'general medical services': the services provided by GPs and their staff.
- 1.18 While the audited accounts are a key published source of data on health boards' spending, the spending trends they show need to be treated with some caution. The way funding is classified into categories may have changed between years. Also, the Welsh Government told us that some of the funding for primary care that is provided from the Welsh Government Department of Health and Social Services' central budgets (therefore outside of the core funding) may not be reflected within the 'primary care' category in the accounts. The accounts combine spending on hospital-based services with community based services, whereas it may be more helpful to consider community and primary care spending together.

While Wales has seen the largest reduction in health spending per head of population between 2010-11 and 2014-15, the trend of growth in spending in Wales lagging behind other parts of the UK was reversed in 2014-15

- 1.19 Comparison of regional spending data shows that spending on health per head of population in Wales has fallen more than in any of the four nations of the UK between 2010-11 and 2014-15. However, that comparison at two points in time masks a more complex story. Wales initially lagged behind the growth in other parts of the UK but that picture was reversed in 2014-15 (Figure 8). Spending on health per head in Wales was higher than in England throughout the period. Between 2010-11 and 2012-13, the gap between England and Wales narrowed. But in 2014-15, spending per head in England grew more slowly than in Wales, while falling in Scotland and Northern Ireland. Because England as a whole has different health needs, it is generally considered more appropriate to compare Wales to the north east of England. The comparison paints a similar picture. In 2013-14, health spending per head of population was eight per cent higher in the north east of England than in Wales. However, a reduction in spending in the north east of England and a rise in spending in Wales meant that in 2014-15 the gap had narrowed to three per cent.

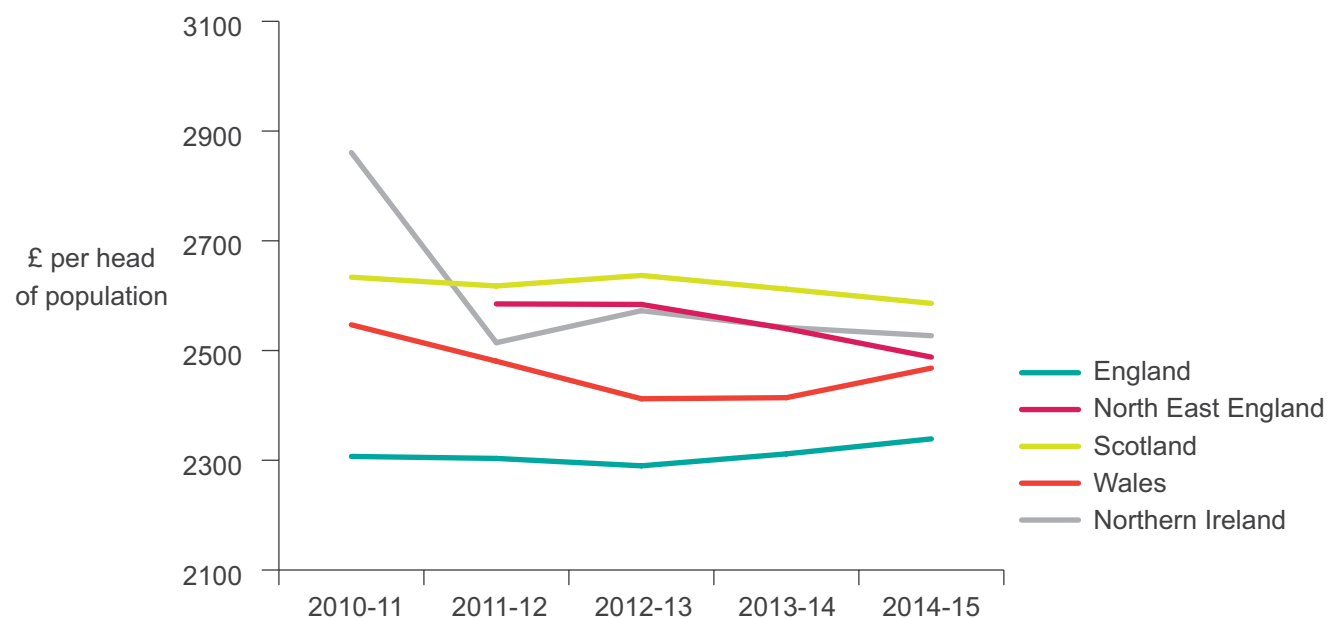
Figure 8 – Spending on health per head of population 2010-11 to 2014-15 (2014-15 prices)



Source: HM Treasury Country and Regional Analysis November 2015

1.20 Because health and social care systems are closely linked, we have also included a comparison that combines health spending with spending on social services for older people and those with a disability/sickness (Figure 9). The picture painted broadly mirrors that for health. Between 2010-11 and 2014-15, total spending per head on health and these social care services fell by more in Wales than Scotland and England. There was a large reduction in the Northern Ireland spend, though that may be distorted by higher-than-normal spend in the baseline year 2010-11. Again, the overall picture masks variation over time. Spending in Wales remained higher than in England as whole and the trend of England catching up with Wales and a growing gap with the north east of England was reversed in 2014-15. In 2014-15, Wales spent just £20 less per head on health and these social care services than the north east of England, compared to £126 in 2012-13.

Figure 9 – Spending on health and social services for disability/sickness/old age per head of population 2010-11 to 2014-15 (2014-15 prices)



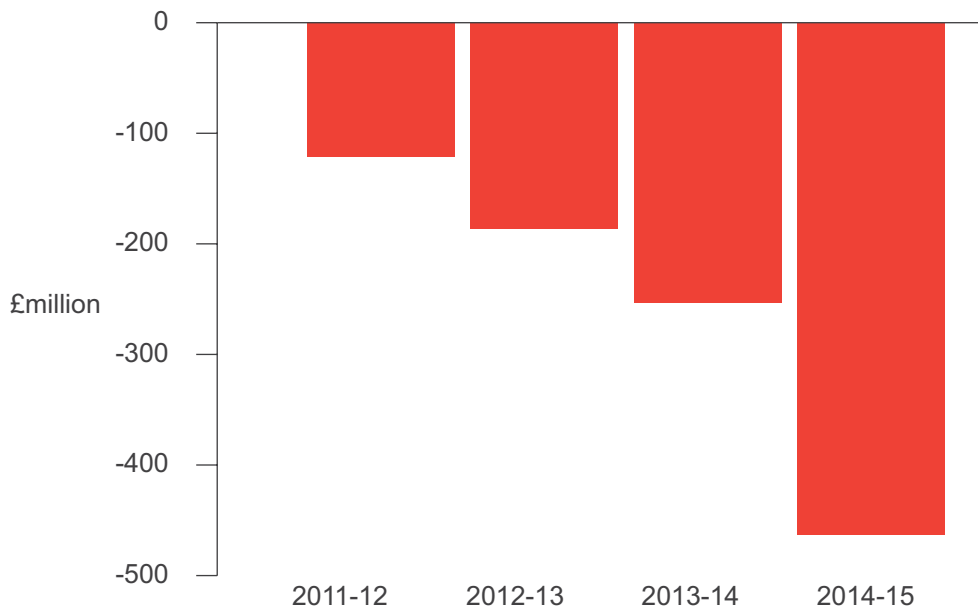
Note: We have included social care for older people and those with a disability or sickness because in our view, they form part of the same system. We have not included social services for families and children because they generally involve quite different services related to child protection and safeguarding, which form part of a separate system that is more closely linked to education.

Source: HM Treasury Country and Regional Analysis November 2015

While local government has seen substantial funding cuts, spending on schools and social care has been protected more than in other parts of the UK and councils have added to reserves

1.21 Local government receives much of its revenue funding through what is known as Aggregate External Finance (AEF). This funding comprises the revenue support grant from the Welsh Government and non-domestic rates. Comparing AEF across the period 2010-11 to 2014-15 is complicated for two main reasons. Firstly, the Welsh Government has incorporated some grants that were previously provided separately, into the revenue support grant. The net value of grants incorporated into AEF since 2010-11 is around £139 million. The picture is further complicated by the abolition of council tax benefit and the introduction of the Council Tax Reduction Scheme with funding provided through the AEF. In Figure 10, we have adjusted for these factors as best we can, to make the figures comparable. Our analysis shows that there was a real-terms reduction of £461 million (10 per cent): from £4.6 billion in 2010-11 to £4.1 billion in 2014-15.

Figure 10 – Change in central funding for councils from 2010-11 baseline (2014-15 prices)

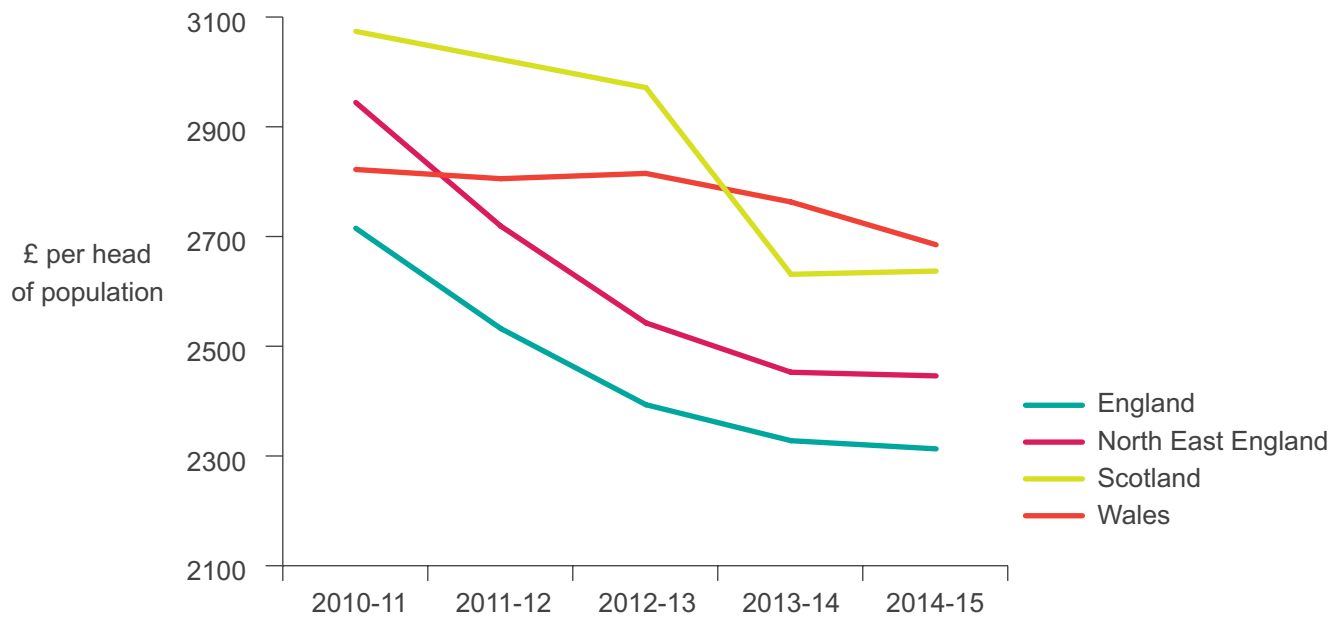


Source: Wales Audit Office analysis of local government revenue settlement

- 1.22 The reduction in local government funding is almost £200 million more than councils had expected. Based on the Welsh Government’s indicative settlements set out in 2012, councils expected a real reduction of around £262 million (six per cent). The main factor behind the cut being larger than anticipated has been the Welsh Government’s decision to prioritise funding for the NHS.
- 1.23 Despite a funding cut of £461 million, gross revenue spending on services across Welsh councils has fallen by £264 million: from £9.2 billion in 2010-11 to £8.9 billion in 2014-15. While the gap is partly explained by a £105 million increase in income from council tax, the other key difference is that councils put £135 million less into reserves in 2014-15 than in 2010-11. But councils still added a total of £10 million to their reserves in 2014-15. In 2014-15, councils had £832 million in reserves that have been earmarked for specific purposes, and £196 million in ‘general’ reserves.

1.24 Spending across local government in Wales appears to have fallen less sharply than in most other parts of the UK (Figure 11). HM Treasury figures, which include spending on police services in England and Wales, indicate that between 2010-11 and 2014-15, spending per head of population by English local government fell by 15 per cent. By contrast, the HM Treasury data shows spending by Welsh local government fell by just five per cent. While the figures show a drop in Scotland in 2013-14, this is primarily a technical accounting issue with spending on policing moving from local government to the Scottish Government. In 2014-15, local government in Wales spent more per head of population than all parts⁴ of the UK apart from London.

Figure 11 – Local government spending per head of population 2010-11 to 2014-15 (2014-15 prices)



Note: These figures need to be treated with some caution as local government has some different responsibilities in different parts of the UK. It is therefore possible, as is the case with Scotland, that the data is not entirely like for like.

Source: HM Treasury Country and Regional Analysis November 2015

⁴ Please note that arrangements for local government in Northern Ireland differ significantly from the rest of the UK, with many of the functions of local government in other parts of the UK carried out by central government, so it is excluded from the analysis.

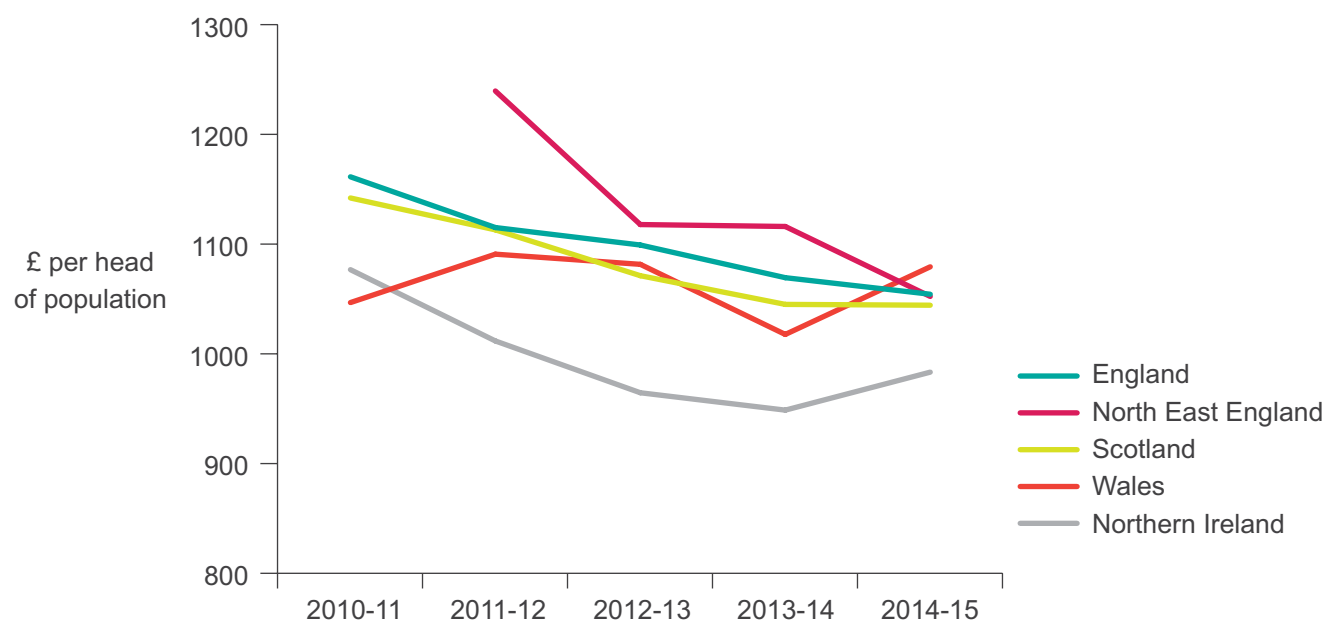
School budgets have had some protection and Treasury data suggests Wales has protected school spending more than other parts of the UK although the Welsh Government has some concerns about the comparability of spending data

- 1.25 At £2.8 billion, spending on schools accounted for almost a third (31 per cent) of councils' revenue spending across Wales in 2014-15. In 2010, the Welsh Government announced that it expected councils to protect schools spending. It provided funding to allow councils to fund schools at one per cent more than the change in the funding the Welsh Government received from the UK Government. So, for example, if the Welsh Government's budget was cut by two per cent, it supported councils to limit any cuts to the schools budget to one per cent. Local government revenue spending on schools reduced by £60 million (two per cent) in real terms between 2010-11 and 2014-15.⁵ If central spending by local government on behalf of schools – for example on school transport – is excluded, the figures show a spending increase of five per cent on primary and secondary schools. Councils' capital spending on education fell by two per cent. Capital spending on secondary schools was 35 per cent higher in 2014-15 than in 2010-11. Capital spending on primary schools and special schools fell substantially in 2014-15, reversing a trend of increases between 2010-11 and 2013-14.
- 1.26 HM Treasury data shows that between 2010-11 and 2014-15, Wales has gone from spending the least per head of population on schools to the most (Figure 12). However, this comparison should be treated with some caution. Wales's Chief Statistician has raised concern that due to the different way in which the academy schools in England are funded and possible inconsistencies in the way different governments categorise spending, school spending data may not be directly comparable with England. The full concerns are set out on the Welsh Government's website⁶.

5 The reduction may partly be explained by the reclassification of spending on the Flying Start Programme. Prior to 2013-14, it was included in local government outturn as education spending. From 2013-14, it has been classed as spending on social care. While we were able to adjust for this change in the social service data, we were unable to adjust for it in our analysis of spending on schools as it is unclear whether local authorities recorded Flying Start as part of schools or non-schools education spending.

6 www.gov.wales/docs/statistics/2015/150511-chief-statisticians-update-issue-4-en.pdf

Figure 12 – Spending on primary and secondary schools per head of population 2010-11 to 2014-15 (2014-15 prices)



Notes:

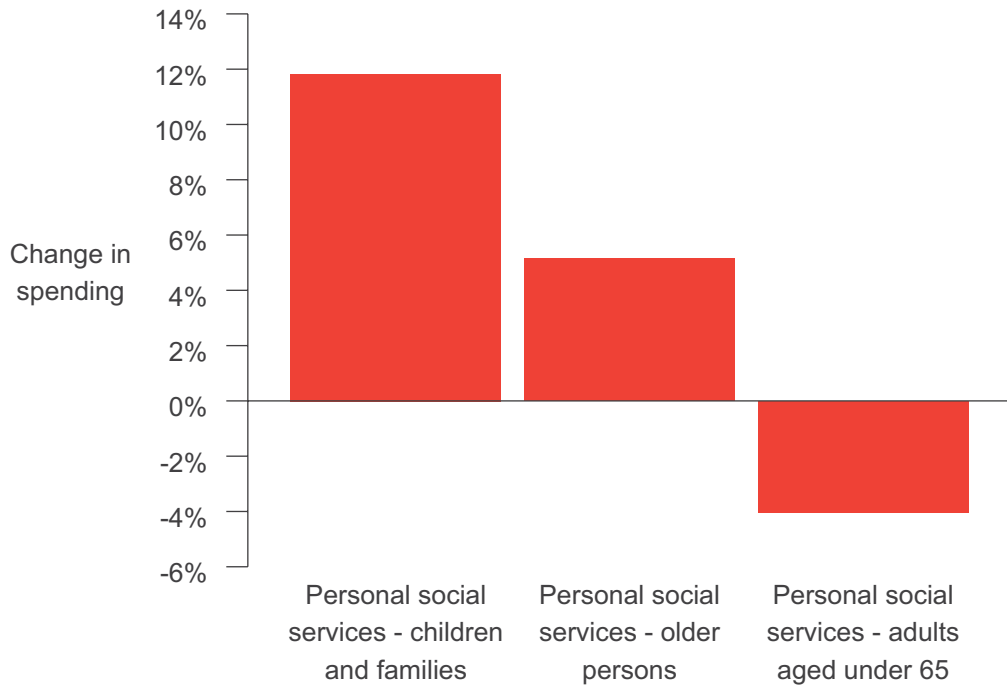
- 1 Wales's Chief Statistician has expressed some concerns about whether Wales and England categorise school spending in the same way in this dataset. There is some year-on-year volatility in the figures that underpin this analysis.
- 2 We do not have 2010-11 figures for the north east of England.

Source: HM Treasury Country and Regional Analysis November 2015

Spending on social care has been protected more than most other parts of the UK

1.27 Social services account for just over a fifth (22 per cent) of councils' revenue spending across Wales. Spending on social services increased by six per cent between 2010-11 and 2014-15. Figure 13 shows that spending on social services for children and young people has increased the most: a 12 per cent increase (£61 million). Spending on services for older people has seen a more modest increase of five per cent (£37 million). Spending on services for adults under 65 fell by four per cent (£26 million). Overall, spending on social services has increase by £117 million (six per cent). Capital spending across social services reduced by around four per cent. HM Treasury data show that Wales spent more per head than Northern Ireland and England in 2014-15 and spent more than the north east of England (Figure 14). Scotland spent slightly more per head than Wales in 2014-15.

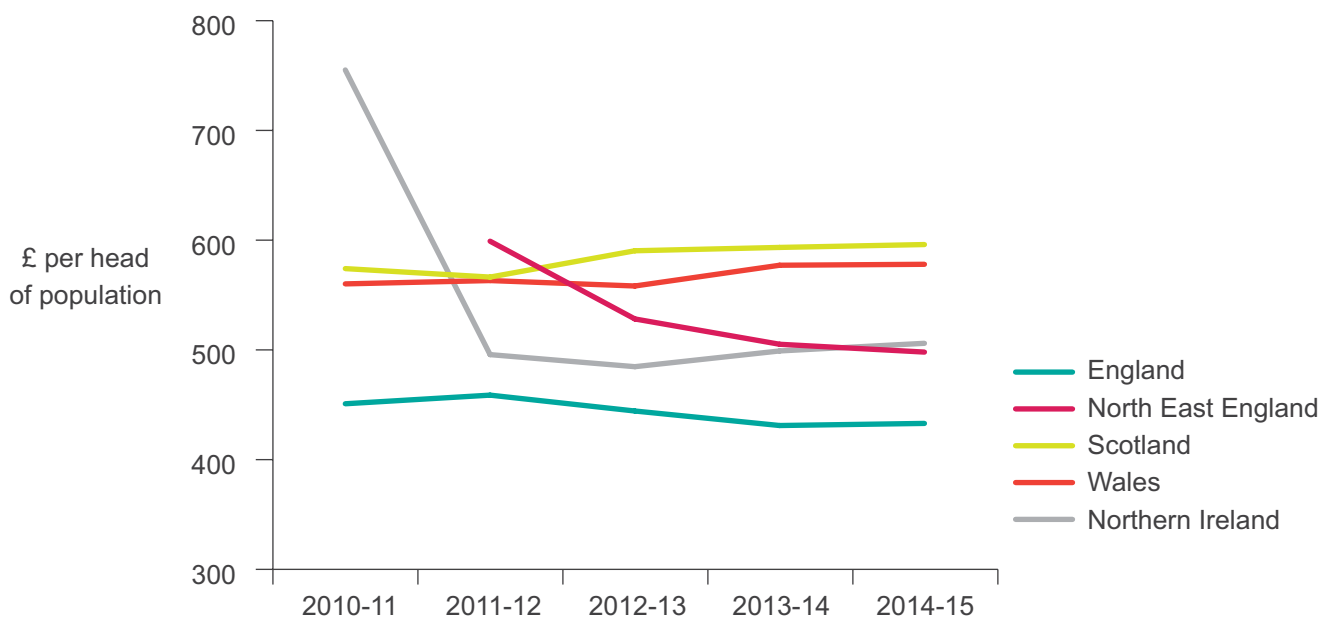
Figure 13 – Change in spending on social services across Wales between 2010-11 and 2014-15 (2014-15 prices)



Note: we have adjusted the figure for personal social services – children and families – to take account of the reclassification of Flying Start in 2013-14.

Source: StatsWales revenue outturn data: gross expenditure

Figure 14 – Spending on social services per head of population 2010-11 to 2014-15 (2014-15 prices)

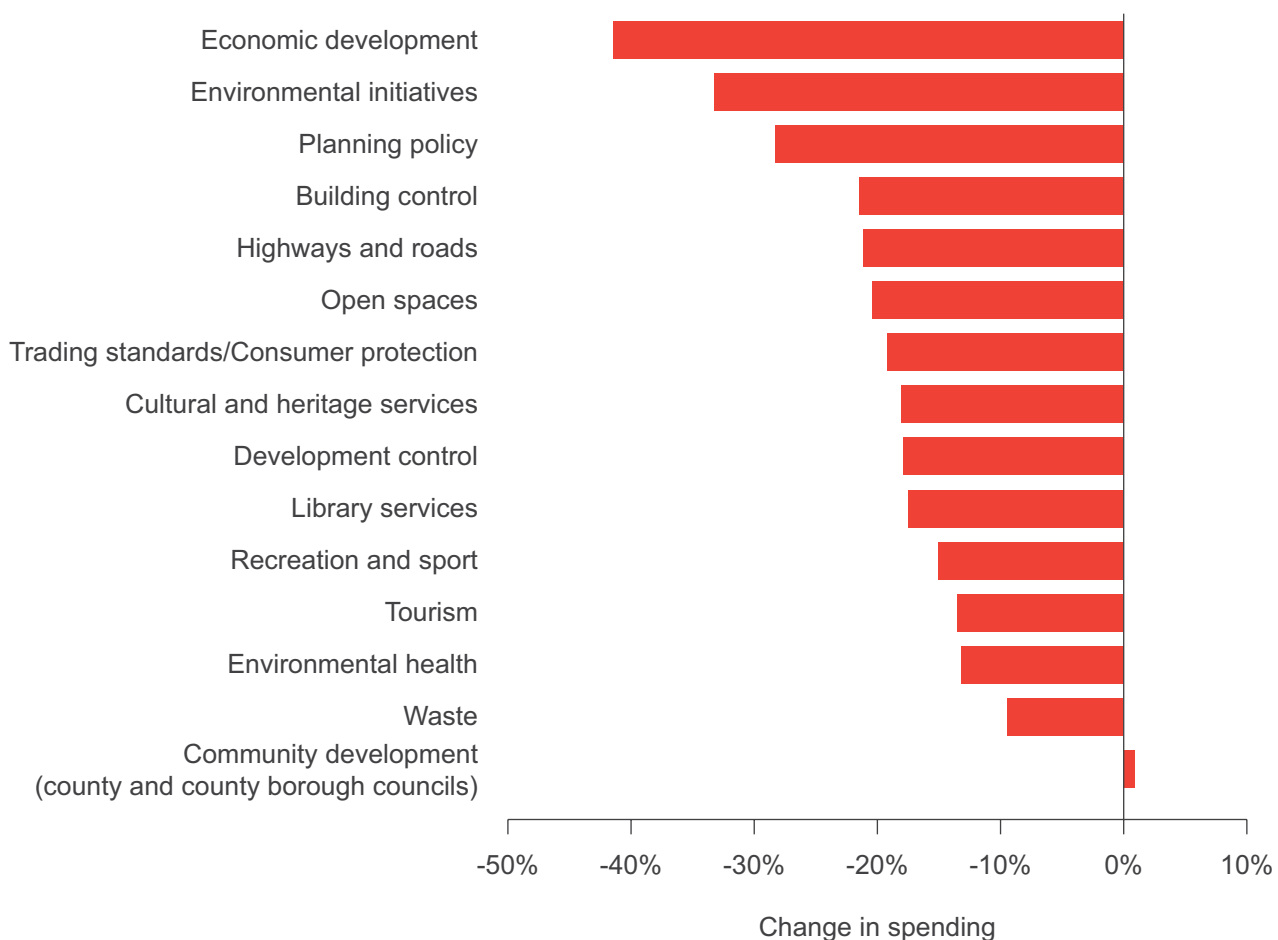


Source: HM Treasury Country and Regional Analysis November 2015

Many other services, particularly environmental and economic development services, have seen large spending cuts

1.28 With councils seeking to protect spending on schools and social care, which account for 53 per cent of the total spending, spending cuts have fallen more heavily on other areas. **Figure 15** shows the changes in spending across a range of the non-protected spending areas between 2010-11 and 2014-15. It shows that the largest cuts have fallen on economic development, which includes the costs of letting premises to businesses as well as general activity to promote economic development in an area. The second-largest cuts have fallen on environmental initiatives, which range from surveys of derelict land to environmental awareness projects with schoolchildren. As our 2014 report on environmental health services stated, the extent of spending reductions in specific areas can vary significantly from council to council.

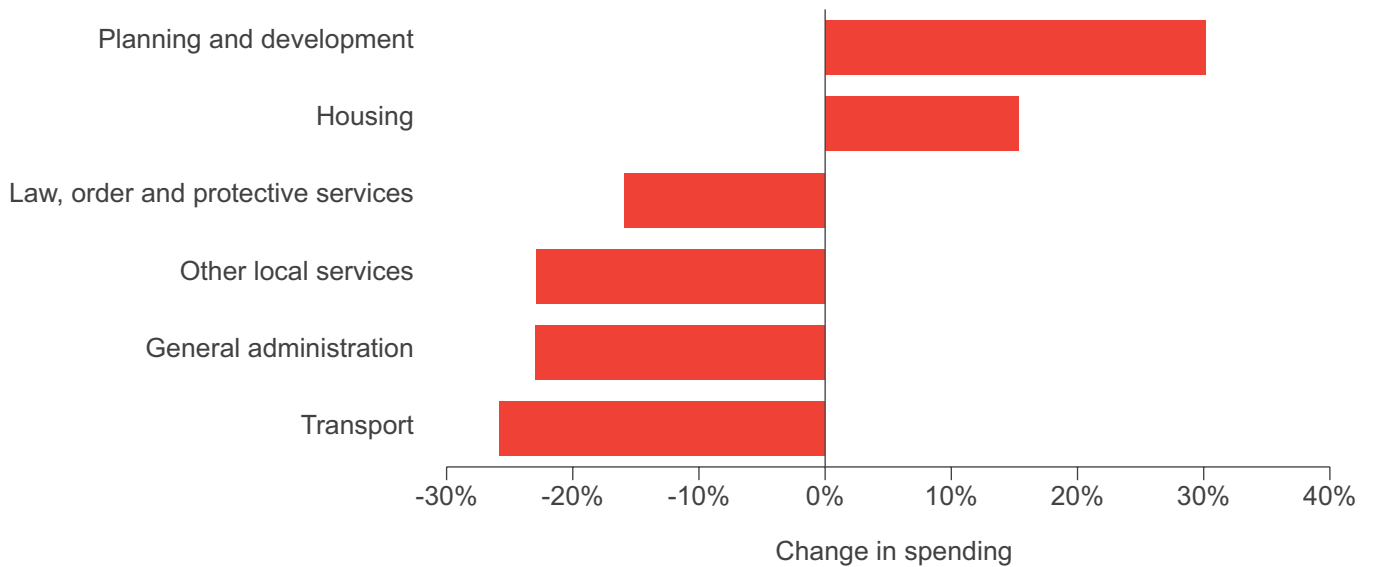
Figure 15 – Change in council spending on services other than schools and social care between 2010-11 and 2014-15 (2014-15 prices)



Source: Wales Audit Office analysis of revenue outturn data

1.29 The position on capital spending for non-protected services is mixed. Local government capital outturn data show that the largest increase has been in planning and development⁷, with a 30 per cent increase (Figure 16). The largest reductions were in transport. Over the period, the source of capital funding for councils has changed significantly. Capital grants from public and private bodies have fallen by around 27 per cent. Grants from the Welsh Government fell by 30 per cent and sponsored bodies by 71 per cent. Increases in European Union grants partly offset these reductions. Councils are now far more reliant on funding their infrastructure spending from revenue (104 per cent increase) and from unsupported borrowing (51 per cent increase). Relying on revenue to fund infrastructure reduces the amount of money that councils have to fund the day-to-day delivery of services.

Figure 16 – Change in capital expenditure between 2010-11 and 2014-15 (2014-15 prices)



Source: Wales Audit Office analysis of StatsWales data

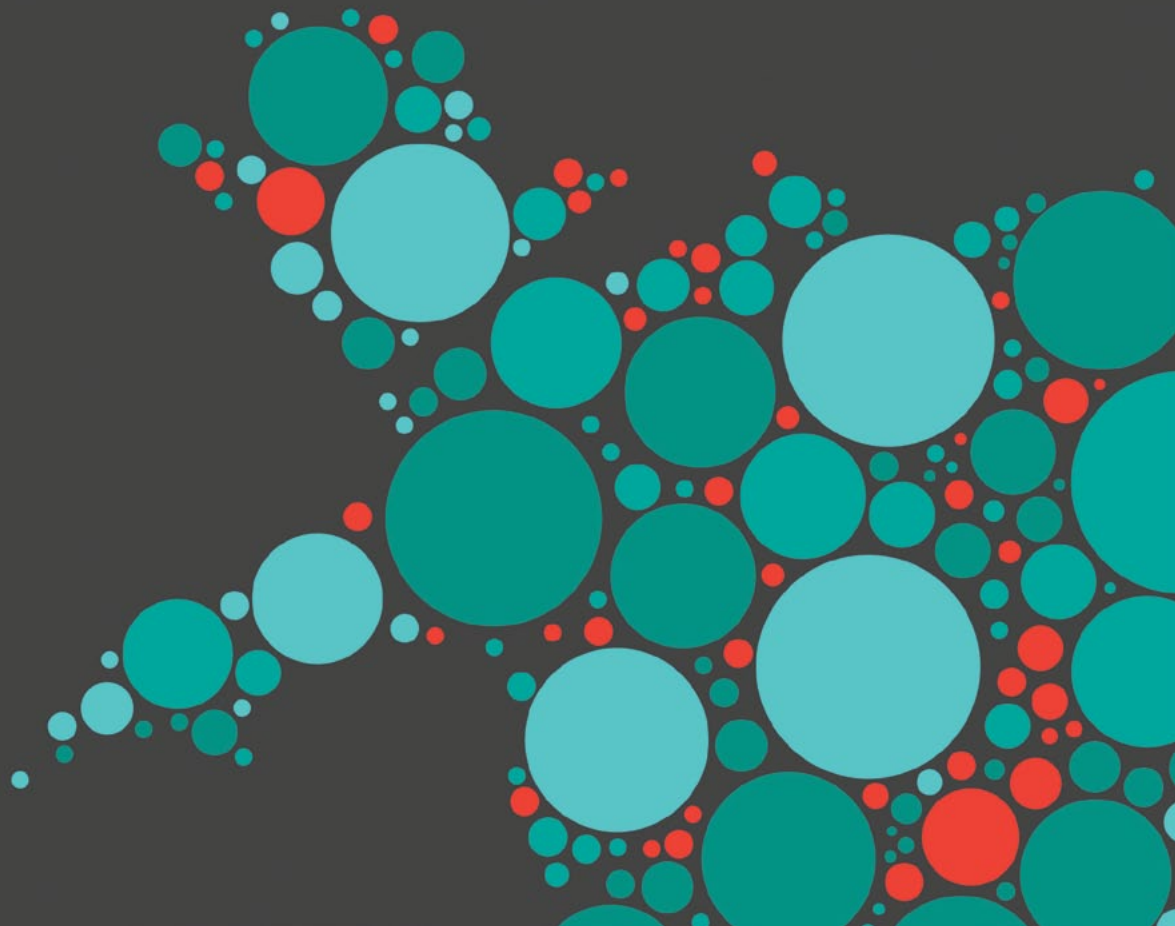
⁷ In the published data, 'planning and development' covers strategic planning and policy development. It does not refer to town and country planning or economic and community development.

Fire and rescue authorities and national park authorities have seen reductions in their funding

1.30 The local government family also includes the fire and rescue authorities and national park authorities. The vast majority of fire and rescue authorities' funding comes from the councils in the areas they cover. The fire and rescue authorities themselves set the levels of contribution that local authorities pay them. Between 2010-11 and 2014-15, fire and rescue authorities have allocated a nine per cent reduction in the funding they receive from local authorities. The accounts show that the three authorities have reduced spending on 'firefighting' by an average of 12 per cent. Two of the three authorities have reduced expenditure on 'community safety' which includes preventative activities, with an average cut of 13 per cent. National parks receive funding from both local government and the Welsh Government. The Welsh Government's national parks grant covers 75 per cent of the core funding for the national parks, with levies to the constituent councils making up the remaining 25 per cent. Between 2010-11 and 2014-15, the parks have seen an average reduction in their funding from the Welsh Government of 13.1 per cent and a reduction in the funding from local councils of 12.1 per cent.

Part 2

Despite funding cuts some measures of well-being are getting better, but there are signs of strain in the service and financial performance of some key public services



- 2.1 This part of the report considers how well public services have responded to the challenges they have faced. We look at what has happened to some key measures of well-being. We consider whether services have got better, using their own measures of success. The measures we draw on include the sustainable development indicators, tier 1 targets in the NHS and the national strategic indicators for local government. We also draw from the National Survey for Wales⁸. In many cases, these show high levels of public satisfaction with services. And while that is of course to be welcomed, even if just five or 10 per cent of service users are not satisfied, it suggests there is scope to improve the experiences of a significant number of people.
- 2.2 We go on to consider how well public services are managing their finances. Finally, we look at whether public services have responded to the financial challenges by changing the way they do things. Because they make up the bulk of devolved public spending in Wales, this part of the report mostly focuses on the NHS and councils.
- 2.3 This part of the report also draws on our survey of public service leaders in Wales ([Appendix 1](#)). In the survey we grouped together councils, fire and rescue authorities, and national park authorities as 'local government'. Therefore, where we refer to 'local government' in this section and in [Part 3](#), we are referring to all three types of body in the local government family. Where we refer to councils, we are referring specifically to the 22 unitary authorities.

Well-being indicators show improvement in the economy and in general health, skills, personal well-being and community cohesion, although some environment and poverty indicators remain a concern

- 2.4 Public services in Wales generally aim to improve 'outcomes'. In other words, they aim to improve the 'well-being' of people, communities and the environment we live in. There are many ways of measuring outcomes or well-being. At the time of drafting this report, the Welsh Government is consulting on a set of outcome-based 'well-being indicators' to support its Well-being of Future Generations Act 2015. As the Welsh Government has not yet finalised the indicators, for this report we use the existing sustainable development indicators⁹. We have not been able to use all of the sustainable development indicators as many have not been updated for several years (see [Appendix 1](#)). The Sustainable Futures Commissioner has commented that these indicators have not been sufficiently central to the way the Welsh Government reports its performance¹⁰. We have also supplemented our analysis of outcomes to incorporate some findings from the National Survey for Wales.

⁸ The National Survey for Wales is an annual survey of 14,000 people and covers a range of questions concerning well-being and satisfaction with services.

⁹ The sustainable development indicators are different in scope to the well-being indicators in which the Welsh Government is consulting at the time of drafting this report. While they are not interchangeable, they provide a broad overview of some of the key areas against which the Welsh Government has measured its impact on high-level population and environmental outcomes.

¹⁰ Sustainable Futures Commissioner's commentary in [One Wales: One Planet, The Sustainable Development Annual Report 2013-14](#), Welsh Government

- 2.5 It is important to note that we are not saying that any changes in well-being are a direct result of the actions of any particular part of the public sector nor any changes in funding. The well-being of a country, community or individual is the result of the complex interplay between a range of factors. Public services can help make a big difference. But other local and global factors also play a role in shaping our well-being.
- 2.6 There has been positive progress in some important areas of health and social care. The latest data (up to 2013) shows that infant mortality rates have continued to fall while life expectancy has continued to rise. And there has been a marked increase in the proportion of the population with level 2 and level 4 qualifications¹¹. We consider some other indicators of education in [paragraphs 2.19 to 2.23](#).
- 2.7 The data suggests that the economy of Wales is getting stronger albeit from a relatively low base. Gross Value Added (GVA)¹² has been rising. Wales has the lowest GVA per head of any region in the UK, with 71.4 per cent of the UK average¹³. However, between 2010 and 2014, Wales closed the gap to every region other than London. People are less likely to be out of work in Wales than in 2010-11 and less likely to be living in households where nobody works. For a short while at the end of 2013, Wales had a lower unemployment rate than the UK.
- 2.8 Despite some positive data on the economy, there is concern about the persistence of poverty in Wales¹⁴. Rates of child poverty were the same in 2013-14 as 2010-11. In Wales, 31 per cent of children lived in a household with less than 60 per cent of the median income after housing costs. This is the second highest of any part of the UK, behind London. Progress in reducing child poverty has lagged behind the rest of the UK, in particular the north east of England. Pensioner poverty in Wales has increased sharply between 2010-11 and 2013-14. Rates of overall poverty in Wales are higher than almost all other parts of the UK¹⁵.
- 2.9 Indicators of the quality of the environment in Wales paint a mixed picture. The most recent data show that emissions of greenhouse gases were higher in 2013 than in 2010. Carbon dioxide emissions were higher in 2013 than at any point since 2001. Also, people in 2013 were more likely to use the car to get to work and less likely to walk, cycle or use other modes of transport. Positively, the longer-term trend on air quality is improving in both urban and rural settings. Households produced less waste in 2013-14 than in 2010-11. And significantly more of that waste is being recycled. The National Survey for Wales also points to improvements in home energy efficiency.

¹¹ Level 2 qualifications are GCSE grade A to C and equivalent, and level 4 qualifications include certificates of higher education and national vocational qualifications level 4.

¹² The Office for National Statistics defines GVA as 'the contribution to the economy of each individual producer, industry or sector in the United Kingdom'.

¹³ The UK average figure is impacted by the increasingly dominant position of London as the source of economic growth in the UK. Since 1997, all regions of the UK – except London and the north east – have been declining against the UK average.

¹⁴ See for example, Communities, Equalities and Local Government Committee, **Inquiry into Poverty in Wales: Poverty and Inequality**, 2015

¹⁵ Poverty rates are part of the sustainable development indicators. We have used updated data from the Department of Work and Pensions' **Households Below Average Income** report, June 2015.

2.10 The National Survey of Wales provides data on several aspects of well-being. We have focused on two key elements: personal well-being and community cohesion. The National Survey shows that between 2012-13 and 2014-15, there has been an improvement against these well-being indicators. People in Wales in 2014-15 indicated that they were more satisfied with their life, found doing activities more worthwhile, reported greater levels of happiness and lower levels of anxiety. Over the same period, people were more likely to agree they felt a sense of belonging to their local area, that people of different backgrounds in their local area got along, and that people in their area treated each other with respect and consideration.

While some aspects of public services are improving, there are signs of deterioration against some key measures of performance

2.11 The Welsh Government reports its progress in several different ways. The Welsh Government does not provide many services directly. Instead, it sets the policy and strategic direction for others. Each public body has its own responsibilities and accountabilities for delivery. Nonetheless, the overall performance of public services against measures set by or agreed with the Welsh Government can be seen, to some extent, as a proxy indicator of the Welsh Government's own performance. The National Survey for Wales reports public satisfaction with the Welsh Government. In 2014-15, survey respondents rated the Welsh Government at 5.6 out of 10 in terms of how well it is doing its job, similar to the mark of 5.8 in 2012-13. A comparison of the 2012 data suggests¹⁶ the Welsh Government has the fourth-highest rating compared with 29 other European countries.

2.12 The Programme for Government sets out the Welsh Government's key priorities. It provides a helpful steer to public services on the outcomes the Welsh Government intends to achieve and the actions it expects public services to take in contributing to those outcomes. The Welsh Government produces an annual report on progress against the Programme for Government. We have not reviewed the annual reports in detail. Overall, the reports paint a positive picture of progress against the Welsh Government's commitments.

¹⁶ This comparison is based on comparing the results of the National Survey for Wales with the results of the European Social Survey. There are some methodological differences that may impact the comparability. As a result, we have referred to the results as 'suggesting' rather than demonstrating conclusively relative satisfaction levels. More detail can be found in Appendix 1.

2.13 The Welsh Government also produces a wide-ranging annual report on sustainable development. Again, these annual reports paint a positive picture of progress against the Welsh Government's plans. We note, however, the comments of the Sustainable Futures Commissioner in the latest (2013-14) report on sustainable development, that the Welsh Government's reports have excluded some important issues and tended to 'focus on strategies developed and investment made, rather than outcomes achieved'. He also notes that future annual reports will need to 'address the material issues, be focused on outcomes, include lessons from failures and be accessible to all'. The Welsh Government intends that the Well-being of Future Generations (Wales) Act 2015 will strengthen reporting of progress.

Measures of public health and some indicators of service quality show signs of improvement but NHS performance has deteriorated against some of the key tier 1 priorities

2.14 The NHS in Wales provides care in many places: from high-intensity critical care wards to care in people's own homes. It treats patients with serious and minor illnesses. The NHS has millions of contacts with patients every year. These span millions of GP and outpatient appointments, attendances at emergency departments and hundreds of thousands of routine and life-saving operations. And it runs public health programmes to help stop people getting ill in the first place. Explaining how well such a complex system is performing is difficult. For our analysis, we focus on some broader indicators of public health alongside the areas that the Welsh Government has decided are the most important: the tier 1 priorities. We have used Welsh Government data on performance against these measures, some of which is in the public domain. This part of the report does not compare performance in Wales and the rest of the UK. In 2014, the Nuffield Trust produced a report that concluded that no one country clearly outperformed the others. Nonetheless, it found some key areas – notably waiting times for treatment – where Wales was lagging behind other parts of the UK.

2.15 National surveys consistently show high levels of public satisfaction with the Welsh NHS. The National Survey for Wales showed that 91 per cent of people who had seen a GP in 2014-15 and 92 per cent of people who had attended a hospital were satisfied with the care they received. Comparison of 2012 results suggest that satisfaction with health services was relatively high, ranking ninth out of 30 European countries. Taking a broader view, there is a positive picture on public health: the Welsh population is less likely to smoke and drink excessively. We are slightly more likely to be involved in physical activity and, despite a reduction in the numbers getting enough fruit and vegetables, the rise in obesity seems to have been halted in recent years. The recent health and behaviour survey in school-aged children in Wales paints a mixed picture. There have been improvements in self-reported health among young people and a reduction in the proportion drinking alcohol and smoking but a static picture in terms of obesity and some evidence of a decline in healthy eating.

- 2.16 The NHS has improved in some important areas of performance against its tier 1 targets. Welsh Government data shows that the NHS has improved some of the key measures of quality. There has been an improvement in mortality rates: suggesting that hospitals are getting safer. Patients are significantly less likely to contract two of the 'super bugs' (C-Difficile and MRSA) while they are in the care of the NHS although rates of MSSA are increasing¹⁷. The NHS admitted or readmitted fewer patients to hospital because of chronic conditions. The NHS did better against measures of mental health services, though it is not yet meeting all of its targets. Patients have access to more GP surgeries during the evenings and weekends. Fewer patients faced delays in their discharge from hospital than in 2010-11 although the improvement has stalled in recent years. For three out of five childhood vaccinations¹⁸, rates of take-up were higher at the end of 2014-15 than at the end of 2013-14. However, during 2014-15 there was a decline in take-up across all five vaccinations.
- 2.17 Despite the positive trends outlined above, and in a context of rising demand and activity in some areas (see [paragraph 2.47](#)), the NHS is doing worse in some of the most high-profile tier 1 areas than in 2010-11. In 2014-15, patients waited longer for ambulances to arrive and for emergency treatment in hospitals. Patients also waited longer for planned treatment, and for a range of tests and therapies. Waiting times to start treatment for suspected cancer got longer between 2010-11 and 2014-15. Fewer patients who had a stroke got the timely treatment they needed than was the case in 2012.
- 2.18 It is important to bear in mind some key limitations of an analysis based on the tier 1 measures. The measures are highly focused on hospital activity. The targets for length of time waited generally do not have a clear clinical basis and can distort priorities¹⁹. They may not be the best measures of the quality of healthcare or patient experiences. For example, the tier 1 target focuses on time taken to start treatment for cancer but survival rates could be seen to be a more important indicator. Cancer survival rates show significant improvement over time. The Welsh Government recognises the limitations of the tier 1 targets and is developing a set of more outcomes-focused measures for use in future.

¹⁷ The full names are **Clostridium Difficile and Meticilin-resistant Staphylococcus aureus (MRSA)**. MSSA is a form of MRSA that is distinguished by the extent to which it is resistant to a particular form of antibiotic (flucloxacillin).

¹⁸ The three that saw an improvement were: Meningitis C vaccine at age one; MMR vaccine at age one; and PCV vaccine at age two. The two that saw a reduction in uptake were: Hib/Meningitis C vaccine at age two and 5-in-1 vaccine at age one.

¹⁹ See for example, our report on elective waiting times and previous reports on the ambulance service.

Overall, councils' performance has improved against priority measures but there is significant variation, some councils' education services remain in special measures and there are pressures on social care for older people

- 2.19 Councils provide local services that range from protecting children from abuse to cutting the grass at the side of the road. Councils also have an important leadership duty to help shape the social, economic and environmental well-being of their areas. The National Survey of Wales showed that in 2014-15, the majority of the public agreed with the statement that their local council provided high-quality services. However, the figures show a decline, with 57 per cent agreeing with the statement in 2012-13 compared to 53 per cent in 2014-15. The National Survey shows a slight increase in the public's rating of education services, from a mark of 6.4 out of 10 in 2012-13 to 6.6 in 2014-15. Comparison of 2012 survey results suggest the score for Wales is seventh highest of 30 European countries. We look in more detail at how well councils have done since 2010-11 using the national strategic indicators. These are a set of indicators used by all councils to report the performance of local services.
- 2.20 Taken as a whole, councils improved against most of the indicators between 2010-11 and 2014-15. School pupils are getting better results at all stages. The results of looked-after children have got better although there is still a large gap between the results of looked-after children and the rest. The only education indicator that has got worse is the time taken to process statements of special education need. Measures of children's social care services also show improvement. Councils are getting better at keeping in touch with looked-after children and those children achieve better outcomes once they grow up.
- 2.21 The measures of adult social care are less positive. Councils are supporting fewer older people in the community, in care homes and to live independently in their own homes. A reduction in the number of people receiving residential support could be seen as positive if it is accompanied by a shift towards preventative services. However, the fact that there has been a reduction in people getting lower-level support suggests that the reduction reflects a tightening of eligibility criteria rather than a strategic shift towards prevention. One local government director commented in our survey: 'the pattern for Social Services is year on year reduction in numbers of people receiving services despite evidence of increasing numbers of people in need'. Also, Age Concern Cymru and the Older People's Commissioner reported to us concerns about people not getting support, or in some cases, having their existing support reduced.

- 2.22 The performance measures for 'other' council services are limited but generally show improvement. Councils are helping to ensure better supply of affordable housing. Councils are quicker at processing claims for grants to install facilities in the homes of people with disabilities. And councils are recycling more waste and taking less to landfill. Less positive is a decline in the number of visits to libraries and leisure centres²⁰. Also, councils have got worse at helping to reduce the number of empty private sector houses. That some services have less protection does not mean that they are not important. For example, we have found that transport services, advice services, public toilets and libraries are an important source of support to enable older people to live independently. The apparent lack of focus on performance in the areas that are under greatest financial pressure means that it is difficult to track the impact of changes and reductions in service provision.
- 2.23 The above analysis of the strategic performance indicators masks some deeper problems. Firstly, the measures themselves are not comprehensive and some are too focused on activity rather than impacts. For example, the adult social care indicators tell us little about the quality or impact of councils' efforts to help older people. The national picture also masks differences between councils. Most councils have improved their education results, for example, but some are still doing much better than others. And while councils have improved, some have done so from a relatively low base. Independent reviews such as PISA showed that there is still a long way to go in improving education. Between 2010 and 2013, Estyn assessed overall performance as excellent in only one local authority. Estyn concluded that more than two-thirds of local authority education services required follow-up monitoring, although most have since been taken out of monitoring. Since 2010, six councils have been placed in special measures. Two of these councils were taken out of special measures in 2014 after making improvements.

Performance data covering Wales' fire and rescue authorities show sustained improvement across all areas between 2010-11 and 2014-15

- 2.24 Fire and rescue services provide a range of statutory and non-statutory services, including firefighting, rescue and prevention work. National performance measures paint a picture of the fire and rescue authorities' performance, although they do not cover all of the services that the fire and rescue authorities provide. The number of fires per head of population has fallen, with a reduction in both accidental and deliberate fires. The number of fatalities appears to fluctuate over time but remains low. There has been a sustained reduction in the number of fire-related injuries. The number of fires in dwellings without fire safety equipment has fallen as has the number of malicious false alarms.

²⁰ The baseline year for visits to leisure centres is 2012-13.

National park authorities have improved against their national strategic indicators on planning

2.25 The three national park authorities are quite different from each other and therefore set many of their performance measures locally. Their key externally focused national indicators relate to their responsibilities for planning. The annual reports show a picture of improvement in the timeliness with which the national park authorities deal with planning applications between 2010-11 and 2014-15. While all show improvement, there is considerable variation between authorities. The national park authorities also report on the number and success of appeals against their planning decisions. Small numbers of appeals mean it could be misleading to report trends over a short period, but it appears that overall performance has been sustained.

Sponsored bodies' annual reports paint a broadly positive picture of performance but some are struggling with aspects of participation

2.26 We reviewed the performance data set out in the Welsh Government sponsored bodies' annual reports. The depth and coverage varied considerably between different bodies. Most report improvements across a range of areas and those that report performance against targets are achieving more than they are missing. But some bodies have struggled in some key areas. Some have struggled with targets on raising income. There is a mixed picture for those whose key purpose is to get the public participating in social, cultural, sporting or education activities. Museum Wales has seen record numbers of visitors in the period since 2010. The National Library has faced difficulties at times in sustaining and increasing the number of visitors to the library but has increased the number of people making use of its online services. Sport Wales' reports generally show increasing participation in sport and physical activity but it has struggled more recently in some areas with declining participation in swimming and young people's membership of sports clubs. The Arts Council's reports show that it has reduced funding to arts bodies and has needed to help those bodies to increase participation.

Financial planning is generally getting better but remains too short-term and approaches to managing the impact on the public of cuts to services are not robust enough

In general, budget setting and monitoring is getting better but remains too focused on short-term pressures

2.27 Since 2010-11, the Welsh Government has not overspent against the budget limits set by the UK Government. To live within its means, the Welsh Government has had to be flexible and update its financial plans to react to spending pressures in the NHS. The Welsh Government sets aside a contingency fund in its annual budget to manage unexpected pressures. In recent years, this contingency fund has been insufficient to cover overspending in the NHS. As a result, the Welsh Government has needed to find in-year savings from other departments. These cuts are sometimes then passed on to other organisations. The need to change plans and make in-year cuts has created uncertainty and frustration in some areas, particularly where bodies are asked to make savings at relatively short notice. The comments below illustrate a wider view expressed by several public service leaders about what they considered to be short-notice changes to their budgets. The Welsh Government considers that it provides as much information as it can, as early as possible, working within the UK Treasury budget cycle.

'Because we do not have 3-5 year budget settlements the majority of the cuts have to be based on projected settlement figures that change including in year cuts. This does not allow a planned and systematic approach to budget/service reductions... The clear lack of Welsh government thinking has led to piecemeal cuts with little strategic thinking.'

National park authority senior manager

'Intimations from Welsh Government of a reduction in funding but without sufficient, or indeed for quite a period of time any, indication of the level of reduction required of us. This meant a lot of work from officers in preparing a number of scenarios for making efficiencies together with cutting services which wasted time, created uncertainty within the organisation and was inefficient in planning for the future.'

Local government cabinet/authority member

2.28 Our work on health finances has shown that in general, financial management across the NHS has got better. Since the move to three-year integrated planning²¹ in 2014, NHS bodies have focused more on the links between finances and wider service and workforce plans. Several respondents to our survey spoke positively about the move towards three-year integrated plans (see comments below). The Welsh Government has challenged NHS bodies to improve their financial, service and workforce planning. Six out of 10 NHS bodies did not have an approved three-year plan for 2014-15 and three still do not have one. While there is a positive direction of travel, our work suggests that the NHS as a whole still has some way to go on financial management and planning. We found that financial planning and management is generally focused on in-year pressures. The previous trend of NHS bodies initially predicting they would break even and then requiring extra funding late in the year has come to an end. However, this pattern has been replaced with a situation where many NHS bodies start the year with plans that show an end-of-year deficit. In many cases, there is no clear means for funding that gap other than additional Welsh Government funding. While the problem of the NHS requiring additional in-year funding has not gone away, there now is a more mature and transparent discussion and shared understanding of the scale of the problem.

'The IMTP planning process is now being embedded into the organisation and is proving helpful in concentrating minds on the challenges we face.'

NHS Board Member

'The Integrated Medium Term Planning process has brought a stronger focus and discipline on planning, but its probably still overly process driven and need to evolve to show demonstrable changed.'

NHS senior manager

'The move to a 3 year financial plan was, I believe, a sensible step in encouraging longer term planning and accountability.'

NHS Board Member

²¹ The National Health Service Finance (Wales) Act 2014 requires NHS bodies to produce three-year plans that integrate financial, service and workforce planning. For health boards, the requirement to break even each year was replaced by a requirement to break even over a rolling three-year period.

- 2.29 Councils have built on their strong track record of delivering a balanced budget but their financial plans and management are starting to show signs of strain. Our audit work has found that annual budget setting and monitoring is generally sound. Medium-term planning is still less well developed. Councils have been hampered to some extent by the uncertainty caused by the Welsh Government's reprioritisation of funding away from local government to the NHS. This reprioritisation meant that the Welsh Government cut its funding to councils by £200 million more than they expected with relatively limited notice. Nonetheless, almost all councils have delivered a surplus each year. As a result, the amount of funding held in reserves has increased. Reserves provide councils with some flexibility and a source of funding to support new ways of delivering services. However, there are concerns that without a clear strategy for utilisation of reserves as part of the medium-term financial plan, some councils may be criticised for holding funds without a clear and agreed purpose.
- 2.30 We have not carried out detailed audit work looking at the quality of financial management at the sponsored bodies, although we are currently looking at the development of Natural Resources Wales. Some sponsored bodies told us they had concerns about the way that the Welsh Government allocates its funding to them. The Welsh Government allocates funding on a one-year basis, which makes medium-term planning difficult. Some bodies have also expressed concerns to local auditors about short-term changes to their budgets in year.
- 2.31 Our work at national park authorities suggests that they have focused on short-term financial pressures. This has in part been as a result of in-year reductions to their budgets from the Welsh Government. Our annual improvement reports show that there is a need for national park authorities to improve their medium-term financial planning. Similarly, fire and rescue authorities have a strong track record of setting and achieving a balanced budget. However, when we produced our last round of improvement assessments, two out of the three authorities had published a medium-term financial plan and the third was being developed.

The quality of plans to deliver savings varies across public services with most focused on reducing staffing costs

- 2.32 Staffing is one of the major areas of public spending in Wales. It is unsurprising therefore that our February 2015 report on early departures showed that public services have focused on making savings on their staffing bills. Between 2010-11 and 2013-14, the wage bill across devolved public services reduced by £250 million²². Some of the reduction in staffing numbers and costs comes from early departure/voluntary exit schemes. But public bodies have also used other approaches to reducing staff costs. These include not recruiting to vacant posts, redeploying staff, reducing use of agency staff and overtime, and changing working patterns. Our report showed that the governance of early departure schemes appears to have been satisfactory. While the average costs of early departure schemes varied significantly between and within sectors, overall they have contributed to a reduction in staff costs. But the impact on services is not always clear.

²² This figure differs from our 2015 report on early departures because it excludes the police and covers a different timeframe.

- 2.33 The Welsh Government's plans to save money on its operating costs have relied heavily on reducing its wage bill. Between 2010-11 and 2014-15, the Welsh Government's wage bill reduced by around £58 million. Between March 2010 and March 2015 it has reduced the number of staff by 587 full-time equivalent (10 per cent). The Welsh Government told us it had made further reductions since. Our report on early departures showed a particularly sharp reduction in the period April 2010 and October 2011. It has also run a range of schemes, asking for staff ideas to improve internal efficiency and reduce costs. We have not assessed the impact of these schemes nor the level of savings they have achieved.
- 2.34 Cost pressures in the NHS outstrip inflation. The Nuffield Trust has estimated that the NHS in Wales faces real-terms annual cost pressures of around 3.2 per cent. Therefore despite receiving a small real increase over the period 2010-11 to 2014-15, NHS bodies have still been faced with making savings. It is therefore positive that since 2011, the NHS has reported making around £800 million in savings. The vast majority – 64 out of 71 – of NHS respondents to our survey said that their organisations' financial savings had come entirely or mostly from improved efficiency. NHS leaders were more likely to say that their savings had come from efficiency than their counterparts in local government. The level of reported savings in the NHS has been declining: from around £250 million in 2011-12 to around £150 million in 2014-15. While the reported savings reflect a lot of hard work to make real cost reductions, some of the claims are likely to be overstated. In particular, our work on health finances has identified that reported savings on workforce may be overstated. Spending on staffing has risen by £14 million and staff numbers have increased by around 700 between 2010-11 and 2014-15, driven in part by an increasing focus on safe staffing levels (paragraph 2.48).
- 2.35 Our work on health finances also found that savings plans in the NHS tend to be focused on the short-term. The process of finding savings has tended to start over every year and the NHS finds itself relying on achieving the bulk of its savings in the final quarter of the financial year. In every year since 2010-11, NHS bodies have fallen some way short of achieving their savings plans. The move to a three-year planning timeframe has scope to address the short-term focus but it has not yet been fully embedded in health boards. Comments we received from NHS leaders in our survey reflect the difficulties that some have had in delivering savings.

'Financial savings will be made this year but probably not as much as we have scheduled in our budget.'

NHS Board Member

'The ability to make financial savings is probably insufficient, partly because we have predicted unrealistic savings, and partly because we lack understanding and control over demand for services.'

NHS board member

- 2.36 Around two-thirds (86 out of 134) of local government respondents in our survey said that all or most of their savings had come from improved efficiency. Most councils have focused on reducing staffing costs. Between 2010-11 and 2013-14, councils reduced their workforce by almost 11,000 full-time-equivalent members of staff (nine per cent). They reduced the wage bill by almost £180 million (six per cent). With fewer staff, councils have cut back some discretionary services. There have been efforts to make savings on administrative costs. A recent report by KPMG for the Welsh Government suggests there remain opportunities to make greater savings although local government is not entirely in agreement with the figures in the report. All councils have introduced above-inflation increases to council tax. Many have also increased income in areas like car parking, highways management and leisure services although there is limited evidence of a strategic approach to income generation. Despite these short-term actions, our work on councils' financial resilience found that few councils had full comprehensive plans to make the necessary savings over the medium term. Many had not fully developed savings plans for the 2014-15 financial year at the time the budgets were approved.
- 2.37 The sponsored bodies report having made a range of different types of savings, including reducing staff numbers. Seven of the 24 respondents from sponsored bodies told us that they had made all of their savings from efficiency savings. The majority said that their savings had involved at least some reduction in service levels. Several of the sponsored bodies report that they were unable to take forwards plans and ideas due to a lack of funding.

- 2.38 National park authorities have also focused on reducing the number of staff and vacancy management in order to make cost reductions. We have seen evidence that some have considered the potential impact on services and have refused to allow staff to exit on the basis that it would undermine their ability to achieve their goals. Nonetheless, national park authorities recognise that some reductions have impacted on their delivery of services. One has cut its support for local bus services and rationalised its tourist information centres. Others recognise that the loss of some staff has meant that they cannot take forwards some activities, such as marketing, nor are they as well placed to take advantage of emerging opportunities.
- 2.39 Fire and rescue authorities have also made savings through reducing staffing numbers and vacancy management. Our annual improvement reports show that the authorities went through extensive review and engagement with staff in making the reductions. They have also reviewed and changed the way fire and rescue services are provided and streamlined processes and procedures in order to minimise the impact of lower staffing rates. The changes have included the closure of some facilities following an evidenced-based review and extensive consultation.

Some parts of the Welsh public service have not yet developed a clear priority based approach to reducing levels of service and there is insufficient consideration of the impacts on the public

- 2.40 Since 2010, we have set out our view that the scale of funding pressures is such that efficiency savings alone were unlikely to bridge the gap between declining spending and rising demand. The vast majority of respondents to our survey (192 out of 229) reported that at least some of the savings their organisation had made between 2011-12 and 2014-15 came from reducing service levels. Almost a quarter said that half or more had come from reducing service levels. In making tough decisions, public services needed to be clear about what their priorities were and were not. We have also said that public services need a robust approach to mitigating the impacts for service users where spending and activity is reduced in non-priority areas. The vast majority of respondents in our survey (179 out of 229) said they had plans in place to mitigate the impacts of budget reductions on service users. NHS respondents were, however, much less likely to say they had such plans in place.
- 2.41 In setting its budgets, the Welsh Government has been increasingly clear about its priorities. The Welsh Government has taken steps to understand the impact of budget decisions on services and service users, particularly vulnerable groups. Its approach to equalities impact assessments has been sharpened based on a review by the Equalities and Human Rights Commission. The impact assessments have helpfully looked at the impact of changes to some specific lines and programmes which could impact on vulnerable groups. For example, the impact assessments are clear that the reduction in further education budgets is likely to lead to negative impacts. The assessments recognise that such impacts may affect some groups with protected characteristics (women and black/ethnic minority) more than others.

- 2.42 We consider that the equality impact assessments should give greater consideration to the potential impacts of key changes in funding to the NHS and local councils. The impact assessments refer to the benefits of ‘protecting’ the NHS. They do not recognise the risks involved in providing the NHS with the tightest financial settlements in its history. The assessments correctly note that ultimately, the impacts of funding cuts to councils will depend on local decisions. However, in our view they could have been clearer as to the risks to protected groups given the likelihood that cuts to local government funding would fall on discretionary services. In England, the Comptroller and Auditor General has similarly commented on the need for the UK Government to ‘be better informed about the situation on the ground among local authorities across England, and to be clear about the knock-on effect of the various funding decisions taken by departments in Whitehall’.²³
- 2.43 Our work on health finances and performance found that the NHS is not good at prioritising. In 2012-13, we recommended that the Welsh Government review whether its targets were realistic and develop a framework for prioritising. Despite accepting the recommendation, the Welsh Government continued to insist that all NHS bodies must meet every tier 1 target and there has been no clear provision for NHS bodies to deprioritise any area. It is clear that some NHS bodies are deprioritising in practice. Our survey showed that more than half – 44 out of 71 – of respondents from the NHS recognised that at least some savings had involved reductions in service levels. Examples of de-prioritisation that we have found include decisions that result in deteriorating performance against targets for waiting times. The comments below reflect the views of several NHS leaders in our survey who commented on the difficulties they have faced in balancing financial and service targets.

‘Challenges around Tier 1 Targets, financial deficit and political expectations all led to decisions which had a significant impact on increasing waiting times for some specialties. Decisions to make things balance in year caused us to then have an insurmountable challenge the following year (i.e. stopping elective surgery to cope with flow meant our 36 and 52 week waits for orthopaedic surgery dramatically increased as did the cost of dealing with it.’

NHS senior manager

‘There is a disconnect with the financial challenges we face and the need to provide levels of service, while ensuring quality and safety, and meeting the range of targets set by the Welsh Government.’

NHS board member

‘It is proving especially difficult to meet the service delivery targets especially those for unscheduled care and waiting times.’

NHS board member

²³ Amyas Morse, Comptroller and Auditor General, in *The art of spending public money wisely*, 2015, National Audit Office.

- 2.44 Our observation is that the approach to target setting and prioritisation between 2010-11 and 2014-15 has contributed to unrealistic financial and service planning across the NHS. Our work on health finances has shown that many NHS bodies have not met their financial targets and required extra funding. Our work on waiting times sets out in detail the cycle of health boards producing optimistic service improvement plans and trajectories for meeting targets that they then do not achieve. The move to three-year integrated planning has helped to improve service planning and encouraged NHS bodies to better understand demand and capacity. But under the three-year planning process, the Welsh Government initially required NHS bodies' plans to show improvement in all areas of service provision and all targets being met. This approach left little scope for plans to explicitly prioritise and set out what is achievable within the constraints. And it limited the scope for plans to set out how NHS bodies will mitigate negative impacts on patients of reducing service levels. The Welsh Government told us that in reviewing integrated plans for the three years from 2015-16, it has been more understanding of the need for NHS bodies to balance service and financial targets.
- 2.45 Our reports on financial resilience in local government and annual improvement assessments show that councils recognise that the financial and demand pressures they face mean that they cannot do everything that they did in 2010-11. In our survey, 127 of 134 responses from local government recognised that at least some cuts had come through cuts to service levels. Over a third reported that half or more of the savings had come from reducing service levels. Twelve out of the 134 local government respondents said that their organisations' savings had come mostly through reducing levels of services. While there are examples of good practice, our work has found that many councils are not adequately engaging the public to help shape the decisions they face. And those that do engage tend not to provide sufficient feedback about the impacts of public consultation.

'Financial cuts have led to redundancies and cutting some services we would have liked to continue.'

Local government cabinet/authority member

'Mostly [savings proposals] has resulted in staff reductions and reconfiguration of operations. There has been some impact in some areas on service provision for residents.'

Local government cabinet/authority member

2.46 We think that councils are over-optimistic about the extent to which they have plans to mitigate the impacts of budget cuts. Our survey found that almost all senior leaders in local government thought they had plans to mitigate the impact of cuts on service users. However, local government leaders' perceptions of their plans do not match findings from our detailed audit work. Our 2015 report on financial resilience in local government found that few councils robustly assessed the potential impact of proposed savings or changes to services before they went ahead. Few councils have effective arrangements to evaluate the impact of their savings plans on citizens. Few councils are using management information effectively to report on the impact of reduced funding or efficiency savings. For example, our 2014 report on environmental health services found that scrutiny of activity and understanding of the impact of budget cuts is not always comprehensive and not effectively communicated to citizens.

Demand and capacity pressures mean some parts of the Welsh public service have become increasingly stretched

2.47 Our reports on health finances, waiting times and unscheduled care found that since 2010 there have been small increases in the number of people attending emergency departments, and a small increase in the number of patients referred for planned – or elective – treatment. There has also been a significant increase in the number of people referred with suspected cancer. Alongside the increase in numbers, there has been a significant change in the age profile of patients, particularly those requiring unscheduled care, with more patients aged over 85 and fewer young patients. The NHS has struggled to cope with these changes in demand, even though they were largely predictable. Part of the problem is that with the rises in demand and declining numbers of beds, Wales' hospitals are close to full. At 86 per cent, bed occupancy rates in 2013-14 were higher than the north east of England and higher than the 82 per cent that the Royal Colleges recommend. The NHS reports occupancy rates based on a census taken at midnight. A recent report for the Welsh Government²⁴ found that in the afternoon, the vast majority of wards had bed occupancy rates of 100 per cent or higher²⁵. High bed occupancy rates can mean patients get 'stuck' in emergency departments, sometimes in ambulances, because there is no bed for them. As our reports on elective waiting times and local reports on the use of operating theatres have shown, some elective patients have faced having their operations cancelled because there are no beds available.

²⁴ Dr Aled Jones, Dr Tom Powell, Dr Sofia Vougioukalou, Dr Mary Lynch & Professor Daniel Kelly, **Research into Nurse Staffing Levels in Wales**, May 2015, published by the Welsh Government

²⁵ Bed occupancy rates can exceed 100 per cent where hospitals use temporary 'step-up' beds in order to accommodate patients.

2.48 Even though staff numbers have gone up, staffing is still under pressure across the NHS. Our report on unscheduled care found difficulties recruiting clinicians in some areas. Our waiting times report also showed how increasing specialisation means some services struggle if a few specialists are off work. Several NHS respondents to our survey commented on the challenges they face in recruiting staff (see below). The NHS in Wales is also increasingly reliant on agency and locum staff. There are challenges around ensuring safe levels of nursing, which the Welsh Government has sought to address through its nursing principles²⁶. A recent study for the Welsh Government showed that most health boards were technically compliant with the guidelines of one registered nurse per eight patients. However, the figures can be misleading as they average out the number of nurses over a day. The report illustrates this with an example where a ward was only compliant at the point of ‘handover’ when the nurses starting and finishing their shifts were on the ward at the same time. Other than for those brief moments, there was one nurse for every 14 patients. The Welsh Government told us that it did not recognise the picture painted of such high nurse to patient ratios. The main nursing union in Wales has repeatedly raised concerns since 2011 about nursing workloads and the impact on their well-being.

‘Due in part to a lack of capacity and capability within the organisation, a lack of pace in delivery and some problems in recruiting suitable staff, the establishment of the organisation has not increased in line with the available funding. As such, the organisation is having to spend on overtime and external service provision at a premium rate in order to maintain capacity and therefore performance levels.’

NHS board member

‘Our key issue is to stabilise the workforce from which significant savings will flow (due to the cost of agency, locum and overtime working) but this is requiring us to look to new markets for staff across Europe and beyond. This work is new to us and we are learning whilst doing – hence the risk to delivery.’

NHS senior manager

‘Key concerns are about availability of qualified staff, particularly nurses and doctors, which is a UK wide issue.’

NHS senior manager

²⁶ The Welsh Government nursing principles were published in October 2012 and set out principles for the level of nurses to patients on wards and the proportion of staff to be qualified to certain levels. The Welsh Government required health boards to comply with the principles by April 2014.

- 2.49 As with the NHS, demand for services is a significant driver of costs for councils. Demographic changes at either end of the age scale – a growing population of older people and a rise in the birth rate – have implications for council services. Also, as our report on welfare reform showed, wider social, economic and UK Government policy changes can impact on demand for council services. Our report on the financial resilience of councils found that some services struggled to predict demand for services, leading to over-optimistic assumptions about cost pressures.
- 2.50 Overall, demand for state schools in Wales has risen since 2010-11. The school census figures show that the number of primary school pupils has risen significantly although the number of secondary pupils has fallen. Overall, the number of teachers has fallen, from 38,770 in March 2011 to 37,335 in March 2015²⁷. The composition of the teaching workforce has changed in line with the trends in pupil numbers. The proportion of teachers employed in primary schools has increased while the proportion in secondary schools has decreased. Overall, the teaching workforce in Wales is more experienced, with an increase in the proportion of teachers with more than 10 years' experience compared to March 2011. The picture of improved outcomes combined with increasing pupil numbers but a declining workforce suggests real efficiency gains in the education sector over the period. However, one of the main teaching unions has raised concerns about the sustainability of this position. It points to rising workloads and its own survey showing many teachers in Wales considering leaving the profession.
- 2.51 There is a picture of rising demand for social care services and concern about capacity constraints. There is a wealth of evidence that underlying demand for social care for older people is rising. However, the number of people aged over 65 in receipt of services has gone down. The evidence suggests that many councils have restricted access to services for those with lower levels of need. CSSIW has noted that there are capacity pressures, particularly in care homes²⁸. Occupancy rates are higher in Wales than any other part of the UK. There are challenges of financial viability, with care homes struggling to balance the books. Independent analysts Knight Frank²⁹ estimates that to be viable and attract investment, care homes need to have at least 60 occupants. The average in Wales is 33. CSSIW has also noted staffing capacity constraints, in particular difficulties recruiting residential care home managers and nursing staff.

²⁷ Education Workforce Council, **Annual Statistics Digest**, 2015: www.ewc.wales/site/images/documents/statistics/EWC/EWC_Stats_Digest_2015_English.pdf

²⁸ Care and Social Services Inspectorate Wales, **Annual Report 2013-2014**

²⁹ Frank Knight, **Care Homes Trading Performance Review**, 2014: www.knightfrank.co.uk/research/reports/care-homestrading-performance-review-2014-2365.aspx

- 2.52 Demand for social care for children and families has increased. There has been a nine per cent rise in the number of children on the child protection register between 2011 and 2014. Overall, the number of looked-after children has also risen since 2011 although the numbers fell in 2014-15. The number of looked-after children is proportionately higher than in other parts of the UK. There has been an increase in registered staff working in children's services. There appears to be a degree of volatility in the children's services workforce, which may impact capacity. In 2013-14, just a quarter of children's care home managers had been in post for more than five years. This compares to more than half of managers in homes for adults.
- 2.53 There is limited evidence on demand for other types of council services. We expect demand for economic development services and planning services to increase as the economy continues to recover. The evidence suggests that demand for some culture and leisure services is rising. And with growing car ownership and falling oil prices, demand for road and transport services is likely to grow. Given that these areas are largely unprotected, the capacity to meet those demands is diminishing. Much of the reduction in councils' workforce appears to have come from these non-protected areas.

The pace of service change across public services is still too slow although there are pockets of innovation across Wales

- 2.54 As stated in our previous Picture of Public Services reports, public services need radical transformation if they are to manage increased demand in an environment of shrinking budgets. In this section, we look at the progress that has been made since 2011. Almost all public service leaders that took part in our survey said their organisation had embarked on service changes. The majority said they had made incremental changes although a significant minority reported making transformational change in at least some services. The extent of the change varies across the different parts of Welsh public services and we consider the issues in more depth below.

There are pockets of innovation and good practice in the NHS but it has not transformed sufficiently

- 2.55 The answer to financial, demand and capacity pressures in the NHS is not simply more beds and staff. As our reports on unscheduled care and elective waiting times showed, there is scope to make better use of existing capacity. Our work and that of the Nuffield Trust has shown that overall, efficiency in the acute sector has been improving. Hospitals make more use of day surgery. Elective patients spend less time in hospital. The lengths of stay for emergency patients have been held broadly static despite rising numbers of older patients, who tend to stay longer. More people are admitted on the day of surgery. And a smaller proportion of patients with chronic conditions are being admitted or readmitted to hospital. These incremental improvements have not freed up sufficient capacity to meet demand. The Welsh Government recognises that to free up capacity in hospitals, and ensure that services are safe, systemic changes are needed. These changes include centralising some hospital services and shifting some services from hospitals into the community and primary care. These ideas have been long discussed and have formed the centrepiece of strategies for NHS Wales for at least a decade. But progress in putting these ideas into practice has been slow.
- 2.56 In terms of changing where services are provided, progress has been made in consulting the public and setting out plans. In several cases, the proposals have attracted considerable opposition from parts of the public and some political representatives. An independent review by a former chief executive of the NHS identified elements of good practice and also a range of ways in which the consultation and engagement exercises could have been improved. Some of the NHS respondents to our survey cited the political cycle and local politics as a critical barrier to reform.
- 2.57 Several respondents cited capital funding and the NHS estate being barriers to progress. [Part 1](#) showed the 28 per cent reduction in capital funding available to the Department of Health and Social Services. Some respondents raised concerns about a lack of clear links between capital investment and reconfiguration, funding being allocated late in the year and a general lack of investment in what they saw as the poor state of the NHS estate. Our work on health finances has identified the positive steps that the Welsh Government has taken to develop clearer strategic priorities for capital funding and infrastructure projects across the Welsh NHS. The Welsh Government has accepted our 2014 recommendations to work with NHS bodies to further improve capital planning and project prioritisation and has developed updated guidance for infrastructure spending across the NHS.

2.58 The other key area of planned change is shifting services to the community and primary care. The move to integrated health boards, which took place before 2011, should put the NHS in a strong position to shift the focus of care and resources away from hospital settings. Our 2014 report on managing chronic conditions found that while there is a clear vision for this shift in focus, there has been a lack of underlying plans to actually deliver the necessary changes. It found that while there had been some progress, local services to provide an alternative to hospital admission were patchy and limited. While the report identified that progress needed to be made, as the Nuffield Trust found in 2014 and this report sets out in [paragraph 2.16](#) there have been reductions in the number of patients being admitted and readmitted to hospital with a chronic condition. The report stated that there has been a small increase in the number of nurses employed to work in the community between 2010-11 and 2013-14. However, our review of the accounts showed that across Wales, spending on primary care has fallen. Only one health board (Cardiff and Vale University Health Board) has sustained the level of investment in primary care since 2010-11. Many respondents to our survey referred to shifting the emphasis to primary care as a future challenge and opportunity rather than something that had been achieved.

'[We] need to progress faster the shift to primary care, which will make progress this year, but ideally would like to do more – community estate is one confounding problem, including primary care estate.'

NHS senior manager

'The challenge of moving services from a predominantly hospital based service to a model of treating patients in the community is difficult in the extreme without 'double running' both through the transition period which is heavily constrained due to financial pressures.'

NHS board member

'[This year we] need to engage and release the potential of a primary and community care service and focus and reduce reliance on secondary care.'

NHS senior manager

2.59 While the overall pace of change has been slow, we know that it has increased. The Welsh Government has invested a lot of time and effort in developing and promoting the prudent healthcare agenda. Our waiting times report commented positively on how, if applied, the principles of prudent healthcare could free up capacity, reduce cost and improve patient experiences. We consider prudent healthcare in more detail in [Part 3](#) which looks at the future plans for transforming services. In our survey, all respondents from the NHS said their organisation had made some changes to the way they deliver services. NHS respondents were more likely than their counterparts in local government to say the changes had been incremental rather than transformational. But there are many examples of staff and teams who have changed services and aspects of services. Some NHS respondents to our survey cited specific examples of service change (see comments below). In some cases, the demand and capacity pressures have led staff and managers to recognise that without quick and significant change, the service would be unable to cope. Examples include using high-street opticians to carry out tests previously done in hospitals, and using GPs and senior nurses to see and treat audiology patients in the community instead of hospitals. The NHS, through the 1000 Lives Programme, has made progress in training a wide range of staff in methods for improving services.

‘Over the last year we have undertaken significant modernisation in service delivery areas – for example microbiology services, through introducing new technology and automation which has had a resulting impact on staff workflows. We have an invest to save and save to invest approach which results in 1% internal reinvestment savings as part of business planning. the focus for this for 15/16 has been to more align to strategic priorities, create additional resource for new and developing work, improve existing work and build infrastructure where required.’

NHS senior manager

‘We have responded by ensuring that better alternatives than admission are sought, and where an admission is needed, that we expedite return home. This helps flow of patients through the hospital. We are also changing care pathways to ensure that we more systematically offer support for lifestyle change and patient self-management, so we prevent poor health and delay progression.’

NHS senior manager

While many councils say they have transformed services, they have not reinvented themselves to meet these challenges like some of their counterparts in England

2.60 Councils generally recognise that current approaches to providing social services are not sustainable. Many have shown an interest in developing new ways of working. There are several examples of interesting and promising practice. Some have redesigned their approach to providing aspects of social care. However, a 2014 review of social care commissioning by CSSIW, conducted in partnership with Healthcare Inspectorate Wales and the Wales Audit Office, found that:

‘Local authorities have not effectively engaged the public to inform them of the need to change services. Furthermore, whilst most local authorities articulate an intention to transform services, at this stage they have not evolved into robust and financially sustainable plans. The move towards integrating health and social care services is evident, but progress is slow. Regional commissioning is mostly at the development level and, where it is happening, it is still tends to be confined to high cost, low volume services. Some innovation in service provision is evident but there is little evidence of planned, strategic activity by commissioners to encourage innovation.’

2.61 In the field of leisure and culture, there have been several examples where local authorities have adopted alternative models, such as social enterprises, to enable services to continue. Examples include Neath Port Talbot, where many leisure services are provided by a social enterprise. Some have considered and are continuing to look at transferring assets to community councils and community groups. In [paragraph 3.39](#), we set out some of the risks and benefits of adopting this approach.

‘Rationalisation of services has seen the creation of a Charitable Leisure Trust which hopefully will deliver improved services in both sports and theatre. In addition we have seen the creation of a public sector company to manage property services. Reduction in funding has forced the forthcoming closure of some libraries which will be replaced by community hubs and these will provide services in one place.’

Council leader/cabinet member

- 2.62 In our survey, all local government respondents said that their organisations had changed the way they delivered services. Respondents were split 50/50 between those who said they had made significant incremental changes and those that had made transformational changes. Senior officers in local government were more likely to say they had transformed services than the cabinet and board members.
- 2.63 There is some divergence between local government's own views of the progress it has made with transformation and the findings of our audit work. Our 2015 report on the financial resilience of councils contrasts the position in Wales to that of England where several councils have fundamentally changed their service models. The types of approaches seen in England vary widely. Some have become 'commissioning councils' and largely withdrawn from direct service provision. Others have developed a co-operative model based around social enterprise. Some have developed locality based approaches to encourage joined-up early intervention using co-production principles. In Wales, few councils have gone through this fundamental rethinking and redesign of how they work.

Comments suggesting little transformation had taken place

'The changes in the past have largely been comparatively minor tweaks and 'salami slicing' of services in light of modest cuts. ... In hindsight these measures have made us a leaner and more focused organisation...which is clear on its core business. Looking forward service redesign at a more systemic level will be required and we will have to stop doing some things completely.'

Local government senior manager

'The challenges were broadly manageable. Actions centred on efficiencies and what can be described as 'salami slicing'. Typically budgets were given percentage reductions and these were usually delivered without transformative action.'

Local government cabinet/authority member

'I would say that the savings we've had to make up until 2014/15 have been 'efficiencies'. In all honesty the kind of savings we should be making anyway: improvements in procurement, travel and sickness management, reduction in management costs, removal of certain benefits from staff like essential car user allowances and so on... There has also been some real change to what residents have been used to, however.'

Local government senior manager

Comments suggesting that transformation has taken place

'In 2010 anticipating the forthcoming period of austerity, we conducted a service wide review to identify more efficient ways of working to reduce cost and effect savings. Not knowing the extent of budgetary reductions or the duration of austerity, we developed a range of measures which could be implemented if required in order to meet a varying degree of budget reduction requirements. Many of these measures concerned changes to established working practices and these were unquestionably the most challenging to implement.'

Local government senior manager

'We have undertaken a comprehensive review of services, developed a whole council efficiency programme and are delivering on this programme. We accept that not all can be achieved from this approach so we have also developed a programme of Alternative Delivery Models (Tecal, mutual, collaboration) which we are now embarking upon. We have also engaged with local communities in relation to community assets and have embarked on a programme of asset transfer.'

Local government leader/cabinet member

The Welsh Government has laid the foundations for collaborative service reform and improvement but the pace of change in some areas has been slow

2.64 The Welsh Government has invested a considerable amount of time and effort since 2011 in encouraging and facilitating public bodies to work together more. One of the ways it has sought to do this is by bringing together senior public sector leaders to develop new ideas and new ways for working. In 2010, the Welsh Government set up the Efficiency and Innovation Board, which in 2011 was replaced by the Public Services Leadership Group, which was then disbanded in 2014. In 2014, the Welsh Government set up the Public Services Panel and the work of many of the original work-streams still continues. Wales Audit Office staff attended these groups and their working groups as observers. Our overall observation is that overtime the groups lost their initial focus on the financial pressures and the need to rethink public services to ensure they could be more sustainable. In particular, a lot of the discussion at the group meetings since 2011 focused primarily on the complexities of collaboration between councils. Nevertheless, the working groups have got on with important work around procurement, asset management and improving services for vulnerable people (Box 2). Despite spending considerable time developing a measurement framework, the framework has not been used as envisaged to track progress and measure the impacts of the collective efforts.

Box 2 – The Public Service Leadership Group

The Public Service Leadership Group (the Group) ran between 2011 and 2014. The Group was chaired by the Minister for Local Government and Communities and was made up of senior officials from across public services. It aimed to provide leadership across various areas of public service reform. The Group's work was underpinned by four work-streams, which led on a number of projects, and a Measurement Framework group which focused on capturing the benefits and impacts of the Group's work.

Organisational development and Simpson implementation: this work-stream focused on developing detailed business cases for collaboration between local authorities on a service-by-service basis. It produced a final report highlighting areas where there were potential benefits from collaboration and identifying other areas where further work was needed. The focus on local government collaboration meant that the organisational development work that had been started by the previous Efficiency and Innovation Board, such as developing lean/systems thinking, seems to have lost some momentum.

Effective services for vulnerable groups: this work-stream continues to date. It has focused on identifying good practice in some of the areas of most importance to vulnerable groups. Its approach is to identify, test and disseminate good practice. Since 2011, areas the work-stream has covered include: helping to prevent domestic abuse; reducing the incidence of young people not in employment, education or training (NEETs); supporting vulnerable families; mental health and housing; and supporting people with 'dual diagnosis' of mental health and substance abuse problems. Some of the work-streams work has resulted in changes to policy and practice across Wales, notably in terms of NEETS and supporting vulnerable families. The challenge for the group is to ensure that its key messages are heard widely and acted upon.

Procurement: this work-stream continues to date. The Procurement Board provides the governance mechanism for the implementation and delivery of public procurement policy across Wales. It aims to promote good practice in public procurement policy. Board membership is made up of representatives from across the public sector in Wales, including the Welsh Government, local authorities, the NHS, higher and further education, and police and fire services. The focus of the Procurement Board is the adoption of the 10 procurement principles set out in the Wales Procurement Policy Statement by all public sector organisations in Wales. It also oversees the work of Value Wales and reviews regular progress reports from the Director of the National Procurement Service.

Asset management: this work-stream continues and has focused on developing an 'all-Wales' asset register along with developing and sharing good practice on a number of areas of asset management. The work-stream has also developed a protocol to help Welsh public sector bodies reduce transaction costs when transferring assets between themselves. The work-stream has identified that asset management across Wales needs to improve and the challenges ahead for the work-stream will be fitting in activities around the day job and communicating its key messages to stakeholders.

- 2.65 Our 2011 Picture of Public Services report highlighted the challenges involved in the Welsh Government's efforts to encourage councils to work together to provide services. Since then, progress has been slow. In part, the appetite for collaboration on the part of local government has been tempered by concerns that the potential benefits may not outweigh the costs and complexities involved. While these complexities can be overstated, our report on regional education consortia shows that there are real challenges in establishing clear accountabilities, legal structures and good governance. Nevertheless, we found that despite the challenges, progress is being made and we expect the regional education consortia to continue to improve. In other areas, the agenda of collaboration between councils has to a considerable extent been overtaken by the Welsh Government's response to the recommendations of the Williams Commission³⁰ in 2013 to reduce the number of local authorities in Wales (paragraphs 3.17 to 3.19).
- 2.66 The collaboration agenda has made more progress in areas which involve different parts of the public sector – like health, social care, police, fire and rescue – working together to a common purpose. Examples of such initiatives include regional commissioning consortia for some aspects of social care and regional multi-agency safeguarding hubs for vulnerable people.
- 2.67 One of the key areas for collaboration is health and social care, particularly care for older people. Many older people have both health and social care needs and at times the distinction between the two seems artificial. The Welsh Government and councils have worked together to lay the foundations for greater collaboration. Many regions have developed joint initiatives between council social services and local health boards to promote the independence of older people. These include projects like Gwent Frailty, the Virtual Ward in Powys, and the Wyn Campaign in Cardiff and the Vale of Glamorgan. As our report on the independence of older people found, The Intermediate Care Fund has proved valuable in supporting collaborative health and social care services that enable older people to live independently. However, we found that the short-term nature of the funding, and some limitations in partnership working and evaluation, means it is difficult to ascertain if the transformation in delivery that was desired is being achieved. While the various individual projects combining aspects of health and social care are benefiting people, they do not yet add up to a comprehensive integrated system. The Williams Commission found that:

'If the two services [health and adult social care] are to be both efficient and effective, they need to interact harmoniously at both the strategic and operational levels, providing a seamless service for the growing number of users of both. . . However, the prevailing view is that that is a long way from reality. We received a wide range of evidence expressing strong dissatisfaction with the current arrangements under which local authorities provide social care while the NHS provides health care. Many of those who responded to our public consultation commented that the two services were fragmented.'

30 The Commission on Public Service Delivery and Governance, 2013

2.68 Our survey suggests that many public service leaders are frustrated at the slow pace of collaboration and integration between health and social care. Several comments noted that there were still disputes between the NHS and councils about who should be paying for care and an apparent lack of incentives for social care services to reduce the pressures on the NHS. More commonly, as the sample of comments below show, respondents talked about the health and care integration as a challenge for the future, rather than one that had been addressed to date.

‘To meet tight financial targets and to deliver best service to people, we need to reduce unnecessary hospital admissions and to enable people to return home from hospital with appropriate support at the earliest. Plans are therefore dependent on a seamless service with social care. Major concern is our partners capacity to deliver the necessary social care provision in an equitable and timely manner.’

NHS board member

‘The inter-dependence between health and social care needs to be translated into action to enable proper funding and service alignment.’

Local government senior manager

‘There are major challenges around health and social care both in terms of effective demand management and improved partnership working.’

Local government senior manager

- 2.69 The Welsh Government has also sought to encourage innovation across Welsh public services through the Invest to Save fund. The fund provides a repayable loan to public bodies to support projects that have up-front costs but potential to achieve savings over the medium to long term. In May 2014, an independent evaluation by SQW Ltd³¹ for the Welsh Government found that Invest to Save provided value for money. SQW identified gross cash-releasing savings of £3 for every £1 spent. Of 23 projects reviewed, SQW found that at least 15 had delivered cash-releasing savings.
- 2.70 The SQW evaluation also suggests that the projects were generally – though not exclusively – lower risk and less innovative than might have been expected if Invest to Save had sought to test new forms of service delivery. It has generally delivered incremental rather than radical change in terms of service delivery and outcomes. The largest area of Invest to Save spending covered voluntary exit schemes. The Welsh Government acknowledges in its 2014 Annual Report on I2S that it has not monitored whether the significant funding for voluntary exit schemes has enabled transformation of services. The SQW evaluation and a review by Public Policy Institute Wales found that there was a need to do more to share learning from the projects and initiatives that had benefited from Invest to Save funding.

Some aspects of governance in public services show improvement but there have been some high-profile governance failings since 2011

- 2.71 Good governance is essential at all times. But it is particularly important during times of austerity. The public is seeing vital services under pressure and some services it has come to rely on being reduced or cut all together. Public bodies need to be able to demonstrate that they are on top of the challenges and making the right decisions. Where public bodies and individual officials fail to act in line with the principles of probity or even within the law, there is a risk that public confidence is undermined.
- 2.72 We have produced several reports since 2011 that have identified unlawful practices in the setting of senior managers' pay and conditions. We found that payments made to senior officers in lieu of pension contributions in Pembrokeshire and Carmarthenshire county councils were unlawful. We also found that the setting of senior managers' pay and certain transport and travel allowances in Caerphilly Council Borough Council was unlawful. Alongside broader governance failings, we found that staff and board members of Caldicot and Wentlooge Levels Internal Drainage Board had unlawfully set pay levels and used public money for 'inspection' visits to Italy and Northern Ireland.

31 SQW Ltd, *An Independent Evaluation of the Invest to Save Fund*, 2014

- 2.73 Over the period covered in this report, there have been independent reports highlighting failings in care and governance at some health boards. In particular, the independent Trusted to Care report highlighted failings in the basic standards of care of frail older patients on some wards within the Abertawe Bro Morgannwg University Health Board area. Also our joint work with Healthcare Inspectorate Wales has highlighted significant and ongoing failings in the governance arrangements at Betsi Cadwaladr University Health. These failings alongside concerns in a number of other specific areas of service delivery have ultimately resulted in the Minister for Health and Social Services placing the Health Board into special measures. The Welsh Government and the health boards have taken action to tackle the problems and to check that they do not reflect wider weaknesses across the NHS. In September 2015, a review following up the recommendations made in the Trusted to Care report found that Abertawe Bro Morgannwg University Health Board was making progress against the recommendations although further improvements were required.
- 2.74 The Welsh Government's response to the problems in North Wales reflects its significantly strengthened approach to escalation and accountability. The revised escalation framework sets out a more robust approach to identifying and addressing issues of significant concerns. It more clearly sets out the contribution of and collaboration between the Welsh Government, the Auditor General and Healthcare Inspectorate Wales.
- 2.75 Since our previous Picture of Public Services report in 2011, we have also carried out special inspections looking at governance in two councils. Our 2012 special inspection at Pembrokeshire County Council followed a joint report by the education and social service inspectorates identifying serious weaknesses in safeguarding of vulnerable children. We found that while there were positive relationships between councillors and officers, they could sometimes be too informal and insufficiently challenging. Subsequent audit work showed how Pembrokeshire County Council addressed the key weaknesses identified in audit and inspection reports. Our 2014 special inspection at Caerphilly County Borough Council followed the issues outlined in [paragraph 2.72](#). We found that in 2010, the council's new leadership had sought to change the pace of transformation and delivery but at times had neglected to reflect those changes in updated governance arrangements. Subsequent audit work showed that the council has made progress in addressing most of the areas of weakness.

- 2.76 The importance of effective scrutiny is magnified as public services respond to financial and demand pressures whilst continuously seeking to improve services. Effective scrutiny can improve the evidence base for decisions on the allocation of resources as well as ensuring that decisions are transparent and in accordance with the needs of the local community. Scrutiny also has an important role to play in contributing to developing policy, undertaking specific reviews and in monitoring performance. Our 2014 review of scrutiny across Welsh councils concluded that local government scrutiny in Wales is improving but councils need to do more to develop consistently rigorous scrutiny to increase public accountability in decision making. Councils demonstrated a genuine commitment to learning and improvement throughout the course of the study, and in many councils scrutiny practice at committees has improved.
- 2.77 Following our report, the Wales Audit Office, in partnership with the Welsh Government, Centre for Public Scrutiny, the Welsh Local Government Association and Cardiff Business School, held a conference on scrutiny. There was a clear commitment from delegates across the sector to make scrutiny more effective and governance more transparent. Delegates also discussed some innovative ideas. The impetus created by the conference has continued with many councils continuing to focus on improving scrutiny, aided by some expert support from the Centre for Public Scrutiny. The Welsh Government has also sought to promote better scrutiny in local government, and has set out a range of ideas in its White Paper on local government reform.

Part 3

Continued financial, demand and other pressures mean Wales needs to build on its strengthened vision for reform, and radically increase the pace and scale of service change



3.1 This part of the report looks at the future pressures on Welsh public services. It looks at a combination of financial pressures, demand pressures and other pressures such as changes in legislation. We look at the kinds of changes that public services are planning to make in response. We consider the overall vision for public services in Wales. We then add our thoughts on what the vision means in practice and where we see the biggest challenges for public services as they go ahead with delivering that vision.

Further UK Government funding cuts mean continuing austerity for Welsh public services

3.2 The UK Government's November 2015 spending review set out further cuts to the Welsh Government's budget to 2019-20. The UK Government's goal is to create a budget surplus by 2019-20. It intends to achieve this through a combination of increased tax receipts and a reduction to spending on public services and welfare benefits. These cuts to UK Government departments translate to a reduction of £0.5 billion (four per cent) in revenue funding through the block grant between 2015-16 and 2019-20 (Figure 17). Capital spending will remain the same in real terms. By 2019-20, the Welsh block grant and non-domestic rates are set to be £1.8 billion (11 per cent) less than in 2010-11.

Figure 17 – Welsh block grant and non-domestic rates 2015-16 to 2019-20 (£ billions) (2014-15 prices)

	2015-16	2016-17	2017-18	2018-19	2019-20
Block grant revenue	12.7	12.6	12.5	12.3	12.2
Non-domestic rates	0.9	0.9	1.0	1.0	1.0
Capital	1.5	1.5	1.4	1.5	1.5
Total	15.2	15.0	14.9	14.8	14.7

Note: to keep figures comparable with those in Part 1 of the report, we have included non-domestic rates in the figures even though they no longer form part of the block grant (see paragraph 3.12). We have used the Welsh Government's projections for non-domestic rates. These projections are based on simple assumptions and do not represent policy intentions.

- 3.3 The UK Government's spending plans could turn out to be optimistic. In particular, they rely on a significant turnaround in productivity across the economy. Since the 2008 financial crash, the so-called 'productivity puzzle' has seen UK productivity fall significantly below pre-2008 levels and a growing gap to many other advanced economies. Low productivity growth leads to low wage growth which in turn leads to lower-than-expected tax receipts. Without a sustained and significant improvement in productivity, public funding could be further constrained if the UK Government sticks to its target of a budget surplus by 2019-20.
- 3.4 As well as the direct funding reductions from the spending review, there are some changes made in previous budgets that will start to affect Welsh public services in the coming years. These include changes to national insurance payments. The Welsh Local Government Association estimates that these changes will add £60 million to the pay bill in 2016-17. There is likely to be a similar impact in other parts of the public sector. There is also likely to be an impact from the introduction of the 'national living wage'³². In particular, the private social care sector has traditionally been reliant on paying staff around the minimum wage. Increasing the wages of staff will have benefits for those individuals and potentially the wider economy. But if private contractors are unable to absorb those cost increases, it is likely to exacerbate the financial pressures on some parts of the public service that are already under significant strain.
- 3.5 Financial pressures are clearly a major concern for public services in Wales in the coming years. Almost all (213 out of 230) respondents to our survey cited financial pressures as one of the top-three challenges they face in the medium to long term. Just 67 out of the 230 respondents were 'very confident' they would make the savings they needed to in the 2015-16 financial year. Concerns were highest in the NHS, where three out of four chief executives said they were not confident that their organisation would deliver the necessary savings.
- 3.6 The Welsh Government published its draft budget for 2016-17 on 8 December 2015. In this report, we do not intend to analyse or comment on these spending plans. They will be scrutinised and ultimately voted on by the National Assembly in the coming months.

³² The 'national living wage' was introduced in the summer 2015 budget. In essence, it represents an increase to the existing minimum wage for people aged over 25: from £7.20 to £9.00 an hour by 2020. The 'national living' wage is separate from the 'living wage' which is a voluntary wage level set by the Living Wage Foundation.

Public services face growing challenges and opportunities from changing demographics, new tax-raising powers and structural reform

Demographic changes at either end of the age spectrum are likely to increase demand and costs for some services

- 3.7 Changing demographics are both an opportunity and a challenge. More than half of the respondents to our survey cited demographic change as one of the three biggest challenges they face in the coming years. That figure rose to almost three-quarters of NHS respondents. The overall population is set to grow, which will itself create increased demand for services. That growth will not be spread equally across ages. With more of us living for longer, a growing proportion of the Welsh population will be aged 75 or over. Between 2015 and 2025, the number of over-65s is expected to grow by 110,000. By 2025, there will be 57,000 more people aged over 90. The trend of an ageing population is set to continue over the longer term, with over-65s rising from 20 per cent of the population in 2015 to 25 per cent of the population by 2035.
- 3.8 The fact that people are living for longer is a positive sign of progress. Growing old is something that almost everybody aspires to. Older people make an enormous contribution to society for example through helping families with childcare, volunteering and acting as community leaders. But the so-called 'ageing society' does raise certain challenges. The older we are, the more likely we are to use public services, particularly health and social care. For example, a 2015 Institute for Fiscal Studies analysis shows that hospital spending rises significantly with age.³³
- 3.9 The impact of an older population on health and social care depends to a significant extent on whether the increase in overall life expectancy is being matched by an increase in 'healthy life expectancy'. If increased life expectancy means a longer period of ill health at the end of our lives, then the financial costs will be much higher. The evidence is currently mixed. National statistics suggest that healthy life expectancy is keeping track with overall life expectancy. However, a 2015 international study published in the Lancet found that life expectancy in the UK has increased more quickly than healthy life expectancy³⁴.

33 Institute for Fiscal Studies (2015) **Public hospital spending in England: evidence from National Health Service administrative records**, www.ifs.org.uk/publications/7960

34 GBD DALYS 2013 and HALE collaborators (2015) **Global, regional, and national disability-adjusted life years (DALYs) for 306 diseases and injuries and healthy life expectancy (HALE) for 188 countries, 1990–2013: quantifying the epidemiological transition**, the Lancet

- 3.10 There are also demographic pressures at the other end of the age scale. As a result of a 'baby boom', the number of children and young people of school age (3-16) is set to increase by around 27,000 by 2025. To put that into perspective, that is equivalent to twice the population of Aberystwyth. Those children will need schools to go to, and teachers to teach them. And there is a chance that some of those children and their families may need some support from social care. Public services therefore also face demand and cost pressures from the growth in the numbers of young people.
- 3.11 The impact of demographic change is not simply a matter of age. There is a well-established link between poverty, public service use and well-being. Poverty and deprivation are among the key factors that determine how public funding is allocated to the largest public bodies in Wales, including health boards and councils. **Paragraph 2.8** set out concerns at relatively high levels of poverty in Wales. Looking forwards, the Institute for Fiscal Studies has reported that planned changes to benefits could further exacerbate the problems of poverty and lead to increased levels of poverty across the UK. Therefore, if population growth is accompanied by a growth in the number of children and older people living in poverty, the pressures on public services are likely to be exacerbated.

New tax-raising and borrowing powers are an opportunity for Wales but will increase volatility in the Welsh budget and will require careful management

- 3.12 The Wales Act 2014 sets out a legislative framework to devolve some limited tax-raising and borrowing powers to the Welsh Ministers, in response to recommendations of the Silk Commission on devolving further powers to Wales. The act devolves both stamp duty land tax and landfill tax from April 2018, together with full powers to retain all business rates collected in Wales from April 2015. It also includes a provision for the Welsh Government to take responsibility for raising some income tax, subject to a referendum.

Box 3 – Tax-raising powers under the Wales Act 2014

Business rates: non-domestic rates (sometimes known as business rates) are paid by owners or users of non-domestic property. The financial management of the rates in Wales was devolved from 1 April 2015. This means that the Welsh Government's budget will now be directly affected by the amount of business rates revenues generated in Wales. Previously, changes to the budget were wholly determined by changes to the spending plans of UK Government departments, via the Barnett formula. In 2013-14, revenue from non-domestic rates was £960 million in Wales, equivalent to 6.4 per cent of the overall Departmental Expenditure Limit.

Stamp duty land tax and landfill tax: from April 2018, the Welsh Government will have complete control over stamp duty land tax and landfill tax in Wales. The Welsh Government will determine how its replacements for the existing stamp duty land tax and landfill tax will be collected and managed. Stamp duty land tax revenue in 2013-14 was £148 million in Wales³⁵. HMRC estimates that revenues from landfill tax in Wales totalled £50 million in 2013-14. The UK Government will adjust the block grant to the Welsh Government to reflect the reduction in revenues from stamp duty and landfill tax after discussion with the Welsh Government. The Welsh Government will then be responsible for managing the volatility of the income from the devolved taxes.

Income tax: The Wales Act (2014) makes provision for the Welsh Government to hold a referendum on the introduction of a Welsh rate of income tax should it wish to do so. If a Welsh rate of income tax is introduced, the main UK rates of tax would be reduced by 10p for Welsh taxpayers and the National Assembly would set a new Welsh rate of income tax each year which would be added to the reduced UK rates. Revenue from income tax in Wales in 2013-14 was £4,785 million³⁶. If the Welsh Government introduces a Welsh rate of income tax, there would be a transitional period to manage the risks where the block grant would be reduced based on a reduction of income tax by 10p regardless of whether the Welsh Government sets the Welsh rate above or below this level. After this transitional period, adjustments to the block grant from the UK Government would be based on a deduction indexed against growth in the corresponding UK tax base. The Welsh Government has no plans currently to hold a referendum on income tax.

- 3.13 The devolution of tax-raising powers offers a number of opportunities to the Welsh Government. At the time of drafting, the Welsh Government had not yet proposed any specific changes but it has consulted on options for stamp duty land tax and landfill tax and the Finance Minister has published a set of tax principles. Although there is not yet any detail on what changes a future Welsh Government will make, it is clear that there is some potential for the new land transaction tax and landfill disposals tax to be used to promote particular policy goals and/or to increase revenue. The Welsh Government has also postponed any revaluation of business rates until 2017, following similar announcements in England and Scotland.

³⁵ Stamp duties statistics – UK Government

³⁶ HMRC, *A disaggregation of HMRC tax receipts between England, Wales, Scotland and Northern Ireland*, October 2014

3.14 There are also risks that the Welsh Government will need to manage. One of the key risks is the introduction of volatility to the Welsh budget driven in part by the economic cycle which, for example, has a direct bearing on annual transaction volumes in the residential and commercial property markets on which stamp duty is levied. Figure 18 shows that the value of the devolved taxes, particularly income tax if it is taken up, represents a significant proportion of the Welsh Government's spending power. If the Welsh Government does not collect as much tax as it expects, there will be a direct impact on the amount of funding it has available to spend on public services. In order to help to manage this volatility and also any unexpected delays in revenue collection, the Wales Act 2014 sets out additional revenue borrowing powers for Wales. Under these powers, the Welsh Government can borrow up to £200 million a year from 2018-19 to a maximum of £500 million in total.

Figure 18 – Forecast value of taxes devolved under the Wales Act (2014)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Income tax	£2,023m	£2,124m	£2,267m	£2,400m	£2,528m	£2,681m
Stamp duty land tax	£163m	£184m	£204m	£227m	£251m	£273m
Landfill tax	£46m	£44m	£40m	£40m	£42m	£47m
Total	£2,172m	£2,352m	£2,511m	£2,677m	£2,821m	£3,001m

Source: Office for Budget Responsibility, **Economic and fiscal outlook**, November 2015

3.15 There are practical risks around the administration of taxation. The Welsh Government does not have experience of managing tax or setting fiscal policy. It has set up a Tax Advisory Group for Wales and the Welsh Government Tax Forum to support the process of transferring powers to Wales. The Welsh Government will be establishing a Welsh Revenue Authority (which will operate at arms-length from ministers), and intends that this will work in partnership with HMRC and Natural Resources Wales in managing the collection of the taxes. To give effect to the new arrangements, the Welsh Government has introduced the Tax Collection and Management (Wales) Bill which is currently going through the National Assembly. We understand that the Welsh Government will not receive additional funding from Westminster to cover the administrative costs associated with collecting the various taxes.

- 3.16 Alongside the revenue-raising and borrowing powers, the Wales Act 2014 also sets a new capital borrowing limit at £500 million with annual limits of up to £125 million from 2018-19 onwards. The act enables the Welsh Government to borrow within these limits for any capital purposes without HM Treasury consent. The additional powers offer an opportunity to invest in Welsh infrastructure. But all borrowing would need to be repaid from future revenue, which would potentially reduce the remaining amount available for day-to-day spending on services.³⁷ The Welsh Government has announced that it intends to use its new borrowing powers to proceed with improvements to the M4 motorway.

Structural change in local government offers opportunities and challenges which are yet to be fully worked through

- 3.17 A good deal of the future debate about Welsh public services is likely to focus on the structural reform of local government. As we noted in **Part 2**, much of the focus when we produced the 2011 Picture of Public Services report was on local authorities collaborating with each other. By April 2013, the Welsh Government had become frustrated with the pace of change and the First Minister set up the Commission on Public Service, Governance and Delivery (the Williams Commission). The Williams Commission's January 2014 report described weaknesses in the capacity, capability and long-term sustainability of local government in Wales. The report proposed that the existing 22 local authorities merge to create larger units of 10, 11 or 12 local authorities across Wales. The Williams Commission stated that programme arrangements for the mergers should be agreed by the Welsh Government, local authorities and key stakeholders by Easter 2014, and the programme should be completed in 2017-18. It also recommended that the Welsh Government incentivise early adopters wanting to merge voluntarily.
- 3.18 Since the Williams Commission published its report, there have been several developments. Some authorities applied for voluntary mergers, but the Minister for Public Services rejected them in January 2015 on the basis that none of the proposals met the Welsh Government's criteria for merging. The Welsh Government introduced the Local Government (Wales) Act (2015) to enable the preparatory work for the programme of mergers. In June 2015, the Minister for Public Services announced two maps showing options for local government restructure. Option one proposed nine local authorities and option two, eight. Under the current plans, the new local authorities will not fully come into being until April 2020. The timeframe reflects the need for preparatory work, including setting up new shadow authorities to operate in the interim, and drafting and passing the necessary legislation. Our survey suggests that many in local government are concerned about reconfiguration diverting attention away from reforming services towards managing structural changes. Just over half of local government respondents in our survey (69 out of 135) cited structural change as one of the top-three challenges in the medium to long term and the sample of comments below reflect the views in many more comments from senior leaders. A chief executive of a fire and rescue service also noted the challenges that reorganisation could pose in developing collaborative working.

³⁷ We say 'potentially' because capital expenditure could directly generate revenue (through, for example, fees or tolls) or have a beneficial impact on the local economy that results in an increase in the amount paid in taxes and an overall net revenue gain to the Welsh Treasury.

'Local government reorganisation dragging on is singularly unhelpful – it makes sense to get on with it quickly to enable us to get on with the real task of designing services that are sustainable and meaningful for the public. Further delays will only make our task more difficult and drawn out.'

Local government senior manager

'The current focus is about 'the map' for local government reorganisation. This is shuffling the deckchairs and retaining the existing public services model. We need something more radical for Wales... All the talk of LGR is a big distraction and a huge cost, for in the end something that is simply not radical enough... It's not about 'local government' it's about 'public services'.'

Local government senior manager

'Local Government Reorganisation is unhelpful; it is difficult to plan long term due to the continuing decline in resources and the uncertainty of what the 'map' will look like in 3/4 years, and what will be the priorities for a new enlarged Council area.'

Local government senior manager

- 3.19 While there are risks from local government reorganisation, there is scope for considerable benefits if councils use the opportunity of change to rethink and reshape services. One senior manager from a Welsh Government sponsored body commented that 'Changes in Local Authority organisation, although disruptive initially may give us opportunities to develop new ways of working'. One council chief executive told us that rapid reorganisation was also necessary to ensure financial and service resilience: 'More widely, it is my firm conviction that local government reorganisation should happen by 2018 – although realistically I do not think it will given the current hiatus. This is purely on the basis of financial resilience. If it does not, then I believe that it is highly likely that there will be a major service and/or governance failure somewhere in Welsh local government by around 2018 – give or take.'

Legislative changes offer opportunities but many in public services are concerned about the costs of meeting increasing responsibilities

- 3.20 Since acquiring new primary law making powers in 2011, the Welsh Government has introduced a range of legislation. This legislation is designed to help further the Welsh Government's commitments and ambitions to improve the well-being of the people of Wales. Examples of new legislation include laws on organ donation, housing, planning, the environment, well-being of future generations and social services.

- 3.21 In our survey, just under a third – 73 out of 229 – of respondents cited ‘legislative and regulatory changes’ as one of the top-three challenges for their organisation in the medium to long term. Local government respondents were most likely to identify ‘legislative and regulatory changes’ as a top challenge, but sponsored bodies also identified challenges of having additional responsibilities but no additional funding to meet them. Two pieces of legislation in particular attracted comments from respondents to our survey: the Well Being of Future Generations Act (2015) and the Social Services and Well-being (Wales) Act 2014. We consider both of these acts in more detail below (paragraphs 3.23 to 3.48) as part of our commentary on plans for public service reform. In addition to the acts above, there are other pieces of legislation that will have impacts for public services. For example, our 2014 report on environmental health services reported concerns that budget cuts would make it difficult to meet future statutory responsibilities. In particular, the Public Health (Wales) Bill potentially introduces new responsibilities that are likely to fall to environmental health services.
- 3.22 The responses to our survey illustrate wider concerns about the extent to which the Welsh Government understands the costs of meeting the obligations it creates through legislation. In our 2014 report on environmental health services, we reported concern amongst council members and staff that the introduction of new powers and duties³⁸ at a time when services are being significantly cut back would prove unworkable. The Auditor General provided detailed commentary on the Welsh Government’s initial Regulatory Impact Assessment of the Well-being of Future Generations Act. That analysis set out our view that the Welsh Government had underestimated the costs to public bodies and emphasised the need for further engagement with the public sector. It also noted that the Welsh Government disagreed with our assessment. The Welsh Government subsequently produced an updated assessment with revised figures, which we have not reviewed. The Welsh Government has produced an impact assessment of changes under the Social Services and Well-being (Wales) Act. These set out the Welsh Government’s view that there will be a cost-neutral impact from changing the eligibility criteria so that more people with lower-level needs are eligible for services (paragraph 3.42) and shifting the emphasis to preventative services. Many in local government remain concerned that the bill will initially lead to more activity and cost.

³⁸ Our report specifically referred to the Food Hygiene Ratings (Wales) Act 2013 as well as the then draft Housing (Wales) Bill and plans for a new public health act.

Public services will need to make radical changes to the way they provide services and engage with service users if they are to build effectively on the reforming approach being adopted in Wales

There is clearer direction for public service reform based on citizens being more involved, early intervention and a seamless 'one public service'

- 3.23 Our 2011 Picture of Public Services report noted the pan-public service efforts to build on the vision of collaborative, citizen-centred services set out in Making the Connections in 2005. We said the challenge was to develop clearer methods for actually putting that vision into practice. Since 2011, the direction and vision for Welsh public services has been further developed. Here, we consider two key drivers of reform: the Well-being of Future Generations (Wales) Act 2015 and the Welsh Government's vision/narrative for public services.
- 3.24 The Well-being of Future Generations (Wales) Act provides the governance framework for decision making about public services in Wales. It requires most public bodies to set well-being objectives, which are outcome focused, and requires public bodies to pursue sustainable development in the way they go about meeting those objectives. It sets out a requirement for public services to take a long-term, integrated and collaborative approach that focuses on preventing problems and involves the public. If fully embraced, the act could provide a major challenge to the way public services are planned and delivered.

Box 4 – Well-being of Future Generations Act (2015): key points

The Well-being of Future Generations (Wales) Act (2015) is about improving the social, economic, environmental and cultural well-being of Wales. It requires the 43 public bodies listed in the Act (these include local government bodies, NHS bodies and the Welsh Government) to think more about the long term, work better with people and communities and each other, look to prevent problems and take a more joined-up approach.

The Act puts in place seven well-being goals:

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A globally responsible Wales
- A Wales of vibrant culture and thriving Welsh language
- A Wales of cohesive communities

Each public body must carry out sustainable development. The action a public body takes in carrying out sustainable development must include:

- a) setting and publishing objectives ('well-being objectives') that are designed to maximise its contribution to achieving each of the well-being goals; and
- b) taking all reasonable steps (in exercising its functions) to meet those objectives.

The Act puts in place a 'sustainable development principle' which tells organisations how to go about meeting their duty under the act. To demonstrate they are acting in line with that principle, organisations need to take into account five aspects:

- a. long term: the importance of balancing short-term needs with the need to safeguard the ability to also meet long-term needs;
- b. prevention: how acting to prevent problems occurring or getting worse may help public bodies meet their objectives;
- c. integration: considering how the public body's well-being objectives may impact upon each of the well-being goals, on their other objectives, or on the objectives of other public bodies;
- d. collaboration: acting in collaboration with any other person (or different parts of the body itself) that could help the body to meet its well-being objectives; and
- e. involvement: the importance of involving people with an interest in achieving the well-being goals, and ensuring that those people reflect the diversity of the area which they serve.

The act creates the office of the Future Generations Commissioner and sets out the responsibilities of public bodies, the Future Generations Commissioner and the Auditor General to report on progress. The act also sets up new public service boards for local areas that will lead on assessing the needs of an area, will produce a local well-being plan and report on progress.

3.25 The Welsh Government developed its updated vision for public services as part of its response to the Williams Commission's report and recommendations (paragraph 3.17). The vision builds on the previous approach set out in Making the Connections: collaborative, citizen-centred services. It also has a stronger emphasis on 'co-production', personal responsibility and focusing on prevention. These principles are reflected in key policy and legislative developments for individual sectors, including the approach to prudent healthcare in the NHS (Box 7, page 88) and the focus of reform in social services.

Box 5 – The Welsh Government's vision for public services

Our public services must evolve to reflect a new relationship between the people who deliver services and those who benefit from them. In particular, public services must increasingly be delivered not to people, but with people.

This means involving people in the design and delivery of services, recognising people's own strengths and tailoring services accordingly.

It means recognising that people have a role to play and a responsibility for their own well-being – though it does not mean withdrawing services and leaving people to cope alone.

It means supporting and providing a safety net for our most vulnerable people, but it also means acting earlier to help people take action preventatively to improve their lives, rather than only responding when things go wrong.

It means putting people's needs foremost, working to engage a wide range of partners to act as 'one public service'.

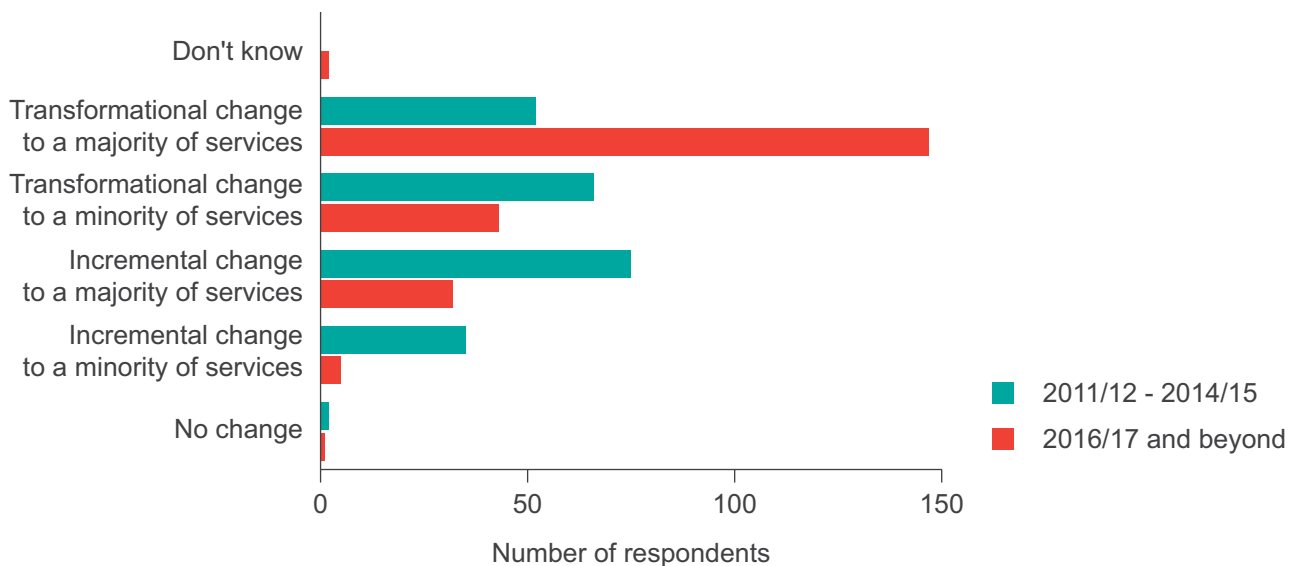
It means supporting collaboration and trust between public service partners, rather than encouraging damaging and divisive competition which risks failing the most vulnerable people in society.

It means innovating and constantly seeking to improve to meet our highest ambitions.

Source: **Devolution, Delivery and Democracy: Improving public services for people in Wales, 2014**

- 3.26 The Welsh Government has also worked with senior officials from across the public sector to develop a ‘narrative’ of public service reform. The purpose of the narrative is to tell a clear story of a public service that is ‘smaller but better’ and to clearly articulate that ‘the status quo is not an option’. The intention is to set out the impacts and implications of reform for service users and staff through stories and real-life examples. The key principles underpinning the narrative are that it:
- radically shifts the emphasis around the **purpose** of public services (they should be enablers whose role is to equip and empower people to resolve their own problems with support from family, friends and communities – and not create dependence or seek to justify ongoing provision where it is not needed);
 - radically shifts the emphasis around the **focus** of public services (so that they are about prevention and resolve the underlying issue not the presenting issue); and
 - radically changes the way in which people **experience** service (so that every contact counts and effort on joining up is focused at the frontline where it actually matters to people).
- 3.27 In our view, the Well-being of Future Generations (Wales) Act, the updated vision and the narrative provide a clearer direction for transforming public services than has existed in the past. While many of the core messages are familiar, there is now a much clearer recognition that previous approaches have not worked as intended and that radical change is required. The narrative’s focus on reform where it matters – at the frontline of service delivery – could help to move on from a tendency to see the production of strategies and plans as a solution to practical problems. The approach also is clearer in explicitly identifying co-production as a method of reshaping and redesigning services at the frontline. Below, we set out some of the key challenges and opportunities for Welsh public services in translating that vision and direction into practical change. Our survey found that public service leaders expect to see a significant shift away from incremental change towards more radical transformation across a wider range of services (Figure 19).

Figure 19 – Public service leaders’ views on the types of changes they have made and intend to make



Source: Wales Audit Office survey of public service leaders

The Welsh public service will need to take brave decisions to move from managing performance, based on activity and time taken, to enabling outcomes

3.28 The question of ‘how well’ public services are doing depends on what exactly it is that public services are supposed to be achieving. The Well-being of Future Generations Act and the Welsh Government’s vision emphasise the importance of focusing on ‘outcomes’. As we said in **Part 2**, in public services ‘outcomes’ generally refers to a condition of well-being. Broadly speaking, there are two different types of outcome:

- ‘population outcomes’ like ‘a healthy society’ or ‘well-educated children’; and
- ‘personal’ outcomes for the service user – like ‘I feel in control of my life’.

- 3.29 In essence, the questions public services need to answer are: ‘is anybody better off?’ and ‘in what ways?’ Too often, the performance measurement and management systems currently in place are not well designed to answer those questions. The analysis in **Part 2** of this report shows that many of the measures public services use focus on how much activity is going on and how long it takes. As we found in our report on elective waiting times, how long people wait may be important if it impacts on their health and well-being. But it may not be the thing that matters most to the service user or the wider population.
- 3.30 There is a saying that ‘what gets measured gets managed’. In other words, measures and targets drive the behaviour of public services: where they focus their effort and resources. The Institute for Public Policy Research and others argue that traditional performance management is not well-suited to tackling complex problems to improve population or personal outcomes. At best, the focus in performance management on targets and activity generate energy and action to remedy a narrow problem in one part of a system. But at its worse, the focus on targets leads to energy and effort going into the wrong areas and encourages people to do things to show how they are meeting the target, which may not be the best things to improve people’s lives. In short, hitting the target but missing the point. The problems of distorted priorities resulting from time and activity based targets have been well-documented, including in our reports on unscheduled care and elective waiting times.
- 3.31 In Wales, there has been a shift in focus towards outcomes. As we said in previous Picture of Public Services reports, there has been a growing interest in Results Based Accountability. There are examples of this approach being adopted in specific schemes, like Communities First as well as in broader strategic areas such as the Well-being of Future Generations Act and Social Services and Well-being (Wales) Act. There is also a growing interest in measuring ‘personal outcomes’. The Social Services and Well-being (Wales) Act 2014 requires councils to assess and manage services based on what matters to the service users. In other words, the focus is on ‘personal outcomes’. The Welsh Government’s National Outcomes Framework for social care sets out a range of measures linking population outcomes, personal outcomes and performance measures. In developing the framework, public services in Wales drew on the work of the Scottish Joint Improvement Team’s ‘Talking Points’ (**Box 6**).

Box 6 – Scottish Joint Improvement Team: Talking Points

Talking Points: personal outcomes approach is an evidence-based, organisational approach that puts people using services and their carers at the heart of their support. At the centre of the approach is a conversation with an individual using services or an unpaid carer that seeks to understand the extent to which they are achieving the outcomes important to them in life. These conversations form a core part of relationship building between practitioners, people who use services and their families.

This engagement about outcomes is the essential first step in implementing outcomes-based working. Secondly, there is the recording of relevant outcomes identified through the conversation in the support plan, to enable the person to work towards their outcomes. At a later point, it is essential that the outcomes be reviewed with the individual to assess progress and to find out if any changes to the plan are required. Thirdly, information recorded from these conversations should be collated, analysed and used to inform decisions at an organisational level in relation to the planning and commissioning of services. This use of information puts outcomes for individuals at the centre of decision-making processes and ensures that improvements are driven by the priorities of service users and carers.

Below is an example of how personal outcomes approach can be used from individual outcomes through to national outcomes.

Outcome Level	Focus	Examples
Individual/ personal	Defined by the person as what is important to them in like	I want to be able to get back to the bowling club
Service/ project	Defined by a project or service as a key focus to work towards with people	We work with older people to improve their ability to get out and about
Organisational	Defined by a local authority, NHS board or provider as a key area to work towards. Will increasingly need to be defined across organisations	Improve the social inclusion of people we work with
National	Defined by government to focus activity across organisations and sectors	We live longer, healthier lives. Our people are able to maintain their independence as they grow older and access appropriate support as they need it

Source: Cook and Miller, **Talking Points: Personal outcomes approach, Practical guide**, 2012

3.32 As the Auditor General said in his report on elective waiting times, it will take brave leadership to move away from existing targets, especially those based on timeliness. The Welsh Government has taken bold steps to shift the focus in some areas. In 2015, it started to pilot a new approach to measuring the performance of the ambulance service, with less focus on targets for time taken to respond to calls and greater emphasis on how well the service performs at improving clinical outcomes and patients' quality of life. In its narrative for public services, the Welsh Government recognises the need for a new performance management framework. The requirement for all public bodies to set outcome-focused goals under the Well-being of Future Generations Act provides an opportunity for Welsh public services to develop a new collaborative, outcomes-based approach to measuring and managing the performance of public services.

Co-production and behaviour change offer opportunities to improve public services but often require public services to take radically different approaches

3.33 The Welsh Government describes co-production as: the concept of genuinely involving people and communities in the design and delivery of public services, appreciating their strengths and tailoring approaches accordingly. As set out in its vision, co-production is fundamentally about doing things 'with' rather than 'to' people. As the Carnegie Trust pointed out at our 2014 conference for public service leaders:³⁹ in some cases, co-production may be about public services stepping back and enabling a person to get the support they need from within their community or family. The idea of co-production also features prominently in key plans for specific parts of the public services, particularly health and social care (Box 7). The Social Services and Well-being (Wales) Act (2014) requires service users and providers to jointly agree what outcomes the service user wants to achieve and what actions they will jointly take. In health, 'achieve health and wellbeing with the public, patients and professionals as equal partners through co-production' is one of the principles of prudent healthcare. And under the Well-being of Future Generations Act, involving people is embedded as part of the sustainable development principle.

39 Jennifer Wallis of the Carnegie's speech to our conference Same Picture: Different Lens, November 2014

Box 7 – Prudent healthcare

The Health Minister described prudent healthcare as: ‘healthcare that fits the needs and circumstances of patients and actively avoids wasteful care that is not to the patient’s benefit’. Prudent healthcare was developed by the Bevan Commission and is based around four principles:

- achieve health and well-being with the public, patients and professionals as equal partners through co-production;
- care for those with the greatest health need first, making the most effective use of all skills and resources;
- do only what is needed, no more, no less; and do no harm; and
- reduce inappropriate variation using evidence-based practices consistently and transparently.

Our report on elective waiting times showed how applying an earlier set of prudent healthcare principles could help to free up capacity and achieve more patient-focused services.

- 3.34 The focus on co-production is not uniquely Welsh, and the current interest is reflected in the work of UK think-tanks as well as a local groundswell. But the underlying principles of co-production resonate deeply with some of the public service innovations that came from Wales in the last century. Many of the public services of today have their origins in co-productive initiatives from Wales. For example, the community led healthcare provision in the South Wales valleys is often seen as the inspiration and source of the modern NHS. Many of the schools and libraries still being used across Wales were initially funded and managed by communities anxious for their children to get a better start in life. These links into a deeper narrative of Welsh history and reform potentially give co-production an advantage over technocratic arguments for reform in being accepted and embraced by the public and by staff working at the frontline.
- 3.35 Our survey showed that there are differing views of the importance of co-production across Welsh public services. Respondents from the NHS were most likely to choose ‘involving service users in the design and delivery of services’ as one of their top-three actions for transforming services. In part, the high priority given to co-production in the NHS probably reflects the clear prioritisation of co-production in the prudent healthcare agenda. There are some examples of engaging service users in improving services in the NHS (see C.H.A.a.T case study in [Appendix 3](#)). Local government respondents were far less likely to include this in their top three. However, across all sectors, the second-most-common action for transforming services was ‘lean/business process improvement’. The Wales Public Services 2025 think-tank outlined how co-production could be combined with lean and whole-systems methods to reshape public services. Monmouthshire County Council used such an approach as part of the transformation of its approach to supporting older people and adults with a physical disability ([Box 8](#)).

'The need for co-production and service user involvement is immense but this is poorly understood in the public sector and the investment required in people, skills and culture change is a long term fundamental requirement.'

Local government cabinet/authority member

'There is a chance of more resilient and active communities, taking direct responsibility for organising resources themselves. This needs to ensure social capital is utilised where it is available, and enabled or still supported where there is less of it.'

Local government cabinet/authority member

'On a positive note the NPA needs to morph from service delivery to working more with communities and partnership and provide the tools for communities to take the initiative. The constraints on this approach are obvious in that those communities with residents who have ability to deliver benefit whereas more remote and disadvantaged communities can't step up.'

National park authority board member

'We need to get patients carers and families to design services as they always design pathways that make the most impact on people and are less medicalised and therefore less expensive and do less harm.'

NHS senior manager

'Opportunities: Really embed co-production with current and future service users.'

NHS senior manager

Box 8 – Monmouthshire County Council – putting people at the heart of support services

Monmouthshire County Council, working with partners, has redesigned parts of its adult social care service. Its aim has been to better meet demand by helping people live independently. In 2011, Monmouthshire County Council conducted a systems review of services for adults with a physical disability. As a result, it expanded its Short Term Assessment and Reablement Team (START) which brings together professionals from health and social services as a single team. Staff focus on the positive approach of 'reabling' people by asking questions around what matters to the individual rather than on the negative side of what is wrong with them. Staff then work with people to connect them to support they need (not necessarily a council service) to help them live independently and avoid long-term intervention until it is absolutely necessary. In May 2014, Monmouthshire County Council introduced the Community Coordination project to support individuals to 'lead the life they choose'. Two community coordinators work with people to identify their gifts and strengths, and then connect them to community services to make the best use of their strengths.

The council reports that the majority of people they help through the START scheme remain independent for about two and a half years, and those that do need care typically require a much lower level of support. The project has led to a reduction in the amount of traditional care the council commissions and the council reported that £1.5 million in care costs were avoided as a result in 2014. Staff have also reported benefits to people as the service is user friendly, responsive and provides easy access to skilled professionals.

- 3.36 The gold standard of co-production is for people to consciously engage with, and embrace their involvement in, public services. But there is also a growing interest in more subtle 'nudge' techniques based on behavioural economics. These approaches use people's unconscious tendencies to behave in certain ways to achieve positive goals. In England, these methods have been used to increase the number of people who pay their taxes promptly by changing the wording of letters. Other examples include increasing uptake of healthy options in cafeterias by changing where the fruit and vegetables are placed. In many cases, nudge is about making the right thing to do the easiest thing to do. A Welsh example is making organ donation the default option rather than something people actively have to opt in to. We are currently running a good practice project aiming to build capacity and share knowledge on behavioural change in Welsh public services.

3.37 Embracing co-production in practice throws up many challenges. When asked to engage in designing and delivering services, the public may have different ideas and expectations to those providing the service. Around half of the respondents to our survey cited 'public expectation' as one the three biggest challenges facing their organisation. Respondents from the NHS were most likely to cite this as a challenge. In their comments, many NHS leaders described the challenges they had faced with the public opposing proposed changes to services. It is also clear from our survey that many senior public service leaders see the political cycle and politics as a barrier to reform. This is particularly prevalent in comments from senior leaders in the NHS. The sample of comments below reflect the picture of our survey where the NHS knows that changes to the configuration of services is necessary and that tough choices must be made. But in their view, the combination of local public and political opposition makes achieving actual change very difficult and very slow. If co-production is to become more common across Wales, public services will need to develop new skills in navigating the complexities of disagreement and how they move forwards with the public where there is not consensus.

'The difficulty in having a frank discussion with the public about the challenges of increasing the health of an ageing population and responding to new medical advances, against the background of reducing public expenditure in a highly charged party political atmosphere.'

NHS board member

'In summary, balancing public expectation about the availability of services, [particularly local access, against the need to concentrate many services to ensure safety, quality and sustainability. A national debate is needed on these issues; local approaches to strategic change are too easily challenged by the public and are often then not supported by politicians.'

NHS senior manager

'Radical service reorganisation is needed and there needs to be true political buy in to the need for this.'

NHS senior manager

- 3.38 The Welsh Government's Communities First programme has very similar goals to those of co-production: building the capacity of communities to engage with, and shape, public service delivery. Our 2009 report on Communities First found that the programme had done a reasonable job of building community capacity. However, it also found that public services were not well placed to listen and respond to communities when they wanted to influence service provision. Similarly, our report on public engagement in local government found few examples of collaborative engagement where the public was actively involved in decisions and reshaping services. We understand that lessons from our work were reflected in revisions to the Communities First programme introduced in 2013. But it is important that lessons from that programme are also considered as part of plans for the wider application of co-production across public services in all parts of Wales.
- 3.39 Co-production also challenges the Welsh Government's approach to 'voice' as an alternative to 'choice' in public services. Applying co-production would indeed mean that public services are guided by the user's voice. But people's 'voices' may be used to demand more options in terms of what it is they want to help them achieve their outcomes. To cite a real example, instead of going to a council day centre, an older person with lower-level social care needs may actually just want an occasional trip to a local garden centre. Public services have often evolved to provide services at scale rather than offer personalised support. It seems likely that the more responsive public services are set to become, the greater the need for diverse and small-scale provision. In England and Scotland, the Community Catalysts programme is working to develop small-scale solutions to the gaps in provision. In many cases, this builds on co-production principles by building the capacity of community groups and individuals to offer support.

Box 9 – Community Catalysts – supporting small-scale enterprises in health and social care

Community Catalysts is a social enterprise established by the charity Shared Lives Plus to support initiatives that provide care and support for people across a range of sectors including social care, healthcare and housing. In England and Scotland, local authorities have an obligation to support market diversity under the Care Act (in England) and Self Directed Support (in Scotland). Community Catalysts are usually invited by a local authority to set up in their area to create choice in the social services and health sectors. Community Catalysts was set up to support communities to develop solutions at the same time as encouraging a more diverse market. The business models used by small or 'micro' community enterprises vary from fully commercial to entirely voluntary, and many involved older and disabled people in their design and delivery. Community Catalysts help address governance concerns about small community enterprises. They provide advice on the legal or regulatory frameworks they need to consider when setting up a new enterprise and help people to decide whether to proceed based on whether their business idea is practical, sustainable and legal.

There is more detail in the full case study in [Appendix 3](#).

3.40 Several councils have already ‘spun out’ some of their services by making them standalone social enterprises (see, for example, our case study on Beacons Creative in [Appendix 3](#)). Many councils expect this to continue and around a third of local government respondents cited outsourcing to a social enterprise as one of their top-three actions to transform services. Some are also considering devolving responsibility for some local services to town and community councils. While there may be advantages to this shift, it does carry risks that will need to be managed. Our report on the Regional Investment Fund for Wales highlighted the need to put in place clear and strong governance arrangements where public bodies set up private companies to deliver public functions. Our December 2015 report on leisure services explores some of the legal and governance issues surrounding the setting up of new organisations to deliver leisure services. Our September 2015 report on financial management and governance at community and town councils showed that too many have had their accounts qualified in recent years. If town and community councils are to take responsibility for more services, there needs to be a stepping up in the quality of governance.

Public services will need to take managed risks to shift resources towards more preventative services

- 3.41 The Welsh Government and many in public services recognise that many of the most-expensive services we have at present are set up to provide services to people who are in some form of crisis. The new direction for public services is to help people to resolve problems before they reach a crisis. In some cases, this is about all of us taking more responsibility for our health. Some examples we have seen in our work include weight loss and exercise schemes to help patients with orthopaedic problems. In other cases, prevention is about helping people with low level of needs to basically ‘get on top of things’. Several think-tanks, such as the RSA⁴⁰ Public Services 2020, call this approach to working with people, families and communities to resolve problems at an earlier stage ‘demand management’.
- 3.42 Under the Well-being of Future Generations (Wales) Act, public bodies will be required to strengthen their focus on prevention. Prevention and long-term thinking make up two of the five key aspects of the sustainable development principle which public bodies are required to consider in their decision making. This emphasis on intervening earlier and helping people resolve issues before they reach a crisis point is reflected in the approach to care and support under the Social Services and Well-being (Wales) Act. From 2017, the existing assessment criteria that determine whether people are eligible for support will stop being used. Instead, councils will work with the person to identify what outcomes they want to achieve in their day-to-day life, and to what extent support and preventative services can help them to achieve those outcomes. In practice, making the shift to prevention is not simple. Few would argue that the approach of waiting until people reach a crisis is the right one. However, a lot of money and effort is invested in services for people in severe need and people are very reliant on them. With little funding available for ‘double-running’ – running new services alongside the old ones for a transition period – the challenge is to disinvest in these expensive services to free up funding and staff capacity to provide support to people at an earlier stage.

⁴⁰ The full name of the RSA is the Royal Society for the encouragement of Arts, Manufactures and Commerce.

3.43 In our view, this fundamental shift towards prevention will require a shift in the roles, skills and behaviours of many professionals. As an audit body, we are particularly concerned to encourage development of the finance profession in Wales. Some of our recent reports have commented on the lack of financial capacity and capability in many of the bodies we audit. The finance function has traditionally been about budget setting, control and compliance. In some cases, the finance function is seen as a barrier to innovation and change where it is averse to risk (see our case study on the Health Precinct in [Appendix 3](#)). In the future, finance professionals will have a greater role as a strategic partner to services, offering insight for example to support business plans for new ways of working. Finance and other professionals will need to take a long-term view of the costs and benefits of changes in the round.

Practical and cultural barriers at the frontline present challenges to public services as they seek to achieve real 'seamless' integration of services

3.44 Many people who come into contact with public services have multiple needs. In order to solve their problems or achieve the outcomes they want, they may need support from many different services. The Williams Commission's report showed how fragmented service delivery patterns and arrangements make it very difficult for service users to navigate this complexity. The Welsh Government's narrative for public services makes clear that the service user should experience these various services as though they were 'one public service'. Eight out of 10 respondents to our survey cited collaboration as one of the top-three, most-important changes that their organisation intends to make in order to transform services.

3.45 As we noted in [Part 2](#), there has been progress in collaboration between different sectors to join up service provision. Some of the examples from Wales include 'team around the family' type approaches, which bring together a range of services to help families to resolve their problems. A 2015 Welsh Government evaluation reports that while the approaches across Wales are at different stages in development, many have delivered benefits for the families and there is indicative evidence that the approach could achieve savings for the public sector, though further long-term evidence is required. There are also examples of multi-agency 'hubs' focused on safeguarding or specific problems such as missing children. These hubs physically bring together staff from different agencies in a single place to encourage them to work together and to share information about vulnerable individuals. The Welsh Government has also introduced powers under the Social Services (Well-being) Act 2014 to enable and compel bodies to cooperate to provide integrated health and social care services.

- 3.46 Integration and collaboration make up two of the five aspects of the sustainable development principle of the Well-being of Future Generations Act. The act sets up new public service boards to encourage integration and collaboration of local services. It requires public service boards to produce a local well-being plan and individual organisations to take steps to deliver their objectives and report progress. While these elements may be necessary, they are not sufficient by themselves to ensure real changes to the services people experience. Based on our experience of efforts to transform services in the past, we see a risk that a great deal of effort goes into demonstrating compliance – producing plans and reports, developing frameworks and arrangements and setting up boards to talk about those things – while making limited actual change to services.
- 3.47 As the Welsh Government says in its narrative for public services, the focus of transformation needs to be shifted to the frontline staff and the users of public services. It requires people across public services to embrace the spirit of reform as well as the letter of legislation and guidance. It needs a focus on finding practical solutions to problems that have hampered progress in the past. These include: reshaping the public sector estate to enable different services to locate together, enabling professionals to share information, clarifying personal and organisational accountabilities, getting ICT systems in different sectors and departments to ‘talk to each other’; and addressing the complexities of differing working cultures and terms and conditions. The work of the effective Services for Vulnerable Groups work-stream and our own Good Practice Exchange events show that these problems are commonplace, but can be overcome. The challenge is to more widely share learning from what works, and what doesn’t, to encourage more examples of services being joined up around the service user.
- 3.48 We found no complete examples of what the Welsh Government’s vision for public services looks like in practice. However, we consider the transformation of services that has been carried out in Stoke appears to tick many of the boxes. The case study below shows how the council developed a ‘locality’ based approach that brings together service providers, focuses on ‘the real issues in people’s lives’ and seeks to intervene before people reach crisis point.

Box 10 – Cooperative Services: Stoke-on-Trent

Cooperative working is a new approach to delivering services in Stoke-on-Trent. Cooperative Working is based on a successful pilot in 2013 with vulnerable households or individuals experiencing a high level of intervention from the council and partner agencies. Stoke-on-Trent City Council worked with partner agencies to carry out a system review. The review tracked real cases and showed that many people had multiple interactions with different public services, without getting to the bottom of their problems. This process was expensive for public services and frustrating for the people involved who saw their circumstances deteriorate to the point that crisis intervention was required.

Following the system review, the city council and partners piloted a locality based model in a few parts of the city. The approach aimed to deliver services based on the real issues in people's lives and getting to the root cause of issues. Cooperative Working cuts down on the number of professionals and organisations each customer has to engage with by allocating a generic key worker who assesses each individual's needs and coordinates support from a range of council departments and external partners including the police, fire service and NHS.

The initiative presented an opportunity to save money by delivering services more efficiently at the same time as improving the experience for vulnerable people using those services. It focused on reducing demand for public services by avoiding duplication and taking a preventative approach. The pilot supported 190 households and resulted in a 23 per cent reduction in anti-social behaviour and a 17 per cent reduction in rent arrears in the area. The council has since rolled out the approach to more areas in the city.

There is more detail in the full case study in [Appendix 3](#).

Making better use of technology and exploiting the benefits of investment in broadband can lead to reduced costs if the public can be persuaded to change the way they use services

- 3.49 Digital First sets out the Welsh Government's plan to make public services 'digital by default'. Digital First recognises that, as the Williams Commission found, the use of information and technology in public services is not good enough to meet either expectations of the public or the needs of the organisations concerned. Our 2012 report on the use of information technology by councils identified some positive local developments. But it found that councils' plans were not lined up with national plans and priorities, and systems were not being designed to work across boundaries and support collaboration. Our report on next generation broadband services found that the Welsh Government's arrangements to support and measure the wider benefits from the public sector investment in digital infrastructure have been weak but are developing. The Welsh Government expects Digital First to lead to a 'step change in' online public services.

3.50 Technology is seen as both an opportunity and a challenge by public service leaders. In our survey, around one in seven respondents – rising to one in four NHS respondents – cited technological change as one of the three biggest challenges their organisation faces. Around four in 10 chose ‘moving services online/making more use of technology’ as one of the three main changes their organisation planned to make. Respondents from the NHS were least likely to choose this option. That several NHS respondents cited technological change as a challenge perhaps reflects concerns that have been expressed to us about the quality of existing NHS IT systems (see, for example, our report on waiting times). It may also reflect wider research evidence that new technology is the largest single driver of additional cost in healthcare systems around the world⁴¹. Several respondents to our survey commented positively on the potential for technology to help them manage future pressures.

‘Technology is offering new ways of delivering services, managing processes and even engaging with our communities.’

Local government senior leader

‘The utilisation of technology to enable all the public sector bodies to work together, in collaboration with the private sector where appropriate, will deliver financial savings and more effective and efficient services to the public in Wales.’

NHS senior manager

‘Huge opportunities to digitise access, and offer self-management of council interactions for services - however the investment in IT infrastructure, and training offer is very depleted, and unlikely to get extra resources, other than by grant bids etc.’

Local government senior manager

‘The opportunities to unlock innovation and technology are growing... which will help to support changes in the absence of significant new funding.’

NHS senior manager

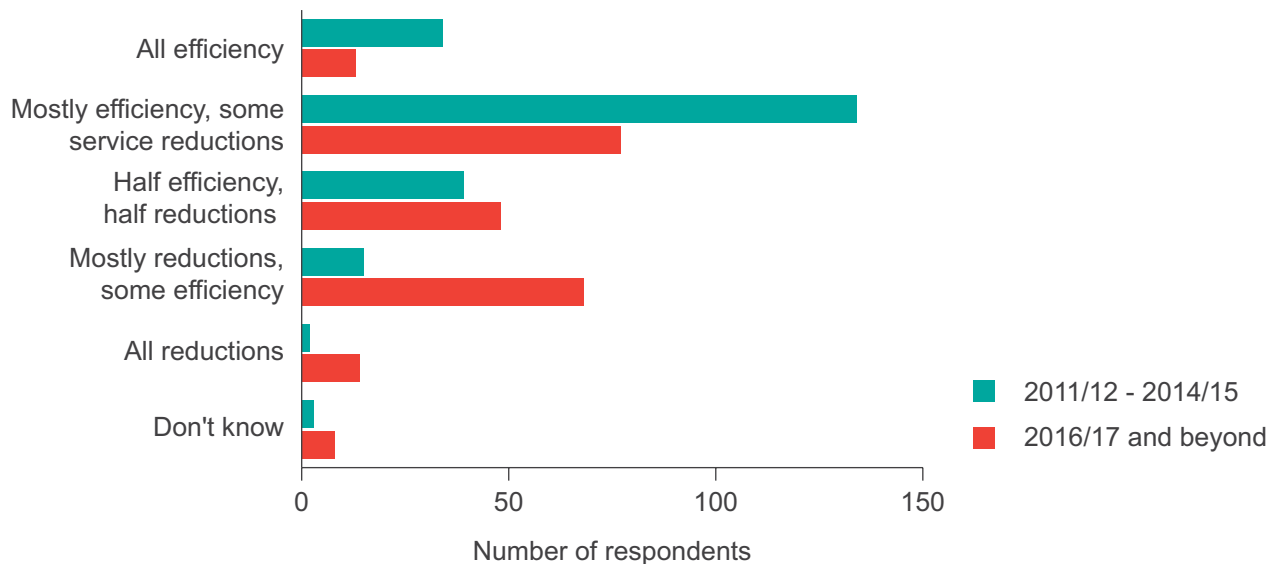
⁴¹ See for example, King’s Fund (2013) **Spending on health and social care over the next 50 years: Why think long term?** King’s Fund, London

3.51 Digital First recognises the potential to reduce costs by moving services online. At the same time, it recognises that savings should not be the driving factor and that services need to be redesigned to deliver a better experience for service users. Digital First acknowledges that some cannot, or do not want to, use online services. The Welsh Government plans to ensure support to those who need it and to develop 'a compelling digital offering that makes the digital approach the preferred approach'. A 2013 National Audit Office report suggested that winning over reluctant users may be a significant challenge. The National Audit Office's survey indicated that the vast majority of those who were 'offline' did not plan to get online in the immediate future. And that a significant majority of users with internet access choose not to use services even though they are aware of them. The National Audit Office cited preferring face-to-face to the internet. Also, its survey shows that many people have concerns about sharing information online. The key risk is that if the public is not persuaded to change the way it accesses services, the expected savings may be difficult to achieve and public services could end up paying more in order to provide both online and offline versions.

With many public service leaders expecting to make deeper cuts to services, a more rounded and long-term approach is needed to mitigate impacts on the public

3.52 This report emphasises that radical change in the way public services are provided is the sustainable response to the financial and demand pressures that public bodies face. However, we, like many of the respondents to our survey, are sceptical about the extent to which such reform will be able to bridge the gap between shrinking resources and growing demand. In part, this reflects the fact that changes and reform take time whereas the cost and other pressures are immediate. The comments below reflect wider comments from many of the respondents to our survey from across the different sectors who reported that they had reached a point where the scope to squeeze out more efficiency savings was close to exhausted. Just over half of the respondents said they thought that savings they were making for 2015-16 would have a detrimental impact on service levels or quality. Around a quarter of the NHS respondents thought that in the coming years, around half or more of their savings would come from reducing services levels. The picture in local government is more stark, with more than three-quarters saying that at least half of the savings would come from reducing service levels. More than half of local government respondents said their savings would mostly, or all, come from reducing services. **Figure 20**, taken from our survey, shows the changing balance, with respondents saying they have made more savings through efficiencies so far but are expecting the balance to shift to service cuts from 2016-17 onwards.

Figure 20 – Public service leaders’ views on the balance of savings in the past and future



Source: Wales Audit Office survey of public service leaders

<p>‘All the traditional areas of efficiency are now exhausted and the ability to deliver this level of savings from 15/16 is not sustainable without considering service reductions.’ NHS senior manager</p>	<p>‘We will not be able to protect schools from budget cuts and also that Adult Social Services will be curtailed.’ Local government cabinet/authority member</p>	<p>‘We have however, reached the end of the line as far as efficiency is concerned. The band that sits between being inefficient through over provision and conversely from under provision is very narrow and further budget reductions beyond 2016-17 cannot be achieved without a reduction in the standard of the services we provide.’ Fire and rescue authority senior manager</p>
<p>‘We no longer have opportunities for efficiency savings or salami slicing. We are now developing a strategic vision for the medium and long term which will define what service areas remain and what has to be discontinued.’ Local government senior manager</p>	<p>‘I believe we are at the point of having to withdraw services to make further savings that keep us in budget. This may prove to be unpalatable to the public and staff.’ NHS board member</p>	

3.53 Public services in all sectors have seen some reduction in service levels since 2010-11 and many are expecting to see more. As we have been saying since 2010-11, it is essential that these cuts are managed effectively. One of the key risks we have flagged is that of focus on short-term savings without giving due consideration to the wider and longer-term impact of changes made to deliver cost reduction. This can result in a false economy, shifting costs from one part of the public service system to another. We have already seen examples of cuts to preventative services. This approach is not sustainable in the medium to long term, and risks storing up costs and problems for the future. Just as public services are moving towards more whole-systems approaches to reforming services, we need a similar approach to managing reductions to services. Like the reform agenda, it needs to be based on outcomes: cutting in a way that causes least harm to personal and population outcomes. As with public service reform, the Well-being of Future Generations Act offers the potential to develop a clear framework for cuts that are soundly based and managed. But considerable work is needed to create the space for open and mature debates between and within sectors and organisations about how to take this agenda forwards.

Appendices

Appendix 1 - Methods

Appendix 2 - Auditor General for Wales'
reports referred to in the report

Appendix 3 - Case studies



Appendix 1 - Methods

The analysis in this report is based on a range of methods. In large part, it draws from published Auditor General reports. [Appendix 2](#) sets out the reports that we have referred to in the report. We have also analysed financial and performance information. This appendix sets out the sources of the analysis and explains any adjustments we have made to published data in order to make it comparable over time.

Financial analysis

Real terms: the real-terms figures in this report are calculated using the HM Treasury GDP deflator series issued in November 2015.

Welsh block grant: our analysis of the overall reduction in devolved spending is based on HM Treasury's Public Expenditure Statistical Analysis. The figures used in the report exclude depreciation.

The overall figures have been adjusted to take account of the changes to the Council Tax Reduction Scheme. The UK Government scrapped the Council Tax Benefit Scheme from 2013-14 and devolved the budget to the Welsh Government. The Welsh Government replaced council tax benefit with a new Council Tax Reduction Scheme. To make the overall spending figures comparable, we have included the budget for the Council Tax Benefit Scheme in Welsh Government figures for 2010-11, 2011-12 and 2012-13.

Welsh Government departmental budgets: our analysis of Welsh Government departmental expenditure is taken from Welsh Government budgets. Specifically, we have used the 2nd supplementary budget for each financial year. The 2nd supplementary budgets are produced in February and include most of the in-year changes to budgets and spending.

Between 2010-11 and 2014-15, the budgets for Welsh Government departments have changed to reflect changes in ministerial portfolios and other technical changes. In order to compare over time, we have had to make adjustments to reflect those changes, for example where responsibility and the budget for a particular programme has moved from one department to another. The full list of spending areas we have moved are set out below:

- Support and sustain a strong arts sector via the Arts Council and others
- Museums, archives and libraries
- Delivery of effective sports and physical activity programmes
- Media and publishing
- Conserve, protect, sustain and promote access to the historic and natural environment
- Tourism
- Social enterprise
- Wales European Funding Office
- Children, young people and families

- Supporting communities and people
- Inclusion – refugees, asylum seekers and migrant workers
- Gypsy travellers
- Community cohesion
- Housing policy (housing)
- Homes and places (regeneration)
- Rural affairs
- Substance misuse
- Match funding
- Gypsy travellers
- Equalities
- Community cohesion
- Public services
- Welsh language

Health spending: we have used two main sources for our analysis of spending on health services in Wales. We have used the Welsh Government's 2nd supplementary budgets to work out 'health revenue' spending. It covers all health spending, including public health and central budgets managed by the Department for Health and Social Services. This is consistent with the approach used in our three reports on health finances since 2010-11. Consistent with our previous reports, the figures in health revenue in this report have been adjusted to remove non-cash capital charges from 2010-11.

We have also analysed NHS bodies' expenditure using their audited accounts. Our analysis focuses primarily on the seven local health boards. We have adjusted the figures to remove non-cash items, including impairments and depreciation. We have also adjusted the figures to reflect the transfer of responsibility and budget for the National Leadership for Innovation Agency for Health (NLIAH). This budget was previously managed by Abertawe Bro Morgannwg University Health Board but has moved primarily to Velindre NHS Trust and Public Health Wales. We have also adjusted to remove the funding and expenditure for the Welsh Risk Pool. This programme was managed by Betsi Cadwaladr University Health Board but it is now managed by Velindre NHS Trust.

Council spending: we have based our analysis of council spending patterns on the 'revenue outturn' data and 'capital outturn' data held on StatsWales. We have made no adjustments to this data other than to convert it to real terms.

Other public bodies: for fire and rescue services, sponsored bodies and the national park authorities, we have taken information on their core funding from the organisations' audited accounts or from information provided by the Welsh Government.

Comparisons with other parts of the UK: we have used HM Treasury's Country and Regional Analysis, which forms part of the Public Expenditure Statistical Analysis, as the basis of spending comparisons between Wales and other parts of the UK.

Performance data

Sustainable development indicators: we looked at the sustainable development indicators to look at changes in overall well-being in Wales. Some of these overlap with indicators of performance for health and local government. We were unable to use several of the indicators because they had not been updated for some time. More detail on the sustainable development indicators can be found at:

www.gov.wales/statistics-and-research/sustianable-development-indicators/?lang=en.

Indicator	Latest data
Biodiversity conservation	2008
Ecological footprint	2006
Waste arisings by management methods	2007-08
Number of trips per person per year by main mode	2011-12
Bird populations	2012
Long-term changes in the ranges of widespread breeding birds between 1968-1972 and 1988-1991, by major habitat group	1991
Ecological impacts of air pollution	2010-2012
River quality	2010
Soil quality	2007
The ratio of carbon dioxide emissions to GVA at current prices	2012
Electricity from renewable sources	2012
Household SAP (energy efficiency) ratings	2008
Percentage of households where the time taken to reach local facilities on foot or by public transport is 15 minutes or less	2011-12
Percentage of people volunteering on a formal or informal basis at least once a month in the last 12 months	2010-11

NHS performance data: for our analysis of the NHS's performance, we have drawn on the tier 1 measures. We have used these measures in our two reports that cover service and financial performance across the NHS. Some of the measures have changed over time. We have focused on those measures where we have data that covers the period 2010-11 to 2014-15. The full list of tier 1 targets in place for 2013-14 and 2014-15 can be found at: www.gov.wales/docs/dhss/publications/130524frameworken.pdf.

Council performance: for council performance, we have used the national strategic indicators. These are a set of measures that are used by all councils to measure and compare performance. Full details on the national strategic indicators can be found at: www.gov.wales/statistics-and-research/national-strategic-indicators/?lang=en.

National Survey for Wales: the National Survey for Wales is a face-to-face survey of people across Wales. Each year, over 14,000 people aged 16 and over were asked for their opinions on a wide range of issues affecting them and their local area. Respondents are selected at random to ensure the results are representative. In this report, we have drawn from comparisons of the 2012-13 National Survey to the European Social Survey in 2012. There are some methodological differences, outlined below, that mean some caution is needed when comparing, which is why we say the comparison only 'suggests' a particular position.

- The National Survey question is prefaced with a clarification about what counts as 'health services', 'education system' and 'devolved government' for the purposes of the question. It prompts people to think about the full definition when answering the question. We might reasonably surmise that, in the absence of the introduction, the European Social Survey respondents think about a more narrow range of provision (probably that closest to their own experience).
- In the National Survey, the questions come relatively late in the interview – after a series of questions asking people about their experience of health services and local authority provision. The European Social Survey asks these questions just after a series of questions on political affiliation and, importantly, views on the economy. We may well expect respondents, having just focused on their views on the previous questions, to answer about their views in a somewhat different light to the National Survey.
- There are other differences between the meaning of the words 'health service' and 'educational system' in different countries.

WAO Survey of Public Service Leaders: we sent a total of 688 surveys to local government, fire and rescue services, national park authorities, health boards and Welsh Government sponsored bodies. We invited responses from chief executives and members of senior leadership teams as well as from board members and (for councils) leaders and cabinet members.

We asked people to indicate in their response which sector they were from and their role. Other than this, we did not ask for any identifying information and the survey was anonymous. We received 230 completed surveys – a response rate of 33 per cent. For each sector, the response rate was: local government, 33 per cent; NHS, 38 per cent, sponsored bodies, 26 per cent.

The survey asked 13 questions. These covered the period 2011-12 to 2014-15, the 2015-16 financial year and their views on future pressures and opportunities. In this report, we have drawn on comments that illustrate particular points we are making in the report and are reflective of the balance of opinion across the comments. We have published a separate summary of the findings of the survey on our website: www.audit.wales.

Document review: as part of this work, we have reviewed and considered a wide range of documents and files. These include reports by other audit, inspection and regulation bodies from around the UK and in Wales. We have reviewed key strategy documents produced by the Welsh Government, including its strategic plans for reforming public services and reconfiguring local government. We have considered reports by committees of the National Assembly. We have reviewed a wide range of research reports, including reports by research and policy organisations and think-tanks that specialise in public service reform.

Appendix 2 - Auditor General for Wales' reports referred to in the report

The analysis in this report is firmly rooted in our financial and performance audit work across Welsh public services. Throughout the report, we refer to specific reports in the shorthand 'our report on . . .'. The table below gives a full reference for each of the reports referred to in the report.

Our report on . . .	Full reference
Leisure services	Managing with Less: Leisure Services (December 2015)
Independence of older people	Supporting the Independence of Older People: Are Councils Doing Enough? (October 2015)
Financial management and governance at community and town councils	Financial Management and Governance in Community and Town Councils 2013-14 (September 2015)
Regional Investment Fund for Wales	Regeneration Investment Fund for Wales (July 2015)
Regional education consortia	Achieving improvement in support to schools through regional education consortia – an early view (June 2015)
Next generation broadband	Welsh Government investment in next generation broadband infrastructure (May 2015)
Financial resilience in local government	The financial resilience of councils in Wales (April 2015)
Early departure schemes	Managing early departures across Welsh public bodies (February 2015)
Welfare reform	Managing the Impact of Welfare Reform Changes on Social Housing Tenants in Wales (January 2015)
Elective waiting times	NHS Waiting Times for Elective Care in Wales (January 2015)
Management of the 2007 to 2013 structural funds	European Union Structural Funds 2007-2013 (April 2014)
Managing chronic conditions	The Management of Chronic Conditions in Wales – An Update (March 2014)
Environmental health services	Delivering with less – the impact on environmental health services and citizens (October 2014)
Unscheduled care	Unscheduled Care – An update on progress (September 2013)
Use of information technology by councils	Use of Technology to Support Improvement and Efficiency in Local Government (December 2012)
Public engagement in local government	Public Engagement in Local Government (June 2012)
Communities First	Communities First (July 2009)

Appendix 3 - Case studies

Cooperative Working in Stoke-on-Trent

Cooperative Working is a new approach to delivering services in Stoke-on-Trent. The city council and its partners aim to deliver services based on understanding the real issues in people's lives. At the same time, Cooperative Working cuts down on the number of professionals and organisations each customer has to engage with by allocating a generic key worker. The key worker will assess each individual's true needs and coordinate support from a range of council departments and external partners including the police, fire service and NHS. Cooperative Working is based on a pilot in 2013 with vulnerable households or individuals experiencing a high level of intervention from the council and partner agencies. Stoke-on-Trent City Council worked with partner agencies to analyse data on the levels of intervention in the pilot area to identify customers to work with. The high level of intervention for these households was expensive but also meant that customers had to repeat their story many times to different professionals. The initiative presented an opportunity to save money by delivering services more efficiently at the same time as improving the experience for vulnerable people using those services. It focused on reducing demand for public services by avoiding duplication and taking a preventative approach. The pilot supported 190 households and Stoke-on-Trent City Council reports that it resulted in a 23 per cent reduction in anti-social behaviour and a 17 per cent reduction in rent arrears in the area.

Cooperative Working has now been expanded to cover more of the city, supported by a Transformation Challenge Award from the UK Government of £4.9 million. Stoke-on-Trent City Council reports that this funding has been key to the success of the project in providing additional staff to deliver the pilot without impacting services in other parts of the city. Other success factors the city council identified include collecting and sharing data to demonstrate the benefits of the approach, communicating key messages about the project throughout the council and with partner organisations to generate 'buy-in', and using the pilot approach to learn lessons in a controlled environment and retain the flexibility to adapt to change. The Cooperative Working initiative is expected to save the city council and partners in the city between £36 million and £46 million over the next three years (dependant on economic modelling version).

The pilot has resulted in a restructure of council services which reduced the number of managers and increased the number of generic workers to deliver the initiative. In the future, Cooperative Working will provide a new way of commissioning services based on information from service users about the support they require. Developing new ways of working and partnership arrangements with other agencies has been a challenge but the team has developed information-sharing arrangements and continually reinforces key messages about the benefits of the project. Julie Griffin, Head of Cooperative Working at Stoke-on-Trent City Council, told us that 'the appetite for this kind of project is there as a result of austerity – partners are realising they can't keep salami slicing, we have to rethink the way that services are delivered'.

Beacons Creative

Beacons Creative (Wales) Limited is a social enterprise producing candles and other products whilst providing employment opportunities for people with a disability, learning difficulties or those who are furthest from finding work. There are four branches of the business: candles, skincare, a wholefood shop and a café. The company started out as Beacons Candles, a local authority day care service for people with learning disabilities run by Powys County Council. It became a company limited by guarantee in 2009 when several of the people they were supporting to find work said that they would prefer to work at the candle workshop. The council responded by looking at whether Beacons Candles could be run as a social enterprise. The company is managed by a voluntary board of directors including a representative from Powys County Council and members with a commercial background to provide an alternative perspective to traditional day care providers. It aims to develop the day care services into a profitable business at the same time as providing a safe environment for supported employment opportunities.

Beacons Creative now employs a number of people with learning disabilities including young people aged 14-19 on Saturdays. The company has won Powys Business awards twice and the team has increased from three to 14 staff in five years. The organisation operates as a commercial business and working arrangements such as enforced break times have been developed to encourage service users to feel like valued employees. Social workers have to make appointments outside manufacturing hours and the distinction between service user and provider has been removed so that all participants are colleagues. Whilst Beacons Creative was not created in response to budget cuts, the project team recognises that the financial pressures in the subsequent years may have led to the end of provision. The social enterprise model has provided a sustainable alternative to the traditional service model.

Beacons Creative faced a number of challenges as it transformed into a social enterprise. The three-year process involved redundancies at the candle workshop to fund a new manager post. There are also challenges associated with generating the income required to provide a sustainable service. Since 2009, the financial contribution from Powys County Council has reduced in line with their five-year plan, and income from sales will increasingly be used to fund the gap.

At the beginning of the process, the council set up an externalisation team and spent a lot of time engaging with relevant stakeholders including trade unions, legal and HR representatives. Service users were put at the heart of these discussions and one person attended a meeting of the social services board to promote the benefits of the project. Hazel Jukes, Team Manager of Reablement at Powys County Council and one of the directors of Beacons Creative, told us that the enthusiasm and knowledge of the team was a key factor in the success of the project.

Care Home Ask and Talk (C.H.A.a.T) volunteer service

The C.H.A.a.T. volunteer service provides an opportunity for older people living in care homes within the Aneurin Bevan University Health Board area to talk about their experiences, discuss what works well and identify areas for improvement. Prompted by investigations into the abuse of adults in care homes such as Winterbourne View in England and Operation Jasmine in Gwent, members of the NHS Retirement Fellowship wrote to the chief executive of the health board asking what was being done to protect older people in care homes. The health board started to work with the Fellowship on a project to collect patient experiences and share good practice. They developed a pilot project in four care homes where volunteers visit the homes and speak with older people and their relatives. Volunteers spoke to more than 100 residents and relatives in the four homes and feedback from patients and their families showed that they welcomed the opportunity to discuss their views and evaluate the service they received. Discussions centred around issues like access to the community to go shopping or visit family, and access to healthcare.

The care homes in the pilot were selected as homes without escalating concerns in order to set a benchmark. Whilst the work did not identify any serious concerns with the pilot care homes, there were areas for improvement which were addressed as a result. The care homes improved residents' access to the community, choices around end-of-life care, and recreational activities on offer. The volunteers also found that many older people did not feel engaged in the planning prior to their move to a care home, the information about each home was poor and many people did not feel equipped to make an informed decision. They wanted to see 'real' live feedback from the people living there or relatives who visited. A Trip-Advisor-style website for care homes has been developed as a solution. People can leave reviews of their care home and homes with an 'enhanced profile' of the scheme can respond. The health board is considering using a similar approach for patients to review hospital wards in the future. They are also piloting a scheme where C.H.A.a.T. volunteers and a psychologist work with older people to help them make a decision about which home to choose. The C.H.A. a. T project has made links with the Soldiers, Sailors, Airmen and Families Association to ensure that ex-service personnel living in care homes can access the support they need.

The C.H.A.a.T. volunteer service was the first of its kind and developing the project involved lots of work to ensure that the model was right, governance arrangements were effective and training for volunteers appropriate. Retaining the motivation and enthusiasm of volunteers whilst the model was being developed was a challenge but now the project is up and running experienced volunteers provide an induction for new volunteers, cutting down on staff time. It also took time to build the trust of care homes in the pilot and assure them that C.H.A.a.T. was not another form of inspection. The project team used the findings from the pilot to adapt the approach and made changes to the discussion topics as a result.

There are more than 1,500 NHS-funded patients living in care homes in the health board area but many are reluctant to talk to officials about their concerns. Using volunteers from the NHS Retirement Fellowship, the C.H.A.a.T. project provides a confidential service for older people and their families to discuss any concerns. The model has now been adopted by the Royal Volunteer Service for use in residential homes. There are plans to further develop the service in hospitals and the community, and the initiative won a National Patient Experience Award in 2015 in the Communicating Effectively with Patients and Families category. The service also won the Kate Granger Compassionate Care Award in September 2015. There are also plans in the longer term to make C.H.A.a.T. independent of the health board with charity status.

Community Catalysts

Community Catalysts is a social enterprise established by the charity Shared Lives Plus to support initiatives that provide care and support for people across a range of sectors including social care, healthcare and housing. The organisation provides practical and innovative solutions across these sectors by supporting small community enterprises, groups, individuals and initiatives that offer care or support for people. Community Catalysts do this through a range of methods including events, scoping exercises, expert advice and project management.

In England and Scotland, local authorities have an obligation to support market diversity under the Care Act (in England) and Self Directed Support (in Scotland). Community Catalysts are usually invited by a local authority to set up in their area to create choice in the social services and health sectors. The organisation has worked in 40 local authority areas in England and Scotland over the past eight years, typically staying for two years in each area. During this time, it identifies professional experts to act as advice givers in a range of fields, collects market intelligence and works with local authorities to remove barriers restricting new enterprises. They advise people of the legal or regulatory frameworks they need to consider when setting up a new enterprise and help people to decide whether to proceed based on whether their business idea is practical, sustainable and legal. Community Catalysts also work with local authorities to change their organisational culture and systems to help them commission innovative community projects.

Community Catalysts was developed in response to a number of 'big problems' in the health and social care sector including weaknesses in the traditional care market in providing choice for the individual, lack of integration between health and social care systems, and increasing financial pressures. Community Catalysts was set up to address these issues by supporting communities to develop solutions at the same time as encouraging a more diverse market. The business models used by small or 'micro' community enterprises vary from fully commercial to entirely voluntary, and many involved older and disabled people in their design and delivery. Ninety per cent of unsupported small enterprises fail in their first year but Community Catalysts has a failure rate of just four per cent over three years. Over two years in a local authority area, Community Catalysts helps around 125 potential entrepreneurs and 60 community enterprises. These community enterprises generally support around 700 older or disabled people, creating over 100 jobs and 70 volunteering opportunities.

The organisation has identified common barriers or issues affecting small enterprises, including:

- generating confidence from professionals making referrals about how safe and reliable they are;
- getting onto local authority approved provider lists which can be restricted by local authority procurement rules;
- marketing their services to potential customers;
- legal and regulatory frameworks can make it difficult to provide informal support or care;
- it can be difficult for small providers to interact with local authorities when processes and systems are set up to deal with larger organisations; and
- community enterprises tend to be used by self-funders but social services users do not have the same opportunities.

Community Catalysts also run a service and website called Small Good Stuff⁴² which links people or organisations who offer support or care with people who may require their services.

⁴² www.smallgoodstuff.co.uk/community-catalysts-launches-small-good-stuff/

The Health Precinct

The Colwyn Bay Health Care and Well-being Precinct is a partnership between Betsi Cadwaladr University Health Board, Conwy County Borough Council and the Welsh Rugby Union. It aims to improve the health of people living in Conwy through community based physical activity. This can be to prevent ill health, manage chronic illnesses, or form part of rehabilitation programmes. The initiative was developed in response to a number of issues including reducing budgets, increasing demand for physiotherapy services, a lack of space in hospital for the intermediate care team⁴³ to work in, and a growing recognition of the contribution physical activity can make to a range of health conditions.

During the refurbishment of Conwy Leisure Centre, the health board's Head of Therapy Services and Conwy County Borough Council's Head of Active and Creative Lifestyles worked together to create space for the Intermediate Care Team in the centre. A dedicated area within the leisure centre gave the team more space and access to a range of fitness facilities. The team also saw potential for this arrangement to provide a model for health and social services initiatives in the future. The health precinct concept has created a place where health and social care professionals can work together to provide appropriate solutions for local people. Health professionals working in the leisure centre have also benefited from the proximity to physical activity opportunities which have led to additional projects at the precinct including activities for people with diabetes and Parkinson's disease. The precinct now includes more than 20 projects, has reduced facilities costs for the Intermediate Care Team and reduced waiting lists in physiotherapy.

The project overcame a series of challenges during its development. The project team found gaining support from finance teams at both organisations its most significant challenge. The structure of budgets at the council and the health board presented barriers to the project. The project team had to overcome initial concerns that the council was subsidising healthcare because the Intermediate Care Team paid a lower rate to hire leisure centre facilities. The project team emphasised to staff that the principles behind the precinct were based on the wider view that the council and health board share a common goal to improve the health of local residents. There were also concerns from community councils about the impact on services at the leisure centre as a result of health professionals moving into the building. Officers dealt with these concerns by explaining the purpose and benefits of the project. Some physiotherapists were initially reluctant to refer patients to exercise professionals, but quickly developed strong working relationships after both sides started to understand the level of expertise on offer. Negative perceptions from patients expecting to receive their treatment in hospital also had to be overcome, but patients adjusted to the new environment over time.

It took about three years for the precinct to overcome the initial concerns of the respective finance teams, and generating buy-in from those teams was a vital step in securing resources for the project. Strong leadership from officers with a good understanding of the benefits of physical activity and a shared commitment to the project was also crucial to its success.

The project is now firmly established and has won a number of awards. It will be expanded to two further sites in Llanrwst and Llandudno, and will form part of the long-term approach to reducing demand for unscheduled care in the area. The health board has plans to expand the initiative throughout North Wales in the future.

⁴³ A team of 35 people from a range of medical disciplines including district nurses, psychiatric nurses and physiotherapists.

Monmouthshire County Council – putting people at the heart of support services

In 2008, Monmouthshire County Council worked with Aneurin Bevan University Health Board to deliver an integrated approach to supporting older people and adults with a physical disability. They set up the Short Term Assessment and Reablement Team (START) which includes a range of staff including nurses, social workers, therapists and care workers. Whilst staff are funded individually by each organisation, Monmouthshire County Council manages the whole team which provides a clear direction and shared objectives. In 2011, Monmouthshire County Council conducted a systems review and transformed the way it delivers social care support. There are now geographical 'hubs' across the county which use the Finding Individual Solutions Here (FISH) model to put the individual at the heart of service delivery. Staff focus on the positive approach of building on people's strengths by asking questions around what matters to the individual rather than on the negative side of what is wrong with them. If people require support, staff will use a 'reabling' approach driven by personal outcomes for each individual. Staff then work with people to connect them to the service of support they need which helps them live independently and avoid long-term intervention until it is absolutely necessary. The strengths-based approach is aimed at preventing future demand by having the right conversations early on before problems escalate.

In May 2014, Monmouthshire County Council introduced the Community Coordination project as another way of reducing demand on health and adult services by supporting individuals to 'lead the life they choose'. Two community coordinators work with people to identify their gifts and strengths, and then connect them to community services to make the best use of their assets. Project staff have developed networks with a range of voluntary and public sector organisations across Monmouthshire which are performing a similar community coordination role. Partners are now working together to promote the community coordination approach and develop methods for evaluating the initiative.

Julie Boothroyd, Head of Adult and Children's Social Services at Monmouthshire County Council, told us that the project benefited from strong working relationships with Aneurin Bevan University Health Board and support on a corporate level from Monmouthshire County Council. The team also worked with local politicians to generate buy-in for the initiative. The biggest challenge was in 'changing the DNA of staff' used to helping people more directly rather than supporting them to make changes in their own lives. Staff received training on the FISH approach and some have also been given the opportunity to gain a fresh perspective on their work by experiencing different working environments. In the future, the council hopes to use the FISH approach for adults with mental health issues and learning disabilities.

More than 2,000 people have used the START service since 2008 and more than half have been supported to live independently. Longitudinal studies have shown that the majority of these people remain independent for about two and a half years, and those that do need care typically require a much lower level of support. The project has led to a reduction in the amount of traditional care the council commissions and the Council reported that £1.5 million in care costs were avoided as a result in 2014. Staff have also recognised the benefits to people as the service is user friendly, responsive and provides easy access to skilled professionals. In the future, Monmouthshire County Council hopes to use information gathered through the project to reshape the way it delivers services. This could mean that skilled social workers will focus on people with more complex needs whilst other professionals provide a range of support based on what individuals actually say they need.

The Council has also introduced a new approach to support people with dementia. The Raglan project is a pilot project supporting 14 people living with dementia. The project provides a new model for domiciliary care where staff work with each individual to discuss their changing daily needs rather than performing a list of predetermined tasks. Minimum service levels remain but there is flexibility within each care plan to respond to the needs and choices of individuals. Relationship-based care promotes choice and independence, and recognises that people have emotional and social needs as well as physical needs to be supported.

The project employs five staff on full-time rather than minimum-hours' contracts. Planned hours change with the daily choices of each individual but staff work flexibly across a geographical area to manage this variation. The project has resulted in a number of positive outcomes for individual service users but also created a stable working environment for staff where they are treated with respect and have time to develop positive working relationships with the people they support. The new model of care is being delivered at no additional cost to the Council and will be expanded to 17 new areas in Monmouthshire in the near future. In the long term, the approach will inform Monmouthshire County Council's approach to commissioning domiciliary services based on the needs of its citizens.

The Bromford Deal

Bromford is a social landlord with 26,000 properties across England, and some parts of Powys. In 2012, the organisation developed the Bromford Deal to respond to the many challenges that austerity posed to the organisation and its tenants. It was also an opportunity to radically change the relationship between tenants and housing officers from one where housing officers act on behalf of tenants, to one where they discuss each tenant's needs with them and collectively agree a way forward. At the time, new social housing cost around £150,000 per property and Bromford wanted to make this investment about more than just bricks and mortar.

Bromford aims to challenge negative associations for tenants applying for social housing by getting them to sign up to the Bromford Deal to make a difference in their lives. Tenants agree to a range of conditions, such as looking after their property and resolving disputes with neighbours, and get a home and a range of support from Bromford as a result. Officers also work with tenants on a 'to do list' based on their needs and ambitions. Tenants can get support to find work, help with managing their tenancy agreement, money advice, access to training and learning opportunities, and a range of other support such as confidence building, or help with addiction or other health issues. Marketing of the scheme emphasises the role that tenants or customers play and what they get as a result. A video on Bromford's website asks 'have you got what it takes to be a Bromford customer?'⁴⁴ If tenants do not keep their side of the deal, they put their tenancy at risk.

Bromford funds the scheme itself as part of its 'core offer' for tenants. The first 12 months of the scheme involved more work for officers having more lengthy conversations with tenants to get the initiative right, but after this, officers saw a reduction in the reactive work they had to do to manage issues with tenancies and disputes between tenants. The Bromford Deal has led to a reduction in the number and level of rent arrears, positive outcomes from individual tenants and fewer anti-social behaviour disputes.

The organisation has also developed the 'Starting Well service' for tenants with more complex needs who receive 12 weeks of support from specialist coaches on a range of areas. In the future, Bromford will analyse data to see whether the initiative has resulted in improvement to the length of tenancies. Bromford is also supporting tenants to move to direct housing payments where housing benefit is paid directly to them and they in turn pay rent to Bromford. This is to help prepare for the changes expected with universal credit and has involved support for tenants on managing money. This support has also led to a decrease in rent arrears.

Bromford has developed strong partnerships with other agencies working in the area but also with local employers so that it can offer training to meet the needs of the job market. It has also worked with large employers such as Debenhams and Premier Inn to deliver recruitment events on Bromford's premises to give tenants the best opportunity to gain employment locally.

⁴⁴ www.bromford.co.uk/join-bromford/the-bromford-deal/

The Bromford Deal has generally been well received by tenants, but there were challenges in changing organisational culture. There was healthy debate in the organisation, with some people who were concerned about the conditions tenants were expected to meet to keep their homes. Bromford was able to reassure people that tenants' goals are self-defined and tenancies are not subject to tenants finding employment. Bromford is also reviewing whether internal targets on employment and training need to be revised to reflect that fact that many tenants are a long way from the job market and require a range of support to get to this stage. It also took time to work out the best type of intervention for tenants. The biggest challenge was in moving housing officers away from a traditional 'rescuer' role to that of 'enabler' or coach – supporting tenants to make their own changes rather than doing things for them. Bromford ran a 12-month training scheme to support staff including role plays with actors to address this issue.

The Bromford Deal is the process used for all new tenants except those in temporary or supported accommodation but there are plans to extend the initiative to these tenants in the future. In the future, Bromford aims to reduce the number of houses each officer deals with to improve the quality of service for tenants. The organisation is also looking at whether more services can be delivered by one individual so that tenants could get money, employment and tenancy advice from the same person rather than engaging with a number of different professionals.

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