



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

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

**Dydd Iau, 11 Tachwedd 2010  
Thursday, 11 November 2010**

**Cynnwys**  
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi 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**

Peter Black	Democratiaid Rhyddfrydol Cymreig Welsh Liberal Democrats
Jeff Cuthbert	Llafur Labour
Alun Davies	Llafur Labour
Chris Franks	Plaid Cymru (yn dirprwyo ar ran Bethan Jenkins) The Party of Wales (substitute for Bethan Jenkins)
Irene James	Llafur Labour
Ann Jones	Llafur (yn dirprwyo ar ran Lorraine Barrett) Labour (substitute for Lorraine Barrett)
David Lloyd	Plaid Cymru (yn dirprwyo ar ran Janet Ryder) The Party of Wales (substitute for Janet Ryder)
Sandy Mewies	Llafur Labour
Jonathan Morgan	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Chair of the Committee)
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives

**Eraill yn bresennol**  
**Others in attendance**

John Baker	Pennaeth Cyllid, Swyddfa Archwilio Cymru Head of Finance, Wales Audit Office
Gillian Body	Partner Rheoli, Archwilio Perfformiad, Swyddfa Archwilio Cymru Managing Partner, Performance Audit, Wales Audit Office
Michael Hearty	Rheolwr Gyfarwyddwr, Cynllunio Strategol, Cyllid a Perfformiad, Llywodraeth Cynulliad Cymru Director General, Strategic Planning, Finance and Performance, Welsh Assembly Government
Andrew Jeffreys	Pennaeth Cyllidebu Strategol, Llywodraeth Cynulliad Cymru Head of Strategic Budgeting, Welsh Assembly Government
June Milligan	Rheolwr Gyfarwyddwr Dros Dro, Cyflwyno Gwasanaethau Cyhoeddus a Llywodraeth Leol, Llywodraeth Cynulliad Cymru Acting Director General, Public Services and Local Government Delivery, Welsh Assembly Government
John Palmer	Cyfarwyddwr, Gwella Gwasanaethau Cyhoeddus, Llywodraeth Cynulliad Cymru Director, Public Service Improvement, Welsh Assembly Government
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Kevin Thomas	Partner Rheoli, Cynllunio ac Adnoddau, Swyddfa Archwilio Cymru Managing Partner, Planning and Resources, Wales Audit Office

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

Alun Davidson	Clerc Clerc
Joanest Jackson	Cynghorydd Cyfreithiol Legal Adviser
Andrew Minnis	Dirprwy Glerc Deputy Clerk

*Dechreuodd y cyfarfod am 1.30 p.m.  
The meeting began at 1.30 p.m.*

### **Ymddiheuriadau a Dirprwyon Apologies and Substitutions**

[1] **Jonathan Morgan:** Good afternoon and welcome to this meeting of the National Assembly's Public Accounts Committee. First, I remind Members to switch off mobile phones, BlackBerrys and pagers. I remind colleagues and guests that, as a bilingual institution, we operate with the help of translation equipment. Channel 1 on the headsets is for the translation, and channel 0 is for amplification for the hard of hearing. This afternoon, we have received apologies from Lorraine Barrett, Janet Ryder and Bethan Jenkins. I thank Ann Jones and David Lloyd for substituting this afternoon, and I understand that Chris Franks will also be joining us later as a substitute. Thanks to all three; Ann has been helping us out for some weeks. Sandy Mewies is present for the first hour only and Irene James will be arriving later. Therefore, we will have much shuffling of chairs this afternoon, for which I apologise. I am grateful to Members who have been able to be flexible this afternoon.

1.32 p.m.

### **Ymateb i'r Her o Gyllido'r Sector Cyhoeddus yng Nghymru: Tystiolaeth gan y Cyfarwyddwyr Cyffredinol dros Gyflawni Gwasanaethau Cyhoeddus a Llywodraeth Leol, a Chynllunio Strategol, Cyllid a Pherfformiad Meeting the Challenge in Welsh Public Sector Finance: Evidence from the Directors General for Public Services and Local Government Delivery, and Strategic Planning, Finance and Performance**

[2] **Jonathan Morgan:** I welcome our colleagues here this afternoon. Please introduce yourselves for the record.

[3] **Mr Palmer:** I am John Palmer, and I am director of public service improvement at the Welsh Assembly Government.

[4] **Dr Milligan:** Good afternoon. I am June Milligan. I assumed the role of acting director general for public service and local government delivery last month, when my predecessor, Emyr Roberts, moved to another role.

[5] **Mr Hearty:** I am Michael Hearty, director general for strategic planning, finance and performance.

[6] **Mr Jeffreys:** I am Andy Jeffreys, head of strategic budgeting.

[7] **Jonathan Morgan:** Thank you. We have a number of questions to get through this afternoon. I understand that you have a presentation to give, which I hope will not last longer than 10 minutes, because I want to give Members the chance to get through all of the questions. Am I right in saying that either Michael or John is leading on the presentation?

[8] **Mr Hearty:** John will lead on the presentation, but I will open the session. Thank you for inviting us to give evidence to the committee. I thought that it might be helpful if I focused my opening remarks on public spending generally, the results of the recent comprehensive spending review and where we are currently with the Welsh Assembly Government's budget.

[9] As the committee will be aware, even before the recession, a slowdown in the growth in public spending from the rates seen in the 10 years following devolution was inevitable. However, the recession, and the UK Government's commitment to removing the structural deficit by 2015-16, has made this a much sharper slowdown than it would otherwise have been. As the committee will be aware, because of how the Assembly Government receives its funding from the UK Government, it was only with the spending review on 20 October that we knew our budget for future years with any degree of certainty. We now know that the Assembly Government's total budget will reduce by 11.9 per cent in real terms across the spending review period, our revenue will reduce by 8.4 per cent in real terms and our capital by around 40 per cent in real terms. This is by far the worst settlement since devolution and the worst settlement in the period for which we have comparable data, which goes back to 1993-94.

[10] In response, the public sector in Wales could not afford to wait until the outcome of the spending review a few weeks ago to start planning for the challenges ahead. Detailed planning has been going on for at least a year in the Assembly Government, and for similar periods in other areas of the public sector. Given the uncertainties, this planning had to proceed on the basis of assumptions about future budgets. We took the decision, therefore, to plan on the basis of real-terms reductions of 3 per cent year-on-year in revenue and 10 per cent in capital.

[11] These were never intended to be predictions of our spending review settlement. Rather, they were cautious assumptions, to guide planning and put us in the best possible position to respond to a settlement as quickly as possible. In fact, as it has turned out, our capital settlement means that the budget that we have available over the next few years for capital is significantly lower than our planning assumptions. In real terms, this means that our capital budget is back to levels last seen in the 1980s. The huge cut in capital was pretty unexpected and emerged as a possibility only late in the spending review, as it became clear that the Ministry of Defence was receiving a much greater degree of protection on capital than other English departments. This has meant that we have had to revise our capital planning quite considerably late on in the process. As you can imagine, this is pretty challenging. Undoubtedly, there will be a need to scale back capital programmes significantly in the coming years.

[12] On revenue, the position has been a bit more predictable. Our actual settlement is in line with expectations, and this has meant that Ministers have been able to build on the planning work that has already been done rather than having to re-plan. We will be publishing the draft budget next week, on 17 November. I hope that the committee will not be surprised when I say that I cannot divulge the details of the budget that we will be publishing next week. However, I can say that it will be consistent with the priorities that Ministers have set throughout the process, taking a distinctive Welsh approach to safeguard essential services in Wales, protecting spending on schools, skills and elements of health, maintaining universal benefits, the successful concessionary fares scheme, free prescriptions, free swimming and free breakfast and milk for primary school children. However, maintaining overall service levels and continuing to improve quality while budgets are falling in real terms will be a huge challenge for the whole of public sector in Wales. If we are to meet this challenge, no part of the public sector can be insulated from the need to drive greater efficiency and innovation. That is why a pan-public sector response is needed and, largely, why you are interested to

hear the evidence that we have to put to you today.

[13] **Jonathan Morgan:** Thank you. If we can move on with the presentation that would be very useful.

[14] **Dr Milligan:** If I may, Chair, I will set that in context. The work that we are doing on efficiency and innovation sits within the context that Michael has explained and is integral to the effort to realise efficiency across the public service. The efficiency and innovation board is where the leaders of the public service are working together to identify common approaches to common challenges, such as procurement and asset management, and to identify where there is scope for new models of service delivery. It is not about generating a separate stream of savings or separate accountabilities, but rather about enabling public service organisations, within their own business and operational planning and within their own governance and accountability structures, to meet the challenges that they will face.

[15] In the briefing given to you at the commencement of this inquiry, the Auditor General for Wales drew the committee's attention to the incremental and steady improvement, as well as greater efficiency, in the Welsh public service over the past few years. We recognise that the challenge is now even greater. In its briefing on the sectoral and regional impact of the fiscal squeeze, PricewaterhouseCoopers also reports that Wales is relatively well placed, saying that there is reason to believe that Wales can build a better response that leaves public services stronger. It points to leadership being shown here and makes direct reference to the work of the efficiency and innovation board that you are going to hear about from John. PWC also notes that Government in Wales is better able to rapidly take a whole-system view across local government, health and education, but that that too requires a shift from an incremental approach to a longer term transformational approach. That underpins the Assembly Government's sectoral and service reviews and reforms. The public service summits that the First Minister has convened to provide leadership to the public service have highlighted the need for increased pace in collaboration and the unique opportunity that we have to work in that way, given the scale of Wales.

[16] In 'A Picture of Public Services', which has been the foundation for your inquiry, the Auditor General for Wales recognised that collaboration and partnership will be crucial in achieving more or the same for less and made the link to societal outcomes in this way:

[17] 'It is rarely possible for one organisation or department alone to deliver improved outcomes, like a healthy society, a prosperous economy or a clean environment'.

[18] That applies equally to improving educational attainment or to the sorts of early interventions that enable us to break the cycle of deprivation. That is why it is so important that the Assembly Government is offering leadership and encouraging collaboration through the work of the efficiency and innovation board. John will present the work of the board in more detail to you.

1.40 p.m.

[19] **Mr Palmer:** Good afternoon, and thank you for agreeing to receive a presentation this afternoon. I will run through it quickly, because I appreciate that Members will wish to move to questions. I will run through the Meeting the Challenge of Change initiative—the challenge that Michael has elucidated for us—the public service reforms that are emerging at the moment, the public service summits that we have been running since the beginning of the year, and the efficiency and innovation board, which is the management structure that we have put in place to meet the challenge of change. I will then give you a quick overview of progress and what we will do next.

[20] On meeting the challenge, as I have said, there are four major elements. Several significant public service reforms are emerging at the moment. You have already taken evidence on the five-year framework for NHS Wales as part of this inquiry. That is a significant approach, and it looks at integrated services as the Welsh solution to the way in which we will improve and cost-reduce services at the same time. On education, the review of front-line resources is well under way, and will look to report and have something in place by April. On social services, the commission is currently building towards its final report, which we expect at the end of November, and I am sure that there will be a Government response after that. Local government is now engaged in looking at what is best delivered where, led by the Minister, Carl Sargeant. In addition, a review of Assembly Government-sponsored bodies is going on, which is looking at the environment sector in particular. We are seeing all those beginning to hang together as the next phase of serious public service reform in Wales. They set a clear context for the work that we are doing on efficiency and innovation.

[21] The public services summits started in February of this year, in which 170 leaders from across Wales, including political leaders from local authorities and executive leaders from across our public service sectors, come together to generate shared leadership to meet the challenge of change. There is a focus on some of the portfolio reforms. So, at the last public services summit, we concentrated on health and social care, elements of the five-year framework, and what the rest of the public service could bring to NHS Wales's efforts. At the next summit, on 25 November, we will look at education and the review of the use of front-line resources. We will probably look at social services in the new year. In relation to all those, we are looking at efficiency and innovation as an enabler, as it supports and underwrites those significant reforms.

[22] To turn to the efficiency and innovation board, we have seven working groups across a number of areas. We have taken what is almost an adopt-and-justify approach to the work so far, but we are also trying to be adaptable and flexible. It is not a top-down approach, but a co-production approach. So, there are some things that we think that the entire public service should do to help us all to save money and to improve services, but we are trying to work in a flexible, sensible and sensitive way. We have a real focus on best-practice transfer, and I will talk a little more about that in a minute.

[23] The fourth element, and an important one, is our work with the workforce partnership council, which is chaired by the First Minister, through which we have serious and supportive dialogue with our union colleagues from the full range of unions. I will not cover this point in any detail, but so that you get a picture, we are trying to think about all this activity as a coherent whole. We have a commitment to sustainability as our single unifying concept as a Government, and we have a serious heritage through 'Making the Connections' and the Beecham review, which are still extremely relevant to our public service reforms. We are focusing on outcomes as we develop those reforms. We are also ensuring that the efficiency and innovation programme is an enabler for those reforms, and that it is doing all that we would hope and expect it to do, not only on the day-to-day, hard things, such as asset management and procurement, but on some of the more developmental things such as transforming the business so that we can get overheads out, and looking at new models, by hothousing some of the best practice and the best ideas that we see in complex areas in Wales to help us to improve services.

[24] On the screen is a rundown of the board, which shows that this has senior political and executive support. Importantly, it also has trade union representation. The general secretary of the Wales TUC is on the board, and third sector partners are also represented. The board is chaired by Jane Hutt, our Minister for Business and Budget. You will see that each work stream is headed up by a senior member of the Welsh public service, namely a chief executive either from local government or NHS Wales. That is also reflected in the board membership, so each board has senior executive representation. We have some 70

director-level posts or more senior individuals operating in each of those boards. So, we have serious sign-up.

[25] You can see that the principles of the board are based on practical leadership and a focused programme of work. We are trying to capture the three things that you see on the screen: cash-releasing and cost-reducing improvements; serious innovation and engagement by citizens on design and delivery; and a focus on maximising the benefits. Underpinning all that is a strong ethos of co-production.

[26] To run quickly through the work streams and how they break down, here is what we are trying to do, roughly. We have assets, procurement and ICT, generally looking at common platforms and what sensible things we can immediately get our public service organisations on to that will immediately get us into cost-savings territory, typically in back-office functions. We are equipping the public service workforce to meet financial and workplace challenges, so we have a workforce work stream and a leadership work stream, through which we are trying to take care of those things. Through the leadership work, we are looking to train and develop our workforce so that we can deal with the difficult time that we are already experiencing and will experience over the next five years. We are also trying to create some more developmental opportunities, looking at transforming the business through cutting-edge business models that help us to think about shared services and lean processes differently, and then there is the new models work on transforming public service delivery, in which we are looking at high-cost approaches, such as issues to do with complex families and domestic abuse, and coming up with improvements to those models if we can.

[27] Measuring progress is very important, and I am sure that you would expect me to say that today. We are trying to learn the lessons from previous experience, so our work on 'Making the Connections' is extremely important to us, and we are actively working on what we have learned from that. We have a measuring and monitoring working group on which, again, there is cross-service representation, for which the Wales Audit Office has been engaged to provide observers, and there has also been some academic input. It is helping us to refine our measurement and monitoring activity. We are mainly focusing on how we generate opportunities for savings potential, building from the bottom up on the expertise within our work streams. There is again a focus on bottom-up building rather than top-down prescription. At the moment, we are focusing strongly on the take-up of products, and that is where we are focusing our performance management efforts: on how well we are getting uptake on public service broadband aggregation, xchangewales and the like. We are committed to performance management. We will performance-report on the work streams and the efficiency and innovation board.

[28] There are a couple of examples, but I will not dwell on them. I am happy to take questions on them later. On our collaborative procurement work, you can see that we are trying to understand our whole spend as a public service. We are taking forward approaches such as a national sourcing strategy, which is developing strongly, and we are also looking at the xchangewales e-procurement system, which is an e-trading system. This work is being seen as best practice, not just in Wales but in the UK. Interestingly, Value Wales has been shortlisted for the team award for collaborative procurement at the UK Civil Service Awards today. So, that reflects how we are operating at the cutting edge.

1.50 p.m.

[29] On national asset management, we are working hard on e-PIMS database, the electronic property information mapping system, trying to understand our complete asset base for the public services, while trying to push practical projects. Those are being worked out at present. Carmarthenshire, in particular, shows some interesting approaches to how the whole public service can co-locate. We are also looking at protocols that govern land transfers,



because we think that there are savings to be made through transactions, opportunities to have single valuations and lower consultancy costs, enabling some of the things that you might have heard about in previous evidence, such as the alcohol recovery centre in Bridgend, which demonstrates good capital and land share between local authorities and the NHS.

[30] We have also been pushing hard on new models of service delivery. Complex families, independent living and domestic abuse are all areas in which we know that we have high financial costs, some public service inefficiency and high human costs. So, we are looking seriously at those.

[31] Finally, over the next period, we are looking towards the draft budget on 17 November, to which Michael has already referred. A public services summit will be held on 25 November, which will focus on education, on the front-line resources review, and, in the afternoon, we will also look at local service board work. We have combined the summit and the local service board annual conference to save costs. We will have the next efficiency and innovation board meeting on 9 December, and the final budget will be in late January or early February. From here on, the efficiency and innovation board will continue to meet on a two to three-monthly cycle. We have a potential further summit in the spring, probably focusing on the social services commission, and, from here to April, we expect to see all the reviews that I talked about at the beginning reporting. So, the period between now and April is one of new developments that we will tie together to bring forth an important public service reform programme.

[32] **Jonathan Morgan:** Thank you very much, John, for getting through that as quickly and as succinctly as you were able to. I appreciate that you also provided a document to the committee.

[33] I wish to return first to the issue of the reduction in public expenditure and to the point that was made by Michael Hearty in his introductory statement, namely that there would be an 11.9 per cent reduction across the period, of 8 per cent revenue and 40 per cent capital. What is that period?

[34] **Mr Hearty:** The period is from the baseline of 2010-11 through to 2014-15.

[35] **Jonathan Morgan:** The Permanent Secretary, when she gave evidence, referred to her planning assumption of an annual reduction in revenue of 3 per cent and a reduction in capital of 10 per cent. Statistically, what sort of difference are we looking at? Are we looking at a better or a worse position than the planning assumption?

[36] **Mr Hearty:** In short, on revenue, the settlement is broadly in line with our planning assumptions. On capital, it is significantly worse.

[37] **David Lloyd:** Mae papur tystiolaeth Llywodraeth y Cynulliad yn nodi nad yw'r dull gweithredu ar draws yr holl wasanaethau cyhoeddus a ddilynir drwy'r rhaglen effeithlonrwydd ac arloesi yn ateb llwyr. Mae'n cyfeirio at adolygiadau parhaus mewn gwahanol rannau o'r sector cyhoeddus. Er enghraifft, clywodd y pwyllgor gan Paul Williams am yr amrywiol raglenni cenedlaethol sy'n mynd rhagddynt yn y gwasanaeth iechyd i wella gwasanaethau a lleihau costau. A allech roi syniad i ni o ba gyfran o'r ateb yw'r rhaglen effeithiolrwydd **David Lloyd:** The Assembly Government's evidence paper notes that the pan-public service approach being taken through the efficiency and innovation programme is not the whole answer. It refers to ongoing reviews in different parts of the public sector. For example, the committee has heard from Paul Williams about the various national programmes that are under way in the health service to improve services and reduce costs. Could you give us some idea of what proportion of the answer is represented by the efficiency and innovation programme, and,

ac arloesi, ac, yn benodol, a allech egluro sut mae'n ychwanegu gwerth ac yn osgoi dyblygu'r gwaith sydd eisoes yn cael ei wneud mewn sectorau penodol? Efallai y gallai June neu John ateb, neu June a John.

specifically, could you explain how it adds value and avoids duplicating the work that is already being done in specific sectors? Perhaps June or John could answer, or June and John.

[38] **Dr Milligan:** We recognise that what we are doing is making a contribution. The efficiency and innovation work is not the whole answer, and we would not want to present it as such. In introducing it, I was explaining that the responsibility for balancing public service budgets, in the way that Michael has explained that the Assembly Government has been balancing its budget, lies with the many individual public service organisations across Wales. We are therefore seeking to draw to their attention, through work that has been done by public service leaders across Wales, the significant opportunities for making efficiencies, first through taking common approaches and using common products, such as the xchangewales product for procurement and the e-PIMS product for asset management. We believe that if these are applied consistently, savings can be made. So, that is a way that organisations can buy in and benefit from something that has been done on a national scale.

[39] The other area in which we believe there are significant opportunities to make efficiency savings and to increase effectiveness is that of the high-cost interventions that John spoke about. For example, in cases of domestic abuse, many organisations contribute in order to solve a particular individual's problems; in cases of delayed transfers of care, health and local authority interventions need to be co-ordinated. We believe that, by taking different and new models that have been proven elsewhere or which we are developing here, there are opportunities to make savings that can be realised across the public service in their business planning and can be informed by the expertise that they bring to the board.

[40] **David Lloyd:** Bydd cyfle ichi ateb, John, ond hoffwn symud ymlaen. Yn eich tystiolaeth ac yn y cyflwyniad a wnaeth John, yr ydych wedi rhestru aelodau bwrdd y rhaglen effeithlonrwydd ac arloesi a'r ffrydiau gwaith ategol. Fodd bynnag, gan edrych y tu hwnt i restrau aelodaeth syml y grwpiau hyn, a ydych yn fodlon eich bod yn cael y gefnogaeth a'r ymrwymiad yr oeddech am weld gan y sector cyhoeddus yng Nghymru, ac fel sy'n briodol gan wasanaethau cyhoeddus nad ydynt wedi cael eu datganoli, megis yr Adran Gwaith a Phensiynau? A ydych yn cael cefnogaeth i gyflawni'r gwaith?

**David Lloyd:** There will be an opportunity for you to respond, John, but I would like to move on. In your evidence and in John's presentation, you listed the members of the efficiency and innovation board programme and the supporting work streams. However, looking beyond simple lists of the membership of these groups, are you satisfied that you are getting the support and commitment that you wanted to see from right across Welsh public services, and, as appropriate, from non-devolved public services, such as the Department for Work and Pensions? Are you getting the support to achieve this work?

[41] **Dr Milligan:** I will ask John to say something about the take-up of some of those programmes, if I may, because I think that it is illustrative of the support. However, I would like to introduce that by saying that, at the public service summits, we have had over 170 leaders in attendance. The summits are a really important way of spreading consistent information about what we are trying to achieve and securing buy-in to that.

[42] John has mentioned 70 people who, in some way, contribute to the individual work streams on the basis of their expertise. John, would you like to say something about the take-up of some of those products please?

[43] **Mr Palmer:** We have had a good response thus far with regard to the uptake. It might be easier for me to send you a note on this, because there is quite a lot of detail. However, we

have seen an immediate uptake on the xchangewales project from NHS Wales. There has been a live interaction with local government. Seven organisations are already live, with nine signing up. We also have interest from Public Health Wales and the wider NHS family. Housing associations are also looking to come on board. On public service broadband aggregation, NHS Wales, which includes GPs and hospitals, has signed up, and five local authorities have signed up so far. However, a much larger number of local authorities are looking at the business case at the moment.

[44] In relation to asset management, we have had a good response to the electronic property information management system that we are using to collect together all of the data. For the NHS, the figure is 100 per cent, for the police, it is 75 per cent, for fire and rescue services, it is 65 per cent. Local government is actively looking to come on board. Mark James, who leads the asset work group, has worked with his authority, Carmarthenshire, to show that it is a useful thing for local government to look at, and he is showing it in practice through the projects that he is now modelling with the board. So, we have seen strong engagement thus far and a very strong voluntary response.

[45] **David Lloyd:** Yn dilyn ymlaen o hynny, a gan gydnabod yr holl waith clodwiw sy'n mynd ymlaen yn genedlaethol, wrth sefydlu'r bwrdd effeithlonrwydd ac arloesi, yr ydych yn sefydlu cyfeiriad cenedlaethol, ond mae'r angen i arbed arian yn pwysu ar bawb yn lleol—ar ein cynghorau sir ac ar wahanol adrannau yn ein cynghorau sir, ac y mae gan gynghorau hefyd raglen i arbed arian. Clywsom dystiolaeth gan brif weithredwr Cymdeithas Llywodraeth Leol Cymru a bu iddo bwysleisio'r risg o chwarae gemau er mwyn diogelu cyllidebau. A ydych o'r farn bod y bwrdd effeithlonrwydd ac arloesi yn helpu i greu dull gweithredu ac ethos ar draws gwasanaethau cyhoeddus yn eu cyfanrwydd yng Nghymru, neu a ydych yn meddwl bod sectorau, adrannau a gwasanaethau unigol sy'n dal i ganolbwyntio ar eu buddiannau eu hunain ar y cyfan? Yr wyf yn deall pam y byddent yn gwneud hyn, ond yr ydym yn trio sefydlu ffordd genedlaethol ymlaen. Felly, sut ydych yn cyfleu y cyfeiriad cenedlaethol hwn i'r adrannau ar y llawr sydd hefyd yn gorfod cydweithio ac arbed arian, ond gwneud yn siŵr eu bod yn gwneud hynny drwy ddilyn eich esiampl ac nid yn hollol annibynnol?

**David Lloyd:** Following on from that, and recognising all of the commendable work that is going on nationally, in establishing the efficiency and innovation board, you are establishing a national direction, but the need to save money is pressing on everyone locally—on our county councils and different departments in our county councils, and councils also have a programme to save money. We heard evidence from the chief executive of the Welsh Local Government Association, who emphasised the risk of playing games in order to protect budgets. Do you believe that the efficiency and innovation board will help to create the approach and ethos across public services in Wales in their entirety, or do you think that there are sectors, departments and individual services that continue to focus on their own interests on the whole? I understand why they would do this, but we are trying to establish a national way forward. So, how do you convey this national direction to those departments on the ground that also have to collaborate and save money, but ensure that they do so by following your example rather than acting completely independently?

2.00 p.m.

[46] **Dr Milligan:** This is a national approach. It is not a new national approach; it is the evolution of the work that has been put in place since the Beecham review. I referred to the auditor general's reflection on the fact that incremental change and collaboration were happening. I believe that the financial constraint that we face—which is not welcome in many respects—is something that will catalyse working together, because it makes it less possible for organisations to implement things locally and maintain the effectiveness of services; that is why we are seeing a much faster rate of sign-up to these products, which are available

across the piece, than we had experienced previously. I think that is why we are getting such a good response when people are convened.

[47] **Sandy Mewies:** When Andrew Davies gave evidence to the committee, he referred to officials being good at developing policy but not at focusing on delivery and performance. Can you describe the support arrangements and infrastructure that are in place to ensure that this is not a talking shop—albeit a big talking shop—but results in real action and change?

[48] **Dr Milligan:** We have tried not to make today's presentation too technical. However, if John were presenting this in another forum, he might present a very technical version that is all about the professional programme and project management in how we are delivering this. We are trying to learn lessons, not only from the work that was done earlier on 'Making the Connections', but also from Scotland and from last week's report of the Public Accounts Committee in Westminster on cost-reduction programmes across the UK. That report talks about things that we are trying to implement here; it talks about not trying to drive something centrally in the belief that change can be made to happen through a very long delivery chain, but recognising that you need engagement on a cross-sectoral basis—and, in the case of the UK Government, on a cross-departmental basis—and that is why we believe that this is a strong approach. That is why we also believe that in accepting the offers of senior leaders in the public sector to take leadership roles in driving projects forward where they have particular expertise, or where their organisation has that expertise—as in the case of Mark James in Carmarthenshire, who has taken a lead on asset management—we will be more effective. So there is a proper programme and project-management structure underpinning this, which we believe will increase the chance of delivery. There is a real focus on delivery.

[49] The work of our organisation has picked up on some of the other lessons that were mentioned in the Public Accounts Committee report, one of which was about engaging staff in change. You have seen that happening at a national level over the summer, with Assembly Government Ministers meeting front-line staff in the public services, and service users, as a way of informing choices on budget priorities and of understanding what change is suggested. We have also done that within the Assembly Government. We ran an initiative called 'Managing with Less', whereby we asked staff to tell us how we can become more efficient and focus on delivering efficiency in our organisation. We received 800 responses to that initiative, some of which have been implemented already and are enabling us to make considerable savings.

[50] So, in response to the question on delivery, the answer is that we are trying to learn the lessons from what has gone before, we are trying to make the best use of the techniques that are available for professional programme and project management, and we are also trying to ensure that we are engaging at a national level across the public service and, in terms of our organisation, exemplifying engagement with staff, so that we can get the best ideas from the front line.

[51] **Sandy Mewies:** What about the accountability arrangements? In particular, what the efficiency and innovation board is accountable for and how does that link in with the individual accountability of each organisation to respond effectively to financial challenges and the work of local service boards?

[52] **Dr Milligan:** In introducing the presentation that John was going to make, I mentioned the fact that the arrangements that we have put in place for the efficiency and innovation board do not change the operational accountability for the delivery of public services in Wales. It is important to understand that. The responsibility to run a balanced budget and for managing the workforce as employers and for managing the budget in terms of financial accountability still lies with the 22 local authorities, the seven health boards, the health trusts and many non-devolved organisations in Wales. So, accountability has not

changed. Through the efficiency and innovation arrangements, we are bringing leadership through influence into play. Those who have come around the table are seeking to influence their peers to adopt approaches that they have found to be successful in many instances locally so that we can spread good practice across Wales. We are simply providing the forum that enables those discussions to happen.

[53] **Sandy Mewies:** How much is it costing to run and administer the efficiency and innovation programme, including the costs of having such senior people from across the public sector taking part in it, because there is obviously a cost to that?

[54] **Dr Milligan:** I have the figures for that here. My apologies; it is taking a little time to find the detailed figures in my notes. I am fairly new.

[55] The total budget that has been assigned to the programme during 2010-11 is £1.42 million.

[56] **Alun Davies:** On that, the point that Sandy raised about implementation is absolutely crucial. Sandy and I sat in this room this morning discussing biodiversity, on which the Government has a number of strategies, programmes and policies in place. We were looking for actual changes to behaviour that delivered something. I am concerned that I have listened again to a good presentation—I was glad that you gave those updates at the end of it, which helps us a great deal—but what about actual implementation and delivery? How will this programme and this expenditure affect my mother in Tredegar?

[57] **Dr Milligan:** I realise that I did not pick up your reference to local service boards, Sandy, so I will take the opportunity to answer that point also. Before we had the Beecham approach in Wales, we did not have local fora in which senior leaders met on a cross-sectoral basis. We now have a local service board in each of the 22 local authority areas, and some are also working on a regional basis, not just within the local authority boundary. That is a significant difference in how we are delivering public services in Wales, which has resulted from the Government taking a national approach. It makes a difference to individuals. I do not know about your mother-in law in Tredegar—

[58] **Alun Davies:** My mother.

[59] **Dr Milligan:** It is making a difference to specific individuals. I am a member of the Cardiff Local Service Board; there is a senior civil servant on each local service board. In the Cardiff Local Service Board, we are subject to cross-sectoral scrutiny from a panel made up of those organisations represented there. Members of the public also come in, and they give evidence and question the progress of the board. We have had individuals in from Splott, where the neighbourhood management approach that is being pioneered in Cardiff is being rolled out, come in and talk about specific reductions in anti-social behaviour that they have experienced as a result of the neighbourhood approach to policing, local health visiting and all the local services working together on a locality basis. So, I have direct experience of being involved in the delivery of services in Wales being done differently as a result of the structures that we have put in place in the local service board. I am proud to have been present in scrutiny when we heard from members of the public that that had made a difference.

2.10 p.m.

[60] **Peter Black:** In the past 40 minutes, you have outlined a lot of meetings, with a lot of boards and people getting together to talk about things. It is costing you £1.42 million. You have just given an example to Alun Davies of a change in the way in which things are happening, but I have not heard much about what you have saved, in real money, as a result of all this activity. How much do you expect will be met through real efficiency savings over

the next two years?

[61] **Dr Milligan:** I will invite John to give you some examples of savings that are being achieved now.

[62] **Mr Palmer:** Absolutely. This is early developmental work. We have not worked up aggregate figures at this stage, but I can give you some exemplifications. Under the 'new models of service delivery' heading, for instance, we know that costs associated with complex placements, complex families, substance misuse, and that sort of stuff are significant. Charter Housing did some work on 48 complex families in Gwent, and the costs were roughly £105,000 per head on an annual basis. From looking at the work that has been done on complex placements in Cardiff, the Vale of Glamorgan and Torfaen, we now know that they have been significantly reducing those kinds of costs. Torfaen, over the last year, has saved just shy of £12 million on placements.

[63] That is exactly the kind of thing that we really want to develop under the new models work. To give you some more specific examples from the ICT area, over the past few years, NHS Wales has made big strides on ICT procurement, and we have seen significant discounts and savings through the central purchasing of encryption software, which is running at about £1.4 million over the past five years, through hardware for data centres, which is £2.3 million, and through national licensing deals, which is £5 million over five years. All those things are products that we are now taking into the pan-public service approach in Wales. As for asset management, if you look at the sort of work that Mark James has been leading in Carmarthenshire, he has some £500,000 per annum revenue savings, and £1.2 million capital receipts from aggressive asset disposal and co-location approaches. There is a further potential £23 million of capital receipts from co-location, not just within the sector, but across sectors, especially with the voluntary sector. That is the sort of approach that are we are trying to stimulate across Wales, using the work stream. Look at what we have done so far, with the initial adopt products: using xchangewales, public service broadband aggregation, and e-PIMS, or the electronic property information mapping service, for assets. We have seen really good take-up on those, and we are hopeful that that will spur us into achieving those kinds of savings right across the sector. As I say, it is early days, and we are still trying to generate an aggregate picture of what we might be able to achieve, and the sorts of savings that might be available to each public service organisation in Wales.

[64] **Peter Black:** To take just one of those, you have ICT systems in the health service that do not talk to social service ICT systems, which is where the real savings are to be made. If you are to get that joint working, it is not just about peripheral activity; you have to get to the heart of the real savings.

[65] **Mr Palmer:** That is exactly the sort of issue that we are being challenged about in our boards. June has already referred to the fact that it is good for senior civil servants to be around a table with chief executives who are running multimillion and multibillion-pound organisations. We are having exactly those sorts of challenges and commissions around that kind of work. To give you an example, on the new models work, one of the areas that we really want to get into is health and social care integration specifically. Paul Williams, through the five-year framework, has commissioned the new models group to look specifically at all the best examples that we have of health/social care integration at the moment, and to pull together a report that comes up with some common characteristics of high performance across sectors. What we have been able to pull out is really fantastic emerging practice, with joint appointments in Torfaen, the appointment of a director of social services and a locality local health board director in Pembrokeshire County Council, and the joint management of locality director, shared between the local authority and the local health board in Bridgend. I could go on for a long time about those joint appointments. All those are being seen as vehicles to drive joint planning, joint budgeting, the sharing of resource and the

sharing of ICT infrastructure. All this plays into the type of work that Dr Chris Jones has been leading on setting the direction for NHS Wales. He is looking at trying to shift the balance of care from secondary care to primary community care. Within his model, which is being tested in Rhondda Cynon Taf and Merthyr at the moment, he makes a strong and clear prescription that we must be working with an excellent ICT infrastructure and an excellent communication structure on a shared cross-sectoral basis. That work is embedded in the five-year framework. I do not think that anyone would demur from the idea that, while we have a long way to go, we have a clear strategic focus on getting the kind of sharing that you are challenging us on.

[66] **Peter Black:** All this is long-term stuff, is it not? We are talking about councils having to make tens of millions of pounds' worth of cuts in the next financial year. What are the quick wins in the short term that will make a real difference to local authorities and local health boards in meeting their budgets and keeping in the black in this financial year and the next?

[67] **Dr Milligan:** It is long term and short term. Some of the examples that John offered at the beginning of his response were things that are happening now, such as taking out procurement savings and disposing of buildings now so that estates can be contracted and efficiencies made. All that enables services to be maintained by taking out costs that could be seen as overheads. The longer term work will sustain the effective delivery of services in Wales in the future, so it is not an either/or scenario. The quick wins are not only intended to solve today's problem. The nature of the challenges are such that we must take those on quickly, but we must also put in place the things that will take some time to come to maturation, so it is a combination of both.

[68] **Peter Black:** What is the bottom line? How much are you going to save over the next two years through all this work?

[69] **Dr Milligan:** What we have tried to explain on the measurement and the monitoring of it is that we are currently working with the Wales Audit Office and the work streams to identify the possible scope of efficiencies that might be realised. So, I am not going to rush in to give you an answer, because we are taking the counsel of those who have scrutinised previous programmes, who are saying that we should be cautious about setting targets and making estimates, as this is complex. When you are trying to record, measure and validate efficiencies, some of which will be cost reductions or cost avoidance across such a range of public services, that has to be done carefully and backed up by the financial and management information flows that will make that a robust picture going forward. Those are some of the lessons that we have learned from 'Making the Connections' and that have been learned at the UK level. The UK Parliament's Committee of Public Accounts has pointed those out and said that we should make our estimates carefully and put the monitoring and measurement arrangements alongside them, so that is what we are doing. We have established an expert measurement group on which the Wales Audit Office is also represented, so when we come to this committee with our estimates for savings, they will be robust and we will be able to tell you how we measure them.

[70] **Peter Black:** So, you do not actually know.

[71] **Dr Milligan:** I cannot tell you that, because the work is still in progress.

[72] **Peter Black:** When will you be able to tell us that figure?

[73] **Dr Milligan:** We will talk about the figures when we have robust figures and when we have confidence in the measurement arrangements that we are putting in place.

[74] **Peter Black:** When will that be?

[75] **Dr Milligan:** At the moment, that is work in progress, but we have drawn together the experts who will enable us to do that serious endeavour.

[76] **Jonathan Morgan:** Can you give us an indication of when that will be? It is an important question, because time is ticking. The financial year will come around pretty quickly, in three months' time. We will have to see public services meeting this challenge quickly. The question from the Member is a fair one. You have all these meetings, get-togethers and all this work being done, but the important question is how much you will save through efficiencies and cost avoidance.

[77] **Dr Milligan:** It is an important question, and we will return to you as soon as we have an answer to that. At the moment, it is work in progress. We are gathering evidence about the cost savings that are already possible. That is the foundation for the work that we will do. We are exercising caution because we are learning the lessons from mistakes that have been made in the past as a result of rushing in to meet targets, and we are adopting the methodologies that have been recommended in public accounts committees elsewhere on going about the work.

2.20 p.m.

[78] **Alun Davies:** Thank you for that. The problem that we have is that it is difficult to believe in that process unless you can give us a time frame for it. We are not asking for a particular date, but, as the Chair has outlined, it is fair to ask for a time frame so that the committee can understand what your objectives are and hold you to account on achieving them. That is absolutely crucial to your work. So, I agree with what has been said: it is fair to ask for a time frame, and the committee should be able to see that.

[79] **Dr Milligan:** The work is already in progress.

[80] **Alun Davies:** We know that.

[81] **Dr Milligan:** Each time the efficiency and innovation board has met, it has received reports from the work streams about the work that they are doing in each of the areas that we have outlined in pulling that together. We have now supplemented that with an expert group, which has met twice, and it is drawing together the expertise that will enable us to answer those questions.

[82] **Alun Davies:** Meetings are not outcomes.

[83] **Dr Milligan:** No, they are process, and they are a serious endeavour to get towards the estimates. I fully understand why you would like to be able to see a figure of that nature. All the advice that has come from scrutiny processes has been that we should exercise care in drawing that together, and we should do it well, rather than do it quickly, so that is what we are doing. We will report back to you as soon as possible, when that work has come to fruition.

[84] **Alun Davies:** When will you report back to us?

[85] **Dr Milligan:** When that measurement group has finalised its work and we can say that we have the figures.

[86] **Alun Davies:** When do you expect that to happen?

[87] **Dr Milligan:** When we have figures that we can validate, and when we have had



conversations with the Wales Audit Office that enable us to feel that we have the right measurements alongside it, so that we can be held to account. We are trying to get to the position at which we can be properly held to account on a robust basis.

[88] **Alun Davies:** I do not think that you should give us a fake figure if you cannot keep to it. I accept that, and I do not want to push you to pluck a figure from the air. I understand your issue. However, if we want to move from the abstract to the particular, which is what we are seeking to do, I believe that it would be reasonable for the committee to ask you to reflect on that and write us a note that gives us a time frame, allowing us to understand what you are trying to achieve.

[89] **Dr Milligan:** By all means, I would be happy to reflect and to provide you with—

[90] **Alun Davies:** A time frame with dates, months and years.

[91] **Jonathan Morgan:** That is a fair point.

[92] **Sandy Mewies:** Would it be easier to say—and I cannot see this being difficult—when you will know if you have failed? If you do not know at which point you have failed, there is no real planning going on. You must know. You know the time frame that we are in, so there must be a point at which you know that, if your work is not complete, you will have failed.

[93] **Dr Milligan:** We have set up the work streams and they are achieving the milestones that have been set for them in moving forward with the adoption of the products that John has outlined and in moving forward with the design work on the new models of service delivery. They are also meeting their milestones in working towards estimates. It is sort of like the chicken and the egg, I am afraid: until we have set things out in the terms that the Assembly Member was asking for, by setting something against which one might fail—

[94] **Alun Davies:** We will set a date by which time we will determine whether you have succeeded.

[95] **Jonathan Morgan:** I think that the questions are fair. No-one doubts the fact that you, as officials, under the instruction of Ministers, decided to look at how the Welsh public sector could be more efficient, how you could avoid certain costs and make expenditure go further. However, it is also fair for the public, whose money you are spending, to ask the question of what exactly you are seeking to achieve, and what sort of cost savings we are looking at. Paul Williams's evidence to this committee was extremely robust from the point of view of his saying, 'We have saved this, this, this and this. By this project, that project and that project, we have achieved A, B and C'. It is probably what I would have expected from someone who used to run an NHS trust. The question of what will be saved is a fair one, as is the question of within what timescale you expect to achieve that, because we are reaching a point where public services will start making very difficult decisions about staff reductions and redundancies. That is where the efficiencies or cost avoidance will come from: straight sackings. We will get to a point where some of this work will become rather irrelevant because the public sector will say, 'We're now having to do this because our backs are up against the wall'. The point that Alun and other Members are making, particularly on this side, is extremely valuable, because we need to have a clear understanding of the timescale.

[96] **Mr Palmer:** To pick up on the point about whether savings are already being made, to go back to a specific, in relation to the work that we are doing on collaborative procurement, Denbighshire County Council has approved its business case for xchangewales, and it has factored that in. It is saying that it is going to deliver savings of £1.5 million over a five-year period, and that is exactly the sort of business case that six other authorities are in

active consideration of at the moment and looking to sign up. So, these are things that they are factoring in to their five-year plans, and our job is to keep managing economies of scale, providing the frameworks, the consortia, that will provide every organisation the opportunity to make those sorts of decisions. Those will aggregate for every organisation the better products that we can offer.

[97] **Jonathan Morgan:** Our difficulty is trying to see in black and white what has been achieved through the 'Making the Connections' framework, which was hailed a number of years ago as a way to drive efficiencies by getting bodies to better work together, and what specifically has been the achievement of the efficiency and innovation board. That is where the problem is. A great deal of what we have heard about certain things that have realised savings has been to do with the previous attempt through 'Making the Connections', and probably through other schemes as well. The problem is trying to find out the actual impact of the efficiency and innovation board. I am not saying that it does not carry on the good work, but it is a matter of trying to distinguish what you are doing now and what has been done in the past. Does anybody else wish to pursue this any further?

[98] **Peter Black:** You obviously have a sheet of paper there that lists lots and lots of savings. What is the bottom line? What does it all add up to?

[99] **Mr Palmer:** I have given you the best exemplars of the best practice that we have at the moment, where chief executives feel that the business case is robust. For every organisation, the business case is different, so I have not aggregated those. To aggregate the whole of the public service on the back of Denbighshire council's business case for xchangewales would not give me a true picture.

[100] **Peter Black:** How do we get a true picture? At the end of the day, the bottom line is how much you have saved through efficiencies and better service delivery, but if you cannot deliver that picture, how can we judge its success or otherwise?

[101] **Dr Milligan:** That is the methodology that we are seeking. The work that we have exemplified today is part of the work that we are doing in drawing together best practice, looking to see what the take-up might be and then coming up with a model for aggregating it across the public service. I will write to you, Chair, to give you the clearest picture that we have at the moment and some sense of when the measurement working group will be able to report.

[102] **Alun Davies:** I did not say 'a sense'. I said 'a time frame'. I am trying to be flexible enough to give you the flexible view you require, but I am not being so flexible as to allow you to simply give us a suggestion of when you might possibly be in a position to do so. Let us try to pin some of this down. John has said that he has these project plans in place. If he were to give us those project plans, perhaps we could find our own critical path through them and we could hold you to account on that.

[103] **Nick Ramsay:** Moving on to the impact of reductions in capital spend, you mentioned a couple of times the improvements that can be made in ICT and infrastructure. What examples do you have of projects that you think you will struggle to take forward without an associated spend on new buildings and infrastructure such as ICT?

2.30 p.m.

[104] **Mr Hearty:** I mentioned in my opening remarks that capital reductions have been beyond even our planned assumptions. In the first year, the drop in available capital is greater than the other four years. That was not something that we had built in to our plans. We are working through the budget now and, as part of the budget process, we will be exploring how

that translates into future capital programmes. At the moment, it would be unfair to say more in any great detail about this stoppage or re-phasing of capital programmes, because Ministers are now trying think through the impact of those capital plans.

[105] **Nick Ramsay:** Do you have a time by which you will be able to tell us which projects will be affected?

[106] **Mr Hearty:** I anticipate that, by the time we get to the budget announcement, we will have made clear what the overall capital position is for each department. As each department works through the implications, we will not be in a position where we will produce something comprehensive. As each individual Minister works through the implications for their plans, there will be announcements associated with those. We are trying to pull together a total picture of capital planning across the Welsh Assembly Government so that we can understand and try to leverage some benefits to do with how to make better co-location and capital decisions while the capital money is going down. There is some thinking going on about the implications, and that will work through in decisions about phasing capital projects. How that then translates into individual programmes will become evident after the budget.

[107] **Nick Ramsay:** Given the forecasts in reductions in capital funding, are you considering attracting more private funding?

[108] **Mr Hearty:** The Welsh Assembly Government does not have a specific policy one way or the other about attracting or not attracting private sector funding. We will deal with it on a case-by-case basis.

[109] **Nick Ramsay:** Thinking back to the previous questions, do you think that there is a danger here of—to turn the phrase around—not seeing the trees for the wood? You talk about wanting to reach a position whereby you have an overall picture of what is going on, so that you do not give us false information in any way, and that is a noble aim, I suppose. At the same time, however, is not giving any kind of indications in any of the areas that we have asked about a good way to proceed?

[110] **Mr Hearty:** Do you mean in terms of the individual aspects of the efficiency and innovation programme or generally in terms of the Welsh Assembly Government's capital programmes?

[111] **Nick Ramsay:** I meant the efficiency programme. I know that I have asked you about capital funding, but it seems that you are not able to provide us with much detailed information on any of these areas.

[112] **Dr Milligan:** No, we are not able to do that today. I will write to you, Chair, and explain the work that the work streams are doing. We will, as best we can, give the exemplification from that work that we believe is robust and will take us closer towards the understandings on measurement. I will do as I have said.

[113] **Nick Ramsay:** Apart from those areas where the 'One Wales' agreement is clearly not interested in private funding, it seems obvious to me that where more private funding could solve some of these problems, it would at least be considered. You say that this is a decision of the Welsh Assembly Government and that it has no view on it, but in all its meetings, the efficiency and innovation programme must surely have considered greater use of private funding.

[114] **Mr Jeffreys:** Michael's point is that there is no blanket position one way or the other. For example, Ministers are actively exploring the Welsh housing investment trust model as a way of levering more private finance into the provision of social housing. That is one obvious

example of where Minsters are pursuing that opportunity over the next couple of years, in light of the fact that there is less public capital available than there was previously.

[115] **Peter Black:** I think that you have both said that the Assembly Government has no set view on private finance and that it decided on a case-by-case basis. Does the ‘One Wales’ agreement not say that there should be no private finance in health?

[116] **Mr Jeffreys:** Yes.

[117] **Peter Black:** I was getting confused, because that seemed to contradict that.

[118] **Mr Jeffreys:** I was just making the point that there is neither a blanket ban on it nor a blanket approach to having it across all of the different areas. There are different arguments in different sectors of public services, and that is the case-by-case basis.

[119] **Peter Black:** But not health.

[120] **Mr Jeffreys:** No.

[121] **Mr Hearty:** The fuller answer would be to say, ‘apart from in those areas where a specific statement has been made, such as health’.

[122] **Ann Jones:** You briefly mentioned Denbighshire County Council as an exemplar.

[123] **Jonathan Morgan:** You will wish that you had not, now. [*Laughter.*]

[124] **Ann Jones:** That frightens me, because you cited the procurement there, but if you look at the whole picture of how Denbighshire is operating at the moment, you will see that it has had a collaboration scheme aborted in children’s service at a cost of £50,000. That £50,000 has come from the children’s budget. You talk about complex families—the complex families that I represent cannot afford to see that £50,000 taken away from their children’s budget. So, when you use Denbighshire as an exemplar, will you look at the whole story? Denbighshire has now got itself into some difficulties over an aborted collaboration scheme. That might mean that people will not look at collaboration again, and nobody could blame them for that. You have to be very careful when you cite these examples.

[125] I wanted to come on to the fact that neither the paper nor your slides referred anywhere to the issue of cutting or reducing services. Is it inevitable that front-line services will need to be cut to respond to the challenges? If so, do you think that the efficiency and innovation programme should provide clear direction on how those cuts should be made and where?

[126] **Dr Milligan:** That is not within the scope of the efficiency and innovation programme. In explaining to you what it is, I guess that we are also explaining what it is not. In terms of the accountabilities for taking the moneys that are available to them, it is for Denbighshire council and other local authorities, as it is for individual health boards, to set the priorities and to balance their budgets, just as the Assembly Government will be presenting its balanced budget next week and setting its own priorities. In the case of local authorities, those accountabilities and choices remain within the democratic arrangements that exist.

[127] **Ann Jones:** Andrew Davies referred to the fact that officials are more focused on managing budgets than on outcomes. Is the efficiency and innovation programme providing any direction on focusing on outcomes, even though we know that there will be pressures on budgets? Are you doing anything around focusing on outcomes?

[128] **Dr Milligan:** The efficiency and innovation work is an enabler. It is about operational efficiency, so it is generally focused on the delivery of services. We made reference to some very clearly focused and outcome-based reviews that the Assembly Government has under way. For example, the front-line resources review of education services is all about transferring costs from the back office to the classroom, to the front line. Similarly, the review that has been announced on what is best delivered where in local government is an outcome-based review, which is about front-line services, their effectiveness and how they might best be delivered—I am recalling the diagram that John had in his presentation. The outcomes are delivered through those big public service reforms and reviews, which are supported by the work of the efficiency and innovation programme.

[129] **Ann Jones:** Do you think that public services are well placed to take robust and soundly based decisions about cutting services, or do you think that the efficiency and innovation programme should be leading them down a particular route?

[130] **Dr Milligan:** Decisions about cutting services are not appropriate for the efficiency and innovation programme to consider, for the reasons that I have explained.

[131] **Ann Jones:** So, if a public service was to come to you and say: 'Because the Assembly budget to our organisation is only x, and because we can only bring in y, we will have to reduce our staff; can you help us?', what would you say?

2.40 p.m.

[132] **Dr Milligan:** John has described some of the work that the efficiency and innovation programme is doing that might assist with that, and that is about getting better value through integration of services, new ways of delivering services and collaboration. What we would be able to offer, within the scope of the work that is being undertaken collaboratively in the efficiency and innovation board, are exemplars and approaches that would help individual organisations or those that wish to collaborate to think differently about the choices that they face, some of which might involve service reductions as an alternative. The contribution that we make is of that nature.

[133] **Ann Jones:** Have you done any work on gender budgeting and its effects and whether it might offer a way forward for the efficiency and innovation programme?

[134] **Dr Milligan:** No, not within the efficiency and innovation programme.

[135] **Ann Jones:** Should you have done so?

[136] **Mr Jeffreys:** Gender budgeting has been taken forward within the Assembly Government, but not under the auspices of the efficiency and innovation programme. However, the Minister for Business and Budget is very interested in gender budgeting, and a lot of work is going on within the Assembly Government on it.

[137] **Jeff Cuthbert:** My main question is on collaboration, so it flows logically from the previous question, and I will supplement it with further questions straight away. I hope that there is enough money in the revenue fund to fix whatever the problem is with the roof. The report, 'A Picture of Public Services', points to slow progress in developing whole-system approaches to delivering public services. What is the efficiency and innovation programme doing to help improve collaboration between public bodies to provide more cost-effective services? John Palmer, you mentioned that it is good that you and your colleagues are sitting around tables with chief executives from multi-million-pound organisations, that is, local government and the NHS, so do you sense that there is a willingness to engage in this programme? That is crucial. Where there is a will there is a way, and that has not always been

the case, in my experience. The silo mentality is what led to 'Making the Connections' being brought in, so do you feel that there is a willingness to engage and meet the objectives? On page 9 of your presentation, under the heading of collaborative procurement and commissioning, you give a progress update on a national sourcing strategy, which states that most local authorities are engaged in at least one contract. Can you expand on that? I understand the words, but how many contracts could they be involved in? Saying that 'most' local authorities are engaged means that some are not, so what is the bigger picture there?

[138] **Mr Palmer:** I will focus on the willingness to engage first, since you addressed that question to me directly. My experience, since being engaged with the programme from May onwards, is that there has been an extraordinary response. This has been a voluntary programme of engagement; the First Minister brought together 170 leaders from across Wales in the first public services summit and asked whether they would work with us and volunteer to lead programmes. On that voluntary basis, we saw a huge response. As you see, seven work streams have been set up, led by chief executives from local government and the NHS. Looking at each individual board, it is quite striking that senior individuals from around the public services are there as well. The efficiency and innovation board, chaired by the Minister, has not been treated as the only place that senior executives will give of their time. Each of the boards that support the overarching board has important individuals who are there because they see value in the programme. They are willing to give not only their leadership, but their engagement, and they are business planning on the basis of using the products. I gave you some of the details earlier. We have seen acceleration in the uptake of specific projects for collaborative procurement, for asset management, and for ICT, which, I think, all points towards a significant level of engagement and a serious mindset that this has to work. Some of that is quite personal, but that would be my feeling.

[139] **Mr Hearty:** I have only been in the Welsh Assembly Government for two months, so I am still in that stage of meeting and greeting people in the public sector generally. I have met chief executives from the health service and local authorities, and I attended a WCVA funding conference quite early on. You get a sense of people genuinely wanting to collaborate and work on this. The difference between my experience previously and now is that there is a genuine sense that there is a cliff edge in terms of the money, which is driving people's desire to have conversations about how we can work together to deliver services differently. The challenge is how you then channel that into sensible outcomes, and the strength of the efficiency and innovation board is its ability to do that. However, that is the difference: people understand that the money will get tighter over coming years and we need to think differently about how we deliver services.

[140] **Mr Palmer:** To answer the specific question on collaborative procurement, I will provide a very quick bit of context. The whole point of a national sourcing strategy is to help us to actively manage and develop our supply chain and our markets, not just in Wales, but across the UK. It is about selecting categories of expenditure and then trying to generate leverage around those categories of expenditure, whatever we are trying to buy. Thus far we have brought together 14 consortia, which have been spending collectively on different things. Now, we are trying to get the best focus on how we manage the market locally, regionally and nationally across the UK. We are trying to do something quite important and delicate; we are making intelligent decisions, not just based on cost, but on local economic conditions. We want to support small suppliers and small and medium-sized enterprises in Wales. Sometimes, we will actively choose to work with those organisations, albeit that we might have been able to get the deal cheaper elsewhere. That is the point of the national sourcing strategy.

[141] The point about local authorities being engaged in at least one contract is that, on the national sourcing strategy, we have basically bundled together all of the current contracted opportunities. It just reflects that local authorities are engaged on one of those somewhere

along the line. However, we are trying to create the opportunity for engaging with lots of contracts in one go. So far, we have seen, across the public service, about 70 per cent usage of the national sourcing strategy.

[142] On the xchangewales e-procurement system, which is basically an e-trading platform, we have had a really good response to that. It is seen as very good practice; it is about managing catalogues very actively and cutting transaction costs. We have also seen other organisations wanting to come on board, so it is not just local government. The police are now saying, even though they are in UK networks, that they very much want to work with us on the xchangewales e-procurement system, because the deal looks very good to them. I think that there is a strong story to tell on the detail of that.

[143] **Jonathan Morgan:** Before I move on to Peter Black's question, I wish to ask a question about a point in your paper where you refer to more flexible approaches to moving staff between organisations. Do you see it as your role to provide help and support to organisations that will face very difficult decisions around staff and what they do with them, because staffing costs make up the huge bulk of an organisation's costs? Are you looking at ways in which staff costs can be reduced or where redundancy can be kept to a minimum, for example, through shorter working hours or other elements of staff costs, such as travel and expenses?

2.50 p.m.

[144] **Dr Milligan:** I can answer 'yes' to the first of those. One piece of urgent work that is going on in the workforce priority area under the programme is looking at career transitioning. That is looking at ways in which public servants could be enabled to move from an area where there is no longer a requirement for them, and that would involve training, advice and development. That career transitioning product is one that is being given urgent attention within the workforce and is a practical offer to organisations that are managing workforce constraints.

[145] Your second point, relating to the terms and conditions under which people are employed across the public sector, is a matter for the employers, so that is not strictly within the terms of this programme. So, we are working on the enabling things that people can use alongside their own workforce planning and their human resources capability and that might help.

[146] **Peter Black:** Your evidence paper refers to the adopt, adapt or justify approach to good practice. What does that mean, and what are you doing to identify and share good practice and research from outside Wales?

[147] **Dr Milligan:** I am going to ask John to talk about the adopt, adapt or justify approach, because he has been present at some of the discussions that have taken place at the board on that. We are working hard to get as much evidence as we can from outside Wales; we are sharing with colleagues in Scotland and, I hope, soon, with colleagues in England, within the new arrangements that have just been set up there. It has been recognised in some quarters that we have got a bit ahead of the game, by already convening people and by planning ahead of the reductions that have now become evident. So, we are in a good position to share proactively. I will now ask John to talk about the adopt, adapt or justify approach.

[148] **Mr Palmer:** Essentially, the adopt, adapt or justify approach came very early on, directly from the First Minister. He felt that there needed to be an approach that would draw a bottom line, to ensure that if we had something that really made sense for the Welsh public service, we would all do our best to sign up to it. That concept has since been through several iterations, in each meeting of the efficiency and innovation board—and we have had five

board meetings, and a few summits, with a third just about to start. We have been testing the mandate with the efficiency and innovation board, because it is established on a voluntary basis.

[149] One thing that we did was establish, against the adopt, adapt or justify approach, the four elements that I have spoken about at some length already, so I will not go through them again, which are xchangewales, a number of procurement framework contracts, the public service broadband aggregation model, and the electronic property information management system, whereby we are trying to get all the assets onto a single database. All of those things were our initial adopt, adapt or justify products.

[150] What happened in the iterations through the boards was that our colleagues across the public service asked, 'What if some of these things don't generate a good business case for us at the moment? Would you really want us just to adopt and then justify?' We then came to the view that we needed to include 'adapt', because people need to investigate these things. Public service broadband aggregation has benefited hugely from the challenge that has come through the efficiency and innovation board, and all the officials who are working on it and the people who are now using the system are saying that they have been able to get better business cases because of the feedback through the board. So, PSBA is adapting as we speak, and voice connectivity is being added to business cases at the moment, and that will allow us to look at better ways of doing telecare in the future and other approaches to telephony, videoconferencing and so on.

[151] So, that is how it has developed. It was about having something about which we said, 'There are absolutely clear business cases to take these things forward and we think that everyone should be doing them.' We have seen good uptake and, so far, when we talk to people about why uptake might be slow, they have been very responsive. We have seen changing business cases that help improve the deal for people and therefore uptake continues. No doubt we will continue to have iterative discussions about these things through each work stream.

[152] **Peter Black:** So, basically, you have rebranded spreading best practice to encourage people to listen and adapt.

[153] **Mr Palmer:** I would not want to downgrade the importance of spreading best practice. It underpins our strategic approach. We should have a relentless transfer of best practice. I am absolutely sure that Paul Williams said something along those lines when he spoke to you. Going back five years to the Beecham review, we had a clear analysis then that we had some outstanding, world-class practice across our public services in Wales. Our challenge was to transfer that practice much more quickly. To an extent, that remains the case, but in the work that we have done so far on the efficiency and innovation board we have seen a degree of acceleration in each work stream. The challenge is to continue accelerating month by month so that we can support every public service organisation in Wales.

[154] **Nick Ramsay:** How are you engaging with the public?

[155] **Dr Milligan:** We are doing quite a lot of things with the public, led by the engagements that Ministers have undertaken. The First Minister, the Minister for Business and Budget and the Minister for Social Justice and Local Government went out over the summer, focusing on different segments of the public—people who work in public services, service users, and, in the case of the Minister for Business and Budget, community groups—to hear about what they felt that the Assembly Government should be doing in response to the fiscal constraint.

[156] **Nick Ramsay:** This was the tour—that is what I have heard them call it—of the



Minister for business and the Minister for local government, was it?

[157] **Dr Milligan:** There were three different engagements that were referred to differently. Some of them were a series of meetings, and one of them was referred to as a tour. I am not quite sure how they were referred to. However, they were about engaging with different segments of the public that had different perspectives to offer on public service delivery in Wales.

[158] The work of the programme is mainly of interest to people who work within public services and who are looking to improve their operational efficiency. However, we put detail about the work of the board on our website, including when it is meeting. We put detail about the public service summits and when they are happening. However, the technical detail is mainly of interest to people who are looking to improve operational efficiency.

[159] **Nick Ramsay:** That was going to be my second question, so that has been answered.

[160] **Irene James:** How is the efficiency and innovation programme helping to equip managers to manage in a very different environment from that which they have known previously?

[161] **Dr Milligan:** That is one of the big challenges, and it was the one that was drawn out by the auditor general. It is one that we have returned to several times today. We recognise that people have already been changing the way that they have been working. There has been incremental improvement in efficiency and how we have been working, but we need to make a step change. So, some of the work that the board is doing is focused on public service leaders. A particular work stream led by Jo Farrar, who is the chief executive of Bridgend County Borough Council, is offering some developmental activity in which leaders across the public sector can get engaged. That is an offer to the very senior leaders that they can take away and in which they can involve people who may be leading operational service areas in their organisations. So it is a developmental offer, specifically.

[162] The cultures within an organisation are one of the common barriers to collaboration and change. As Michael has already said, the very fact of the financial constraint and its seriousness will change minds and hearts about collaboration. Alongside that, we are offering specific development activities and programmes that leaders can nominate people to attend.

[163] **Irene James:** My next questions have been covered, but is there a mechanism in place that will be robust and ensure that everyone has the skills that they will need?

[164] **Dr Milligan:** That is a big ask.

[165] **Irene James:** In the civil service, in particular, that is.

3.00 p.m.

[166] **Dr Milligan:** In terms of the civil service, I could say something about what we are doing with our own skills framework. The efficiency and innovation programme is assisting leaders in changing the culture and adapting to circumstances. We have been developing a skills framework for civil servants across our organisation. It is based on the UK professional skills for Government framework, and the series of competences that sit within that. The Assembly Government has introduced heads of profession to increase professional esteem and the professionalism of some of the activities that we undertake: for example, people management activities, financial management activities, and programme and project management activities such as those underpinning the delivery of this programme. The Assembly Government's approach to the implementation of that skills programme has been

recognised at UK level as being ahead of the curve, so we are quite proud of what we are doing there, and it is broadly welcomed by staff in the organisation.

[167] **Irene James:** Are there some areas of the Welsh public sector that you think are better placed to deal with these changes than others?

[168] **Dr Milligan:** It is almost certainly the case that some are better placed than others, and perhaps the Wales Audit Office knows better than I where they are as a result of some of the reporting that it does, and, I am sure, some of the reporting that they bring to your attention. We are reliant to some extent on people coming in saying, ‘We are finding this challenging. Can you help?’ That is why some of the products that are being developed are welcomed across the public service.

[169] **Irene James:** I apologise for the wind.

[170] **Jonathan Morgan:** That was a very diplomatic answer, June. Thank you. Ann Jones has the final question.

[171] **Ann Jones:** If we were to bring you back to the committee in 12 months’ time, how would we know whether the efficiency and innovation programme has been a success and is on track to deliver?

[172] **Dr Milligan:** What we are aiming at is not just driving efficiency, but driving effectiveness. If I can come back to where I began, we are supporting work across the Assembly Government in delivering better outcomes for the people of Wales. The degree of connectivity that we have with the products that we are offering, and some of those big reforming reviews that are going on, would be one kind of test, and I would hope to be able to tell you more about that connectivity, and even more about the uptake of some of the common approaches and challenges. Dare I say it, I would hope that, by then, we would have greater clarity about the scope for efficiencies and how we will be able to measure them, as that is a serious endeavour.

[173] **Jonathan Morgan:** You have already offered to write to me on the points that we raised earlier, and I am grateful for that offer. If there is anything else that we feel that we want to explore further, we will certainly be in touch. Thank you for being with us this afternoon. I apologise for the noise from the roof.

[174] **Irene James:** It is the wind.

3.03 p.m.

### **Amcangyfrif o Incwm a Gwariant Swyddfa Archwilio Cymru Estimate of Income and Expenditure of the Wales Audit Office**

[175] **Jonathan Morgan:** The Auditor General for Wales is here, and his colleagues Kevin Thomas and John Baker are joining him at the table. This is the annual item on the committee agenda where the auditor general is required to present the estimate of his income and expenditure because, of course, part of the expenditure of the Wales Audit Office is covered by the National Assembly for Wales, and the auditor general has presented his annual estimate in accordance with the requirements of Standing Orders and the Government of Wales Act 2006. I will give some background before the auditor general introduces his paper. He is making a resource request of us of some £4.853 million for 2011-12, which is £194,000 less than the estimates for 2010-11, and equates to a reduction of some 3.7 per cent—or, in real terms, about 6.4 per cent or closer to 7 per cent, depending on which statistic you rely on. Either way, it is a significant reduction: he wants less money. So I am sure that many of us

will welcome the spirit in which the Wales Audit Office has met this particular challenge, and I am looking forward to the auditor general's presenting this paper this afternoon.

[176] **Mr H. Thomas:** I am grateful for the chance to make some introductory remarks to provide the context for the paper. I suppose that one of the guiding principles—Ann Jones will have heard this before in a different guise—that I have when presenting any budget is the phrase:

[177] 'Hael yw Hywel ar bwrs y wlad'. 'It is easy to be generous with public money'.

[178] As the auditor general, I am always conscious that I have a duty and a function to perform, and that I need to do it well. I need to do it well for the sake of the people of Wales and for you; you demand nothing less. However, at the same time, in delivering it, I cannot be insensitive to two things: first, that this is a time of unprecedented restraint in public expenditure, and I do not think that the Wales Audit Office ought to be immune to that; and, secondly, that our fees are a part of the costs of the bodies that we audit. I have therefore deliberately set a tough target for the office. It is a target of a 7 per cent reduction in real terms. Last year, we had a nil increase on the previous year. So, if you add them together, you can see that the Wales Audit Office has taken quite a hard reduction. I am conscious that we have just heard reference to the fact that there has been an unprecedented reduction in the capital available to Wales as part of the comprehensive spending review, and there is no capital bid in the papers coming forward.

[179] In many ways, I have to present to you a snapshot of where we currently are. The picture inevitably has, as all estimates do, to use Donald Rumsfeld's expression, the known knowns and the known unknowns. In the paper, we have set out those areas where we know that we can look to particular growth factors in terms of our costs, and those where we are looking to identify reductions, and, also, I have to take the best estimate of where we will stand in relation to our fee income. The letters will go out next week to start the process of agreeing fees with audited bodies. You will see in the paper that I am looking to reduce the fees that we will be taking from local government. That stands on top of a 15 per cent reduction last year in the NHS fees. So, we are very sensitive to the burdens carried by the whole of the public sector.

[180] There are consequential increases. There has been an increase in the number of freedom of information requests that we are receiving. These are very detailed freedom of information requests, arising from the recent events that have hit the office. Those mean that we have to pay more.

[181] We also have a range of other factors that fall into the category of known unknowns. The Audit Commission is to be abolished. We have some estimates of what that will mean in terms of additional expenditure for us, but the whole of that cost will not be known until we are clear as to what the UK Government intends to do in future with regard to the functions that the Audit Commission exercised. I could play safe and add a large contingency factor, but I have not done that. As you can see, I have taken a sum that we can immediately identify, but there will be other consequentials.

[182] On VAT, I understand that we have reported to you every year that there is a potential liability coming from VAT. Every year, my predecessors have said that Her Majesty's Revenue and Customs has intended to reach a decision. My report to you is exactly the same: it intends to make a decision. On that decision will rest a further sum. It is difficult to quantify it. We could try a one-year element, but HMRC may seek back-year payments. So, a fairly significant sum will be there.

3.10 p.m.

[183] In terms of the reductions that I am making, I wish to draw your attention to a miswording. Note 7 on page 19 states:

[184] ‘combined with a pay freeze for all the but the most junior staff’.

[185] The correct wording that I have used throughout is ‘pay restraint’. This is an aspect that we are discussing closely with the unions, but, broadly speaking, our pay bill will reduce in this coming year by about 4 per cent as a result of the reductions that have already taken place this year in terms of staff leaving on voluntary severance.

[186] We are also working out the workforce planning, and I understand this has been reported to you on previous occasions, whereby we are looking to see how our staffing in Wales compares with that of other public audit bodies, so that we have a sense that we are not over-staffing and are pitching ourselves at the right level. I anticipate that that particular level will be one that, carried forward, will continue to deliver that type of saving.

[187] Finally, I draw attention to the fact that, as we are reducing, we also have to take account of the issue that was identified earlier, namely that I have accounts that need to be regularised from the last financial year. There is a cost, which we estimated was not properly stated in the accounts at the time. The National Audit Office is checking that that is indeed the situation, and a report will be issued to you at the beginning of December on this. However, broadly speaking, I need to find around £1 million to regularise the accounts year on year. In doing that, I am trying to manage one year with the next. However, I predict that there will be a deficit of around £300,000 this financial year. That means that I will have to deal with that deficit as a first call on my accounts next year. However, taking the two years as a whole, provided that we do not have to deal with urgent matters, contingency matters or the calls from VAT out of our existing funds, we can just manage one year on the next and continue to deliver the very tough estimates that you have in front of you.

[188] **Jonathan Morgan:** Thank you, auditor general. We will move on to some questions. I wish to raise a couple of points for clarification first. Looking at paragraph 2 on page 4, could you quantify the additional charge that would need to be made to the accounts for the cost of the previous early retirees if the entire amount of expenditure that could have been charged in earlier years is charged in 2010-11?

[189] **Mr H. Thomas:** This is subject to the final look by the National Audit Office. The last time that we appeared before the committee, we said that the total that should have been in this year’s statements was £1.049 million. That is the sum that we are trying to regularise this year, leading to my current prediction that there will be a deficit of about £300,000.

[190] **Jonathan Morgan:** Therefore, I assume that the financial reporting manual and international accounting standard 8 will have to be applied in correcting the accounting errors. Is that correct?

[191] **Mr H. Thomas:** Yes.

[192] **Jonathan Morgan:** Thank you. Looking at table 3 on page 20 of your estimate, if the costs of early retirement are accounted for correctly, should there be an entry in this table removing the charges made to the account, and adding back the amounts actually paid to the pension schemes?

[193] **Mr K. Thomas:** There should not be an adjustment to this table. When we regularise the accounts, we would make a provision for the £1.049 million that the auditor general has set out. That means that it is an accounting and timing adjustment. It does not commit the

Wales Audit Office to any additional expenditure, and does not create any additional expenditure; it is about when the expenditure falls. In future years, there would be a reduction in the revenue costs to an amount corresponding, over time, to that £1.049 million. Essentially, you put the money aside this year, and you would draw from that provision in future years. So, it will reduce future years' costs.

[194] **Irene James:** In paragraphs 14 and 15 of your estimates paper, you propose maintaining the same overall level of activity and services while rebalancing the mixture of studies undertaken. In paragraph 18, you indicate that the rebalancing of your work will lead to an additional call on resources. How much of an increase in costs does that additional call on resources equate to?

[195] **Mr H. Thomas:** As part of the rebalancing, we will budget for more cross-sector studies, which, inevitably, cost a little more. In fact, as you will see in a few minutes, the next paper that we are to discuss sets out the range of studies that we are planning. As far as the cost is concerned, it is simply the extra cost of negotiating across a range of bodies. As for how we will meet that, it will cost more in terms of staffing time, which I will then have to recover through the rest of the reductions that I have put in front of you. So, I cannot give you a specific figure for that particular element, because it depends on the number of cross-cutting studies that we do. The more that we do, the more resources that I will need to put into that area.

[196] **Irene James:** There must come a time when you could put a cost on it, but I think that you are saying that you cannot do that at the moment.

[197] **Mr H. Thomas:** Not at present, because, if you look at the next paper, you will see that it depends on how many cross-sector studies that I will do in a particular year. I cannot at present agree that.

[198] **Irene James:** You say 'at present'; will you be able to say in six months' time, or—

[199] **Mr H. Thomas:** When I will be in a real position to say it is when we do the complete forecast of studies for next year. My next paper looks up to the period of the next election. Thereafter, we will complete the prediction of our programmes for the whole year. At that point we can quantify it.

[200] **Jeff Cuthbert:** Auditor general, you state in paragraph 15 that you do not consider that an overall reduction in the number of studies would be conducive to providing the Welsh public sector with adequate scrutiny. How did you determine what is an adequate level of scrutiny? I assume from reading paragraph 15b that you are not suggesting that there be any reduction in requests from committee members.

[201] **Mr H. Thomas:** That goes back to the range of value-for-money and cross-sector studies to which we have referred. I have looked at the current level of work that we are doing, and I am trying to maintain a level that is as close as possible to the level that you as the Public Accounts Committee have been used to over the years. That said, I am defining the current level as what you are getting, and if you as a committee have a large shopping list of extra studies that you would like me to consider, I will not be able to do it within the estimates. I am trying to carry forward the current level of activity while reducing the cost wherever I can, and, therefore, the total bill and the estimates.

[202] **Jeff Cuthbert:** In the discussion earlier we asked the presenters to keep us well informed, as the reductions in public finances kick in, of how well organisations are collaborating and so on. That may result in an increase in audit work to verify those things. If that were to be the case, the historic situation would not really apply, and there may be a

change in what you are required to do. Is that a reasonable scenario?

3.20 p.m.

[203] **Mr H. Thomas:** It is a reasonable scenario, which is why the next paper, defining my future programme of studies, is not a full year's shopping list of studies. It, therefore, allows the committee to come back and for us to agree on refocusing a range of audit work that matches that requirement. My alternative would have been to give you a full-year programme, which I could then have costed completely. However, I would then have been in a position where, if, after further discussion, you came to me and said that you would really like me to look at a particular area, I would have had to have said that I was already committed and ask you where you wanted us to change our focus. In this way, we are doing it progressively.

[204] **Peter Black:** Is it possible that, by working more collaboratively, you could reduce the demands on your resources while maintaining adequate scrutiny, for example, by working more closely with Assembly committees and other audit inspection agencies?

[205] **Mr H. Thomas:** Absolutely. You will know from my other appearances before you that I am very anxious to see a pattern develop whereby we are working with other inspectors and regulators, but also with the public bodies themselves. There is scope for a pattern whereby people come to us and work with us on various attachments. It adds to the sum total of knowledge of that individual, who can take it back to their own organisation, and it creates extra value for the Wales Audit Office and the public service in Wales.

[206] **Nick Ramsay:** On the issue of fraud, you stated that fraud to the value of £4.5 million has been detected and prevented by the national fraud initiative. Can you break down those figures into the amount detected and the amount prevented?

[207] **Mr K. Thomas:** We can certainly provide that. I do not have the figures with me.

[208] **Nick Ramsay:** Of the amount that has been detected how much is likely to be recovered? Do you have a figure?

[209] **Mr K. Thomas:** Again, I can provide that.

[210] **Chris Franks:** I am looking at paragraphs 16 to 27, headed 'additional audit work arising in 2011-12'. On first reading, there seems to be an awful lot of input. I am not clear how much output there is. In other words, what results will we see? The four paragraph headings that I want to focus on are: 'work to meet enhanced transparency and openness requirements', 'developing arrangements in response to equalities legislation', 'further strengthening of corporate governance', and 'enhancement of ICT'. So, what I want to know is: what extra work will that bring about in the public domain?

[211] **Mr H. Thomas:** May I work my way backwards?

[212] **Chris Franks:** You may indeed.

[213] **Mr H. Thomas:** On enhancement of ICT, we need to keep modernising our IT systems more or less on a three-year basis. It is about maintaining the continued flow of our IT. With regard to further strengthening corporate governance, two meetings ago I brought proposals before you for further strengthening the Wales Audit Office's corporate governance. In a sense, I indicated that I was proceeding down the route that you supported in terms of ensuring a stronger external oversight of what we were doing, thereby increasing confidence in us. I also note that I have to make some allowance for the fact that the National Assembly itself is seeking new legislative powers over the Wales Audit Office to enable it to

introduce fresh governance control of me. Again, that has to be provided for. With regard to the requirement for transparency and openness, I referred to this earlier in terms of the freedom of information requests. You will notice that the earlier summary of this refers to a figure of about £50,000, which we anticipate would flow from that.

[214] Did you refer to the first paragraph or the cross-cutting issue?

[215]

[216] **Chris Franks:** I am not sure whether you touched on the arrangements in response to equalities legislation. Did you?

[217] **Mr H. Thomas:** We have to ensure that, within the Wales Audit Office, we are discharging our responsibilities under the Equalities Act 2010, which was passed recently.

[218] **Chris Franks:** I commend you for doing all that work, but how does that fit under the heading of additional audit work? Surely, it is not additional audit work; it is just making sure that your internal procedures are satisfactory, which, to put it bluntly, they should have been over the past 10 years.

[219] **Mr H. Thomas:** First, we have to keep our work up to date with the legislative basis. Secondly, we have to make sure that other bodies are discharging their legislative obligations. So, we have to ensure that we are doing it internally and that it is reflected in our external work.

[220] **Ann Jones:** You say that you have not got a request for capital budgets in your estimate, but in paragraph 27, you talk about replacing your ICT equipment. Do you regard that as a revenue cost?

[221] **Mr H. Thomas:** Yes. We will do it on revenue.

[222] **Mr K. Thomas:** That is in line with our accounting policies as set out in our accounts.

[223] **Peter Black:** I think that the auditor general dealt with the value-added tax situation as part of his introduction, so I will move on to efficiency measures. Your estimate outlines the efficiency gains that you have already made. Can you list the various efficiency measures that you have made and the savings that they have yielded, both as one-off and recurring savings?

[224] **Mr H. Thomas:** I think that that question demands a written answer. We would need to set out the whole list, but we would be happy to do that.

[225] **Peter Black:** Will you also include how much you expect to save from implementing these additional efficiency measures, as you mention in paragraphs 37 to 44?

[226] **Mr H. Thomas:** Yes, certainly.

[227] **Jeff Cuthbert:** In paragraph 30 of annex 2, and footnote (v), you mention reductions in income from the NHS, and there is a reduction of about £2 million in NHS fee income. You say that that is largely down to the one-off income that will not recur because you had to audit part-year accounts. Is that the sole reason for that £2 million, or are there other reasons?

[228] **Mr H. Thomas:** It is really reflecting the fact that we now have fewer NHS bodies to audit. There were no transition costs, as we did those in-year. So, that is the reason.

[229] **Jeff Cuthbert:** So, the answer is 'yes'.

[230] **Mr H. Thomas:** Yes.

[231] **Jonathan Morgan:** Peter Black has already touched on efficiency measures, and so the last question is from Nick Ramsay.

[232] **Nick Ramsay:** On the issues of redundancies, you said that, in the future, there may be a need for redundancies at a 'significant' cost. Can you be any clearer about the level of cost that you are expecting in that area?

3.30 p.m.

[233] **Mr H. Thomas:** It is important to make a distinction between making posts redundant and making people redundant. We have a reasonable turnover of staff, and deliberately so in some instances. Around 25 staff members left voluntarily over the past year, for example, and there is rather a gap after those who left were not replaced. We are aiming for reductions by whichever means possible, and to do that by natural wastage, as that is the most sensible way of doing it. Thereafter, we are looking at people who have transferable skills within the organisation and at moving them around. Ultimately, we might have to make people redundant if the workflows decline, but I am not planning on that at present. We carried out a voluntary severance scheme last year, which has led to 12 people leaving on those grounds. So, that element of cost is there, but I am not planning a round of compulsory redundancies in the current year.

[234] **Nick Ramsay:** Whether it is compulsory or voluntary, you must have budgeted for a certain amount either way.

[235] **Mr H. Thomas:** Not next year.

[236] **Jonathan Morgan:** Are there any further questions to the auditor general? I see that there are none, and so that concludes this item on the agenda. We will return to this in our private session later, but I thank you both for the information that you have provided to us.

3.31 p.m.

### **Y Newyddion Diweddaraf am Raglen Waith Swyddfa Archwilio Cymru Wales Audit Office Work Programme Update**

[237] **Jonathan Morgan:** For this item, the auditor general is joined by Gillian Body, who it is lovely to see this afternoon. I thank Kevin Thomas for the information on the previous item. Before we ask the auditor general to brief the committee, I wish to place on record my thanks for the paperwork, which it is useful to have to outline the work that is ongoing, when you feel the reporting will take place, and what the challenges of your workload will be over the next few months. It helps to inform the committee, and, as Chair of the Public Accounts Committee, I have found it useful to have this paper and to see the scale of the work that the Wales Audit Office is undertaking. Of course, it is in line with many of the discussions that we had with the peer review group, about having better engagement between you and the Public Accounts Committee. So, thank you for providing that paper. I now ask the auditor general to brief the committee, before asking whether Members have any questions.

[238] **Mr H. Thomas:** Again, I will try to be brief, Chair. As I indicated in answer to the last set of questions, this paper takes the Wales Audit Office's programme of work forward into the next year, but it does not represent a full year's work. It represents a movement, and we would then revisit the programme in the light of the position post the Assembly elections. It builds on the work that Gillian led on earlier in the year, on the public consultation on



possible topics for studies. It reflects the priorities that we had within the Wales Audit Office but also now reflects some steers that I wanted to give, which include ensuring that the studies are more balanced toward the immediate issues of the day, and that they look at how Wales compares with other parts of the United Kingdom or further afield. I also want to ensure that the interventions and service provisions target vulnerable people, particularly given the pressures that the public sector as a whole is under. It has an eye to the future and is not just looking back, and so it helps the public services to learn lessons for the future. So, those are the areas that I have borne in mind in selecting the programmes that you have in front of you.

[239] To repeat the comment that I gave in answer to Nick Ramsay's question, I think, we are bringing collaborative work into this, and we are working with other organisations so that we can derive benefits. I list in figure 1 the work that is either in progress and will come to you, or that is already on the planning stocks. I then move on to identify, in figure 2, four new studies that I am minded to commission. There are also three areas that I would be particularly interested in hearing the PAC's views on: the scope for public sector support within the third sector; whether more work might be needed on the Wales transport strategy; and issues of citizen and community engagement. Depending on your views and on how things develop, those might form the basis of some of the studies that are commissioned later in the year. In the summer of next year, there will be another round of assessment and consultation on taking forward the next stage of the programmes more widely, so you are seeing an advance report at the halfway stage at this point.

[240] **Jonathan Morgan:** That is very encouraging. In figure 1, you refer to the adult mental health services follow-up report. There is sometimes a chart that tells us which month work may be produced, but could you pin that down and tell us when that report may be published?

[241] **Mr H. Thomas:** It is being published next week or the following week, is it not?

[242] **Ms Body:** Do you mean the report on housing that is at the top of the figure, or the one on the bottom?

[243] **Jonathan Morgan:** I am referring to the second one.

[244] **Ms Body:** That will be produced nearer the end of this financial year, so it will be after Christmas. As Huw said, the report at the top, which focuses specifically on housing, will be published within the next couple of weeks.

[245] **Jonathan Morgan:** That is tremendous. I also thank you for conducting a review of the Care and Social Services Inspectorate Wales. We respect the boundaries that exist between the Public Accounts Committee, the Assembly and you, in the sense that the auditor general is free to undertake whatever work that he or she wishes. However, I know that a large number of concerns were raised about the operation of the regulatory functions of CSSIW, and I am pleased that you have seen fit to examine it.

[246] Before I ask Members their views, I turn to figure 2 and the topics for value-for-money studies. You refer to medicines management, which I would highlight as a key area. Yesterday, we were made aware that, in each financial year, we in Wales lose around £50 million-worth of medicines through wastage. That was brought to light cleverly by Community Pharmacy Wales, with 120 large yellow boxes demonstrating the sheer volume of the medicines that are lost each day. You would need a warehouse if you were to try to quantify that over 12 months. There could be scope for greater work in this area to make efficiencies and savings by tackling the waste of medicines. I do not think that we have seen much in the way of improvement on the key area of medicines management in the NHS in recent years, but that is my view as Chair. Do Members have any particular views on the

contents of the report, or figures 1 or 2?

[247] **Peter Black:** I was going to say something along the same lines as you, Chair, so I will not repeat your words.

[248] **Jonathan Morgan:** Good grief. We have a degree of unanimity.

[249] **Chris Franks:** The section on young people not in education, employment or training is what caught my eye. To be frank, there are a few scandalous examples of how we have not responded to that problem, so I am very pleased to see that on your list. I endorse Jonathan's comments about the medicines, as I think that we were all taken aback by those figures, were we not?

[250] **Peter Black:** I want to go back to figure 1, and the Welsh housing quality standards. Are you looking at local councils, the stock transfer companies or both? How are you going to approach that particular study?

[251] **Ms Body:** We are currently scoping that work, so perhaps I could turn the question around and say that we would be interested to factor in any concerns that the committee has.

[252] **Peter Black:** There are two issues here, are there not? One is how effective the housing stock transfer companies are in delivering on the business plans that they set out when the ballot went ahead. The second is whether those councils that have not transferred their housing stock are able to meet the housing quality standard, what the barriers are to meeting that standard, and whether there are other ways of achieving it.

[253] **Ms Body:** That is great. Thank you for raising those issues.

[254] **Irene James:** I must say that the noise that the wind is making in this room is horrendous. I did not hear half of what Peter said. I know that you cannot do anything about it, but is there anything that can be done because we seem to go through this every winter?

3.40 p.m.

[255] **Nick Ramsay:** Turn the wind off, Chair.

[256] **Jonathan Morgan:** Contrary to popular belief, the provisions of the Government of Wales Act and Standing Orders do not allow the Chair of the Public Accounts Committee to do much about the weather. However, it has been difficult in the past two hours or so, but I think that we shall plough on. I did incidentally make inquiries through the clerks as to whether we could have moved to a different room, but the difficulty with that, although there was a room available, is that it would have taken half an hour out of our agenda this afternoon. It is irritating. There is a tarpaulin on the roof, which is apparently protecting us from the rain, but I am not quite sure what is protecting the tarpaulin.

[257] **Jeff Cuthbert:** Indeed, it was in this room, over two years ago, that we had a huge leak. I am surprised if it is the same problem that the tarpaulin is protecting us from.

[258] **Peter Black:** It has been fixed twice.

[259] **Jeff Cuthbert:** There we are. I do not want to just drop a new wish list, but on proposals for new value for money studies, I think that public sector procurement is a big issue. That arose from our first session. We are talking about approximately £4.3 billion spent by public services on goods and services. There must be scope for a better way of doing that. I would encourage working in that direction.

[260] I am not opposed to medicine management in any way. I receive a lot of medicines every month from the NHS to control my diabetes, so I understand those issues and, perhaps, the issue of incorrect prescribing or overprescribing. However, we have to balance that issue with the pressures that we are often put under with new drugs, particularly the so-called wonderdrugs. There is a need to strike a balance. I would certainly not oppose work in that direction.

[261] **Jonathan Morgan:** Are there any further questions?

[262] **Ann Jones:** I wish to ask about the major transport project in figure 1. When are you likely to see that being produced?

[263] **Ms Body:** It is in clearance, so it will be at the end of the calendar year; it will be very soon.

[264] **Ann Jones:** There was also the issue of the Merlin ICT contract follow up.

[265] **Ms Body:** That will probably be later; I would put it just the other side of Christmas.

[266] **Ann Jones:** That will give us time to make comments on the state of our ICT.

[267] **Jonathan Morgan:** I am afraid that you may have taken the lid off a can of worms.

[268] **Peter Black:** The Commission's ICT is around 5 per cent of that contract.

[269] **Ann Jones:** That is 5 per cent too much in my mind.

[270] **Jonathan Morgan:** Order.

[271] **Irene James:** I think that we can all agree with that, Ann.

[272] **Jonathan Morgan:** Okay, thank you. You have made points about the work programme. Looking at figure 2, I think that those pieces of work are extremely valuable and are very substantial pieces of work to which I think an enormous contribution could be made. I do not know whether there is anything else that you wish to say in conclusion, but the committee is clearly very happy and encouraged by this and by the work that you are proposing.

3.43 p.m.

**Gwasanaethau Therapi Ocsigen yn y Cartref: Cyngor gan Archwilydd  
Cyffredinol Cymru  
Home Oxygen Therapy Services: Advice from the Auditor General for Wales**

[273] **Jonathan Morgan:** We have received a note from the auditor general. There is some advice from him. He suggested that it would be timely to probe the extent to which lessons learned on the current contract are being taken into account in negotiating a new contract. Do you wish to expand on that, auditor general, before I ask the committee to comment?

[274] **Mr H. Thomas:** May I invite Gillian to expand?

[275] **Jonathan Morgan:** Certainly.

[276] **Ms Body:** As I have been advising you on this over the past year, it seems only fair to see it through. The issue of concern that we have been grappling with over the past year or so has been about the use of specialist clinical assessments. Not only are they important for improving the quality of care for patients, but they also have the scope to reduce costs through not prescribing oxygen for people who are not going to benefit clinically from it. The concern that the committee has returned to on a number of occasions is the extent to which these clinical assessments are embedded across Wales. You took the opportunity, when Paul Williams was before you in June, to ask a question on this. The response that you have had from Paul is in respect of an undertaking that he provided when he was before you to report back, having analysed all of the action plans provided by the local health boards. His response gives you some confidence that the Assembly Government is continuing to monitor progress, and it also points to some welcome developments.

[277] However, it does not really provide any assurance that these assessments are embedded across Wales, or that savings are driving through as a consequence. Paul has said in his response that he will come back to you at the end of the year in respect of the savings that have been made on the contract and what use has been made of the additional £1.6 million that the Assembly Government has provided to health boards. That provides the committee, if it so wished, the opportunity to pursue the matter further.

[278] The other thing that Huw's letter flags up is that we are coming to the end of the five-year home oxygen contract. It is being extended; they are about to start negotiating a new contract. So, the committee might, if it so wished, want to see whether the lessons learnt from the procurement of the current contract have been taken through in negotiating the new one.

[279] **Jonathan Morgan:** Thank you. Are there any questions or points on this? I see that there are none. The advice, in my view, is very helpful, in the sense that we need to pursue this with Paul Williams. I suggest that we write back to him and also make time available early in the new year for him to appear before the committee to deal with this particular matter. He is due here in February, but the list of things that we have to discuss with the head of the NHS in February is quite substantial, and I am fearful of adding another item onto that session. So, we may need a separate session. However, I certainly think that we ought to write back with these issues, with a view to taking further evidence earlier in the new year. Are you all happy with that? I see that you are.

3.46 p.m.

### **Cynnig Trefniadol Procedural Motion**

[280] **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(vi).*

[281] I see that the committee is in agreement.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 3.46 p.m.  
The public part of the meeting ended at 3.46 p.m.*