



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Iau, 2 Rhagfyr 2010
Thursday, 2 December 2010**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llofarwyd 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 pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Rosemary Butler	Llafur (yn dirprwyo ar ran Ann Jones) Labour (substitute for Ann Jones)
Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Andrew Davies	Llafur Labour
Alun Davies	Llafur (yn dirprwyo ar ran Lorraine Barrett) Labour (substitute for Lorraine Barrett)
Chris Franks	Plaid Cymru The Party of Wales
Brian Gibbons	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives
Janet Ryder	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Nigel Aurelius	Ysgrifennydd, Cymdeithas Trysoryddion Cymru Secretary, Society of Welsh Treasurers
Councillor Rodney Berman	Llefarydd Arian ac Adnoddau, Cymdeithas Llywodraeth Leol Cymru Finance and Resources Spokesman, Welsh Local Government Association
Jonathan Davies	Pennaeth Polisi a Chyfathrebu, Conffederasiwn GIG Cymru Head of Policy and Communication, NHS Confederation Wales
Vanessa Phillips	Cyfarwyddwr Adnoddau, Cymdeithas Llywodraeth Leol Cymru Director of Resources, Welsh Local Government Association
Steve Thomas	Prif Weithredwr, Cymdeithas Llywodraeth Leol Cymru Chief Executive, Welsh Local Government Association
Kate Watkins	Cyfarwyddwr Dros Dro, Conffederasiwn GIG Cymru Acting Director, NHS Confederation Wales

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

John Grimes	Clerc Clerk
Catherine Hunt	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 1.33 p.m.
The meeting began at 1.33 p.m.

Ymddiheuriadau a Dirprwyon Apologies and Substitutions

[1] **Angela Burns:** I welcome you all to this Finance Committee meeting on Thursday, 2 December. Before we start the meeting, I will go through some brief protocols. I remind you that you are welcome to speak in Welsh or English and that headsets are available to hear the translation. Please switch off all mobile phones and other gadgets. If the fire alarm goes off, please follow the instructions of the ushers. We have received apologies from Ann Jones, but Rosemary Butler is a wonderful and, in fact, permanent substitute for her these days.

[2] **Rosemary Butler:** I am glad that you noticed, Chair. [*Laughter.*]

[3] **Angela Burns:** We have also received apologies from Lorraine Barrett, for whom Alun Davies will be substituting. However, he is held up in a legislation committee. Chris Franks has also been delayed but will join us shortly.

1.34 p.m.

Cyllideb Ddrafft 2011-12—Tystiolaeth gan Gymdeithas Llywodraeth Leol Cymru a Cymdeithas Cyfarwyddwyr Addysg Cymru Draft Budget 2011-12—Evidence from the Welsh Local Government Association and the Association of Directors of Education in Wales

[4] **Angela Burns:** I welcome the witnesses. I ask you to introduce yourselves for the Record.

[5] **Mr Berman:** I am Rodney Berman, leader of Cardiff Council, but I am mostly here wearing my hat as finance spokesperson for the WLGA.

[6] **Mr Thomas:** I am Steve Thomas, chief executive of the WLGA.

[7] **Ms Phillips:** I am Vanessa Phillips, director of resources at the WLGA.

[8] **Mr Aurelius:** I am Nigel Aurelius, secretary of the Society of Welsh Treasurers.

[9] **Angela Burns:** Thank you all for coming. We are here to take evidence from you about the views of the Welsh Local Government Association and the Association of Directors of Education in Wales on the Welsh Assembly Government's budget proposals for the forthcoming three years. This is our main evidence session with you and, before we start our list of questions, would anyone like to make any opening comments to set the scene? Right, well, I see that no one does. That was a fairly lacklustre start to the committee meeting. [*Laughter.*]

[10] Thank you very much for your evidence. I remind everyone for the record that the request that was made of you was that you come before us today to comment on the budget, specifically with a view to understanding or explaining to us how your strategic priorities have been affected by the settlement that you have received, and how you believe your strategic priorities tie in with those of the Welsh Assembly Government to make a round for us to develop services for the people of Wales.

[11] I read the evidence that you submitted with surprise, it has to be said. I appreciate that some of this is work that the expenditure sub-group would have done some time ago; indeed, I see that it is dated 30 June. The additional update briefing was put together on 22 November 2010. Given the current financial situation in the United Kingdom and Europe as a whole,

many people would view the settlement that Welsh local government has received as quite generous, but, before we start, I want to hear your opinion of whether such a statement is true. That certainly does not come across when reading the evidence that you have put forward in the form of the expenditure sub-group's report.

[12] **Mr Berman:** We fully understand the financial situation of the country as a whole. At the beginning of the year, local government was advised to prepare for a 3 per cent cut in revenue. That was on the back of the projections that Alistair Darling was making when he was Chancellor, about where we would be with the comprehensive spending review. At that point, the Westminster Government was talking about £72 billion-worth of cuts, but the coalition Government has made £81 billion-worth of cuts. However, through some of the choices that it has made, it has protected the block grant coming to the Welsh Assembly Government more than had previously been anticipated. That may be down to the different choices that it has made about where to make the cuts in expenditure.

[13] We are looking at an increase of -1.4 per cent, on average, for local government this year. This is a better position than the -3 per cent that we were being advised by the Welsh Assembly Government to prepare for. However, you cannot pretend that it is not tough just because it is better than it might have been. You cannot pretend that it is necessarily going to be easy, or that costs will not rise and that you will not have to fight to plug that gap. A couple of years ago, we felt that the Welsh Assembly Government was not always giving us a settlement that was fair in comparison with the settlement that it had been getting from the Westminster Government, but we accept that the current position is much closer to what the Welsh Assembly Government has been getting in the block grant: it has received a cut of 1.3 per cent and local government has seen a cut of 1.4 per cent. That parity is welcomed, and there is also parity in comparison with other services, such as health. However, the gap a few years ago seemed to us to be unacceptably large, as the health service was given a much more generous settlement than we received despite the fact that we deliver some fundamental services to local people. So, we welcome the fact that that gap has narrowed and that our settlement is closer to what the Assembly Government is getting.

1.40 p.m.

[14] We all recognise that it will be challenging, particularly in capital funding. The capital cuts that are feeding through to the Assembly Government and, inevitably, to us will present us with huge challenges in renewing assets, maintaining infrastructure and so on. We will have to deal with that, and that comes on the back of a couple of years in which it has been difficult to gain capital funding through capital receipts, because of the drop in land values and so on.

[15] So, you might say that it is generous in comparison with what it could have been, and I would not disagree with that, but I will not pretend that it will necessarily be easy or that we do not have huge challenges—more than we have had in my time as council leader or even in the 11 years for which I have been a councillor. This is the lowest settlement that we have had, with virtually all councils getting a reduction in funding. This is different territory for us compared with at least the past 10 years or so.

[16] **Mr Thomas:** May I clarify your remarks, Chair, because I am not certain of the substance of your argument? Were you implying that the expenditure sub-group report is characterised by a lack of realism? The bottom line is that the expenditure sub-group report is not a bidding document; it is produced in conjunction with Welsh Assembly Government civil servants, and it is an attempt to chart realistically, on a consensual basis, the pressures that we face. There is no expectation that all those pressures will be funded; indeed, the expectation is that they will not be funded. The expenditure sub-group report then leads to prioritisation. We attempt to present a look across the landscape of the pressures being faced

by local government. We do that in conjunction with local government civil servants in the finance division, and we agree that these are real pressures. Years ago, we used to bring documents to you that were, essentially, bidding documents into which we would put a range of figures and ask for 200 per cent, hoping to get 100 per cent. This is a realistic process, undergone together, which attempts to chart what the pressures are, but there is no expectation that those pressures will be funded.

[17] **Angela Burns:** I understand that, and we as a committee understand that. My comment was particularly addressed at the update briefing on 22 November. I know that Andrew wants to come in at this point, but I will just say that I accept that the June document was put together as a route-map, if you like.

[18] **Andrew Davies:** I welcome the confirmation by the WLGA chief executive that previous evidence given to committees was bidding documents. It is good to have that on the record.

[19] To follow up Councillor Berman's comments, irrespective of the annual changes for the revenue support grant, do you accept that the quantum of funding given through the RSG to local government is significantly higher in Wales than it is in England? The ratio between the revenue support grant and council tax as a contribution to your income is 80:20 in Wales, but 75:25 in England. If Wales were to fund local authorities at the same level as England, council tax levels would be significantly higher, on average.

[20] **Ms Phillips:** Logically, that would be the case, yes.

[21] **Andrew Davies:** It is good to have that on the record.

[22] **Brian Gibbons:** I suppose that I need to declare an interest, because this time last year, minus one day, I would have been very much involved in this process as a Minister. However, I was really disappointed by the expenditure sub-group document and even by the covering letter or the additional information that we had in response to the Chair's request. If anything, the document was a step backwards rather than a further development of the approach that Steve just mentioned in his response to the initial question. Looking at the budget narrative, the Minister for Social Justice and Local Government says that there are three purposes to the expenditure sub-group report, one of which Steve mentioned, namely

[23] 'a common understanding of the pressures facing local government'.

[24] However, there were two others:

[25] 'opportunities available for mitigating them, and initiatives ongoing in local government to identify and implement efficiencies'.

[26] I suppose that there is an unwritten one as well, to which the Chair referred, namely identifying the priorities, and accepting that not all the pressures will be funded. So, there are possibly four requirements from the expenditure sub-group report. Having reread the report, it is little more than a list of the funding pressures, plus or minus a bidding document. What is even more disappointing is that probably most of the document is made up of an appendix, which shows that a lot of innovative and excellent practice is taking place in local government between local authorities and other public sector bodies, the private sector and the third sector. There is a massive amount of good practice, but all of that good work seems to be completely missing from the main narrative of the document—it is reduced to an ad-hoc list in the appendix to the document. If this expenditure sub-group report is to be a working document, it has failed to address three of the four priorities outlined. What is the explanation for this document not being an integrated document in order to address the pressures and to

identify how local government, in partnership with the Assembly Government and others, will meet those priorities? It is just not there.

[27] **Mr Berman:** Maybe I am reading it wrongly, but the question seems to imply that because funding is tight at the moment, it should be convenient that funding pressures are therefore not so great. Unfortunately, I do not think that the reality is like that. As far as I have always understood it, the document is to outline what the funding pressures and challenges are for local government. In the current climate, we recognise that some of those challenges must be met by local government in the way that it undertakes its business. We must be realistic in saying that the funding will not necessarily come from the Assembly to deal with all those pressures. I am not sure that the format of the report has changed that significantly. Not that long ago, when you were in a different role, you seemed quite pleased with the reports coming through. Maybe my colleagues can give you more of a technical response.

[28] **Brian Gibbons:** If you look at paragraph 7.3 of the social justice and local government narrative on the budget, it states explicitly that the expenditure sub-group report is more than funding pressures. That is my point. The report deals more than adequately with the funding pressures, but it does not deal with point 2, point 3 or with the point that the Chair mentioned, namely, what your priorities are.

[29] **Mr Thomas:** I will quote you the statement by the Minister, because your reading of the situation is different to the Minister's reading. The Minister said in the press release that

[30] 'our collaborative work with the Welsh Local Government Association on establishing and analysing the key service pressures and risk identified social services as a key area'.

[31] We have concentrated primarily this year on arguments around social care because of the demographic pressures. What we have done in the document is not radically different from what we have put before you in the past. However, we have tried to prioritise those areas in the document. The argument that was in play for a long time in the run-up to this year's budget discussions was around the question of social care funding. From our point of view, there was a ready acceptance that there would be a level of cuts and that many of the things that we highlighted in the document would not be funded. However, we tried to concentrate on a number of key areas, namely education and social care in particular. That has been recognised by Jane Hutt, as that has been a live debate within the Assembly and local government, and it is recognised in the Minister's press release. Therefore, I do not recognise that this document is that much different from last year's document; the view of our members is, to use a colloquial phrase, that this document is worth its weight in gold. On the back of that, it is a much more robust document than it previously was. It has influenced some of the discussions that have taken place with the Welsh Assembly Government Cabinet, and it did get some traction, particularly in relation to the arguments around social care.

1.50 p.m.

[32] **Peter Black:** I understood that we were here to scrutinise the Welsh Government's budget, not Welsh local government, Chair. I would therefore like to move the discussion on to the way in which the Welsh local government settlement has been formulated. Steve has just referred to the priorities of the Welsh Government in relation to education and social care. In relation to the outcomes that Welsh Ministers were seeking from Welsh local government, what discussions did you have with them regarding how those outcomes would be achieved? Do you believe that the amount of money that they have given you towards achieving the outcomes is sufficient?

[33] **Ms Phillips:** Using the expenditure sub-group as the basis for identifying the risks

that local government was facing, set within the strategic priorities of the Assembly Government and local authorities, bilateral discussions were held with each Minister and there were opportunities to talk to some Ministers together. Therefore, we have had discussions with a number of Ministers together through the consultative forum on finance and the partnership council, looking across the range of priorities for local government. That process took place from around March to the summer, and, building on the work undertaken through the ESG, there were subsequent exchanges over the summer months to help to inform the discussions that were going on within the Assembly Government about what allocations were going to be made in the budget process. There was an ongoing dialogue over a number of months.

[34] **Peter Black:** Do you consider that the budget has been framed in a way that will enable you to meet those objectives, or do you accept that you will have to put in some of your own resources to meet them?

[35] **Ms Phillips:** As Councillor Berman has already said, we recognise that the outcome is better than we thought it would be earlier in the year, when we were being asked by the Assembly Government to look at a 3 per cent year-on-year cut in revenue and a 10 per cent cut in capital. We welcome the protection that has been given to education and social care, because, as Steve has already said, they are priorities for local government. Having said that, we cannot get away from the fact that it is a cuts budget for 2011-12. Once you take into account inflationary pressures and service demands—particularly looking at social care—although there is protection, it will not be sufficient to bridge the gap between the increasing demands and costs in the field of social care and what has been provided through the revenue support grant. There is no doubt that local authorities will have to look at a number of measures to try to bridge that gap, and they are already doing that.

[36] **Peter Black:** I have one more question. With regard to social care and education, the Minister referred to soft ring fencing. I am not quite sure what that means. What impact will that soft ring fencing have on other services that are delivered by councils?

[37] **Mr Thomas:** We have been involved in those discussions—which have been pretty intense—and what we have been talking about is the initial commitment by the First Minister to ensure that education spend was 1 per cent above the Assembly Government's revenue settlement. That was also to look at a range of options in relation to how we take forward the funding of education in Wales. For example, we are looking at a greater rate of delegation to schools. That is a difficult subject because the rate of delegation of budgets in England is around 90 per cent of schools, and in Wales it ranges from 70 to 83 per cent. Part of the reason for that, in the Welsh context, is that many schools do not want increased delegations, particularly smaller schools who, traditionally, buy a vast range of services from the local education authorities. We are looking at that too.

[38] With regard to the question of soft earmarking, we wanted to get involved in the discussion to give assurances that the 1 per cent commitment would be met. It will have an impact across other budget choices, but, from our point of view, we accept that there is a gap between school funding in Wales and in England, and nobody wants to see that gap growing much larger. The discussions have gone on and we have reached agreements. With regard to the social services issues, in one sense you do not need to soft earmark it, because the pressures are such that you will spend extra money come what may.

[39] **Ms Phillips:** Last week, we wrote to leaders, chief executives and education trade unions to clarify how we are going to monitor the education ring fence and what that means. In practical terms, for 2011-12, it means a cut of 0.33 per cent to the individual school budgets, taking into account any changes to pupil numbers, which will affect authorities in different ways. That will be monitored, so authorities will account for that.

[40] **Mr Berman:** You imply in your question that there will be an impact on other services. As you will be aware, a large proportion of council expenditure is on schools and social services. Protecting those areas could mean more pressures on other services, which matter a lot, such as waste collection, libraries, leisure centres and so on. We are waiting for more details about the specific grants. At the moment, we have the totals for a number of the grants, but not for all of them. We are hoping, when we get the totals for the remaining grants, that we will not find the odd sting in the tail, specifically, for instance, with regard to the sustainable waste plan, which is quite a chunky grant. We all rely on that for a lot of the enhanced recycling services that we have been providing, in line with Assembly Government priorities. However, if there is a fair chunk missing from that that we do not know about yet, it could cause us a bit of a problem with our budget planning. The sooner that we can get that detail—not just the headline totals for the specific grants, but the breakdowns per authority—the sooner we will be able to see whether we can deal with that, if there are cuts that have to be made to some of those grants.

[41] **Angela Burns:** You may have just answered in part a question that has been vexing me in relation to all of the evidence that you have put forward. I understand that the report has been prepared in collaboration with the Government, and therefore there is a sense of hand in glove. You have got together your objectives and priorities, and how you are going to mirror each other. The Government states that it wants to protect education: you will protect education and this is how you are going to do it. My concern is that, since the comprehensive spending review, the Government here has had to make some strong choices about what it wishes to do. Ministers go to individual scrutiny committees and talk to them about the changes that they have made to their plans in relation to health, the environment, rural affairs or whatever it may be. Those changes will then be reflected in the budget. So, there will be key strategies or projects that Ministers have decided to shelve, delay or alter in some way in order to meet the budgetary requirements.

[42] My concern is that this document was drafted in June of this year, and, since then, the landscape has changed and I cannot see where you are proposing to make any changes, or what impact the changes that the Ministers are making in their different portfolios will have on you and the delivery of the objectives that you have laid out. You have mentioned the fact that, on the waste side, the Minister has not yet told you what changes there may be and therefore how that would impact upon the delivery of your objectives, which, in turn, underpin the Minister's objectives. Is that true of all areas? Are there any areas where you have already seen what the changes will be? We want to understand how you will be able to adapt to the Ministers' changed scenarios in order to carry on fulfilling their obligations, outcomes and strategic priorities, tied in with your strategic priorities for the 22 areas that you represent.

[43] **Mr Thomas:** We have gone around 19 of the 22 authorities. In some cases—Swansea, for example—we have been three times. With those authorities, we have run through some of their medium-term financial assumptions, and presented much harder figures to them than are contained in the document. In one sense, we are confusing two things here. The ESG document is an objective, empirical document. It is not a bidding document; it just sets down the pressures. We have been preaching to councils—and I use the word 'preaching' advisedly—

2.00 p.m.

[44] **Mr Berman:** We have been preaching to ourselves.

[45] **Mr Thomas:** Yes. The challenges ahead are enormous. A report commissioned by SOLACE, undertaken by Deloitte, has shown some of those challenges and has suggested to

councils how they should perhaps move forward with dealing with those challenges. That will involve increased collaboration, new models of service delivery, outsourcing to the third sector or the private sector, and a range of things. We are also currently having intense discussions with the trade unions in Wales. We met them again yesterday for a three and a half hour discussion about reducing workforce costs.

[46] Therefore, in one sense, you are seeing only half the picture. I am not proud of it, but I made 12 people redundant in my organisation this week. There are very tough discussions taking place at present, but you are not seeing that in this evidence that we are providing. We have provided you with the evidence that leads up to the process that determines the outcome.

[47] **Angela Burns:** I now call on Rosemary, and then I will call on Brian and Andrew.

[48] **Rosemary Butler:** I want to change tack slightly, if that is all right. You highlight the interdependence between all parts of local government, and you said that you had discussions with more than one Minister where services perhaps overlap. Could you tell us whether the Welsh Assembly Government provides any co-ordinating role to engender better working between different parts of the public sector? Also, could you highlight areas where local government has had, is currently developing, or perhaps has scope to work jointly with other organisations, such as the national health service—I think that Steve just touched on that—to provide a better service across the board?

[49] **Mr Thomas:** The Assembly Government has set up a public services summit, which is chaired by the First Minister. Underneath that is a structure, which is led by the Minister for Business and Budget, Jane Hutt, called the efficiency and innovation board.

[50] **Rosemary Butler:** Sorry, did you say 'inefficiency'?

[51] **Mr Thomas:** It is the efficiency and innovation board.

[52] **Rosemary Butler:** It came across as 'inefficiency'.

[53] **Mr Thomas:** It is easy to get it wrong. I do apologise.

[54] The efficiency and innovation board has underneath it seven working groups, which are looking at a range of subject matters, including procurement, information technology, the workforce, assets, and transforming the business. I actually chair one of the groups, which is the public services ICT group. They are across public services. Six local authority chief executives chair six of the working groups, and one health chief executive chairs another one of the groups. However, they are made up of organisations pan-public sector and they are tasked to look at a range of issues, not least saving money and delivering cashable savings. They are also tasked to look at new ways of delivering services. On the back of that, for example, we are working with Cardiff Council on its refuse collection and we are doing some work with Monmouthshire County Council on development planning control, again to strip out bureaucracy and process. There is a range of things that are happening. There is a tremendous amount of activity, which comes on the back of that process, which is pan-public sector.

[55] **Rosemary Butler:** You seem to be talking about individual services and how you are trying to streamline each individual service. I am interested in the cross-fertilisation between social services and health, for example. This efficiency board has been set up and it has given you criteria, but are there any systems in place to monitor the outcomes of these instructions?

[56] **Ms Phillips:** In terms of the efficiency and innovation board, a group has been established to look at just that in terms of how the work of each work stream will be

monitored and measured over the period to demonstrate the contribution that it is making. It is also important to recognise that the board and the work streams themselves will be providing a sort of facilitative role, rather than necessarily delivering the savings themselves because that is ultimately down to the individual organisations to do that.

[57] In terms of other collaboration between health and social services, there are many examples, some of which are in the appendix to the document, of joint working between health and social care. Also, there is the local service board model, where there is joint working across a number of partners locally to take forward the collaborative agenda.

[58] **Rosemary Butler:** I am just concerned, Chair, that it seems to be in vogue to have cross-service fertilisation. Is it really the way forward? I do not see that anything that has been approved is monitoring the system to see whether the outcome is what was intended. I do not know whether that is down to you, or down to the Government.

[59] **Mr Thomas:** If the leader of the association were here, he would highlight it. For example, a gentleman called Jon Skone runs the social care department at Pembrokeshire County Council and is also involved in the local health board. It is a joint post between the two. We have evidence to suggest that that does make great linkages between those two services. It makes for greater synergies between those services. We are having a similar discussion about Powys at present in terms of the links between the council and the teaching in the local health board. A study was undertaken in Powys by KPMG, and there has been a suggestion that there will be very large savings on the back of that. That said, we have to deal with the historical problems—some of which centred on health deficits. There are financial factors within organisations that need to be overcome to materialise some of the savings.

[60] **Mr Berman:** In terms of the health and social services—*[Inaudible.]*—already have the local service boards in place. From my experience in my own area, that has been a very useful way of trying to get better joint working, and particularly to deal with areas that are pinch points between local government and health. Some of these mechanisms are already there. We have to be slightly careful, because you are asking for more monitoring. At a time when finances are tight, I think that we must be careful that what we spend on measurement, monitoring, inspection and so on is proportionate. There is a risk that we will develop it so that we spend a higher proportion on measuring what we are doing and that we will not have enough money to do it. So, we have to be careful.

[61] **Rosemary Butler:** I was asking about the Government monitoring. I was asking whether the Government has a monitoring system.

[62] **Mr Berman:** Perhaps you should—

[63] **Rosemary Butler:** You can say ‘yes’ or ‘no’. You know before us.

[64] **Angela Burns:** Of course we will ask the Government, but you are at the receiving end.

[65] **Rosemary Butler:** They know before us. Is there a monitoring system or not?

[66] **Mr Thomas:** The Government has a huge monitoring system. It has a performance measurement framework and it also has an inspection and audit regime. Consider the cost of the Wales Audit Office, Estyn and the Care and Social Services Inspectorate Wales. In the case of Estyn and the care standards inspectorate, most of those costs are on local government. The cost of those three all together is £56 million.

[67] **Rosemary Butler:** Thank you.

[68] **Angela Burns:** I call on Brian and then Andrew.

[69] **Brian Gibbons:** I will continue on the outcome theme. Peter raised the point about soft hypothecation. One of the themes in your own document was that you are concerned about over-hypothecation and the lack of flexibility that follows from that. One of the ways of trying to address that was outcome agreements. I think that the protocol was signed around April. In its evidence to the Health, Wellbeing and Local Government Committee last week, the Minister expressed a concern about the progress being made in the delivery of outcome agreements. At this particular juncture, what would your view be on outcome agreements, their potential, or whatever?

[70] **Mr Thomas:** The outcome agreement process is a slow one. Meetings are being held as we speak in order to finalise that. There is £33 million attached to the outcome agreement process. It is my understanding that 20 authorities have come close to finalising that process, but I also understand that one authority is having some money held back because it has not made sufficient progress on its outcome agreements. I think that that suggests that the outcome agreements are being taken seriously, and I think that it also suggests that the Assembly Government is now starting to bear down where the outcomes do not appear to be materialising.

[71] **Brian Gibbons:** Okay. Therefore, the process is evolving. How useful do you think it will be to address, for example, the concern that Rosemary highlighted? How do we know that all of this good practice is actually delivering? Is the outcome agreement, as far as you are concerned, in terms of how it is evolving, an effective mechanism to address Rosemary's concerns about transparency and delivery, and Peter's concern about what the soft hypothecation means in terms of hard delivery, rather than the process?

[72] **Mr Thomas:** It is a new process, but on the back of the monitoring arrangements that we have, and the fact that the money is being held back in key areas, it suggests that the monitoring is now becoming much more rigorous and robust. The process will evolve over the forthcoming period, but the outcome agreements were an evolution from things like the performance incentive grant and so on, as you are aware.

2.10 p.m.

[73] The PIG grant was a very lacklustre monitoring system. The words 'best endeavours', if I remember rightly, were the key criterion for the PIG grant. We had huge discussions on this with you, Brian, and Andrew at the time. On the back of that, we wanted to put in place a system that would satisfy you, but would also satisfy us. The danger is that that sum of money just becomes part of the settlement. We are in a process that is evolving and becoming more robust and rigorous. Some of the discussions that we have had on the soft earmarking that has occurred have partly flowed from some of the discussions on outcome agreements, because people are more familiar with that process.

[74] **Ms Phillips:** We are also looking at the performance management framework and the indicators within it. There is a sense that some of them are too narrowly focused and too process-driven. So, we are looking at them and broadening them out to ensure that we capture not only the contribution of the individual organisation, but also, more broadly, the other partners involved.

[75] **Andrew Davies:** The performance incentive grant has, perhaps, the most appropriate of acronyms. As the chief executive said, it was just an addition to the revenue support grant. To the best of my knowledge, on no occasion was a PIG ever withheld from an underperforming local authority. I noticed your careful wording in talking about outcome

agreements. You said that 20 local authorities were close to signing. What do you mean by 'close'? How many have signed? I understand that, during a meeting of the Health, Welfare and Local Government Committee towards the end of last month, the Minister for local government expressed some dissatisfaction about the progress being made. How many local authorities have signed outcome agreements and what does the WLGA—as the umbrella organisation—propose to do to encourage those that have not signed to do so?

[76] **Mr Thomas:** I cannot give you an accurate answer on that because the process is being monitored by civil servants as we speak. Therefore, I am not certain where the authorities are in terms of signing off the outcome agreements. I know that there is a problem in one authority regarding the money that it has received. That has been communicated to the WLGA, and we will seek to assist that authority to see whether its systems are robust enough for it to qualify and draw down the full amount of money. If they are not, the authority will not get it. It is as simple as that.

[77] In terms of moving forward on the outcome agreements, we regularly meet civil servants in the local government division, as you know. They update us on progress. I hope that we are in a position to tell a very good story on this. As I said, I understand that we are nearly there with 20 agreements. That process is coming to fruition now.

[78] **Mr Berman:** The fact that people are still trying to find out exactly what is expected of them may partly be because this is a new, evolving process. My authority has agreed its submission for the outcome agreement. If it has not been signed, that is because we are still waiting to receive a sufficient response from the Welsh Assembly Government, either to say that it is fine or that changes need to be made. When I talked to officers about our proposals, the feedback that I received was that they were a little unsure as to exactly how the Welsh Assembly Government wanted them framed. We have guidance, but it is not as clear as we would like it to be. So, the fact that we have not quite reached the point of signing off may partly be about the fact that we are operating within a new system. I do not think that this is necessarily a fault of local government.

[79] **Andrew Davies:** My point is that there seems to be a lot of work being done on the performance framework and performance monitoring, and I am just surprised that the WLGA is unable to say which local authorities have or have not signed, especially given that Steve is on the efficiency and innovation board.

[80] I will turn now to the matter of efficiencies. In the sub-group document published in June, there was a reference to efficiency savings of 1.8 per cent achieved by local authorities collectively. Compared to the health service efficiency savings of 5 per cent that the Minister for Health and Social Services expects, that figure does not seem to be particularly high.

[81] **Angela Burns:** Who would like to respond?

[82] **Mr Berman:** While you may expect efficiency savings of 5 per cent, that does not mean to say that it can be achieved. In fact, in some regards, what is achieved is a cut in services to partly make that up. I think that, probably, based on my experience, we have gone beyond what might have been expected in my authority in terms of year-on-year efficiency. However, it is sometimes a moot point as to when something is a genuine efficiency and when it veers into cutting back on the service. There is a great deal of work going on right across local government in the current climate, recognising that the whole efficiency agenda really has to be brought to the fore. Whether that is looking at what Steve was referring to with regard to systems thinking exercises going on in particular services and particular authorities, looking at more collaborative working between authorities to jointly deliver services more efficiently, looking at getting better value out of things such as procurement or looking at opportunities to cut administrative costs and so on, there is an awful lot of work

going on in every authority, as far as I am aware, to really push that to the fore, given the financial situation.

[83] **Mr Thomas:** The figure of 1.8 per cent is a headline figure. The other thing to bear in mind is that there will be greater efficiencies made in individual authorities. We were talking to Nigel earlier, and one of the things that we have examined with regard to the public services ICT group is the bringing together of ICT between Monmouthshire, Torfaen, the local health board and the local police force, and the savings on that are considerable. Those go well beyond 5 per cent. There will be projects in authorities where we will see bigger savings. The problem is that the process is very uneven. Waste costs are rising as are adult social care costs, so the efficiencies in some areas will not be as much. However, I think that there is a bearing down on costs in key areas, which will see comparable figures to health and, in fact, more efficiency savings than have occurred in certain parts of the health service. As I said, what we have put in the ESG is, in effect, a headline figure.

[84] **Ms Phillips:** I would also add that what is in the ESG is what authorities have recognised and said are pressures that they are going to meet. There will be other pressures that they have said are simply not affordable to meet in that year. So, when you look at what the health service is saying about its efficiency and at what local government is saying, the situation depends on the starting point. If the health service is saying this, once it has discounted the things that it is simply not going to be able to do, the figure may be more comparable.

[85] **Andrew Davies:** I am mindful of what the chief executive said in a previous year, which is that local government had achieved all the efficiency savings that it could.

[86] **Ms Phillips:** Over the 'Making the Connections' period, it has reported more than £240 million-worth of recurrent savings, which is about 7.5 per cent more than the target it was set.

[87] **Andrew Davies:** However, the implication was that the efficiency savings are something that you do once and for all and that is it. That is what was said.

[88] **Mr Thomas:** I do not think that it was said that way. I think that what we said was that there is a limit on the level of efficiencies that we can get through the system. If you want to go back to BBC interviews, you will see that I have said constantly that there is no such thing as a 100 per cent efficient organisation—there probably never will be in the Welsh context. However, we are in a situation where there is a law of diminishing returns on efficiencies. Part of the issue that we have had with the efficiency and innovation board discussion, for example, is a question about the pace and scale of efficiencies and whether those will satisfy some of the budget problems that we have. Hence one of the debates in the efficiency and innovation board in the first couple of years has been about whether, in the next period, we will be able to deliver some of the efficiencies that we have talked about or whether the next period is primarily about reducing workforce costs.

[89] **Angela Burns:** I am very conscious that we are running out of time, and there are two areas that I would really like us to touch on. First, Janet has a series of questions about how you are going to protect education and social services, which is an objective of yours that ties in with Welsh Assembly Government objectives. Secondly, Nick has questions on the impact that this might have on council tax. Janet, I know that we have covered this a bit.

[90] **Janet Ryder:** Yes, I think that Peter Black covered this in some of his questions. However, the Minister has stated that education and social care elements of local government had a 1 per cent protection, compared with the reduction in the block grant, with the anticipation that that would be passed on to those services. How will you ensure that the

protection of funding is passed on to education and social services? How will we see that being passed on?

2.20 p.m.

[91] **Ms Phillips:** On the education point first, as I mentioned earlier, we have worked with Assembly officials on the education commitment, and we have written to authorities to explain how that reporting mechanism will work. So, there is an agreement that that protection will be passed through to individual schools' budgets. That is a 0.3 per cent cut next year, and then increases in subsequent years, because it is related to the change in the Assembly Government's overall revenue budget.

[92] **Angela Burns:** So, to clarify, despite the fact that there is a 1.7 per cent cut, or a 1.4 per cent average cut, you are able to maintain fully your commitment and, therefore, the Welsh Assembly Government's commitment, to protecting education and social services. If you are able to do that, it must mean that something else falls by the wayside. This hour is about understanding what that means. We have waffled on about everything else, but I want someone to tell me that you will have to slash and burn in one area, that you will not be able to do something in another area, or that you have concerns that what is done will impact on something else. I find it extraordinary that, despite the cut, nothing has to change.

[93] **Mr Thomas:** We are not going to slash and burn. That is last thing that we want to do.

[94] **Angela Burns:** That is excellent.

[95] **Mr Thomas:** As I said previously, you should look at the discussions taking place in Neath Port Talbot and Rhondda Cynon Taf on reducing workforce costs. There has been an announcement this week that a deal will be put to the workforce in Neath Port Talbot suggesting a 2 per cent pay cut for a period of 12 months to try to deal with some of the issues there, and there has been an examination of terms and conditions across a range of authorities. We are looking to bear down on costs wherever we can. There will be some services—some non-statutory services, I suspect—that will suffer in the next period, and there will be job losses. There is no getting away from that fact. We did a piece of work a few months ago that suggested between 3,000 and 4,000 job losses over the next two years.

[96] It seems that an impression is being created that this is a pain-free zone, but it is actually a world of pain. For instance, with regard to the capital position, we have the twenty-first century schools programme, we have had officers throughout local government working on bids throughout the summer, and the danger is that twenty-first century schools could become twenty-second century schools, given the way that we are going, because of the lack of capital. So, there will be some hugely difficult choices to be made. In broad terms, local authorities will want to try to manage this within their medium-term financial planning, trying to ensure that, over that period, we try to protect front-line services in the way that the Welsh Assembly Government has asked us to.

[97] **Mr Berman:** There will undoubtedly be cuts in expenditure across councils; there is no question about that. However, the protection for education and social services means that the options for cutting are limited. I am not questioning the rationale, but it is obvious that the cuts are likely to have to be greater in other areas in order for the budget to balance. I suppose that the challenge for us, right across local authorities, is by how much we can reduce expenditure in genuine efficiencies that do not impact on services. You could argue that some of the workforce issues that Steve mentioned are efficiencies, because you are not directly affecting the service, because you still have employees doing the same job but getting paid less. So, that is an efficiency in terms of the service that is being provided, although the

employees will obviously see that a little differently.

[98] It is about how we do these kinds of things in order to protect services, and it is ultimately down to choice. This is not about doing something new, or not doing it because we do not have the money; this is about how we can protect what we are currently delivering with regard to the services that are valued by people. In some cases, people will be prepared to accept tough choices on some of those workforce decisions, because they can see that it is an alternative to other people perhaps losing their jobs—that would impact on the service, because they are not there to deliver it—or to direct cuts in services.

[99] **Ms Phillips:** I think that there is an assumption that the protection is enough to fund those areas and to deliver the same level of service. However, as the ESG report shows, the pressure is greater than the protection that has been afforded. So, while it is welcome, it is not in itself enough to protect education and social care. So, the pressure is not just about those other services, but about education and social care as well.

[100] There are other things that local authorities are doing that we have not mentioned, such as looking at the service level that they are providing, for example in social care and the point at which interventions occur; looking at opportunities to generate more income through increasing fees and charges; and looking at their capital programmes, at asset disposals and so on. So, there are many actions that councils are taking and that they will have to consider over the next period to try to bridge the pressure that they are facing. Therefore, it really is not a question of saying that there will not be considerable pain, because the pain is evident when you go around local authorities and look at the budget gap with which they are dealing.

[101] **Janet Ryder:** I can appreciate that, as a general organisation, you are speaking in generalities, and it could be that we need to wait for each individual authority to bring out its budget to see how they are coping with that. However, I would have expected you to be able to give us an indication of where we can expect services to be under pressure. Can you outline that for the committee? You have all said that severe service pressures are building up, service pressures for which even this protection will not suffice, and that, to provide that protection in certain areas, other areas will go. So, I am just reiterating what the Chair has asked you: can you be a little clearer as to which areas you are talking about and how that will manifest itself?

[102] **Mr Thomas:** It depends on the negotiations that we are having at the moment, particularly on workforce issues. I was talking to the chief executive of Rhondda Cynon Taf last week, who said that the settlement outcome is better than he thought that it would be, but the difference is that, rather than working on an assumption of a £19 million saving, he is now working on an assumption of a £15 million saving—that is still a lot of money to find. The package that was put out this week in relation to Neath Port Talbot with the unions represents a £3 million saving. So, that is the scale of the discussion that we are having. The cuts will come in other services, if we are protecting education. In one sense, you do not need to protect social care, because social care costs will push all the time. If we take on board those issues, other services will get hit, and they will be in non-statutory services—leisure, culture, regeneration and so on. For example, if you are currently a designer or an architect, you will look at the possibility of the reprofiling of the twenty-first century schools programme, and you will see that your position is not safe. That was going to be a key programme for many people working in the professional disciplines. So, we will see job losses, some bearing down on workforce costs, and service cuts. That will be for authorities to determine in the next six months. Many authorities already have a list of things that they are discussing with their councillors, but it is down to local democratic choice.

[103] **Janet Ryder:** I think that that has gone far as it can, Chair.

[104] **Angela Burns:** Nick, why do you not ask your killer questions on council tax?

[105] **Nick Ramsay:** We got there in the end. Given all that we have heard today, have you made assumptions about the percentage increase in council tax on average across the authorities?

[106] **Mr Thomas:** We had a discussion with the 22 authorities on Friday, in which the question of council tax was raised. Again, it is early days for the discussions that are going on. As you know, as a former councillor, quite a bit of horse-trading tends to occur in the lead-up to setting the council tax. We did a lot of media work last week on the BBC's view that there will be a council tax freeze in Wales, because there will not be one. The Minister has encouraged people to examine their council tax assumptions. I suspect that there will be considerable pressure, bearing in mind the economic circumstances, to keep council tax pretty low. The indications are that many local authorities are looking at the 3 per cent mark, and I suspect that it will be there or thereabouts.

[107] **Nick Ramsay:** With that in mind, and given that the outlook for public spending is that it will be tight, do you as an organisation have a view on which areas of service might be cut in the future or might be subject to a charging regime?

2.30 p.m.

[108] **Mr Thomas:** A report has come out this week on social services that looks at the future of social care and how you pay for that, and there are suggested charging mechanisms within that. There is a range of things that we will do in the next period to reduce costs. I have mentioned the workforce stuff, and the other thing that I would mention, for example, is that we are looking to run school improvement through four consortia. We are looking to commission social services regionally, particularly for looked-after children. So, even within those front-line services, there will be massive service changes occurring to try to bear down on costs. However, as I said, in any local government budget round, you get into the discussion, particularly with the non-statutory services, on whether you need to provide some of the services and whether there are alternative mechanisms to do that. That will be a live discussion for the next three months.

[109] **Ms Phillips:** We are also in the process of commissioning a piece of research on income generation and income optimisation, looking at what happens elsewhere and trying to get a picture of the different arrangements that are in place across authorities in Wales.

[110] **Mr Berman:** We have been looking at income optimisation in my authority over the last couple of years. You can make more money on certain occasions by charging less. It is all about whether you can get people to take up and use the service more if the charges were to come down, so that, overall, you would take more income. So, you should not necessarily just assume that getting more income is always about putting charges up. I am not saying that it would be easy to do that across the board, but there are certainly times when that can be done.

[111] **Nick Ramsay:** Shall I ask about ring fencing?

[112] **Angela Burns:** Yes.

[113] **Nick Ramsay:** In the expenditure sub group report, it was stated that the costs associated with the specific ring-fencing of grants is around 5 per cent. What progress do you think has been made by the Welsh Government in reducing that cost? What else do you think could be done?

[114] **Mr Thomas:** Ring fencing remains a big issue, and progress has been limited. There

was a horrific example recently where the Assembly Government sent out a £40,000 grant to be split among the 22 authorities. There are frequent examples of that. We would like to see more specific grants going into the settlement. There has been a transfer of some grants this year, but some of the bigger grants that the Assembly Government deals with are hugely political. The foundation phase is one of the largest, as is sustainable waste management. I am not certain what progress we will make on that.

[115] **Mr Berman:** I agree that we have made a bit of progress, but I do not think that we have made sufficient progress on that. I remain concerned that, while money remains at a sizeable level for specific grants, a certain amount is siphoned off for the administration of those grants. It would be better if we could accelerate the transfer of more of those grants into the revenue support grant and save the money that is going on administration. I urge you to support us on that, because the Welsh Assembly Government could move more quickly on that than it has been doing.

[116] **Angela Burns:** You will be aware, Councillor Berman, of the Finance Committee's report on grants in education. Our conclusion was that there was more than a slight degree of illogicality in that. Do Members have any other questions that they wish to ask?

[117] **Janet Ryder:** I would like to ask about the voluntary service grants and voluntary sector grants, which have caused considerable concern within the voluntary sector with regard to how money would be made available to it. How will allocations in the draft budget impact on the funding available to the voluntary sector and how will that eventually impact on councils' ability to offer services?

[118] **Mr Thomas:** We have been having intense discussions with the Wales Council for Voluntary Action on its funding for this year. Obviously, what each council determines is a local matter, but we would expect to see councils acting responsibly in funding the third sector. In fact, the third sector will pick up more service provision from local authorities in the next period. For example, there is talk of examining the possibility of residential social care being undertaken as community mutuals.

[119] In terms of some of the requests that we have had from the voluntary sector, we put up a document to our council the other week that was constructed in concert with the WCVA. The only trouble is that the WCVA wants funding guarantees for future years, which we cannot give. We are in a position where we have indicative figures for the next two years, or up to next year's budget. The result of that is that you cannot give the assurances that the voluntary sector is seeking. Last year, I publically condemned one council for cutting the citizens advice bureau budget at a time of recession, which I thought was vastly stupid.

[120] **Janet Ryder:** As an organisation, will you be actively working with your members to ensure that the services that directly affect the most vulnerable people—the services for which there may be the greatest need over the next few years—will be protected?

[121] **Mr Thomas:** Last year, the chief executive of Citizens Advice and I wrote to the councils, urging them to maintain the support that was being given to citizens advice bureaux, particularly at a time of recession, when people were losing their jobs. We want to work with the WCVA to see prioritisation. Having said that, we also want to see the voluntary sector change. We know that some authorities are funding duplicate organisations. There have to be mergers across the voluntary sector. One authority funds about seven variants of community transport. That cannot go on.

[122] **Janet Ryder:** Surely, it is the choice of the authority to do that.

[123] **Mr Thomas:** The authority cannot push for it. In a previous role, I merged five

CABx together into one CAB—something can be done. The pressure that we are under to scale up service provision, particularly in terms of collaboration, is something that the voluntary sector will also need to consider, and to be fair, it is.

[124] **Ms Phillips:** The other point that I would make is on specific grants, referring back to what Councillor Berman said earlier, in that, although we have the headline figures for some of them, we do not know the breakdown, and we do not have any details at all for some of the others. Some of those grants are funding voluntary sector groups, and we cannot tell those groups about 2011-12 until we get that clarity, which makes life more difficult.

[125] **Angela Burns:** Are there any more questions from this side?

[126] **Brian Gibbons:** I wish to ask something about the third sector. This is not just about losing the money; it is about how the money is lost. Do all local authorities in Wales have a code of funding—or a memorandum of understanding—with their local third sector organisations, and do they adhere to it? Is this about the timescale of the budgetary process? In other words, given that local authorities have not set their budgets, many third sector organisations probably will not know what their funding is until a month or two before the funding runs out.

[127] **Mr Thomas:** That is the situation that the WLGA is in. The position of the voluntary sector is interesting. Some of the discussions that we have had with the WCVA suggest that some of those that have the most rigorous paper agreements, which look good, do not practice what they preach. We recently put a report to our council that the 22 leaders had signed up to—I will send a copy to the committee—which was in effect a national framework agreement for dealing with some issues relating to the voluntary sector. However, there are a number of things in the report that we could not sign up to, particularly indicative funding for future years. We have had some feedback from the voluntary sector—Caerphilly County Borough Council was recently cited by the WCVA as an example of best practice—to suggest that authorities are taking these responsibilities very seriously. The committee might want to drill down into some of these examples.

[128] **Angela Burns:** Thank you for coming today. I will remind you before you leave that the objective of this afternoon's session was to try to understand how the decisions that the Welsh Assembly Government has made in the light of the CSR have impacted on the delivery mechanisms and objectives of local government. I do not want you to wander out of here thinking that this was a 'What about your budgets?' session. It was more about understanding how your budgets can reflect the strategic objectives of the Welsh Assembly Government. We also wanted to understand what cuts, if any, what alterations, if any, and what reductions, if any, you would need to make in your provision of services to achieve key strategic objectives. We have heard that you are looking out for education and social services in the main, and everything else in the round. We have also heard that, through good use of efficiency savings and workforce restructuring, you believe that you will be able to carry on with most of it, and that individual councils may be taking specific decisions on non-statutory items that they have to deliver for their particular areas in order to maintain them. Would you like to add anything else? It has not been an entirely clear session; at least, not for me.

2.40 p.m.

[129] **Mr Berman:** We will do our utmost to maintain what we provide, not that we hope to maintain what we provide. We must be realistic: there are an awful lot of challenges out there. The commitment from our side is to work, through some of the mechanisms that we spoke about, to try to minimise cuts to front-line services, but we cannot pretend that we will be able to avoid them. Something will have to give in each local authority somewhere along the line.

[130] **Angela Burns:** Thank you for your time today. It is much appreciated.

[131] I propose that we have a couple of minutes' break to recharge our coffee cups, and then we will invite the representatives of the Welsh NHS Confederation to give evidence.

*Gohiriwyd y cyfarfod rhwng 2.40 p.m. a 2.49 p.m.
The meeting adjourned between 2.40 p.m. and 2.49 p.m.*

Cyllideb Ddrafft 2011-12—Tystiolaeth gan Gonffederasiwn GIG Cymru Draft Budget 2011-12—Evidence from the Welsh NHS Confederation

[132] **Angela Burns:** We continue our evidence taking on the Welsh Assembly Government's draft budget. We are delighted to welcome witnesses from the Welsh NHS Confederation. I ask you to introduce yourselves for the record.

[133] **Ms Watkins:** I am Kate Watkins, and I am the acting director of the confederation.

[134] **Mr Davies:** I am Jonathan Davies, head of policy and communications for the confederation.

[135] **Angela Burns:** Thank you. We have a series of questions that we wish to ask you, but before we start, do you wish to make any opening statements? We have received the newspaper article as written evidence, but, as we have not received anything else from you, do you wish to give us your views?

[136] **Ms Watkins:** Very briefly, I will set out a little of the context within which our 10 health member organisations are operating at the moment. We are facing unprecedented challenges in the NHS. I have worked in the NHS for 30 years, and I do not recall looking out at the horizon and seeing such a challenging picture ahead of us. We are facing a period of extremely rapidly growing demand; we know that our ageing population is increasing very quickly and that the number of over 75-year-olds is increasing rapidly. Within 20 years, we will have 75 per cent more 75-year-olds, and we know that older people make particular demands on the health service. We are a service that is increasingly in the public eye, where patient expectations, quite rightly, are rising considerably. At the same time, we are facing very challenging times, with reductions in the funding available to us over the next four years.

[137] Therefore, our members are acutely aware that going on in the way that we have always gone on and doing the same things that we have always done is not an option. The health service has not changed radically in what it does and how it does it since its inception, but I think that we all realise that that is not an option for the future. We have to do some very different things in different ways in order to put a sustainable and high-quality service in place that will last for the future. That is the context that I wanted to give before Jonathan and I try to answer questions.

[138] **Angela Burns:** Thank you. I will ask Peter to start, as I know that he has a series of issues that he wishes to cover.

[139] **Peter Black:** The draft budget states that the strategic direction for the NHS in Wales is to develop a fully integrated healthcare system, which is to be achieved via the ongoing development of integrated service, workforce and financial plans. In your opinion, do the allocations within the health and social services portfolio reflect that direction and provide sufficient resources for it to be realised?

[140] **Ms Watkins:** Going back to what I said in my introductory remarks, if we go on in the same way, no, but we will not be going on in the same way. We recognise that we have a major transformation project ahead of us over the next few years. The service is working extremely hard at bringing together its strategic plans for how and where it will provide services, what the workforce requirements are for that, which may be different from what we have now, and how it will improve the efficient use of the resource that it has in a way that we believe—with a lot of hard work—will enable us to still deliver that outcome within the slightly reduced budget settlement that we have.

[141] **Peter Black:** The draft budget mentions a number of priorities in relation to the NHS, including promotion of health improvement and ensuring health protection. Do you have a clear picture of what the Minister's priorities within the NHS are, and are these reflected in the budget allocations?

[142] **Ms Watkins:** As we know, the budget allocation is still in draft form at this stage. We are very clear about the priorities within the NHS, and some of them are related to trying to move upstream in a way that we have not always succeeded in doing in the past, as well as transforming the service as it is now. There is no doubt that, if we do not put more effort into, and, frankly, become more successful at, improving the health of the population in terms of early identification of behaviours that will lead to more demand on the NHS in the future, we will really struggle over the next 20 years. We are looking at some very serious public health problems in Wales. We are not on our own, as the same problems apply across Britain, but some of our problems in Wales are particularly stark. Around 57 per cent of the population is already overweight or obese, and we know that that is linked to higher levels of diabetes, heart disease, some forms of cancer and so on. We know that too many people drink too much and we know that too many people are still smoking. If we do not really get to grips with those issues shortly, the legacy that we will leave our children in terms of how the health service will meet the demand will be very serious. So, in the eyes of the service, the Government is clear about the need for upstream prioritisation as well as the need to improve, change and transform the way that we provide services at present.

[143] **Peter Black:** The draft budget also states that there will be a 'new focus on measuring outcomes'. However, there is little detail on what specific health outcomes are being aimed for. The five-year strategy refers to current poor outcomes. What specific outcomes are to be achieved in relation to health?

[144] **Ms Watkins:** The debate on those is still going on. There will be outcomes in relation to morbidity and mortality, and on quality of life as well as length of life. There will probably be more specific outcomes about the efficiency of the way in which the organisations work. There will probably be discussions about the evidence base that the health service follows, and whether each health organisation is achieving and undertaking its health work in the way that the evidence suggests is best practice. So, do we still have organisations that are doing procedures of limited clinical effectiveness or have they all moved on? Excellent practice would suggest, for example, that we do not need to have as many tonsillectomies as we do. However, the debate is still taking place about what those outcomes will be. It is fair to say that establishing good outcome measures is extremely difficult. If it were easy, we would have done it many years ago. I do not think that anyone has ever got to grips with this, really. However, it is to be welcomed that the debate is starting in Wales and that we are starting to look at how we measure what the health service does in a more sophisticated way than we have done in the past.

[145] **Peter Black:** You are talking about this debate about outcomes as if it is a long-term project.

[146] **Ms Watkins:** No. However, at present, I have not seen what the outcomes might be

the next year or the year after, and I understand that there is still a discussion going on.

[147] **Mr Davies:** I will give you some figures about where we are now that could be used to measure where we are going in the future. Currently, 60 per cent of hospital bed days are taken up by patients with chronic conditions. In some parts of the world, that figure is far lower. I would argue that an outcome would be for us to work strenuously to reduce that. Some 38 per cent of the population has a long-standing chronic condition. If we are talking about being joined up across local government, health and social care, we should all be aiming to reduce that figure. Some 80 per cent of GP consultations relate to a chronic condition. So, you are starting to see the level of demand that chronic conditions place upon the service. Reducing those numbers would be a significant outcome that would have the by-product of freeing up resources.

[148] **Peter Black:** Are those some of the outcomes that the Welsh Government has asked you to achieve?

[149] **Mr Davies:** These are outcomes that the service will be working toward. It is a co-operative process between the Government and the service.

[150] **Peter Black:** However, have you agreed those outcomes with the Welsh Government?

[151] **Mr Davies:** No, it is in discussion with the Welsh Government about them.

[152] **Peter Black:** When will we know what outcomes the Welsh Government wants from this budget?

[153] **Mr Davies:** You would have to ask the Welsh Government that.

[154] **Peter Black:** Well, you are in discussion with it.

[155] **Ms Watkins:** No, my organisation does not discuss directly with the Welsh Government. Our members, through the director general, will be talking with the Minister for health and the Welsh Government.

[156] **Peter Black:** Okay. How will these outcomes be measured?

[157] **Ms Watkins:** It depends rather on what they are. We have some quite good data. Jonathan has cited figures, and we are able to measure some of those things, obviously, or we would not be able to cite those figures. For example, we know a lot about our population and people's access to healthcare, and we know what conditions they have. GP practices know a lot about people with chronic conditions and we know how many of them go into hospitals, so we will be able to measure and track through how the pattern of demand changes. So, if, as we are starting to do in some parts of Wales, we drive through a different way of handling people with chronic conditions so that we anticipate their needs, ensure that their medication is absolutely right, ensure that they know how to self-care and so on, we will be able to measure the impact on hospitals, because they will not be going there so often and there will not be so many emergency admissions and so on. So, we can track these sorts of data, because we have quite sophisticated data around that already.

[158] **Peter Black:** I have one more question. In terms of these outcomes, which are quite radical with regard to how you want to change the direction of the NHS, what level of restructuring and change to the way that the NHS currently does its business will be required to get those better outcomes?

3.00 p.m.

[159] **Ms Watkins:** We must remember that we have just been through a major restructuring and one reason for that was to integrate all the parts of the health system, from primary to secondary and tertiary care. That will help. The structural foundation is in place now, so you have organisations working in a locality that have all the component parts under one management umbrella, and are working closely with social care partners as well. So, that is established, and is in place. What we will need to do, however, is move much more care that is currently provided unnecessarily in a hospital setting into the community. We still have patients—diabetics, for example—who get admitted to hospital when they do not need to be. If they were receiving optimal care from nurse practitioners, their GPs, and helping themselves, then many of those admissions would not be necessary. We will be seeing a substantial move from unnecessary hospital attendance or admissions into the community or into primary care settings. The services will still be there, but they will be moved from a hospital setting into the community.

[160] **Peter Black:** Will that be quite painful?

[161] **Ms Watkins:** Well, it will be painful if we in Wales go on feeling that the hospital is the most important part of the system. We have an issue with that in Wales—we are quite sentimentally attached to our hospitals, and one of the things that the service feels quite strongly—and certainly we are trying to support it in this—is that it is not necessarily the best place to get your care, and certainly not the essential place to get your care. Obviously, there are serious conditions for which you want to be in a well-equipped hospital, but, for many conditions, that is not necessary. We have a great affection for our hospitals, whether it is the small, local ones or the bigger ones, but we need to see treatment more in terms of the service rather than the buildings it is provided from.

[162] **Peter Black:** So, are you envisaging the closing down of various hospitals to move these services out into the community?

[163] **Ms Watkins:** What we are talking about is moving the services into the community, closer to individuals' homes, and so on. However, we have financial challenges, and we have to look at the part of the system that is the most expensive, which is the hospital. Therefore, we will need to look at what sort of hospitals we will need in future—what size they will be, and so on. We will modernise the whole system, and you cannot modernise one part without looking at another. We will be looking at everything in the round.

[164] **Angela Burns:** Andrew has a supplementary question, and then Brian.

[165] **Andrew Davies:** I do not know of anyone, apart from those with Munchausen syndrome perhaps, who wants to go into hospital. I think that everyone would welcome more treatment outside that setting. What is the role of the confederation? I am struggling to understand it. We have just had the Welsh Local Government Association before us, and I am still struggling with its role as well.

[166] **Ms Watkins:** Thank you for giving me the opportunity to explain. We are a very small organisation—there are only seven of us, so you have more than 25 per cent of us here today. We are a membership organisation established under charitable rules to support the 10 health organisations in Wales. We do that in a number of different ways. We are currently in discussion with them about how that might change in the future as well. We support the chief executives and chairs when they meet as a body corporate, and we help to facilitate that meeting and those discussions to help them to develop their work programmes. We do research and horizon-scan in relation to topics that will be important in the future. John does a lot of the writing for us, and has produced a number of publications, and so on. We run events

to help people develop their thinking and consider best practice and what might be the agenda of the future. For example, we have just had a big conference in Cardiff, which we do each year. We help to share information and best practice between our members, and bring in information from England as well, because we are affiliated to the NHS Confederation in England, which is a bigger parent body. A fairly new part of the organisation is the Welsh NHS employers unit, which has been established, and that is my substantive job—I head that up, supporting the 10 organisations in their perspectives on workforce modernisation and so on.

[167] So, we are a very small support organisation. I wish that we were the size of the WLGA, but we are not.

[168] **Andrew Davies:** Be careful what you wish for. [*Laughter.*]

[169] The reason why I ask is that I understand that all we have in the way of written evidence is the article by you from 22 November, and I admit that it was published just after the draft budget on 17 November, but I am perplexed that there is virtually nothing in it that is specific to Wales. If you take out a few choice words that reference Wales, then it could be about England, or Scotland, or virtually anywhere else. I do not see any examples. You talk about areas where the NHS can make savings, and I would have thought that what would have been helpful would be for the confederation to say, ‘This is where our constituent bodies have made savings’. You mentioned community care; I thought that you would have prioritised the Gwent frailty project, given the prioritisation that the Assembly Government has given it. There are no examples in here—[*Interruption.*] Please let me finish. You are talking almost as though these savings, efficiencies and changes in delivery are in the future. Some examples of concrete experience would have been helpful.

[170] **Mr Davies:** If you look at the article in the newspaper rather than the online version, you will see that there was a large section about the chronic disease demonstrators, for example in Cardiff, Carmarthen and Gwynedd. I have some of the statistics that were in the article here with me. They were Welsh specific and demonstrated where money had already been pulled out, so some £2.5 million has been saved.

[171] **Andrew Davies:** Perhaps I could say that your quality control systems might have been better if you had included that information when you submitted the evidence, then.

[172] **Ms Watkins:** That was written as a media article, and, clearly, that is a slightly different style to what one would submit in evidence, had we had a little more time to do it. I am happy to forward information to the committee. There is a wealth of evidence—hard data—of good practice that has been going on for some time. This is not a new agenda, but it is being pursued with renewed vigour. The Gwent frailty project is one very good example and there are many others. We know, for example, that, in the areas where chronic disease management has been developed in a more proactive community-based way, savings of 25 per cent have been achieved in the demand for hospital beds. So, it is quite effective, and it is one of the areas on which we are going to concentrate.

[173] On your point that this could have been written for England, Scotland or Wales, that is absolutely right, because the whole of the UK faces the same problems. We all have growing demand, limited resources and so on, so it would be surprising if there were not the same expectation for the same basic actions to be taken across the UK.

[174] **Andrew Davies:** I come back to my point: I do not know about other Members of the committee, but I would have welcomed some concrete examples. I hear what Jonathan Davies said about that being in some annex or that some other statistics were included, but you are a representative body giving evidence. It would have been helpful for us, in scrutinising your

evidence, to have some concrete examples of where your representative constituent bodies have achieved significant changes and improvements in service.

[175] **Mr Davies:** I would be happy to circulate this document. We sent a delegation to see Kaiser Permanente in action in Colorado some five years ago. We have now examined how far we have moved in Wales since then. We have several other pieces of evidence and documents that I would be more than happy to distribute.

[176] **Andrew Davies:** We are not in Colorado; we are in Cardiff.

[177] **Mr Davies:** There are lessons to be learned from all around the world.

[178] **Andrew Davies:** I quite agree, Jonathan, but perhaps your body could have submitted that evidence for us to be able to scrutinise you.

[179] **Brian Gibbons:** To follow up what Peter was trying to get at, the question is how aligned your budgets and processes are to deliver in response to the strategic challenges that you have outlined so far in your presentation. Can you say a bit more about that? Equally, in that context, although the local health boards are called local health boards, they look very much like the old trusts, which were hospital orientated. Even in the practice of a lot of the new local health boards, they are losing out on the community engagement that the original local health boards had. Do you feel that the money that you have had is being lined up against the priorities, and that the structures that you are now operating within are better aligned—and one of you said that the structures are better aligned—to deliver if the funding priorities are right?

[180] **Ms Watkins:** I do think that the money has been lined up. There is absolute clarity in the NHS at the moment about what the service should be doing, what it should look like, and what the priorities are. As you know, each organisation, in conjunction with the Welsh Assembly Government, is developing a five-year service, financial and workforce strategy. That is very much to ensure that all these components are aligned. They are detailed service development plans that will take each organisation to the point of having sustainable, high-quality services delivered in line with the strategic framework of delivering more in the community and so on in each locality. I am confident, and I am sure that the organisations are confident, that the ducks are all lined up in a row as they should be.

3.10 p.m.

[181] As for the structures being in place, there were concerns that all the good work that the local health boards had done in building relationships with local primary care and their communities might be lost, but the evidence so far—and we have just recently done a questionnaire, although admittedly on a small scale, with various stakeholders about how the new structure is bedding in—does not suggest that that is the case. In fact, the evidence has been quite positive, given that it is early days; after all, it is only a year since the structures have been put in place. Really good local relationships with local government are being developed, even in those areas where it was not always as good as it should have been, and primary care practitioners are more aligned with hospital services.

[182] Speaking as someone who was an LHB chief exec many years ago, there is always a danger that hospital secondary care will dominate the agenda. However, it is fair to say that each of the chief execs of the new local health boards were so acutely aware of that as a potential criticism that they and their teams have been working particularly hard to ensure that that is not the practice on the ground. We also have vice-chairs who have a particular interest in primary care and mental health. So, it is early days, but it is looking good on that integration.

[183] **Alun Davies:** Thank you for that interesting response to the question. This session caused some trouble last year, as I am sure you will remember, when Paul Davies told Kirsty Williams, I think, that 20 per cent of the NHS budget could be used more effectively. If that is true, it is an extraordinary statement for a manager of an organisation to say that £1 billion of public money is not being used effectively. Could you explain what actions the NHS is taking to ensure that every penny, let alone every billion, is used properly and is spent on patient care?

[184] **Ms Watkins:** I cannot speak for Paul Davies—I am not him and I was not here—but, from what I have already said, you will see that our view, and the service's view, is that there is real scope in the way that we work and expend our resources now to use resources more effectively by modernising service delivery. Everything that I have said so far about moving from hospital to community is part of that.

[185] **Alun Davies:** Can you give us some hard examples of that?

[186] **Ms Watkins:** We have talked before about where we have developed, on a county basis, a chronic disease programme working with primary care nurses, local councils and so on, and I think that Carmarthenshire and Pembrokeshire are some of the best examples of that. We have stopped 27 per cent of admissions to hospital from those with a chronic disease. Previously, they would have rolled up at a hospital accident and emergency department in an ambulance and would probably have been admitted for a period of time. That is a very tangible example of how we are doing things differently. It is about working differently to achieve the same clinical outcomes.

[187] **Alun Davies:** I accept that to an extent, but there is another question implicit in what was said last year and what has been said since about the fact that the budget could be used more effectively. My interpretation of that is that we currently have resources, whether they are staff, buildings or the services available, that we are not using appropriately and that are not being properly managed by staff and leaders within the NHS. So, what actions are being taken to ensure that all the public money that is supplied to the national health service in Wales goes towards providing patient care in the most effective and efficient manner? We can argue about the 20 per cent or the £1 billion or however much it is, but there is a perspective within NHS management at the moment that resources are not being managed in such a way as to ensure the best use of public money.

[188] **Ms Watkins:** That is why the 10 organisations, particularly the seven health boards, are developing detailed five-year plans about how they are going to transform the way in which they do their business. Money that is currently tied up in a hospital is not money wasted or ineffectively spent; it is required to be spent there, because of the way in which we currently provide services. For example, running a typical ward in an acute hospital costs nearly £1 million a year. That is not money ineffectively spent, because we have patients who need those beds, but if we can provide that care for them in a different way, such as in the community where we will not need that ward, we would be using that resource in a more effective way. That is what these five-year plans are about, and that is how we will make sure that we get the best use out of every penny of the resource that we have: by providing the right services, in the right place, at the right time, with the right workforce and so on. That is a complex business, because you have to look at every part of the system and, as you know, the health service is a complex, integrated system. You have to look at every bit of that and transform it. You cannot do that overnight, but I can assure you that the health organisations are working flat out to deliver those five-year plans and to make sure that the way in which we use our resource in the future is sustainable, because that is in the best interests of patients and is clinically sustainable and most cost-effective.

[189] **Alun Davies:** What has been achieved? I do not disagree with what you are saying, but it is quite abstract. You are absolutely right that we could do things differently, but that is almost an academic exercise. I do not mean to dismiss it, but we are looking for examples of real change, from real people, in the real world, in the NHS. What have managers done in the NHS to achieve that change? What has been delivered since Paul Davies spoke to us last year?

[190] **Ms Watkins:** I have a sheet that I can give you. A lot of work is going on, such as the Gwent frailty project, which Dr Gibbons mentioned, which means that people in Gwent who would previously have gone into hospitals no longer do. Three pilot schemes are being rolled out throughout on chronic disease management, so that people are not being admitted to hospital unnecessarily. The ambulance service is making sure that more people receive treatment in their home when the service is called out, rather than taking them to hospital. There are improvements across the piece. There are reductions in the length of stay in hospitals, movements towards more operations being done as day cases, and so on. I do not have a list that shows what each one amounts to, but we can provide that.

[191] **Alun Davies:** Perhaps a note on some of those would be useful. I am afraid that I do not feel that you are getting to the core of the question. You have talked about the fact that this is a time of declining budgets but of increasing pressures, and I wholly accept your analysis of the future. However, it appears to me that managers are not proactively seeking to maximise the benefit from the resources that they have for the patients and for people who come into contact with the NHS. I would be interested to see a paper from you.

[192] **Angela Burns:** I think that it could go one step further. You have outlined the NHS's direction of travel, and that is part of the Welsh Government's policy. I am sure that, when we get the evidence back from our committees next week, we will see that the Minister for health, who has appeared before the Health, Wellbeing and Local Government Committee, will have said the same thing. So, in this time of declining budgets, the question has to be how you will achieve that modal shift. You cannot just shut a hospital and then put the services in place. So, if you do not have the money, how will you put the services in place so that you can transfer people and then look at your hospital provision? That is also a part of the issue, because if how you deliver that change is the greatest objective of the organisations that you represent, I assume that it must also be the Government's greatest objective. Your organisations are there to deliver the policy of the Government, and the Government has said clearly that, in this time of tighter budgets, it will be concentrating on key strategic objectives. Assuming that that is the objective, how exactly will you do that flip?

[193] **Ms Watkins:** Changing where you provide the services from does not always require additional resource upfront. Sometimes, it is just about moving services with the staff to different environments. As part of spend-to-save programmes, as we know, some money is available to be invested and then recouped later. To be really honest, we could easily sit back and say that we cannot do it because we do not have the money upfront, but we have to do it, because there is no alternative.

3.20 p.m.

[194] **Angela Burns:** I am not disputing the policy direction; we are not here to look at that. We are here to look at how that can be achieved in practice. We regularly hear people who appear before this committee tell us about their objectives, but the question is how those objectives are achieved. You need money to achieve objectives, but we do not have much money. So, the question is whether we have enough money to achieve this objective and how it will be deployed in order to uphold the strategic objectives of the Government, which is the important and critical point. Chris, Brian and Andrew want to come in on this point.

[195] **Ms Watkins:** These five-year plans are exactly about how you use that money to go in that direction.

[196] **Angela Burns:** Nick, I know that you are running to a tight schedule, but do you want to come in on this point?

[197] **Nick Ramsay:** I am drawn to Alun's line of questioning on this, and to your point in your round-up. Another big point that has to be made relates to the timespan. The £1 billion that was talked about so much last year was important enough then, but set against the previous years of budget increases, it was not such a priority, dare I say. As things are now, we are looking at how to do this within a year. The Finance Committee is struggling to drill down to ensure that all the great philosophy that you are talking about and the great modal shift are turned into nuts and bolts, as it were. I do not think that anyone here this afternoon is convinced by that to any great extent.

[198] The draft budget states that local services are being reviewed to strengthen links between primary, intermediate and secondary care, with a renewed focus on effective partnership working and collaboration. I know that you will say in your answer that progress is being made towards achieving collaboration—and I am sure it is—and you will say that progress towards effective partnership working is being achieved. However, to follow on from what Alun said, do you have concrete examples, even if you do not have the figures, of how collaboration is being achieved, and what processes do you have in place to ensure that it is being monitored and that we will get that collaboration pretty quickly? If we do not get it quickly, with what is proposed for the NHS's budget, we will have cutbacks in areas where we do not want them.

[199] **Ms Watkins:** There are many examples of collaboration taking place in each of the organisations. For example, in Bridgend, there are now joint health and social care management structures, and they are working together to prevent unnecessary hospitalisation and to keep frail elderly people in the community. We have already talked about the Gwent frailty project, and there is some interesting work being done in Gwynedd along the same lines. There is a lot of activity going on. I am sorry if I have given the impression that we are waiting for someone to fire the starting gun and then it will all start. It has been going on. What I do not have today is a list that can show you how far each piece of work has gone, but I am very happy to provide you with that.

[200] The NHS has not been sitting and waiting for someone to tell it to get going; it has been moving forward, and it achieved a lot of progress last year. The five-year plan puts even more of an emphasis on that and increases the speed to drive this. We are working hard to reduce the back-office costs, for example, so that we can move more resources into the front line. We are looking at our workforce and whether there are better ways of meeting the needs of the patients through workforce changes, and so on. A lot is going on, and I am sorry if I have given the impression that we have not started the work. We have started it, but it is a journey. One of the challenges will be whether we can pick up the speed sufficiently to meet the financial challenges that we will face over the next few years. A lot is happening, and I would be very happy to send in a paper that will give you a number of practical examples of what has changed in the last year.

[201] **Nick Ramsay:** I think that the committee would greatly appreciate that sort of detail, as that is what we are looking for. I have a specific question on local health boards.

[202] **Angela Burns:** I know that you have to go, so you may ask your question and I shall then come back to Chris.

[203] **Nick Ramsay:** Thank you for indulging me, Chair.

[204] For the LHBs, there are models in place to promote the sort of efficiencies that you have been talking about. What specific guidance has been given to LHBs to help them to make this shift in terms of collaboration and partnership working?

[205] **Ms Watkins:** I am not aware that any formal written guidance has been issued, but there is an understanding that one of the strategic imperatives of the five-year framework will be that they work in partnership with their local partners—whether that is primary care, the council or voluntary agencies—in order to deliver this model of care, which is about being closer to home and is person-centred as opposed to being institution-centred. So, I am not sure whether there is specific guidance, but there is no-one working in the NHS at the moment who is not acutely aware that that is how it will be done in the future and they are working to that end, and developing local service mechanisms and local collaborative partnerships in order to achieve that.

[206] **Mr Davies:** I would add that, on the public services side, the efficiency and innovations board and the local service boards are all promoting that collaboration agenda.

[207] **Chris Franks:** If I rightly recall the evidence given last year, when we discussed the efficient use of resources, one comment made was that it was often the choice of the surgeon to use one type of artificial joint rather than another, or even a third type. Therefore, it often came down to medical decisions that, at the end of the day, cost more. If you have three different types of joint that are all designed for the same job, you lose the economy of scale. How prevalent is that scenario in the service, in which something that costs more is used over something that does the same job? Is there a move to overcome these individual preferences, and are we coming to a stage when the medical side will be told that it has to use a certain procedure or certain bit of equipment? Where are we on that famous journey that you are describing?

[208] **Ms Watkins:** We are moving along. The reality is that a lot of work has been done with medical colleagues to encourage them—in a way, through their own leadership—to resolve some anomalies within their own professions. A lot of work is going on in terms of procurement. There is no doubt that there are savings to be made by having a limited range of prostheses, to use your analogy, but I doubt that we will, or should, get to a position where only one type of prosthesis is deemed appropriate for everybody. I am not a clinician, but people's needs are slightly different—perhaps Dr Gibbons can comment on that. What fits one person's need may not fit another. We certainly do not want a free-for-all in which anyone can order anything they like, and we do not have that situation anymore, as far as I am aware. There is a much more limited catalogue to choose from. In the health service, we are trying to work with our clinicians so that they take much more of a leadership role in this sort of area, particularly in the clinical pathways. A lot of evidence is emerging about the best clinical pathways for different conditions. One thing that we are looking at, and will continue to do so, is the reduction in variation from what is recognised as being the best form of treatment. Work is going on in that context, and it will continue to be one of the areas that will receive particular emphasis. You are right: there can be a lot of waste if less-than-optimal treatment pathways are followed.

[209] **Chris Franks:** I am going to add to your duties by asking for concrete examples of progress that is being made. On the other side of the coin, is there a danger that non-clinical pressures will be brought to bear on the medical staff not to follow the most appropriate procedures?

[210] **Ms Watkins:** I do not think so. If we continue to encourage our clinicians to lead, as we are doing now, that will not be the case. It is not in the interests of any manager to insist that a clinician uses equipment that is not fit for purpose. That would cause more difficulties

for patients, and that would have longer-term cost implications. In my experience, managers do not impose those sorts of decisions on clinicians. Clinicians are very capable of speaking up for themselves and asserting what they think is the right thing to do.

[211] **Chris Franks:** Okay. Are you able to provide the examples that I asked for?

[212] **Ms Watkins:** Certainly.

[213] **Chris Franks:** Okay, thank you.

[214] **Angela Burns:** Rosemary, I believe that you wish to intervene. Is your intervention on this specific point?

[215] **Rosemary Butler:** It is somewhat related.

[216] We were talking about personalities, how clinicians have particular preferences, and how consultants who are particularly strong have strong departments. Your time with my local health board shows how personality can make a big difference. How can you transfer personality into systems where everyone will be working together, if not exactly singing from the same hymn sheet? Looking at this from the outside, it seems that everything is so dependent on an individual, as opposed to an overall policy. Am I wrong in that?

3.30 p.m.

[217] **Ms Watkins:** I do not think that that is as true as it was 20 years ago, to be perfectly honest. The heyday of clinicians—or managers, for that matter—determining how things would be has passed, and the situation has changed substantially. That is how organisations have developed over time. There is now a much greater sense of what is acceptable and good practice, whether we are talking within management or clinical practice. You do not get the rogue personalities that you might have seen 20 years ago. The way to encourage clinicians is to give them responsibility for running their services. If they are given the resources and are clinical directors of their own services, they will make sure that they are run effectively. The managers then become subordinate to them and supportive. Putting clinicians in the driving seat is another one of the strategic directions that we are going in, because they know what is best for patients.

[218] **Angela Burns:** Andrew, while we are with you, would you like to tackle the topic of efficiency savings?

[219] **Andrew Davies:** Yes, thank you, Chair. I am beginning to understand how the Minister for health probably feels. I find it extraordinary that, a year on from the meeting that Alun referred to, the NHS Confederation is unable to come here with a document that states what has been achieved by the various health organisations. I know that devolution is famously said to be a process, not an event; perhaps it should be called a journey, not an event. However, this is a process, not an outcome. I am struggling to get my hands around what has been achieved—I do not know if other Members are struggling in the same way. I have heard anecdotes and examples, but I have not heard about the big picture of what has been achieved in efficiency savings, cost reductions and new ways of working. We hear anecdotes and examples, but nothing concrete. The draft budget says that the revenue budget has been maintained at the same level as in the previous year, which represents a real-terms reduction of 1.9 per cent taking inflation into account. Are you confident that core services can be maintained at that level? What efficiency savings is the NHS in Wales looking to deliver?

[220] **Ms Watkins:** I can only speak as my members speak. They are confident that they

can protect, deliver and develop core services, because they are confident that they can make the necessary efficiency savings, whether it is done through back-office savings, reconfiguration or developing the service in the way that we have rehearsed today. They are confident that they can achieve that. I am not hearing from them that they are concerned that they will not be able to deliver core services. Each organisation has its own programme of efficiency savings. They come together under a five-year strategy, where there are 11 key programmes and some cross-cutting supportive programmes, such as IT development, workforce utilisation and so on. Health inflation will always rise higher than ordinary inflation, and we have also had a modest decrease. They know what the challenge is: they will have to make substantial savings, but they are confident that they can do that if they are given the opportunity to undertake the service reconfiguration. We have not really spoken about the support that they will need to enable them to do difficult things. Some unpopular decisions will have to be made about the way in which services will be delivered in the future. Achieving any of those services changes in Wales has been difficult in the past, whether it concerns changing what hospitals do or the number of hospitals or clinics. Health managers and clinicians are looking for support to help them with what will be a difficult task. They are confident that they can do it, but they are looking for support in that field.

[221] **Angela Burns:** Would you not recognise that they need to get the support of the public, above all, rather than that of politicians, and that in order to gather that support, there must be a robust engagement process between the local health boards and the people they are supposed to serve?

[222] **Ms Watkins:** I do not disagree with that at all. You are absolutely right: they need to engage with their local populations. However, we have to recognise that the public is influenced by local politicians, so I think that we need support from both. We also have to recognise that engaging with a local population is a real requirement, and while I am not saying that we always do that in an exemplary way, I think that everyone is well aware that they need to do that. However, you will not always be able to take the population with you. We will still have to do difficult things in the next few years, and, although we try very hard to get the public on our side about the need for that, we will not win everybody around. Yet difficult things will still need to be done. It is important to register that.

[223] **Angela Burns:** That is why politicians get elected and Governments come into power—to make tough and unpopular decisions. While we are members of the Finance Committee, we are also constituency or regional Assembly Members, and most of us have postbags with correspondence that is predominantly based around issues to do with the NHS. Although LHBs say that they believe that they can make these changes while protecting their core services despite the drop in revenue, we have seen a diminishing level of service being offered over time. So, it is quite difficult to pick out how they can make these changes that will involve a lot of money—and may well need to be made for the long-term good of the nation—while maintaining the good level of service that the population would expect from the NHS. On a daily and weekly basis, we see evidence that does not bear that out.

[224] **Ms Watkins:** It is very sad to hear that, because many people would say that the service is better now. One problem that we have in the health service is that we are not good at getting the public to recognise that change is not always bad, and that service outcome is the most important thing, not how we provide it or where we provide it from. We would all accept that we have an awful lot more work to do in getting the message across to our local communities that sometimes what we propose will be better but different. Change is always painful—everyone finds change difficult, and people are very nervous about change in the health service, whether they are currently a patient and do not want the way in which they are being treated to be changed, or they are potential patients. The health service has a huge job to do to reassure and provide tangible evidence that we can still provide a really good service, although it will be different. To be honest, we have not won that battle yet, and we will have

to work much harder over the next few years. However, the service really hopes that it will have support from people such as you in recognising that we have to change, at least.

[225] **Angela Burns:** I totally accept that, and I absolutely support your desire to modernise, reform and reorganise the NHS. My issue is with the comment that LHBs can do this with less money and not see any changes to the front line, when a great number of us do not necessarily see that happening. I made a comment earlier about what comes first—putting services in place or getting rid of other things such as hospitals. It is a chicken-and-egg situation. It is about ensuring that this can be done to carry out the policy of the Government, which needs to be carried out, while using diminishing financial resources and trying to maintain the levels of service. As Andrew said, it is about getting concrete evidence that we can do all of those things. At present, we have a very effective and interesting press announcement as evidence from the Welsh NHS Confederation, but I would like to see tougher and stronger evidence to back up these types of statements, because it does not always translate into our experience outside of this building.

[226] **Rosemary Butler:** I know that I am not meant to disagree with the Chair, but my postbag is not dominated by correspondence on health issues. There obviously are issues, but the service has improved out of all recognition, so I would not want it to be thought that there are nothing but problems with the health service.

[227] **Angela Burns:** No, absolutely.

[228] **Rosemary:** Certainly, my postbag is not dominated by health issues.

[229] **Angela Burns:** Good, but I know that an awful lot of us, because we discuss it between us, have postbags that are dominated by correspondence on health issues. However, that is irrelevant—the issue here is about understanding whether you have the finances to make these changes. You talked about the protection of the revenue budget, which you are going to need to make these changes that may need to be made for the long-term health of Wales, but we do not see the evidence for how you can achieve that or of what was achieved in the preceding year to enable some of that money to flow through to do this while still protecting the delivery of the services to the people who have to use them.

3.40 p.m.

[230] **Ms Watkins:** I fully accept that the best way to engender confidence that we can achieve this in the future is to show what we have done so far. I accept that entirely. We would be happy to produce that for you so that you have the evidence of what has already been done, which will, I hope, engender a greater sense of confidence that we can achieve what we have to do over the next few years. We will be very pleased to produce that.

[231] **Mr Davies:** May I say something for the future? I take your point on board fully, Andrew, but at no point in discussions prior to my coming here today was I asked for any of this. Had I been asked for it, had it been laid out clearly and had I been told that it was needed, we would have pulled that evidence together for you. Going forward, it might be better if we had a clear indication of exactly what written evidence the committee wanted before our arrival.

[232] **Angela Burns:** When I wrote to Ms Watkins, I stated that we were looking to understand and ensure that you had the resources available to carry out your strategic objectives and to understand how your objectives tied in with the Government's. As you are a direct subsidiary, as it were, of the Government, we would be surprised if they did not. We were looking to ensure that you had the resources available to carry out those strategic objectives, despite the fact that there has been a reduction in the money available to the health

portfolio. That is what we asked for. You cannot come here and just say that what you have is okay, because we need to be able to see that. Anyone could come in here and say that they have the money, but we need to understand that you really have the money, and that you have enough money to carry you through for three years to achieve those objectives.

[233] **Mr Davies:** I accept that fully. We came in to provide that evidence orally, but had we been told that you wanted a specific written piece of evidence, we would have provided it. I apologise to the committee that you did not—

[234] **Angela Burns:** That is fine, Jonathan, but if you can provide it orally, please, provide away, because I have simply not heard that so far.

[235] **Mr Davies:** Point taken.

[236] **Angela Burns:** I interrupted you in the middle of your questions about efficiency savings, Andrew. My apologies.

[237] **Andrew Davies:** The Minister has said that £850 million of efficiency savings have been achieved over the last four years. Presumably, that will be expected as a minimum over the next four years. To drill down further on the question that I asked before, are you confident that the health service in Wales will be able to deliver that and, as you said, continue to improve the service that is provided for the people of Wales?

[238] **Ms Watkins:** Yes, as long as—

[239] **Brian Gibbons:** May I ask a supplementary question to Andrew's question? There is no doubt that, from the public's point of view, waste in the health service is a bigger issue than inefficiencies. One of the things that the Minister highlighted was the way that management costs in the health service would exert downward pressure. So, as well as answering Andrew's macro question, I would like your response to the fact that I am sure that the public wants to have some assurance that the Minister's expectation of a 20 per cent reduction in management costs will be delivered.

[240] **Ms Watkins:** Absolutely. I should start off by saying that anyone who recognises that the NHS is a large and complex organisation will also recognise that it requires robust management, particularly when it is facing the challenges of transformation that it is currently doing. It would be naive to think that we can meet the challenges that we have been discussing this afternoon without good and adequate management. Nonetheless, we recognise that we can always push down on that and there is an expectation that we will reduce our management costs substantially. We will be reducing it to 3.4 per cent by 2013-14; it is currently at about 4.2 per cent. However, compared with commercial organisations of a similar size, that is a very small percentage.

[241] To go back to Mr Davies's general question, the service is confident that, as long as it can achieve its service reconfiguration and transformation, within the resource that it has, it can achieve and deliver a good service. The reality is that if it feels that it will not be able to make that transformation, it will be extremely difficult, and I probably would not be able to give that assurance.

[242] **Peter Black:** In fact, in the Minister's paper to the health committee at this time last year, she identified £1.9 billion of savings over the next four years, which is virtually double the figure that Andrew has just cited. So, it is a much bigger challenge than I think that any of us anticipated. We have talked about this £1 billion of waste and inefficiency, which was identified in last year's budget session by the finance directors of the NHS, and you have talked about the need to reconfigure to achieve that, and the need for political support to do

so. What I am hearing from you is that, in the last year, we have made little progress in that reconfiguration, and one reason for that is that you have not had much political support from the Welsh Government to do that. Is that an accurate picture of what you are trying to tell us?

[243] **Ms Watkins:** That is not what I am saying. Developing plans for how you will reconfigure your service takes time, and we are only now becoming really clear about what we would like the service to look like in the future. The process of engaging with the public and knowing how you want the service to be takes time, and is still to be completed. We are much closer to it, but we are not there. So, I am not saying what you suggested, but I am saying that, for the future, it will be an essential characteristic of a successful transformation that we have support for change. It is not an expectation of carte blanche support for whatever the NHS says that it wants to do. We recognise that we need to take our local communities with us as much as we can, but you have a right to expect the service to use its money with the maximum efficiency, and the public has a right to expect that, and I think that the service has an expectation that it will get the appropriate degree of support for the change that is necessary.

[244] **Peter Black:** Has the Minister been pushing the local health boards and yourselves to achieve that transformation over the last year?

[245] **Ms Watkins:** The Minister does not need to push us. She makes it very clear. We have all known that difficult times were coming, so the organisations themselves have been perfectly responsible and have started working through what the service should look like in the future. We have not been sitting waiting for someone to press the button; we have been working proposals up. It is an emerging picture. We did not know quite what the financial situation would be, and if you are scenario-planning, you work through possible options and look at the data, and so on. We are getting to the point where we will know exactly what we want the service plans in each locality to look like, and that is the point at which we must properly engage and will be seeking support.

[246] **Peter Black:** So, really, you have not made much progress. You are working up plans, but you have not actually made much progress.

[247] **Ms Watkins:** We have made substantial progress in the—how shall I put it?—less contentious areas. We have made progress in terms of efficiency savings, and I have given a commitment that I will come back to you with a formal written response about where change has occurred. We have made changes in relation to such things as chronic disease programmes, and so on. What we have not done a great deal of yet, as you will be aware, is the major strategic change in service configuration.

[248] **Peter Black:** Is the Minister fully engaged with that process, along with her officials?

[249] **Ms Watkins:** Yes.

[250] **Andrew Davies:** I just want to put on the record that, as I think that Kate Watkins has said, it is not a case of the Minister responding to the NHS; it is the NHS responding to the Assembly Government. That is not to say that other parts of the political institution will necessarily be supportive of what the Assembly Government is doing. I understand what Peter is trying to do, but I would not want it to be put on the record that, somehow, the Assembly Government has not forced through this change, or, indeed, that substantial change has not already been achieved, as the director said. This is a long-term project. Rome was not built in a day.

[251] **Peter Black:** I am trying to scrutinise the witness and follow up a line of questioning to get some clarity. That is all that I have been trying to do.

[252] **Alun Davies:** It is important that things are not misrepresented.

[253] **Peter Black:** I am not misrepresenting anything.

[254] **Angela Burns:** Chris is next, and then Brian.

[255] **Chris Franks:** For the record, the way that I interpreted the evidence is that it is not just a question of the support of the Assembly Government—‘political support’ means all of us. The message that I take from that is that, sometimes, individual politicians—not necessarily AMs; it could be MPs, councillors, or prospective councillors—do not support sensible changes. So, I think that it is wrong to imply that it is just the Assembly Government. The evidence that I heard indicated that it was not just the Government.

3.50 p.m.

[256] **Peter Black:** The Government has the responsibility.

[257] **Brian Gibbons:** I would like to agree, having been on both sides of the fence—

[258] **Rosemary Butler:** Sitting on it on occasion. [*Laughter.*]

[259] **Brian Gibbons:** Yes, sitting on it, and probably outside the gate, too. I think that the democratic process has to hold public bodies to account and subject the decisions that are being made to challenge and so forth. I do that every day, and I regard it as part of my core function as an Assembly Member. However, I sympathise with senior management in the health service, because delivering some of this radical change is not easy, and, going back to Chris’s point, part of it is about challenging clinical practice. That is not the same as telling a consultant what sort of artificial hip to use, for example. However, I accept that, very often, clinical practice needs to be challenged. Very often, there is vested interest there, which is not in line with consistent good practice. It is very difficult for senior management to deliver that change, if there is resistance at that level.

[260] Equally, we have got to be honest. The political process does not always help the health service to change. We have given the NHS Confederation a fairly uncomfortable afternoon. However, equally, what Chris has been saying is right: we cannot walk away from this process and pretend that we are white knights on chargers and that someone else is the problem. It is hoped that, mostly, we contribute to the solution by delivering effective challenge to what is going on. However, equally, as Chris said, there are times when politicians lie down on the road in front of good change. We have got to acknowledge that as well. We are all responsible for the progress and the delays.

[261] **Angela Burns:** Indeed. If there are no further questions, because of the time, I propose to draw this to a close. We will go back over the Record of Proceedings. If we may, we will write to you asking for the additional information that you have said you are happy to provide and with a few questions that we did not get to on capital expenditure. However, if I heard you correctly, we are taking away the message that, despite the reduction in the budget, you believe that it will be possible, over the next three years, for the local health boards to finalise and start to implement the changes and reorganisation they require in each of their areas; that you anticipate that they will be able to commence the process without material change to the delivery of services to the people in those areas; and that the available funds, currently, will enable you as representatives of the LHBs to ensure that the Government’s strategic objectives are met. That is what this session is about: ensuring that the Government’s strategic objectives can be met with the sort of moneys that we now see will be available within health.

[262] **Rosemary Butler:** May I just come in on that, Chair? You are saying that they are going to start the process. I think that they have started. Do you mean that they will continue the process?

[263] **Angela Burns:** Yes, continue the process.

[264] **Rosemary Butler:** I think that that is very important.

[265] **Angela Burns:** Yes, I was trying to remember exactly what you said, because I do not have the Record in front of me. However, I think that you made that sort of comment about five or 10 minutes ago. I just wanted to make sure that I had understood it, because, obviously, that will form the basis of our view.

[266] **Ms Watkins:** I am very happy to provide evidence of the change that has already happened. We are on a journey, but some changes have already happened. We are very happy to provide that. My only comment is that, although I agree with everything you have just said, this is subject to support for change, which we need.

[267] **Angela Burns:** Yes, but on the financial implications, you believe that the financial agreement for the health portfolio is essentially fine to get on and carry out these changes.

[268] **Ms Watkins:** We can manage, provided that we have the opportunity to make the changes we need.

[269] **Angela Burns:** Thank you very much for coming. We really appreciate your time.

3.55 p.m.

Cynnig Trefniadol Procedural Motion

[270] **Angela Burns:** 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).

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

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 3.55 p.m.
The public part of the meeting ended at 3.55 p.m.*