



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Cyfrifon Cyhoeddus
The Public Accounts Committee**

**Dydd Mercher, 17 Mawrth 2010
Wednesday, 17 March 2010**

Cynnwys
Contents

- 3 Ymddiheuriadau a Dirprwyon
Apologies and Substitutions
- 4 Datblygu Cynaliadwy a Gwneud Penderfyniadau Busnes yn Llywodraeth Cynulliad
Cymru: Sesiwn Dystiolaeth y Swyddog Cyfrifyddu
Sustainable Development and Business Decision Making in the Welsh Assembly
Government: Accounting Officer Evidence Session
- 21 Darlun o Wasanaethau Cyhoeddus: Briff gan Archwilydd Cyffredinol Cymru
A Picture of Public Services: Briefing from the Auditor General for Wales
- 32 Ymgynghoriad Swyddfa Archwilio Cymru ar Arferion Archwilio
Wales Audit Office Consultation on Audit Practice
- 33 Cynnig Trefniadol
Procedural Motion

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Jeff Cuthbert	Llafur Labour
Andrew R.T. Davies	Ceidwadwyr Cymru (yn dirprwyo ar ran Nick Ramsay) Welsh Conservatives (substitute for Nick Ramsay)
Bethan Jenkins	Plaid Cymru The Party of Wales
Sandy Mewies	Llafur Labour
Jonathan Morgan	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Chair of the Committee)
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Janet Ryder	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Clive Bates	Cyfarwyddwr Cyffredinol, Dyfodol Cynaliadwy, Llywodraeth Cymru Director General, Sustainable Futures, Welsh Government
Gillian Body	Archwilydd Cyffredinol Cymru Auditor General for Wales
Matthew Hockridge	Swyddog Ymchwil Polisi, Swyddfa Archwilio Cymru Policy Research Officer, Wales Audit Office
Mark Jeffs	Arbenigwr Perfformiad, Swyddfa Archwilio Cymru Performance Specialist, Wales Audit Office
Y Fonesig/Dame Gillian Morgan	Ysgrifennydd Parhaol Llywodraeth Cymru Permanent Secretary to the Welsh Government
Michael Palmer	Arbenigwr Perfformiad, Swyddfa Archwilio Cymru Performance Specialist, Wales Audit Office
Rob Powell	Cyfarwyddwr Astudiaethau Arloesol, Swyddfa Archwilio Cymru Director of Innovative Studies, Wales Audit Office

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Alun Davidson	Clerc Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Andrew Minnis	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 9.26 a.m.
The meeting began at 9.26 a.m.

Ymddiheuriadau a Dirprwyon
Apologies and Substitutions

[1] **Jonathan Morgan:** I welcome Members and guests to today's meeting of the Public Accounts Committee. I remind everyone to ensure that their mobile phones, pagers and BlackBerrys are switched off. Participants are welcome to speak in Welsh or English, and headsets are available for translation or amplification. I have not been informed of a fire drill this morning, so if the fire alarms sound, please follow the advice of the ushers.

[2] I have received apologies from Lorraine Barrett, Irene James, Nick Ramsay and Alun Davies. However, Andrew R.T. Davies will be substituting for Nick Ramsay when he arrives. We are slightly thin on the ground this morning, so I thank those Members who have managed to attend.

9.27 a.m.

**Datblygu Cynaliadwy a Gwneud Penderfyniadau Busnes yn Llywodraeth
Cynulliad Cymru: Sesiwn Dystiolaeth y Swyddog Cyfrifyddu
Sustainable Development and Business Decision Making in the Welsh Assembly
Government: Accounting Officer Evidence Session**

[3] **Jonathan Morgan:** The committee decided at the end of January to invite the Permanent Secretary to attend the committee to answer some questions about the report after we received a briefing from the auditor general on 27 January. I am delighted that officials from the Assembly Government have been able to attend this morning.

[4] A paper has been submitted, which Members have received, so thank you very much for the written evidence. We will proceed with the questions. Will you identify yourselves for the record?

[5] **Dame Gillian Morgan:** I am Dame Gillian Morgan, and I am the Permanent Secretary of the Welsh Assembly Government.

[6] **Mr Bates:** I am Clive Bates and I am director general of Sustainable Futures.

[7] **Jonathan Morgan:** Thank you. What does the Assembly Government's commitment to making sustainable development the central organising principle mean in practice, and in the context of the challenges facing public services over coming years?

[8] **Dame Gillian Morgan:** Firstly, I welcome the report because I think that it is a very helpful reminder of the challenges we face. I smiled slightly wryly when I read it last night, because it was the second draft report that I received after I arrived in the Welsh Assembly Government, and one of the arguments that I used to create the director general structure was based on the comments from the Wales Audit Office, in that we were not collectively joined up in what we did. So, it was like welcoming an old friend that has helped to shape us into what we are. I just want to put that on record, because it led us to where we are.

[9] In terms of what it means to the organisation—and the report picks this up very clearly—like many organisations, we have wrestled with finding a definition of sustainable development that does not just make people think about green issues and doing green things. We have been looking at how to find language that will bind the people who work in the Welsh Assembly Government together on the issue of sustainable development. We have people who do things like road maintenance; we have others who are worried about unemployment among young people, and we have people whose only task is to enter data. So, what can we do that gives us a binding statement?

9.30 a.m.

[10] Since the report was published, we have unified around the statement in the Welsh Assembly Government's Sustainable Development Scheme, 'One Wales: One Planet' about sustainability and sustainable development being about the social, environmental and economic wellbeing of the citizens and communities of Wales. We think that that binds the man who does the road maintenance because that stops accidents, and we have been quite successful at stopping childhood accidents. So, that is a very important part of sustainability for the future. It also binds the people who work deep in the organisation, because they have a way of explaining their job in terms of the wellbeing of the citizens of Wales. So, it is now the mantra that we use to describe what we do and it is also as true for economic development, sustainable futures and health. It has become quite a strong binding mantra.

[11] The next task, which we have not completed by any means, is to roll that out to every member of the workforce. We have used it as a group of senior managers as we go out to meet people, and we probably meet 90 per cent of the people who work in the organisation over a period of a year as a senior management team in meetings throughout Wales. We are using that wellbeing mantra to bind the workforce together, but we have not yet got it to be something so that the first thing that every individual, if you scratched them, would say is, 'We are here for the wellbeing of the citizens and the communities of Wales'. That is the next task in terms of internal communication.

[12] **Jonathan Morgan:** If you look at the challenges facing public services in the next few years, is there anything within the 'One Wales: One Planet' strategy that has to change or re-emphasised to respond to those challenges?

[13] **Dame Gillian Morgan:** With 'One Wales: One Planet' and the challenges for the future, we must be very clear and explicit about the benefits for individuals and for communities of the investment. The issue for us then is how we as officials build in more tools to give Ministers a proper economic appraisal, where we are much clearer about the actions that we take and how they link to the outcomes that we are trying to achieve. Again, that is work that is very much in development in terms of the programme we call IDEAS, which tries to describe what Government does for a community or for a country like Wales through 19 overall objectives. We then try to link that to what we do and apportion money—that is the next stage—so that we should be able to say, 'For this set of activities, this is the return that we get and this is how you translate that into something that is about the wellbeing of citizens and communities'. That is work in progress.

[14] In terms of changing direction, the issue is much more about how we assess all the things that we currently do against the measure of the difference that we are achieving in terms of wellbeing in this broad definition.

[15] **Bethan Jenkins:** I am looking at the paragraph within the Government of Wales Act 2006 about the Welsh Assembly Government's compliance with sustainable development. In your written evidence, you show that there are significant improvements, but there are five indicators showing clear deterioration as well. Could you sum up the Assembly Government's progress over the last 10 years in terms of sustainable development, how it is improving and what challenges you still face?

[16] **Mr Bates:** There are many different areas where, perhaps without necessarily labelling it as sustainable development, we have adopted the underlying concepts of sustainable development. One example would be our approach to waste management, where we have placed greater emphasis on recycling than we are required to do by European Union law. That is grounded in a resource productivity strategy, and the purpose has been just to get ourselves better aligned with sustainable development principles.

[17] It is similar with energy efficiency, sustainable travel towns and some of the things that we have started to do on climate change. A lot of this depends on how you define sustainable development. So, just picking up on the Chair's question about how public services change over time, it is about the greater emphasis that we have put on a preventative approach to healthcare. We are developing 'Our Healthy Future', and so on. If you widen the definition to the one that the Permanent Secretary used about maximising wellbeing, you can see that a lot of the work that we are doing is focused on wellbeing maximisation, and it covers the health domain, the things that we are doing in early years provision in education, and some of the approaches that we have taken to economic activity and getting people back into work. So, all of those things are consistent with the not-exclusively-green definition of sustainable development that we have pursued quite effectively over the last 10 years.

[18] **Dame Gillian Morgan:** The strongest example of how using the definition of sustainable development has come together is the debate in terms of emissions, and where you make the greatest impact in terms of reducing emissions. We are pretty clear that if you took the measure of insulating homes, it not only helps with emissions but also with poverty, child poverty and all sorts of things. It is a very powerful measure, not just in terms of it being a green measure, but it is an incredibly powerful wellbeing measure because we know that the whole story of disadvantage begins for people who live in poor housing with a lack of insulation and who live in fuel poverty.

[19] So, that sustainability and wellbeing has focused us to think more about insulation for that reason, rather than just focusing on insulation because it is a good green thing to do. That is a very powerful story. We have tried to focus the small amounts of additional money that we had at the end of the year very much towards the insulation agenda, because that is where we can make a difference to the wellbeing of people.

[20] **Jeff Cuthbert:** In the written evidence, you refer to partners—which are important—and Clive mentioned the issue of waste collection and recycling. There are key partners in this, such as the private sector and local government. Do you feel that the message is properly out there? For example, to use dealing with waste as an example, is everyone pulling in the same direction?

[21] **Mr Bates:** Broadly, yes. Nothing is ever perfect and absolutely aligned. It is always a constant struggle to keep things on track, but we have had great buy-in from local government to the approach that we are taking in our strategy, 'Towards Zero Waste'. We have formed procurement hubs. Most of local government, but not all, has bought into the emphasis on anaerobic digestion, which we think is the right sustainable approach to organic waste management. These are tough challenges and, not surprisingly, there is a lot of money involved. There is a lot of pressure involved in getting it all delivered on time. So, we have been working hard to keep these procurement hubs together, but we have had good buy-in from local government.

[22] It is not just in waste. The Local Government Measure 2009 that was recently introduced also has a strong emphasis on sustainable development. As always, it is mixed, but you see some interesting examples of good practice in local government in sustainable development across the board. So, it is quite an encouraging story about the way that everybody has bought into sustainable procurement and that sort of thing—there is a lot of good stuff going on. Could we do more? Of course, but that is the abiding theme of the report, and it is something that we accept and are trying to do.

[23] **Dame Gillian Morgan:** One of the very positive things—and it was not what I expected five years ago when I was involved in the Beecham review—is that many of the local service boards, which were created to bring organisations together around a community to say what is important to them, have picked truly green issues, such as climate change, as

part of the agenda of what matters to their community in places such as Gwynedd and Carmarthen. I had not expected that that is what they would have focused on, but it has been important to those communities to unify that partnership around a set of issues that they are measuring and working on. That is a very positive sign that this is on the agenda, not just for individual local authorities, but for the partnerships that you need at a local level to deliver.

[24] **Janet Ryder:** To take you back to the definition that you gave at the beginning, especially in the evidence of Mr Bates, I may be nitpicking here, but the report seems to be written around the fact that not everybody at the time that the report was written was signed up to this agenda.

9.40 a.m.

[25] As I understand it, you just gave the definition given by the Permanent Secretary. Is that your definition as well? Are you fully signed up to it? Is it now becoming 'ours', as in your corporate definition, and not something that is purely in the domain of the Permanent Secretary still for her to drive forward?

[26] **Mr Bates:** Yes. There is absolutely not a millimetre of space between us on this. It is about wellbeing in its wider sense, maximising that over the long term—so there is a strong long-term dimension—while giving us hard choices in the here and now, associated with policy focus and resource allocation, and a real effort to bind Government and public together in a common project. That is really what we are talking about. It does involve some very tough stuff, such as institutional change, silo breaking, and getting money out of one part of the public services and into another, and there is a lot of that going on. That is how we are all advancing with this, with the objective of wellbeing to the fore, making sure that the institutional framework fits in around that and that we use good evidence on cost effectiveness and the economics—Gill made that point—to guide what actually works so that we get the best return to wellbeing from the Welsh pound.

[27] **Dame Gillian Morgan:** Those of you who know Gareth Hall know that he will talk very much about economic development. There was slight hilarity when we had Gareth on a platform talking about the wellbeing agenda and somebody in the audience believed that he was the chief medical officer because he was talking about economic development as something that is not intrinsic solely to jobs and things like that; it is also to do with this much bigger concept for the citizens of Wales. It did cause a fair degree of hilarity.

[28] **Jonathan Morgan:** I am sure that upset the chief medical officer. [*Laughter.*] We will proceed with Andrew R.T. Davies's question.

[29] **Andrew R.T. Davies:** Thank you, Chair. I apologise for my lateness. How have the priorities and activities described in the Wales Audit Office report and in your written evidence on the 'Wales for Africa: A Framework for Welsh Assembly Government Action on International Sustainable Development' and the healthy sustainability initiative contributed to the first two sustainable development schemes?

[30] **Dame Gillian Morgan:** To the first two sustainable development schemes?

[31] **Andrew R.T. Davies:** 'Starting to Live Differently' and 'Learning to Live Differently'.

[32] **Dame Gillian Morgan:** It would be fair to say that at the time, as an organisation, like a lot of organisations—and this would not be dissimilar to Government across other parts of the United Kingdom—we were wrestling to articulate what it means in a way that people could engage with. So, both schemes tried to deliver components of this, but there was never

this end-to-end story in which everyone who works in an organisation could explain what this meant to them.

[33] You will see from the first two schemes, as I noticed when I came in, that we really were in a world where for most people, with some notable exceptions, such as the Minister, Jane Davidson, if you talked sustainable development, they talked about greening, recycling and those sorts of issues. I think that the first two schemes had us in that type of box. That is why we could not progress it, because people would say, ‘Well, I recycle. How is this relevant to me?’.

[34] The difference with the third scheme is that among the things that we have learned from it is that you must have a purpose that recognises how people behave. I remember that one of the very first things I was involved in was a debate where people would say, ‘We will recycle and we will insulate our houses, because it is good’. No, people will do it if it brings a benefit to them. They will do it if there is a story to them. It seems to me that that is what came out of the first two schemes, that we needed that big story about what the benefits you get as an individual are, and that is how people think. There is nothing wrong with that, and that is what the third scheme has tried to do, to embed it in a very different way so that it is part of the thinking about what we do and how we leave a world in which we would want our children to live.

[35] **Andrew R.T. Davies:** So, the first two schemes were very informative, then, in trying to break out of the silo in Government.

[36] **Dame Gillian Morgan:** Absolutely.

[37] **Andrew R.T. Davies:** It is not just about the green agenda. It is a far wider agenda that we should be working with.

[38] **Dame Gillian Morgan:** Absolutely. In some of the debates that I have been in over the years, it has been almost a religion—‘We will do green things’. Well, the question is always ‘Why?’. Actually, there are really good personal reasons to compost and to do these things, but we have never explained those really good reasons. We have never explained insulation to show to people that, ‘You will spend less money on your house and you will have more to spend on the other things that are important to your family’. Once you make that leap to being able to frame things in a way that is reachable by people, you have a much stronger scheme that you can take forward and tell the story of. That is the transition between the first two and the third, because the third is this much bigger vision of what we need to do to engage people.

[39] **Jenny Randerson:** There is an obvious appeal in the case of house insulation, because it is green, it saves you money and it makes you more comfortable in your home. Other aspects of sustainable development are much less easy to grapple with, however. I will give you one example: the transport policy. Getting us out of our cars could prove much more difficult and much less comfortable and convenient for us, although, given the rising price of petrol, it could be cheaper.

[40] It seems to me that there are still some outliers, shall we say, in transport policy and economic policy, and there are some very obvious outliers in health policy. In fact, the report on the picture of public services that we shall look at later this morning pinpoints the health service as a place where there is not a long-term view. In my constituency casework, I have dealt with an obvious case of this in the last month. How do you think you are grappling with those more difficult issues?

[41] **Dame Gillian Morgan:** I will use a different example, which we used when we

interviewed the chief scientific adviser. If you are going to handle sustainable development, it is about making a series of trade-offs. If you take something like an opencast mine, the very simple answer to the pollutants and all sorts of things that it produces is to shut it. If you go down the pure green route, that is what you end up with. However, if you shut it, a large number of people will be unemployed, and you will have no wages going into families, which in turn leads to child poverty, which leads to lower educational attainment, which leads to worse health. So, in handling those issues, the debate has to be about the relative benefits of the two sides of the equation, and that will change over time.

[42] The other important issue is that whatever we do, if we are to make this vision a reality, we have to take citizens with us. So, we could very well stop people driving by making petrol 10 times more expensive than it is. We know from tobacco that the price mechanism is one of the most powerful mechanisms to change behaviour, but there would be riots on the streets and it would be unacceptable.

[43] So, in all of this, it is a balance of trade-offs between benefits now, benefits in the future and how far we can get citizens to go with us. That will be dependent on how we tell the story about these trade-offs that we need to make. That is wicked territory, and that is politics. If we are going to achieve that, the challenge for you around the table is how we can have a political story that we, the officials, can deliver, and one that actually takes citizens with us, because we cannot have the separation. It is a very sad fact that, taking what has happened over the last couple of years across the UK as a whole, there is now a greater gap between citizens and the sustainable development agenda and the green agenda than there would have been two years ago, with more people disbelieving the facts and whether we are facing a problem. So, somewhere in this we have failed to take citizens with us in a way that would give you a sustainable programme.

[44] **Jenny Randerson:** Are you in danger—

[45] **Jonathan Morgan:** Jenny, could we proceed with the question that you have been allocated, because there are some issues around the internal financial systems you wanted to raise.

[46] **Jenny Randerson:** All right. What are you doing to address the criticism that the Assembly Government's financial systems and structures are disparate and not fit for purpose? How are you going to better integrate the whole thing into operational systems?

9.50 a.m.

[47] **Dame Gillian Morgan:** I think that at the time the report was done, that was a fair comment about where we were. Since then, we have had what was originally called the financial change programme but is now called IDEAS. IDEAS has given us two things: the single integrated ledger, so we no longer run separate money through each of the individual ministerial departments with their own systems, because we have an integrated system. Integrated with the system is what we are calling 'Managing for Delivery', which is based on the fact that we are clear what outcomes we want to achieve at a global level and that we track back to how we spend the money, what the intermediate outcomes are and what the activities that we do are.

[48] We have also, through the DG system, moved from what I would characterise as having a central finance department that challenged everybody else to have an integrated finance team. So, there are accountants in each of the DG areas who come together on a regular basis with the DG of finance, and have conversations about what to do about getting the money aligned and how they collectively manage it. Before that, it was much more a case of, 'What are you doing?' and 'What are we doing?' However, it now works much more as a

collective team.

[49] In fact, when you look at our annual audit report, you will see, through tracking the audit reports over the last two or three years, how that system is producing change. It is allowing us to close accounts much earlier. So, I think that that side of it is now coming on. In parallel, we have been refining the policy-making tool. We had the tool which was the gateway and, overall, that did quite a lot and we have had a lot of things that have gone through successfully. However, it did not allow a very early debate in order to try to get a richness so that it was not just experts debating the policy, but people who are experts on policy challenging the thinking. We are calling that the ‘policy mill’, which is meant to be where we grind the ideas around. That is a very different approach, which introduces new ideas that experts do not necessarily have because they tend to think down tramlines rather than laterally.

[50] **Jenny Randerson:** Getting new ideas sounds good. Going back to your opencast mine, that pragmatic approach could lead to rather tame government that stays within the accepted public norms, rather than pushing the edges and doing something really bold. How are you ensuring that the bold thinking is still there?

[51] **Dame Gillian Morgan:** Part of that relates to how we have brought the economic and the analytical services together—close to the centre of the organisation with a remit to provide challenge. So, many of these things, as we go into the future, will have effectiveness statements in terms of what works, what we know, what the economic data are and what is best in class elsewhere. So, we are starting to build a different type of information base to underpin our decisions, which we did not have in the past.

[52] We have a very talented economic department, but it has actually worked over there in the past; now it is at the heart of what we do. We are developing a very small strategic policy team, not to tackle the detailed policy, but to establish these inter-linkages and to say, ‘Hey, have you seen that if you do that bit there and that bit there, they will come together and between them, you have a pretty good policy? If you do them separately, you will have two half-baked policies’. So, we are trying to apply that central challenge to everything we do. However, at the heart of it and of the financial stuff is the fact that we only have one finance team now rather than what we had before, namely a central team and other teams. It is now a single finance team.

[53] **Jonathan Morgan:** Before I move to Jeff Cuthbert’s next question, are you absolutely confident that you now have an integrated approach to budgeting and planning that is built on the principle of sustainable development?

[54] **Dame Gillian Morgan:** I think that we are on a journey, which has lasted just over 18 months. You are talking about a massive cultural change, which takes three years. So, if you ask whether we are where we would expect to be on this journey, I would confidently say that we are doing pretty well. If you ask me whether we have finished the journey, I would say, ‘Absolutely not—no way.’ So, we have not covered 100 per cent of where we should go and it would be untrue to say otherwise.

[55] **Jonathan Morgan:** So, if you are on a journey that takes at least three years and, if we were to return to this matter in 18 months’ time, would you be confident that you should be where you want to be?

[56] **Dame Gillian Morgan:** I think that in 18 months’ time, we will be a lot farther along the journey. We are not aiming to spend all of our time to get 100 per cent right because if we try to get 100 per cent right all of the time, we will spend all of our time worrying about it and putting money into things. If in 18 months’ time, we are 90 per cent right, I think that that is

about as good as it gets. I would not necessarily want to be more than 90 per cent right because such accuracy would take innovation out of the system. So, I hope that we are a lot further on, but it will not be perfect because it will not be perfect.

[57] **Jonathan Morgan:** Thank you. Jeff Cuthbert is next.

[58] **Jeff Cuthbert:** My question relates to grant schemes. There seems to be little reference to sustainable development in terms of the Assembly Government grant schemes. I will link my supplementary question to that now in order to save some time. How do you intend to embed sustainable development within your grant schemes, perhaps, for example, by amending terms and conditions and possibly by introducing greater monitoring requirements?

[59] **Dame Gillian Morgan:** We have just put some money in for a complete review of our grant schemes. I am sure that you will ask us questions about that at some point. Grant schemes are one area where we feel least developed, not just in terms of having sustainable development embedded in it, but in the whole management of our grant schemes. The reason for that is that we have tended to manage grants that have been spread out through the organisation. We have an awful lot of grants and we have little pockets that are managing grants in the organisation.

[60] We are currently looking at, and have just resourced, a review that would fundamentally change how we manage grants—so that there would be much more centralisation—how we commission grants and how we monitor them in order to make the process much more systematised. So, at the heart of it, we aim to reduce the management overhead that we currently spend on managing grants ineffectively. So, we have not sorted that one, but we have just funded a business case that will give us a much more integrated system. This time next year, I should be able to answer that question much more clearly.

[61] **Jeff Cuthbert:** Very quickly, it is felt—and I know this from Europe more generally—that the culture of a grant is often counterproductive to sustainability.

[62] **Dame Gillian Morgan:** Exactly.

[63] **Jeff Cuthbert:** Do you think that that is the case here?

[64] **Dame Gillian Morgan:** I think that grants have been handled within every bit of the organisation and have been seen as tools to achieve a single purpose. So, if I dealt with roads, grants that I provided would be to do with roads. Once we move to an integrated system where grants are about how we, as Government, achieve our purpose, which is what we are trying to move to, then you are in a very different situation. That is an enormous transition because that means that there are individual teams and that there is a different attitude to how we use grants across the whole of Government. That is a journey that we are starting on and is a top priority for this coming year.

[65] **Mr Bates:** I think that a lot of grants that have a sustainable development purpose, such as, improving wellbeing and avoiding misery, are not labelled as such or are not channelled through an official sustainable development channel. So, if, for example, we spent around £140 million on the ‘Supporting People’ agenda through the housing system, local government and a large number of third sector organisations, that money is there to pick up some very poor outcomes that particular groups have and to try to deal with them. In my view, those grants are focused on important social and equality objectives that we have embodied in the sustainable development scheme. We just do not label them as sustainable development. A lot of things that we are spending money on are doing good things that we would want to do in a world that looks to the future and emphasises sustainable development.

So, it is not a bleak picture by any means.

[66] **Jeff Cuthbert:** Is what is important there the quality of the outcomes and building on good practice?

[67] **Mr Bates:** Absolutely, and that is the direction in which we have gone—we are moving our focus from inputs to outputs and then to outcomes. The big sea change in how we are reforming our approach to business is in outcome focus and citizen focus; both are very strongly aligned with the direction that we are taking on sustainable development.

[68] **Dame Gillian Morgan:** Perhaps that is an offer for you. If you want to see how we are developing our IDEAS framework—and we have examples of our sustainable development activities—we would welcome showing it to you. It is a computer system where you can look at the high-level outcomes and the activity that we do to begin to deliver against them. Most of those high-level outcomes are, as you would expect, cross-cutting across the organisation. I would welcome setting up an informal briefing for you if you wanted to see that.

10.00 a.m.

[69] **Jonathan Morgan:** Thank you, Permanent Secretary. It would be useful for the committee to have an informal briefing on the system that is currently being used, so thank you for that.

[70] We will have a brief supplementary question from Janet Ryder before we go to Sandy Mewies.

[71] **Janet Ryder:** I have a brief question. Last week, the Finance Committee took evidence from Higher Education Wales, which suggested that the pot of money that had been made available to encourage the higher education and further education sectors to change and become more sustainable in the way they are working was not being offered as grants any longer; it was being offered as loans and the take-up has been very low. That would reflect what Jeff has said, that a grants culture will not encourage change, whereas a loans culture, even if it had a zero interest rate, will mean that you have to embed that change in your culture.

[72] How much is that going to be reflected in Government thinking now, in really encouraging the change that we are going to have to see in the way that public services are offered? If that poor take-up by the HE and FE sectors is symbolic of the way the partner organisations have not yet bought into this organisation, what can the Government do to ensure that the embedding that you are doing in your own department is feeding into partner organisations?

[73] **Dame Gillian Morgan:** I am a great fan of loans, because they make you focus on your own activity and what you are going to do. In a delivery organisation, it puts you back in control. You have to have a business plan. Our move from grants to loans is going to be a trend over the next few years, and there are some business reasons for that. It will pull money back into the pot that we can then reuse later. So, it is a prudent way of using money over the next few years.

[74] Our experience thus far of the invest-to-save fund, which was our first loan scheme, is that people have been reluctant to use it. That is exactly the issue: people wonder why they should pay it back because if they wait long enough the money may be handed out. This year, we are beginning to see significantly more bids coming through as people begin to get their heads around the sorts of business cases that you need to make, which are no different from a

business case for any other capital investment. If you are not going to produce a saving where we currently are by doing some of these things, then good prudent staff will not do it. The saving for higher education is absolutely significant if it tries to do these things.

[75] So, our story with them has to be, 'How are you managing your money? If you are not doing these things, where is the money going on students? Do not tell us you are short of money invested on students if you are not putting in the best and the most sustainable type of buildings that you could possibly be putting in'. So, it gives us a different challenge role in the dialogue that we need to have with external organisations.

[76] **Sandy Mewies:** Given that you have already referred to the policy gateway integration tool and, indeed, the policy mill that follows it, in the draft implementation briefing you are going to send us, will you also include how you will communicate with the recipients of grants and Assembly Members? The system is so disparate sometimes that pulling together what is available is difficult. I would like to know how that is going to be communicated and whether you have done any work on that, because it is also about sustainability. What sanctions, either for grants or loans, if they are not sustainable, will be put in place? Have you done any work on that? Could that be part of the briefing?

[77] You have explained what the policy mill is already. The policy gateway integration tool took a long time to develop. Do you have any ideas why it has not been in use consistently? Is it by putting it through the mill that you will ensure that it is applied consistently in the future?

[78] **Dame Gillian Morgan:** One of the ironies is that, across the UK, developing good policy is a major civil service issue at the moment. The way that the civil service has been working over the last few years is to develop heads of profession who have particular expertise in the area. We in Wales, because we are a Government, have 26 heads of profession who have the responsibility for training, development and professional development. It is through the head of profession and the competencies around the policy profession, which is now defined within the civil service competency framework, that most of the training development will be done. We want more people to get the training to develop the competencies. We are at the leading edge; we ranked third last year out of all civil servant departments for our implementation of the policy framework and the competencies for government framework. That has become a much more vibrant community with regular meetings and training.

[79] What is most important is getting it into the eyes of managers early on that this is an important thing that they must go through. It is also a matter of getting in some sort of discrimination. Policies vary. We have big policy and we have policy that is so tiny that you do not necessarily need it to go through the policy mill, you just need a good standard of policy. So, we have to get managers to be discriminatory and to understand that if a policy is above a certain scale, it must go through the mill because that adds value to the process rather than delay.

[80] We are beyond the tipping point on that. We are at a stage where, for the policies that have gone through, people are saying, 'This was a valuable part of the process, we are glad we did it'. That will be more powerful than any of the other mechanisms we put in. If it is seen as a way of preventing people doing things, that is not going to actually encourage people. So, the issue here is about the leadership of the directors general in each area, their understanding of the policy developments and their insistence on the tool being used throughout the organisation. I will and I do hold the directors general accountable for doing that.

[81] **Mr Bates:** She does. I want to just make a quick comment on this. There are several

levels at which policy is formulated. We now have a process, the gateway, the mill, through which policies can be pushed. We have a new threshold stage, which is something that is supposed to happen early on and gets eyes on it at an early stage. The things that we have been discussing on our board are a bit more fundamental than that. It comes back to how deep and fundamental you want the sustainable development agenda to be. If I may, I will use a brief example.

[82] David Hawker, the director general for children, education, lifelong learning and skills, and I have been talking about what approach we should take to at-risk families—highly dysfunctional families. In thinking about that, you can see that a dysfunctional family will create a large number of costs across many different silos—the drug action team, social services, housing, the criminal justice system—and a lot of disruption to the system as a whole. Almost no-one in the system has a whole view of that and is capable of making the investment in that family that would get it back on track and reduce all of the future costs. So, in thinking about wellbeing over the long term and getting the maximum return on our investment, we may want to have an almost entirely different approach. That would not be picked up by something like the policy gateway or policy mill; it is back to first principles. That is the place we are really trying to get to when we are talking about the wellbeing agenda. Let us think about these things: a wellbeing maximising approach from first principles, whether we need to redesign around intensive family interventions and how we bring that together.

[83] That is the sort of change that we are trying to introduce, which I see as a sort of deeper, more fundamental approach to sustainable development as applied to public services than we would get through the gateway approach, which in many ways takes what is already intended and makes sure all the correct linkages have been made. The question is what is already intended, and that is the interesting strategic challenge.

[84] **Andrew R.T. Davies:** The policy gateway integration tool does make my eyes water a bit, to be honest with you. Many of the acronyms that I have heard this morning also remind me of the show on Radio Wales today, which touched on how the public get disconnected when acronyms are used and say that is not really the real world that they live in. I have most probably heard a fair few of those from this morning as well.

[85] It is about taking ownership of the sustainable plan that you have. I have most probably picked up a few strands in answers to other questions about the accountability, who will monitor it, and about ownership. As this is a specific section, could you give the committee the assurance that there is ownership across Government of the plan and, above all, that the accounting for the plan's development is clear and concise? I think that you answered that point in response to an earlier question, but, for clarity, could you confirm that?

10.10 a.m.

[86] **Dame Gillian Morgan:** Yes. Just to reassure you, when I saw it called by the four initials, I did not know what it was either. We just call it 'the gateway' because it is simple. It is still our own acronym, but it is simple.

[87] My answer to that would be that, at the very highest level and down through a number of tiers, we are completely there. Another thing that you will not like is the vogue in management speak at the moment for what they call the 'lift statement', which is if you get in the ground floor of the lift and you are going up to the twentieth floor, how do you describe what you do to someone? It used to be a question of what you say at the bar, but it has gone sustainable and anti-alcohol, so a lift is used now. That is what we really need so that everyone can articulate their job and how it fits in with sustainable development. We are not there yet. That is the long journey. The top of the organisation is absolutely supportive of this

and is fully committed.

[88] **Andrew R.T. Davies:** Obviously, previous sustainable development plans have been evaluated, including an evaluation by Cardiff University in 2003. The audit office looked at it in 2008 and found that the buy-in was not there and that substantial issues were still outstanding. Are you confident that the new plan will address the issues that were first highlighted by Cardiff University and then subsequently highlighted by the audit office, such as not having buy-in from the organisation?

[89] **Mr Bates:** One of the things that the Permanent Secretary has asked me to do is to make sense of the central organising principle of sustainable development and consider what this means for the organisation. This has been the focus of one of the strands of my work. To be honest, it is right that if you were to go and survey everyone in the Welsh Assembly Government now, you would get a lot of diversity in what people think sustainable development is. That was picked up in the survey that Wales Audit Office did for this report. Some of that would still persist today.

[90] However, we now have agreement in the board and the top of the organisation about what we mean by this and how we will embed it. It is about focusing on maximising wellbeing over the longer term, taking care over the distribution of wellbeing and surfacing hard choices. I gave the example of the family intensive interventions, but there are many other examples like that in health, criminal justice, education, environment, housing and planning, and economic development. It is trying to find those equivalent strategic changes that maximise wellbeing.

[91] It is also about using the evidence base that we have and being convincing about that. We have given the evidence on the example of energy efficiency, which we are beginning to favour for investment, the marginal investment over, say, renewables, because of the wider benefits that flow from it. That is an explicit choice now.

[92] Finally, it is about this almost political project of bringing the public along, engaging citizens and making it a citizen-based enterprise, which is about doing things that we would broadly call 'good government'. It is about being open, exposing yourself to scrutiny, using independent advice, doing things that build trust, going for long-term gains—ideas that provide big slow wins over a long time rather than always going for quick wins. Such things are about building trust and a relationship with the public that allows us to go further along this journey.

[93] When we start to talk about those things and be concrete about what they mean in practice for people's jobs in language that they use, we are starting to find that we get a really good interest and buy-in rather than them feeling that it is something green that is being done to them, a sort of compliance exercise. It is much more fundamentally concerned with the core of their work. So, that is starting to work for us, but I cannot pretend it is something that we can just snap our fingers and hope it will be in place. It is about winning hearts and minds. We have the words; we have to win hearts and minds. That will take some time.

[94] **Dame Gillian Morgan:** One of the things that we did not do—and I was not aware until I read the original—was include any sustainability questions in our staff survey. That was on methodological advice from our social research division and because we will be part of a whole civil service staff survey so all the results are comparable as of next year. So, we have not done that.

[95] Since reading this, I have been thinking about how we can do this. We have another vehicle in that we have just got the silver level of Investors in People. We are the first public organisation to get that. That focuses on staff surveys. We used the last one about us as a

single organisation because we are still dealing with lots of organisations that have come together and it is about how we make ourselves feel that we have an identity. That was very satisfactory. When we come back to look at that, it seems to me that sustainable development would be a very good thing to use the Investors in People methodology for. We will think about taking that away because we failed to deliver the action that we said we would.

[96] **Janet Ryder:** Paragraph 2.48 of the report describes the synergy between the Assembly Government's intention to focus on outcomes and its commitment to make sustainable development the central organising principle. You have talked a lot this morning about how you are trying to embed, or how you intend to embed, that principle. You have said already this morning that you are still on a journey. From some of the things you have said, it sounds like we are still at the very early stages of that journey and there may still be some way to go. When it is embedded, what will or should this new performance management system look like to truly deliver a sustainable form of government?

[97] **Dame Gillian Morgan:** This is why I offered you a demonstration, because it is quite a complex relational database with all the things that we do. We could show you in half an hour with a computer screen how you can go from what we are trying to achieve in outcome terms and drill right down into what it means for Joe Bloggs working and the things that he is responsible for. It is one of those things that is easier to show you than to describe.

[98] **Janet Ryder:** Will that include the shift in how the Government is dealing with other agencies as well; for example, the shift away from grants to more loans?

[99] **Dame Gillian Morgan:** We can include that as part of the piece of work, but probably the easiest way to look at the grants work is for the Wales Audit Office to look at the outline programme—I think that you will be party, and have been party, to it, because you helped to shape it through the useful comments you made about the inappropriateness of our current system—to get you to look at the business case, because we are at the stage of mapping out how we make this reality in the organisation. That business case will be completed by September. That is where we are on that timescale.

[100] **Jeff Cuthbert:** My question is about leadership. You may feel that you have dealt with this, to a large extent, in your answers to the last two questions—and I think that you have. However, I will ask it in case there are other issues that you want to bring in, as this will give you the opportunity.

[101] You mentioned in your answer to Andrew R.T. Davies that you have achieved IIP status at the silver level. I have a good idea of what that means. Where do we go from here on leadership? How do we truly embed it? What is the role of leadership for you and for others involved in that process for future Assembly Government decision making? Would it mean, for example, that we need to revisit existing policy like 'Making the Connections', where sustainable development at the moment is just one criterion as opposed to a guiding theme?

[102] **Dame Gillian Morgan:** For me, leadership is everything. Organisations only hold people together; it is leadership that makes the difference. Between the original survey work and now, the big change has been bringing in a smaller, manageable team. When I started, there were 24 people sat round the table. That is a conference, not a management team. We now have a much leaner, much more direct line through to the directors general who meet on a regular basis, who agree exactly what they are going to do and agree how we explain it to the world, because consistency is important for leadership. So, I think that we now have a leadership team that is up for this and is using the language wherever they go. That is the first step.

[103] The second issue is that we are strengthening our performance management systems.

Performance management has often been seen in the organisation as something you do to get money.

10.20 a.m.

[104] Performance management is about how you articulate what you want to deliver for the organisation and how you negotiate the support you need to deliver those things. So, we are doing a tremendous amount of training through the organisation about what good performance management is like and how to have uncomfortable conversations when people are not delivering. These things may have been fairly common outside the civil service but it is unique within the civil service to be building it up as tightly as we are. That is one way of getting the thing through.

[105] In parallel, we have invested in an internal communications function, which I do not deliver but I am extremely proud of the people who deliver it, because we know that when we want to get a corporate message out, we get about 90 per cent penetration of the organisation, which is absolutely remarkable. The next stage is that we need to be using that mechanism to talk about the sustainability agenda, because we know that that will go through. One of the reasons that we got the silver level was the quality of our internal communications.

[106] We are now in a position of having not only a framework for performance management but clarity about the leadership. We are rolling out the leadership. As I said, since I have been here, three or four times a year we run an event for everyone in a management position that at least one or two of the directors general talk at, and this is featured in each one of those. So, we have a good cascade as a formal mechanism, and now we need to put our communications mechanism in parallel. Those are the two ways to get the messages through the system. So, I am fairly confident that we now have the systems in place.

[107] **Jeff Cuthbert:** Very briefly, who monitors the senior leadership, in that case? In order to achieve what you say you want to achieve—and I do not doubt that for one second—are there independent checks, for example, through the IIP process or by other means?

[108] **Dame Gillian Morgan:** We have a number of checks. We have an annual staff survey. We have been particularly focusing on the measure they call ‘staff engagement’, which relates to whether people see themselves as part of the organisation. We know that we have had significant improvements in that. We have a regular stakeholder survey. We are currently in the process of asking all our people what they think of us. There is a set of questions to ask what they think of us. Both of those are used to frame our annual organisational development programme. We have IIP assessments on a regular basis and we also routinely benchmark ourselves.

[109] We also have accountability because, on our board, we build in non-executives to bring challenge. That was something that came out of this committee. When I started, we did not have an independent chair of our corporate governance system, and one of the things I introduced early on was independence in corporate governance throughout the organisation. So, we have a series of six corporate governance teams that look at how we are managing the risks and whether we are delivering what we say we do, and each of those has an independent chair. On top of that, of course, you have the ministerial business and process. So, we have built in all the checks and balances you would expect to see in a much more commercial organisation because we need to deliver the best of the commercial world within Government in terms of being a twenty-first century business.

[110] **Jonathan Morgan:** The report is clear in its criticism of what has happened over the past 10 years with regard to communication with staff, making sure that staff have clarity of roles, leadership and are aware of their part in the process, and ensuring sustainability within

the decision-making process. Throughout this evidence session, for the past hour, you have used terms such as, 'When I started', 'Since I arrived', 'When I arrived' and, 'Since I have been here'. I get the distinct impression, Permanent Secretary, that what has happened since 1999 is that the way in which government and decision making has addressed sustainability has plateaued. When you took over as Permanent Secretary, you clearly had a greater interest in this particular facet of decision making. Can I assume that the improvements that we have seen are down to the new interest that we have within government as a result of your appointment?

[111] **Dame Gillian Morgan:** I think that the difference I bring is that I was not a traditional civil servant, so I have looked at the civil service processes with the eyes of someone who used to deliver in external organisations. So, the difference I brought, really, is not to the civil service per se but in trying to put in the sorts of structures and systems that you would expect to see both in a commercial organisation and in a delivery organisation.

[112] In relation to the pure civil service, the quality of the policy making and so on, I have made little difference to the core skills, but I have brought, I think, a more businesslike approach to how it is put together. That is no criticism of the past, because when we did our stock take, which looked at where we would have been had we continued to work in the way that we worked in the past, compared with Whitehall departments, the Welsh Assembly Government would have been eighth out of 22. So, we were doing okay. If you come from much more of a delivery organisation then doing okay is not good enough. The ambition is to be the best, and I am afraid that that is a bit of a personal driver for me.

[113] **Jenny Randerson:** You have just mentioned your success in getting messages out to staff and increasing staff awareness, but earlier you said that although the senior management team was fully signed up and fully aware of sustainable development, it would not be true to say that that permeated the whole organisation. Can you give us some practical examples of what it means to be introducing sustainable development into the skills and competence framework for staff?

[114] **Dame Gillian Morgan:** I will use a practical example that we are currently working on. At the moment, we have a programme running that tries to engage every member of staff, which is called 'managing with less'. It is about the reality of us delivering our contribution to the reduction in the public sector. As part of that programme, we are asking people to come up with things that will not just save money in the short term, but will deliver long-term sustainable solutions for us as an organisation. We have only just started the programme. We have already had 360 sets of ideas from people in the organisation, of which only a very small number have been scurrilous. Most of them have been extremely helpful. We have an engagement process in which every member of the organisation will have a conversation about that, and all of that will come in on 26 March.

[115] That is embedding the idea of everyone thinking about sustainable development but in the context of where they work and how they do their jobs. There are things that, at one level, sound funny but which are serious. For example, we have a lot of stationery spread across the building. We, therefore, have a lot of stationery that never gets used. So, the suggestion was to bring it together. Such suggestions are coming from the staff as a result of thinking about us. That is part of it. Then we have things that are about much more formal training. However, using it in practice and seeing how this affects you today in your business provides that transformation element. That is what we have to get through the organisation.

[116] **Mr Bates:** I have a couple of quick thoughts on this. One of the things that we are trying to do is to raise the quality and level of understanding of economics and economic appraisal techniques, which are fundamental to this because it is a strategy for value for money, knowing what you value and getting as much of it as you can for the money you have

available. So, that is something that we are doing. We are trying to build much more economic challenge and economic thinking into the way we are doing policy.

[117] Another area that I am personally leading on is a sort of crusade to improve the understanding of behaviour change techniques. We have adopted a particular model for behaviour change, which, again is integral to the sustainable development programme. We cannot control everything directly; we are trying to nudge and move people along so that they make the decisions but with our influence. So, we have adopted a good behaviour change framework from the sustainable development world and we are now promoting that. I am doing a series of roadshows and presentations to all senior civil servants about this, and we are starting to see that framework being used to drive the way that people are thinking about the behaviour change elements of the policies that they are bringing out. Those are a couple of examples.

[118] **Jenny Randerson:** In addition to that, when do you think the work on mainstreaming sustainable development into job descriptions and the skills and competence framework will be completed? How does sustainable development feature in your own personal performance agreement and that of your directors general?

10.30 a.m.

[119] **Dame Gillian Morgan:** We are not intending to reissue job descriptions to every member of staff, because that leads to a set of bureaucracy, so the answer to the question of when it will be in everybody's job descriptions is when there has been turnover of every post or when we have a substantial change. It is much more important to get it embedded in how we do business.

[120] As for my personal objectives, I have a number of things that I am monitored on, most of which are about us as an organisation and are to do with the green agenda. For example, we have committed ourselves to 10:10, which involves reducing our own emissions as the Welsh Assembly Government by 10 per cent in 2010. There is regular monitoring of the amount of carbon and various things that we put out from buildings and so on. So, my target and the set of performance indicators that are part of the assessment, which is done by the First Minister and the Cabinet Secretary, include those sorts of measures.

[121] On the directors general, it is about how they contribute to the corporate agenda. If the corporate agenda is about sustainability and how we have a sustainable development feel to everything we do, that is within what I expect them to do corporately. So, even if you can say that the job that they are currently working on is a long way away, I expect them to be contributing corporately. That is done through formal mid-year and end-year appraisals, through monthly meetings where I try to understand what the activity is, and through the challenge.

[122] **Sandy Mewies:** My questions, again, are going to ask for examples of success stories, but will focus this time on sustainable development in the role of procurement. The report mentions that, despite leading some positive initiatives, Value Wales does not take sustainable development as the central organising principle for all procurement in Wales. Therefore, what steps are being taken to ensure that all procurement in Wales is sustainable—this is a great target for you—and do you have any exemplars?

[123] **Dame Gillian Morgan:** There is a sustainable procurement scheme that has five levels to it. Currently, we believe that we are at level 3 on the sustainable development framework, and we are committed to reaching level 4 by the end of the year. The way in which we are managing it through is having a senior responsible officer whose job is to co-ordinate across all the departments to make sure that we deliver that. It is part of the formal

project management frameworks that are set up and evaluated.

[124] So, we are managing this as a project rather than as something that we will just achieve. The senior responsible officer's responsibility is to make sure that he has action plans for each of the directors general and with Value Wales about what they will do to demonstrate substantial improvement from now until the end of the period, which is when we aim to reach level 4. When we reach level 4 we will aim to reach level 5. So, we are managing it as a project. We do not think we are there yet.

[125] **Sandy Mewies:** Are you aware of how many public sector organisations have action plans to make their procurement more sustainable, in line with Value Wales?

[126] **Dame Gillian Morgan:** I do not have that figure in my head.

[127] **Mr Bates:** It is fairly pervasive. We are trying, as much as we can, to get a single procurement system. We have xchangewales. Where we have leverage with the money that comes through the block grant, we are trying to insist on sustainable procurement methodology as quid pro quo for getting the money. I think that the Permanent Secretary's view is right. It is not a case of being either unsustainable or sustainable; it is about the degree, and there are difficulties in doing it as we go along. There are lots of different pressures on the people who undertake procurement, but we are definitely making progress, and most of the public sector partners are making progress along the same lines as well.

[128] **Jonathan Morgan:** I do think that Sandy raises an important point. In respect of requirements on public bodies regarding their own action plans, are they required to take into account how sustainable their procurement is with regard to the Assembly Government's own strategy in Value Wales?

[129] **Sandy Mewies:** In addition, if they are not sustainable, what do you do about it?

[130] **Dame Gillian Morgan:** You have two things. The reality is that you have an awful lot of people who sign up for things and never do anything. Any time you have a scheme and a system, people sign up. The best thing that I can do is get an up-to-date statement. I have seen the figures in the last couple of days, but I have not got them in my head. The only figures that I have in my head today about sustainable procurement are the following: if you go back to the early 2000s, about 35 per cent of what we bought came from Wales, whereas now over 50 per cent of what we buy comes from Wales. I have seen a figure in the last couple of days, but I do not have it in my head, so I will send you a note on that, if I may.

[131] **Mr Bates:** We have a charter for SME-friendly procurement, which is one aspect, but, obviously, it is not the whole thing. All Welsh public sector bodies are pretty much signed up to that. Again, if you look at that particular aspect of it, there is fairly complete coverage. We have the Buy4Wales and Sell2Wales mechanisms in order to create a marketplace, essentially, for Welsh businesses to get engaged. That has been the sustainability focus, namely making sure that the benefits of procurement trickle back into the Welsh economy and to communities. That has been the prime focus, and there are also standards for green procurement and so on. So, again, it is progress. It is not absolute and complete, but it is definitely progress.

[132] **Jonathan Morgan:** Thank you. Janet Ryder has the final questions.

[133] **Janet Ryder:** Of all the things that you have said today—and you have described a lot of change this morning—are you confident that the changes that you are making to the way in which the Government operates will in themselves help to embed sustainable development? If they will not in themselves help to embed it, what else might need to be done

to achieve that?

[134] **Dame Gillian Morgan:** I believe passionately that sustainable development will be delivered when everyone in the organisation frames it in all that they do and think. We are putting in mechanisms to make a coherent, joined-up organisation that sees itself as an organisation with a purpose, which is about the wellbeing of Wales, its citizens and its communities—the three dimensions. That is the only way to produce systematic change. It has to be led by people's hearts, and that is what we are working on. From evidence that we have from our staff engagement, I think that we are doing quite well on that, although I will be careful because we expect the results of the staff survey to be out this week. I hope that I am not going to be disappointed, but I think that we can show evidence that we are creating that coherent sense that, as well as being there to serve Ministers, we are there to make sure that we have a meta-purpose, because that is what people go to work for. We know that 65 per cent of the people who work in the Welsh civil service express their purpose for coming to work as being to make a difference to the citizens of Wales. That is about the most sustainable statement you could possibly have, and it is unique within government across the UK. That is what will make a difference. It is all about people.

[135] **Jonathan Morgan:** That is a very good note on which to end our session. Thank you very much for being with us this morning. I am grateful to you for giving evidence to the committee.

[136] **Dame Gillian Morgan:** Thank you.

[137] **Jonathan Morgan:** Before we move to the next item on the agenda, I will say that we will return to this matter in private session, when we will consider the evidence further and the action that the committee may wish to take.

10.39 a.m.

Darlun o Wasanaethau Cyhoeddus: Brîff gan Archwilydd Cyffredinol Cymru A Picture of Public Services: Briefing from the Auditor General for Wales

[138] **Jonathan Morgan:** The next item on the agenda is on the auditor general's report, 'A Picture of Public Services'. It was published yesterday, so I suspect that members of the committee were up late last night reading it. I welcome the auditor general, and Rob Powell and Mark Jeffs, who are supporting the auditor general for this particular item. I will ask the auditor general to brief the committee, and we will then raise a number of issues with her before deciding what action to take.

[139] **Ms Body:** This is a rather unusual report for us to be presenting to you. There is a series of products that accompany the report, including an efficiency checklist, some research on the use of systems thinking, and we have also updated our good practice exchange with a series of case studies on innovation and efficiency.

[140] It is one of those cases where the external auditor says to the audited body, 'We are here to help you,' and I think that that is believed as much as, 'The cheque is in the post.' In this case we are genuinely trying to provide some support and help to public bodies, which are going to be facing 'their biggest challenge for at least a generation', as we have described it in the report.

10.40 a.m.

[141] The report is set out in two parts. The first part seeks to set out the scale of the challenge that public bodies will face over the coming years. There are uncertainties about the

level of cuts that they will face, but, based on the best information that we have at the moment, we think that public bodies are looking at an annual reduction of about £0.5 billion per year for the three years from 2011-12. That is significant enough in itself, but public bodies in Wales are used to sustainable above-inflation increases. It looks like the difference between where they might have expected to end up if that trend had increased and where they will end up will be £5.5 billion. That is a huge change in the level of funding that they will have available to them, and this is a time when demands on the public sector are ever-increasing.

[142] So, the first part sets out the scale of the challenge that public bodies are going to be facing. The second part of the report sets out the lessons that have come out of earlier audit work—much of which this committee has considered—namely the sorts of lessons that public bodies might look to in facing that challenge.

[143] The thrust of the report is essentially that, over the past years, we have seen incremental and steady improvement as well as greater efficiency, but that is not going to be enough to meet the challenge that they will face. The report talks about focusing on achieving more for less, which is not about being more productive and a bit more efficient. It talks about being completely clear about what public bodies are trying to achieve and then fundamentally rethinking the best way of delivering that. So, there is a focus on economy and effectiveness as much as efficiency.

[144] On the lessons that we have set out in part 2 of the report, we talk about better strategic planning, that is, having clarity about what they are trying to do and basing it on better information about what the public needs and wants, having a clearer direction in strategies, and also making better use of information to monitor performance against plans. We also talk about better collaboration between organisations, because the outcomes that they are trying to achieve are unlikely to be within the gift of any individual body. So, they need to work collaboratively to deliver shared outcomes for citizens. We also talk about making better use of resources, getting the most out of staff, delivering demonstrable efficiency savings, better procurement, and making the most of other assets such as fleet and buildings.

[145] The challenge is big, and, as auditors, we hope to help in meeting this challenge. In a minute, Rob will talk about some of the other products, namely the systems thinking, the research and the efficiency checklist, but perhaps I will just turn to Mark to explain where the figures have come from in the first instance.

[146] **Mr Jeffs:** I think that it would probably be helpful to talk you through some of the headline figures in the report, how we have worked them out and what some of the uncertainties are in relation to those figures. The one that has captured the most attention is probably figure 4 on page 12, which shows a real-terms reduction in the likely budgets in the block grant of around £0.5 billion a year from 2011-12 to 2013-14. The outcome is that the budget in 2013-14 is likely to be around £1.5 billion less than it is in 2010-11.

[147] We based those figures on calculations by the Institute for Fiscal Studies, which is widely respected for its economic forecasts, and it derives its figures directly from Treasury figures. It has calculated a 3.4 per cent real-terms reduction in budgets across the UK, and that is once commitments in relation to overseas aid are taken into account, which all parties are signed up to. Using that figure does make the assumption that reductions in spending at a UK level will apply equally in Wales, but that will not necessarily be the case. In reality, the allocation from the Welsh block grant, as everyone will be aware, depends on decisions made on expenditure by UK Government departments and how that is then filtered through the Barnett formula. So, there are uncertainties regarding the figure of £1.5 billion, but it is based on the best information that is available at the moment, and I think that it is a well-informed, likely scenario.

[148] While £1.5 billion sounds like a very big number, it does not really fully reflect the scale of the challenges that the public sector will face in respect of change, as Gillian said. In recent times, public services have been used to a sustained above-inflation increase in their budget, which is around 2.4 per cent each year on top of inflation. So, with regard to where they are moving from to where they are going to be, it is not that public services are moving from a position of a zero base; they are moving from a position of being used to having more and more money each year. As figure 5 on page 13 shows, there is actually a much larger gap between where they are likely to end up and where they would have ended up had that trend continued. It is around £2.7 billion in 2013-14, and across the three years the total gap is around £5.5 billion. The figure of £5.5 billion is probably more illustrative of the scale of the challenge and the amount of change that public services will need in order to respond to this scenario.

[149] We say early on in the report that rises in spending have not been equal over the years across the various parts of public services, and it is unlikely that funding reductions will apply equally. However, at this stage it is not possible to give much certainty on the likely impact of protecting different budgets, for example, because there are so many uncertainties about decisions that have yet to be taken at a UK level. It is clear that protecting certain budgets will necessarily have an impact on others and will mean that, if cuts or reductions come, they may fall more heavily on some parts than others.

[150] It is clear that spending areas that rely on capital funding will face particular challenges. Our review of the pre-budget report shows that, in real terms, capital spending across the UK is likely to fall, or is forecast to fall, by around 40 per cent between the peak in 2009-10 and 2013-14. Figure 6 on page 14 shows the impact of such a reduction in capital funding in Wales, although, as with the other figures, that is obviously subject to some uncertainty, and is subject to decisions that are made at a UK level.

[151] So, those are the numbers, and while I have been keen to emphasise that there is uncertainty about the precise figures, there is very little doubt that public services in Wales face quite significant reductions in the amount of funding that is likely to be available to them in the coming years. As Gillian said, the key issue is how public services now respond to that in order to achieve more with less. Much of the rest of the report summarises the work that we have done and the key lessons that have come out of that over the past five years. As the report is already a summary of five years' work, I am not sure that it would be that productive to try to resummarise it at this stage. So, I will now hand you over to Rob, who will explain a bit more about the additional products and the work that we have been doing with the companies in this report.

[152] **Mr Powell:** I will just talk you briefly through some of the supporting materials that we have issued alongside this diagnostic report. First of all, the scale of the problem, clearly, will demand that public services manage innovation more effectively. In the future that will be a core competence. On our Good Practice Exchange website we have issued some materials that describe principles of effective management of innovation, which we hope public sector bodies will draw on widely, along with case studies of good innovative practice.

[153] We have also developed, jointly with colleagues from Audit Scotland and the Northern Ireland Audit Office, a self-assessment checklist on efficiency. It is actually a bit broader than just efficiency, as it covers matters of effectiveness in economy. It is designed for senior leaders, non-executives and members of public bodies to use to assess where they are and whether they are compliant with best practice, in order to drive their own approach to the impending reductions in resources. We have done that jointly so that public bodies in Wales, Scotland and Northern Ireland are drawing on something that we all agree contains the key points for public bodies to consider.

10.50 a.m.

[154] The final product is the largest of the three and it is academic research that we commissioned on the application of systems thinking in the public sector. We have published a detailed report, which was produced by a unit in Cardiff University. It is based on three in-depth case studies of the application of systems thinking in Blaenau Gwent County Borough Council, Neath Port Talbot County Borough Council and Portsmouth City Council, so two Welsh authorities and one English. The Blaenau Gwent example was council tax and housing benefit service, Neath Port Talbot was disabled facilities grants and the Portsmouth example was housing repairs.

[155] The case studies show the impact of systems thinking in particular localities. In all three cases, by thinking very differently about how services are provided, designed and particularly how performance is measured, there have been sustainable improvements in results—often often with fewer resources or certainly within the same resource envelope. Even better than that, on occasion there have been much wider savings across other parts of public services as a result of reconfiguring the way that services are provided. Members may recall that some of these ideas around systems thinking were very influential in our recent report on unscheduled care, which I talked to you about in the latter part of 2009.

[156] I do not propose to go into the detail of the systems thinking report because it is a long report and there is quite a lot of theory in there, but there are four or five really salient points that I think are worth highlighting for Members this morning. There are some real links with the evidence that you took earlier on on sustainable development decision making from the Permanent Secretary.

[157] The first point is that systems thinking starts with purpose—what is the public service there to achieve for the citizen? Then you try to understand demand from the citizen's perspective. Public services often measure their own performance in terms of activity rather than what the citizen wants them to deliver, and there is a subtle distinction there, because activity can relate to services not working optimally, and citizens having to make repeat demands on public services to resolve their problem. Our previous work, as the report that we are talking about today shows, reflects the difficulties that public sector bodies often have in understanding the true nature of demand for public services.

[158] Related to that, systems thinking makes a key distinction within demand between value demand and failure demand. Value demand involves meeting the citizen's presenting need—so that might be something like fixing a housing repair problem in a council house, or processing a disabled facilities grant claim so that someone can have a shower downstairs rather than upstairs, or turning up at a convenient time to undertake a repair, rather than at a time that is driven by the way the performance is measured. Failure demand involves a lot of activity, with members of the public having to make calls to have letters explained to them that they cannot understand; it could be someone having to make a call because a repair was not completed at a convenient time, or someone ending up in an accident and emergency department when perhaps an earlier upstream intervention could have resolved their problem more effectively and cheaply. There is a difference between value creating demand and demand that relates to failures within the system.

[159] The case studies in this report show very high levels of failure demand. Often, more than half of the contacts with the service related to so-called failure demand, and by redesigning services, that could be significantly reduced so that more resources were deployed on fixing people's problems first time. That is a key part of the research that we have commissioned.

[160] The third point is that the case studies show that, sometimes, externally specified performance measures and, to some extent, external review regimes, can have unintended consequences. Often these measures have been designed with the very best of intentions to try to improve things for citizens, but achieving compliance with the standards or targets can become a de facto purpose in itself, and can lead to unintended consequences that are sometimes detrimental to service provision. So, some of these councils were performing quite well against the central performance indicators before they redesigned the system. Redesigning the system against purpose and demand often requires new measures of performance to be established.

[161] Systems thinking is very much about allowing the front-line workers to redesign service provision, to set their own measures and to move away from a more command and control type of approach to service provision. That can often require that a lot of people, from the political level down to front-line staff, unlearn the way they have traditionally perceived public service delivery, and learn a new way of approaching public sector management.

[162] The final point, which links with what the auditor general said earlier on, is that systems thinking really emphasises effectiveness as the primary driver rather than efficiency. Improved efficiency in many ways is a by-product of being more effective, and that can be somewhat counterintuitive. In each of the case studies the improvements in the particular service that we were looking at were accompanied by wider benefits. A good example of that came in Portsmouth, where the fire authority got in contact with the housing service to say, 'What has happened on this particular estate? We do not understand why the level of fires has reduced so dramatically'. It seemed to be that that related to greater pride in the estate as a result of more effective resolution of housing repair problems.

[163] In Blaenau Gwent, there was reduced demand for Citizens Advice because council tax and housing benefits claims were being processed more quickly and more accurately. In Neath Port Talbot, there are potentially huge savings across the system by upstream resolution of disabled facilities grants claims, which reduced demand on residential and other forms of social care.

[164] So, this is potentially very powerful. These are case studies, so the application needs to be looked at in context, but the report on systems thinking should be instructive for the wider public sector in thinking about how to respond to the financial challenges that we will face.

[165] **Jonathan Morgan:** Thank you, Rob. Before I invite Members to ask questions, I have a very quick question from the Chair. One of the concerns that I have is that, when public organisations start attempting to address this particular challenge, they will act in isolation. There develops almost a bunker mentality; a panic button is pressed and they start looking at their own organisation without thinking about what could be achieved across organisations. The Welsh Local Government Association has already said is that there will be 3,000 job losses in local government over the next five years. Is there a danger that public bodies could see job losses, foolishly, as a quick fix for addressing the reduction in budgets?

[166] **Ms Body:** Just on the first point about working in isolation, one of the things that we refer to here, but do not make much of, because it is very much happening now, is the leadership that has been provided in the public sector in Wales as we face these challenges. At the end of last month there was a public services summit that was very much led at the ministerial level—a number of Ministers were there, and the First Minister led that. The chief executives of public bodies across Wales were brought together and the message of that definitely, 'We are on a burning platform, we are all on it together, and we will not get off unless we collaborate'. So, that is very much the direction from the top.

[167] Those summits will continue. In the meantime, there is an innovation and efficiency board being led by Mrs Hutt, which is setting out a number of projects that we need to lead on, and pulling the public sector together to tackle them.

[168] So, what we say in the report is that the public sector is alert to these issues. There is action now on how the public sector can work together to tackle them. As for how individual bodies might respond to them, there are concerns about job cuts because public sector pay is so significant in terms of the total expenditure. That clearly has to be an issue regarding the way public bodies reduce their pay bill—not necessarily just through cuts, but ways of looking more innovatively at reducing their pay bill.

[169] What our report is trying to say is that it is important that public bodies do not make knee-jerk reactions just to try to slash costs. What they should do, as Rob has talked about in relation to systems thinking, is think coolly and calmly about what they are trying to achieve, and then redesign how they do it. So, they should do it in a systematic and well-informed way rather than thinking, ‘We have got to cut the bottom line and we will do it’, because if they do that, it is likely to have a disproportionate impact on service delivery and on the people for whom those services are important.

[170] **Jeff Cuthbert:** My questions flow from your initial question, Chair. I thank the witnesses for the report. I certainly found it very interesting but I have to say that, in a sense, it does not tell me anything new. It says that public services have to work together, but that should be the case at the best of times, and ‘Making the Connections’ was published before this tight financial squeeze.

11.00 a.m.

[171] I will use two examples: speech and language therapy in schools, and dealing with delayed transfers of care from hospitals back to home. There have been arguments about the silo mentality that I think that you were alluding to there, and which is apparent. You have two sections entitled,

[172] ‘Public services will need radical change if they are to achieve more with less’

[173] and,

[174] ‘Public services need to work together to deliver improved outcomes for citizens’,

[175] and those are certainly issues that Andrew Davies, the former Minister for Finance and Public Service Delivery, has argued for strongly for well over a year. I have always had the feeling that there is nothing wrong with our policies; it is the implementation of those policies that has not really been up to scratch.

[176] I have two points. I listened to you on Radio Wales’ ‘Good Morning Wales’ yesterday when I was coming into work at about 7 a.m. Naturally, I was concentrating on my driving; you will appreciate that point, just in case there are any police listening, but I still heard what you said quite clearly. The coverage of your report was following by another report on an initiative launched by drug companies called Self Care. I do not know if you heard that. While I am suspicious about drug companies launching initiatives in the national health service, nevertheless they were making a very fair point: that the NHS and social care are the biggest spenders of the public purse by far, and yet they are launching an initiative to encourage people not necessarily to go to doctors for minor ailments, but to deal with pharmacists and consequently to reduce the pressure on doctors’ surgeries and, therefore, potentially save quite a lot of money.

[177] To what extent do you feel that the public services—the NHS in this case—are actually engaging with such initiatives to see if they have merit and whether they can work together to produce a decent service for people, with the valuable bonus of also saving money?

[178] My final point—and then I will shut up—is that, at the bottom of paragraph 1.10 on page 13, you refer to structural funds. I ought to declare an interest as the chair of the Programme Monitoring Committee here. The assumption in your report is that the current round of funding will end in 2013 and there is unlikely to be any more. Now, I think that it is a little early to make that assumption; there might even be transitional funding. Do I therefore take it as meaning that you think that public services in Wales are not making any provision for any continuation of structural funds, and therefore have no plans as to how they might engage?

[179] **Ms Body:** On the structural funds, the public sector is working on the basis that there is absolutely no guarantee that funding on the scale that it has had will continue. So, yes, there might be some transitional funding, but it will not be at the level that the public sector has had previously, which makes it important that we get as much as possible out of the European funds that are available now. You might be interested to know that is covered in a separate value for money study that we are doing currently, so we are very much looking at that question: is the public sector making the most of the funds that are available? Hopefully, that deals with that point.

[180] As for the report not telling you anything you did not already know, everyone has known that hard times are coming. What we have done is try to quantify the scale of the hard times although, as Mark has said, there is considerable uncertainty about that.

[181] You are absolutely right about the efforts that public bodies have been making over past years to meet the efficiency targets that are set out in ‘Making the Connections’. Just in terms of comparison of scale, ‘Making the Connections’ targets have involved efficiency savings of something like £600 million over five or six years. Now we are talking about cuts of £0.5 billion per year, so the level of the challenge is significantly different. That is why we are saying that the public sector cannot really carry on just trying to make relatively small improvements. It has to rethink what it is trying to achieve and whether there are better ways of doing it.

[182] The specific example that you refer to suggests exactly the sorts of systems thinking that we are looking at. By being better in one area you can have a significant impact somewhere else in the system and provide a better service to the public. One of the things the health service has been grappling with for years is its policy of moving people away from the acute hospital sector to treat them closer to home. That has proved a real challenge and you could not say that it is turning the corner on that yet; it has proved quite an elusive objective, even though it has been attempted over a period when there has been a lot of money put into the health service.

[183] **Janet Ryder:** It is a very interesting report, and has probably just put into words what we have all known or suspected for some time. For me, it also shows that we have had a lot of ostrich heads in the sand among a number of public bodies—for example, the reaction of local government at the moment, talking straight away about job cuts when, as your demographic chart shows, they may be facing an increase in service demand due to the increase in the number of senior citizens. I would suspect, looking around the table, that we are all about to enter that age group soon, and the demand on services will therefore increase. Perhaps the Chair might be one of the few exceptions to that.

[184] **Jonathan Morgan:** The Chair of the committee raises a point of order. [*Laughter.*]

Mark and Rob in particular may wish to raise some objections on that point as well.

[185] **Janet Ryder:** I think that the majority of Members around this table may well be entering that age group. An older population will mean greater demand for social services, housing and health care, and they are the areas that you have highlighted.

[186] The knee-jerk reaction seems to be redundancies, reduction of services, perhaps looking at which body should deliver a given service. In fact, the question of which body provides a given service makes no difference at all; it still needs to be provided, so we are not talking about a vast swathe of privatisation. We need to retain those public services, but we need to look at how those public services are provided in a completely new and revolutionary way. We need to get out of the silo mentality. Have you been able to detect anything in looking at this that would suggest that local government is now really looking beyond its authority boundaries, closely examining what it does, and what the health service does, and looking at how they can work closely together?

[187] We have had a very good and clear example in higher and further education; those sectors are still, despite everything, looking at this in the same old ways and not taking advantage, nor looking radically at their internal structures and how they might be altered to improve the service that they offer. Have you seen anything at all, apart from the case studies that you have made, to suggest that public bodies are looking radically at this, and really taking this on board, starting to decide the nature of the public services that we will need to face the future?

[188] **Ms Body:** It is probably fair to say that we did not look for that. This is a snapshot in time, looking thematically across our findings at the use of public money in our range of reports, and identifying the themes coming out of that which, if they were addressed by the public sector, would put it in a better position to face the challenges of the future. We are aware of the initiatives that I have referred to earlier, in terms of pulling together and looking at what is happening, but although we have said, 'Well, the public sector is alert to this', we have not drilled down to ask, 'What is actually happening? Are there some really good examples?'—other than the cases that have come up through the work that we are doing separately on innovation and efficiency.

[189] It could be something that the committee would like to explore itself: this is the challenge, so where is the public sector in its development? Are parts of the public sector not only alert to this, but beginning to equip themselves to take appropriate action in responding to the challenges? If so, could other public bodies learn from them?

[190] **Andrew R.T. Davies:** I agree with you entirely. The piece of work that you have undertaken, as Mark identified, has pulled several strands together and tried to encapsulate all this in one document. As the newest Member on this committee—I am a substitute today—I have been hearing since 2007 that tough times are pending. However, one would hope that the ideology of efficiency and improvement would always have been in place. We are talking about the public's money, which we have taken via taxation; it has been worked for, and we should always have been careful with it. Bodies that receive public money should always be careful with it and get best value.

11.10 a.m.

[191] It is what people talk about down the pub, as it were; they think that the public sector has had these considerable increases, as you have identified—I think 2.5 to 2.75 per cent over inflation in real terms over the last couple of years. So, there is an element of insulation around some of these organisations, if not all of them. Would your analysts looking at this situation say that there is no fat to cut, and that there are no tolerance levels that could help

absorb some of this £1.5 billion that we are talking about over the next three years? Obviously, the public perception is that public services have had a very generous settlement over the last decade, and so it is now time for that corporate mentality to change, and for the public sector to do what it should always have been doing: spending every pound wisely and carefully.

[192] Rob touched on systems, and talked about allowing front-line staff to model services, as far as possible. Yet in reality, the reverse tends to happen when the financial situation gets tight, in that the centre tends to reign in more control because that delegation of authority—and this is in both the private and the public sector—is seen as giving away too much responsibility, so that things could get out of control. How do you break out of that psychology, that when finances get tight we pull control back to the centre? We have talked about the system that should be in place—that is, devolving responsibility and saying, ‘You know what your service actually requires’, but what happens in a crisis is the exact reverse, is it not?

[193] **Ms Body:** There is certainly a risk of that. Earlier on, you asked whether I think that there is no fat left to drive out of the system. I do not think that. The reports we bring to this committee point to inefficiencies in areas where the public sector can improve the way they deliver. We are working on some—

[194] **Andrew R.T. Davies:** You say that your reports show a level of fat that could be cut from the public sector. Is that comfort fat, or a necessary fat, that helps the public sector survive in crises? Obviously, you have to have an element of reserve in any organisation, which could be deemed as fat on the body, but then you also have comfort fat that is put on because the organisation wants to take more and more on just because it is empire building.

[195] **Ms Body:** The only thing I would probably say to that is there are some reports that we are working on that will come to this committee over the next few months and will point to waste, inappropriate use of public money and fraud. These are absolutely the things that need to be driven out at any time, you are right—not just now—but particularly now that times are getting tough.

[196] **Jenny Randerson:** I found the lean research document absolutely fascinating. Taking the Neath Port Talbot example, the most astonishing thing I read was that, because of the impact of targets, they actually stopped people’s applications halfway through and started them again in order not to break their target times. The impact of that on vulnerable individuals who were, of course, the people who are applying for the disabled facilities grant, is massive. The number of failure demands must have also had a massive impact on staff morale, because it must be depressing to deal with that all the time.

[197] The Assembly Members round this table will undoubtedly spend a great deal of their casework time dealing with what you call failure demands: people who cannot find their way through the system because it has got so complex. One of the areas where I get most failure demand casework relates to the NHS and referral systems. People do not understand the letters they are sent. They do not understand the booking system, and the appointment system pays no attention to individual lifestyles, needs and so on. Are you planning to do any work on that?

[198] Secondly, in relation to this aspect of your report, how are you planning to get the messages of that lean research out there in the public service? I found the case studies such a good set of examples that I cannot imagine any local authority wanting to ignore that research, or not wanting to implement a similar analysis of their own systems, because it is a win-win situation for them.

[199] I have a second, totally separately point, given the hard times that are coming. Although I was familiar with much of the substance of your report from previous reports, I found your analysis of the hard times that are coming quite chilling, and I had not read it in the same terms before. I can imagine, because I am an optimist, that in terms of systems and delivery and so on we will adapt, and there will be ways in which the public services make themselves more efficient, and the public will also adapt to accept that maybe we can no longer have some services, or certainly not in the same way.

[200] The thing that will be most difficult to deal with is the capital budget situation, and the 40 per cent cut that you referred to, because in Wales, we have not had a generous capital budget up to now. We are way behind England and Scotland in replacement of hospitals and schools, and that is because we have not relied on private sector money. I am not going to enter into that argument, but clearly that situation will not change in the next year.

[201] What I am concerned about, bearing in mind the previous session with Dame Gillian Morgan, is that a lot of what we are talking about in terms of sustainable development actually relies on capital investment. How are we going to square that policy circle if we have not got the funding for the capital investment?

[202] **Ms Body:** Working backwards again, in terms of how we square the policy circle, I do not know. That is a question to put to public bodies, in terms of how they will handle that. The 40 per cent reduction in the capital budget will hit some departments much more significantly than others. In the report we refer to housing and highways in particular, but you are right, any plans to rebuild hospitals and schools will be severely overshadowed by this reduction.

[203] On systems thinking, I am glad you share our views because we were concerned about coming out with a report that said, 'It is simple, you just look at your intended outcomes and work backwards'. What this does is point to some real life examples of how you do it, which is why we have published it alongside the report—very much to get it out into the public domain, and to point to it to say, 'This is how it can work in practice and this is how you can learn from it', which is why we hope that this package of products not only points to what is coming—and hopefully, that is not an overly chilling picture—but also offers a cold, analytical assessment of the level of the challenge, with some real examples of how those challenges could be faced to reduce the pain for the citizen and recipient of services. As for whether we will do any more, we are planning to commission more research. Rob, perhaps you could talk about that.

11.20 a.m.

[204] **Mr Powell:** Yes, we have commissioned some follow-on research alongside the Assembly Government to look in particular at the application of systems thinking to cross-cutting issues—not simply the more transactional type of issues that are highlighted in this report. There is a school of thought that you can only apply this thinking to pure transactional activity. I think that our previous work on delayed transfers of care and scheduled care suggests that that is not true, but the researchers are looking for case studies on the application of this type of thinking to issues that cut across organisational boundaries, with a view to assessing the evidence for its application in that sort of situation. We will be doing a lot to embed this; I am talking to our leads who are out working in local authorities to undertake work under the Local Government (Wales) Measure, and the extra work will support that.

[205] Perhaps the other thing I should say is this is not unique to public services. I have done quite a lot of work in networks around systems thinking, and anybody who has called many of our call centres, or dealt with many of our utilities companies, will know that the private sector can also learn from some of these ideas. There are some very powerful case

studies of private bodies that have done this and radically improved services and cut out some of their costs. So, there is a lot more for us to do to try to help with these ideas.

[206] **Sandy Mewies:** I am going to say, like Jeff, that I was puzzled when I saw this report because nothing in it came as a great surprise. Mark fairly made the point that it is not an exact science, and nobody really knows what is going on. Then I read the following document, which for me is the most important document, in many ways—I have been looking at the good practice checklist. There are some very useful things in the first report, but I was not entirely clear about some. I was interested in the definition of value demand and failure demand, but it is something that, as Jenny said, we encounter through casework all the time. What you have done is give it a name. I understand it now; I know what failure demand is. I did not know what it was called before.

[207] I suppose what I am asking is: what prompted you to produce this? You might have partly answered that because of the evidence that you picked up. What do you expect the outcome to be? You are always asking people about outcomes. You have produced this report now. What are the outcomes to be? What do you want the reaction to be? You obviously have some sort of idea.

[208] **Ms Body:** To start with, it is a crystallisation in minds of what is coming—not only for public bodies, but citizens. I am not saying that we have observed—

[209] **Sandy Mewies:** When you turn away I cannot hear you.

[210] **Ms Body:** I am sorry, I will lean forward. I am not suggesting that what we have seen is people with their heads in the sand, but there could be a tendency to think that, until we have better clarity as to the scale of the reductions and how long those reductions are likely to last, it is difficult for us to do anything. The point of the report is that we must not wait until there is that clarity. We know the ballpark figures for the challenge that is coming. There is a lot to do in terms of analysing.

[211] Saying that there needs to be complete clarity about the objectives of public bodies, what the demands of their citizens are, and how best to deliver that—that is not information that is necessarily readily to hand. One of the things that has come out of our reports is that there might be a strategy, but that is not clearly translated into what action needs to happen. Public bodies do not always have information about the demands on their services and how well they are performing, either. So, there is a lot of work to do now so that they can plan and prepare for the challenge.

[212] The figures that we are talking about are for 2011-12. There is greater certainty about how much money is available now, but we should not waste time in preparing for what is coming.

[213] **Sandy Mewies:** That has been helpful. I was looking at the good examples, and Jeff and I have both met with Andrew Davies recently and talked about sharing good practice.

[214] What needs to happen next from the point of view of this committee and the Welsh Assembly Government? We are talking about district bodies that are autonomous in many ways and have different priorities. I am not making any political points now—I am just saying that they have different priorities, and often they have to. Are you saying that this is a wake-up call, or that somehow we have to ensure that this need for action is impressed on them? Like Andrew, I had rather hoped it had been impressed upon them that there was a need for action. This is nothing new, as I have said. It is the next steps that I am interested in. Have you had any thoughts on that? What needs to happen next?

[215] **Ms Body:** The next steps are for the public sector and particularly the Welsh Assembly Government to show leadership on what public bodies need to do. We are hoping to help provide the tools and some support in terms of how they tackle this.

[216] **Sandy Mewies:** That has been very helpful, thank you.

[217] **Jonathan Morgan:** Thank you to Members for the questions. I would like to make a suggestion from the Chair. In light of the interest in this report shown by Members, and also the work that has gone into the good practice checklist and the lean systems thinking report—in addition to the other reports that the auditor general mentioned, which will be published over the next few months—it would be wise for the committee to undertake a further inquiry on the basis of this report and the others. If you are happy with that, we can scope the terms of that inquiry over the Easter recess, taking into account the package of reports that we may want to consider when we look at how well-placed public bodies are to meet this challenge. Does everyone support that? I see that you do. We are happy with that approach. Thank you very much. That was handled swiftly, thank you.

11.27 a.m.

Ymgynghoriad Swyddfa Archwilio Cymru ar Arferion Archwilio Wales Audit Office Consultation on Audit Practice

[218] **Jonathan Morgan:** We will move on to the next item, which is the audit office consultation on audit practice. The committee considered the audit practice document on 13 January, and the audit office has now completed a draft, which is ready for approval by the Assembly. Subject to our view, this will be put to the Assembly for approval on Tuesday of next week. Auditor general, over to you.

[219] **Ms Body:** This code sets out the principles of how the auditor general and the auditors that he or she appoints will carry out their audit functions. As the Chair says, this committee considered the consultation draft in January. We have had a number of very positive and constructive responses to the consultation, and we have made a few relatively minor amendments to the text to reflect those comments—in particular in response to the comment from this committee that we make reference to this committee's role in advising us in terms of issues of public interest, which will impact on our value for money studies programme.

[220] I commend the code and would hope that you would endorse it for going forward to Plenary next week, when it will be subject to approval by the National Assembly for Wales.

[221] **Jonathan Morgan:** Thank you. I thank you as well for mentioning the link between the Wales Audit Office and the Public Accounts Committee, and putting that into point 38 of page 10. Thank you for that change. Are there any observations?

[222] **Sandy Mewies:** I am happy to endorse it. I was just interested: can you remember whether there was an overriding concern? You said they were minor, but were there some that everybody agreed to? Could you mention some of them for us, and how they have been revised—not by us, obviously?

[223] **Ms Body:** Matthew might come in, but the sorts of points that have come forward are whether it would be helpful to make explicit reference to our information policy and publication scheme; the issue about timeliness being a key component of public focus, and drawing that forward with a bit more emphasis. We have incorporated those suggestions, but, they are not significant or substantial changes; they are helpful additions and tweaks to the code.

[224] **Mr Hockridge:** I would like to echo Gillian's comments. Largely, we have had a very positive and supportive response, and the new format of the code has been welcomed. It is much more accessible generally, and a shorter document—we have removed some of the technical detail that perhaps it was not necessary to include.

[225] As Gillian mentioned, the changes we have made have largely been minor technical amendments to improve the flow of the document.

[226] **Jonathan Morgan:** Are there any other observations? I see that there are not. Is the committee happy to endorse the code of practice? I see that we are. Thank you very much indeed. That will go to Plenary next week.

11.30 a.m.

Cynnig Trefniadol Procedural Motion

[227] **Jonathan Morgan:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37.

[228] I see that the meeting is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11.31 a.m.
The public part of the meeting ended at 11.31 a.m.*