

The Commission on Public Service Governance & Delivery

A Five Point Blueprint for Public Service Reform in Wales

**by the Chartered Institute of Public
Finance and Accountancy**

13 September 2013

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

CIPFA's Approach

The Commission's call for evidence asks for responses on six key inter-related areas of focus plus three additional questions. The direction of the Commission is to consult principally with service users and delivery bodies.

CIPFA supports that direction and although CIPFA itself is not a direct service provider, CIPFA members manage the finances of public services in Wales and throughout the UK. CIPFA provides advice to devolved administrations and legislatures and we have a strong and consistent record of providing expert commentary on matters of public policy. CIPFA contributed to the Commission for Future Public Service Delivery in Scotland (generally referred to as the Christie Commission) which reported in 2011. We see many similarities in substance between that process and the current work of the Commission in Wales. We have drawn on that experience to shape this submission.

CIPFA Publications & Resources which have been drawn on in compiling this submission:

[After the Downturn](#)

[The Long Downturn](#)

[Leading in Hard Times](#)

[Public Finances At the Edge of Chaos and Ready for Outcomes?](#)

[CIPFA Submission to Commission for future Delivery of Public Services](#)

[CIPFA Submission to the Independent Budget Review](#)

[CIPFA Submission to Scottish Commission on Devolution](#)

Further information about CIPFA can be obtained at www.cipfa.org

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1. EXECUTIVE SUMMARY

- 1.1 This Commission is being undertaken at a point where the public sector finance position in Wales continues to be challenging. The Welsh Government budget is being cut by 2% (£11.5bn) in 2014/15. Revenue Departmental Expenditure Limits have reduced by 3.3% in real terms from 2012/13 to 2014/15 and Capital Departmental Expenditure Limits have reduced by 7.2% in real terms over the same period.
- 1.2 In the immediate past, when public expenditure was more buoyant, the shortcomings of public services, for example: complexity, duplication and weak accountability for outcomes were manageable and were tolerated by the economy. However, the financial tide has turned and it is more important than ever that maximum value is generated from every pound of public money spent in Wales, and also that the public can be assured on the highest standard of stewardship.
- 1.3 Against that background, the end goal of the Commission's work in our view should be:
- to readdress the relationship between citizen and state whereby we restore community and personal resilience rather than breed dependency on the state;
 - to propose an approach to the design and delivery of public services which ensures that we work towards removal of any duplication and waste associated with present structures;
 - to reposition the balance of public spend from addressing the symptoms of societal problems to a point where public money is directed to positive outcomes and to prevention of future issues.
- 1.4 In order to achieve this, CIPFA's submission sets out the following five point blueprint to enable the Commission to begin to create the foundation for the future financial sustainability of public services in Wales.



1.5 Within our blueprint we recommend:

- a core and options approach to Welsh public services in which a core tax funded service, with an emphasis on preventative spend, and are provided free at the point of delivery to the people of Wales. Any additional services or service enhancements would be subject to user charges.
- accelerated reform of proportionate scrutiny and accountability framework (including regulation) from government to and across public sector bodies. This is likely to require a single scrutiny body and integrated models of scrutiny in each public body.
- More effective horizontal collaboration across the public sector, to integrate citizen centred service delivery and improves efficiency without diminishing safety and quality. Wales has a good record of collaborative working but there is a crowded landscape of more than 900 public bodies.
- Commencement for a state of readiness for the potential implementation of the recommendations of the Silk Committee which have the power to provide the Welsh Government with additional leverage to manage public services including tax raising and borrowing powers.
- An integrated performance management framework which enables improved management of performance at government and organisational levels and which includes demonstrable evidence that benchmarking sits at the heart of performance improvement.

1.6 We will be pleased to liaise further with the Commission and to expand upon the content of this submission.

2. CIPFA'S INITIAL ADVICE IN RESPONSE TO THE DOWNTURN

- 2.1 In 2009 CIPFA published "*After The Downturn: Managing a Significant and Sustained Adjustment in Public Sector Funding*". From our fiscal analysis and scenario development, we concluded that public spending cuts at a scale unprecedented in modern times would be required.
- 2.2 Against that background, we also predicted that the type of decision-making required going forward will be of a different magnitude than that of recent times. We considered that public bodies should not expect to manage through the adjustment required by providing the same level and volume of service at a reduced cost. We considered that a radical response was required. We set out three options for change which defined the extent of radical change required:
- a redefinition of the relationship between the state (as provider of public services) and the individual;
 - a significant delaying of the public sector with many more decisions taken locally with minimal oversight; and
 - a major initiative to maximise economies by much more effective collaboration between public bodies
- 2.3 In the period since we published our paper, the scale of reduction in public sector spending has borne out our prediction. We remain of the opinion that our options for change continue to provide the blueprint for the public service reform that it is necessary.

Option 1: the Relationship Between the State and the Individual

- 2.4 This option requires a radical review and reconsideration of three key variables:
1. public services provided by the state;
 2. the people to whom they are provided; and
 3. the way in which they are funded.
- 2.5 Aimed at reducing spending, existing services could be radically reduced or even discontinued. Some services could be maintained but the population entitled to receive them could be radically reduced in size. The development of this option could lead to a 'core' and 'options' approach to some public services in which a core tax funded service is provided free at the point of delivery.
- 2.6 The role of Government would be to manage equity by defining and specifying the guaranteed minimum core service to which everyone would be entitled. Alternatively the core and options approach could focus upon the responsibility of the citizen and consider whether user charges should be applied to individuals whose life style choices have led to self-inflicted conditions. The role of government would be to lead by redefining existing public expenditure to ensure that positive outcomes, rather than negative outcomes would be met. One of the means to achieve this is a shift to preventative spend

Option 2: De-Layering of the Public Sector and Reducing Oversight

- 2.7 This option takes the view that cuts in public services is best determined at local level where regard can be had to local needs and circumstances. For it to have practical effect, local public bodies must have the flexibility to make judgements about the public services which are right for their area. Local bodies should be allowed to operate within an economic framework in which national oversight, inspection, target setting and performance measurement are limited to levels which are essential for effective service delivery. Reliance should be on local accountability rather than national oversight to highlight shortcomings.
- 2.8 The objective should be to increase effectiveness but to reduce cost. A radical interpretation of this option would also include significant de-layering within local agencies. Front-line staff should be clear about the extent of their authority and should be encouraged to take decisions accordingly. Similarly they should be clear about decisions which require management approval and the procedures to access such approval efficiently. Effective leadership and management will remain critically important ingredients in the overall chemistry of organisations.

Option 3 Better Horizontal Collaboration

- 2.9 This option is predicated on the assumption that the complexity of public sector structures in Wales and a prevalence of silo thinking which leads to significant inefficiencies. Efficiency programmes typically focus on improving efficiency within public bodies rather than across public services as a whole. This raises the challenge for more effective 'horizontal' collaboration between public bodies.
- 2.10 In many cases public bodies work together for reasons other than efficiency and do so with conspicuous difficulty. At worst, the actions of one body may impact adversely on another. This makes the case for more effective collaboration even more compelling.
- 2.11 This option also encourages public bodies to collaborate in commissioning services with the prospect of achieving savings from greater scale and a more strategic approach. In turn this may lead to greater understanding of the interdependencies which exist between public bodies providing related services or sharing the same clients. In such circumstances there should be a shared commitment to find solutions which deliver high quality service to the citizen and best use of resources from the perspective of the overall public purse. Activities like 'cost-shunting' which give priority to the financial interests of individual organisations at the expense of the public purse as a whole may be addressed constructively under this option providing that there is the political and managerial will to do so.
- 2.12 The creation of linkages and development of close collaborative relationships between bodies which have no history of joint working raises the hope that not only will cost be reduced but that innovation can be unlocked. For example, service redesign around the needs of shared clients.
- 2.13 Our view was and is that the three strategic options outlined are not mutually exclusive. We concluded that the best strategies will need to draw on all three options.

3. TAKING THE OPTIONS FORWARD IN WALES

Option 1: the Relationship between the State and the Individual

Public Services provided by the state

- 3.1 We have sought to establish the extent to which there has been a reconsideration of services provided by the state in Wales. In particular, we were interested to understand the extent to which preventative spend has formed a key part of the Welsh Government programme.
- 3.2 The Programme for Government states that:
- '..our overriding priority is to generate jobs and growth, and to tackle poverty..'*
- 3.3 From our examination we concluded that there is no dominant emphasis on preventative spending. That conclusion was supported by the outcome of the National Assembly For Wales (NAFW) Finance Committee scrutiny of the 2013/14 budget. While the Committee found that the case for a shift to a preventative spend approach has been accepted (by government) it was disappointed with the quality of evidence it received on evidencing the quantity and quality of preventative spending across the whole system.
- 3.4 The Minister for Finance, in evidence to the Committee said that:
- "..we know that there are interventions we can make which will prevent spend in other areas later down the line".*
- 3.5 Overall however, the Committee concluded that the evidence received did not provide assurance that there is a shift in budget emphasis towards preventative spending and as part of its scrutiny of the 2014/15 budget, the committee has issued a further call for evidence on the extent of preventative spending across Wales which is taking a preventative approach in order to progress option 1. The Committee is attempting to establish the range of activities which exist across the spectrum of preventative spending.

The way in which services are funded

- 3.6 In readdressing the relationship between the state and the individual, it is our view that the way in which services are funded needs to change. It should lead to a 'core' and 'options' approach to some public services in which a core tax funded service is provided free at the point of delivery.
- 3.7 The role of Government would be to manage equity by defining and specifying the guaranteed minimum core service to which everyone would be entitled. Alternatively the core and options approach could focus upon the responsibility of the citizen and consider whether user charges should be applied to individuals whose life style choices have led to self-inflicted conditions.
- 3.8 We have not detected any public debate about changing the way in which services are funded in Wales.

Option 2: De-Layering of the Public Sector and Reducing Oversight

Reducing Oversight

- 3.9 The Welsh Government plans to review Audit, Inspection and Regulation (AIR) in Wales following its Programme for Government commitment to:

"Review the framework for the external scrutiny of public services and the work of our auditors, inspectors and regulators"

- 3.10 The level of audit, inspection and regulation is a common theme among public service bodies who are balancing the need to deliver business as usual with fewer resources while applying scarce resources to meet the needs of audit and inspection. The proposed review provides an opportunity to surface these through formal mechanisms.
- 3.11 We have not detected any urgency or any firm timescales for reform. The ambition for change and the pace of change must be from the start.

De-layering

- 3.12 There are examples of reform which have taken place in Wales which in the main has resulted in collaboration by public bodies. That has to be considered in the wider context however which is that there are still more than 900 public sector bodies delivering a plethora of services. We conclude therefore that there is scope to reduce the number of public bodies.

Option3: Better Horizontal Collaboration

- 3.13 There is evidence that Wales is setting an example of different models of collaboration although the NAFW finance committee concluded that

'It was evident to us that evidence on collaboration was at best inconsistent and it was not clear why there appeared to be a differing pace of change across the public sector.'

- 3.14 We have examined the following initiatives and specifically sought evidence of performance:
- Regional Partnership Boards;
 - Local Service Boards ; and
 - Communities First Partnerships.

Regional Partnership Boards (RPBs)

- 3.15 In 2006 the WLGA sponsored the creation of four Regional Partnership Boards to support delivery of the efficiency, transformation and citizen centered aspirations of the Making the Connections agenda. According to the WLGA:
- 3.16 Since establishing the WLGA Regional Partnership Boards in 2006 the WLGA has maintained a Regional Collaboration Compendium which collates information about collaborative projects and joint working in Wales. This Compendium contains details of some 125 projects.
- 3.17 The Compendium indicates that the evidence base for demonstrating that collaboration has resulted in better services and lower costs is less than robust. Most of the projects have long timescales and refer to their objectives and actions taken or being taken, but very few refer to the value for money outcomes achieved.

Local Service Boards

- 3.18 LSBs focus on a number of issues which local partners agree upon voluntarily and which deserve particular attention at a strategic level. The actions they agree to take are outlined in their local agreements, which are shared with the Welsh Government. The

policy projects that LSBs choose to tackle are mainly defined by the local needs of the area in which the LSB partners have a direct geographical responsibility.

- 3.19 Although instigated by the Welsh Government, there is no statutory framework which monitors or evaluates the performance of the Boards. The Welsh Government initially encouraged LSBs to use a national performance-management system to track progress, but some Boards preferred to rely on existing local performance measures.
- 3.20 Projects developed by LSBs vary considerably in scope, focus and content. Few LSBs have so far carried out successful projects in terms of achieving some degree of change in the implementation or achievement of outcomes.
- 3.21 LSBs have realised that their existing performance measures are not sufficient to monitor and evaluate collaborative outcomes. Since 2011, they have begun to use Results Based Accountability models which are a systematic way of embedding outcome-based decision-making into planning, delivery and accountability for partnerships to achieve shared population results.

Communities First Partnerships

- 3.22 The Communities First Programme was originally launched in 2001 when more than 150 Communities First Partnerships were set up in Wales.
- 3.23 In 2009 the Auditor General for Wales published his report on the Programme. His report concluded that

".. eight years into the programme the Assembly Government is still not tracking the full extent to which the programme (funded by £214m) is tackling deprivation and improving living conditions for those in poverty."
- 3.24 In 2010 the Joseph Rowntree Foundation published a report which explored the progress made in regenerating Communities First Areas in Wales:

"..the gains that have been made in the first generation Communities First areas have been relatively marginal."
- 3.25 In July 2013 the Welsh Government published 'Building Resilient Communities-Taking Forward the Tackling Poverty Action Plan':

"..A new Outcomes Framework has been developed for Communities First which will enable each Cluster to report its progress. This is so that each Cluster and then the Welsh Government can show what the programme as a whole is achieving in contributing to tackling poverty. Information from this Outcomes Framework will be made available online from Summer 2013.."
- 3.26 We understand that there is in fact no information is currently available. When available, it will be useful to understand the extent to which the conclusions of the Auditor General for Wales have been addressed and the extent of improvement in the outcomes of the realigned programme.
- 3.27 In the Wales Programme for Government, to improve delivery, a common set of performance measures is being developed for the Communities First Programme, to help monitor the outcomes of the people the Government is supporting. These new performance measures will be reflected in the 2014 Programme for Government Annual Report.
- 3.28 Overall we conclude that despite evidence of collaboration across public sector in Wales, there is no 'golden thread' linking different bodies' objectives, priorities and

performance, and little evidence of improved outcomes as a result of the collaboration . There is little evidence that the various collaborative arrangements that have been put in place have clear lines of accountability.

CIPFA's Recommendations:

- **Option 1 The Relationship between the State and the Individual : National leaders in Wales should focus on how to implement the core and options approach to public services. There should be a demonstrable shift to preventative spending;**
- **Option 2 Delaying of the public sector and reducing oversight: The pace of reform of external audit and inspection should be accelerated and consideration be given to the development of a single external body to exercise proportionate scrutiny on all public services focussed on reviewing progress towards the delivery of outcomes in local areas; effort should be directed towards reducing the number of public bodies.**
- **Option 3 Better Horizontal Integration: The Welsh Government & public bodies should develop a clear performance management and accountability framework within which for collaborative arrangements between public bodies should operate within.**

4. THE SILK COMMISSION RECOMMENDATIONS – THE 4TH OPTION

- 4.1 We have focused upon our three recognised options for managing the public expenditure adjustment during the downturn, options which are applicable across the UK and for public services generally. The future financial sustainability of public services, within all of the devolved jurisdictions, will undoubtedly be heavily influenced by any change to current devolution arrangements
- 4.2 It is possible that the recommendations of Commission on Devolution in Wales could provide a separate and additional set of levers which would complement the existing three options. This 4th option (or 'the Welsh option') is of course dependent on the specific implementation of the recommendations and on the next report expected in the Spring of 2014.
- 4.3 The overall conclusion from the Silk Part 1 report was that:
- "... the current funding arrangements for the Welsh Government do not meet the requirements of a mature democracy and are anomalous in an international context. The funding model of a block grant and some devolved taxes best meets sound principles for funding the Welsh Government."*
- 4.4 The tax powers recommended by the Commission, if implemented, could provide:
- Block grant funding; combined with a
 - Devolved taxation base; and
 - Borrowing for capital investment
 - borrowing for current spending to manage the volatility of tax receipts under any new funding system.
- 4.5 We note the example of how the Scottish Parliament has governed the route from the initial Calman Commission to its role in the development and scrutiny of the Scotland Bill (a UK Parliament Bill) and to the current role in the implementation of the Scotland Act 2012. Early planning in Wales is essential to ensure that the opportunities afforded by new fiscal powers are matched by a skill base and capacity to implement and scrutinise the new arrangements.

CIPFA's Recommendations

- **The Assembly should ensure it has access to expert advice to assist it in planning for the changes it will require to make to its present financial systems and processes as a result of additional fiscal powers.**
- **The capacity and skill base required to financially manage the new fiscal powers should be assessed at an early stage**

5. PERFORMANCE MANAGEMENT – the 5th OPTION

- 5.1 A recurring theme in our examination of public service performance management in Wales was that the current system of performance management is not a driver for service improvement performance of public service organisations.
- 5.2 In its recent submission to the Silk Commission, the Welsh Institute for Research in Economics and Development (WIRED), Cardiff University reported that the performance of health and education services in Wales across a range of indicators has been lower than that of England.¹
- 5.3 It is difficult to escape the conclusion that in the absence of an integrated and effective system of performance management that differing levels of performance as instanced in the annual report will continue. Given the combination of austerity and lower performance by Wales in areas like health and education, it is vital that the best use is made of the public resource available. It is our view that there are a number of key system developments which will help Wales to focus better on its performance and ensure accountability for the achievement of an agreed set of outcomes.
- 5.4 Our blueprint envisages, an integrated system of performance management and measurement which enables tracking of public performance from government level all the way to local delivery level. The following are the key elements of that system:

1. Clarity of Government Purpose and Outcomes

The Welsh Government Programme for Government (WpFG) is the Welsh Government's roadmap for the current Assembly term. Each chapter of the report includes a series of performance indicators that set out to demonstrate how well the outcomes are being delivered.

2. Translation Of Government And Outcomes Into Delivery Plans

Public service organisations must be required to show the logic of how public money is supporting the achievement of better outcomes. They must demonstrate coordinated multiagency strategies and collaboration with individuals and communities. Clarity about outcomes is a vital element in improving public services.

3. Performance Measurement Strategy

We note that each chapter of the programme for government annual report includes a series of performance indicators that set out to demonstrate how well the outcomes are being delivered. This is welcome but we would suggest that the indicators must be an agreed set of metrics which are used across the whole system to evidence progress against the purpose and outcomes. In addition, we would recommend that the measurement strategy, should require public bodies to make use of benchmarking.

- 5.5 In Wales public organisations do not use benchmarking on a consistent basis, either to drive challenge and best practice internally within the organisation or, to report to the public in an open and transparent way.

Local & National & Public Accountability Systems

- 5.6 The drive for improvement must be local and therefore local systems of performance management for staff must ensure staff performance is judged in terms of contribution

¹ (*How the devolution settlement could be modified to better serve the people of Wales: an evidenced-based assessment of the exercise by the National Assembly for Wales of their principal economic powers' the Welsh Institute for Research in Economics and Development, Cardiff University (James Foreman- Peck).*)

to outcomes and therefore there is as accountability for failing to contribute to outcomes. Local management performance must be judged by local delivery boards in terms of how well they have contributed to outcomes.

- 5.7 To allow the general public to judge the performance of the government and its delivery bodies, there must be a system in place which allows government and delivery bodies to demonstrate performance to the general public. The Scottish Government, introduced a national transparent performance system called "Scotland Performs" and we would encourage Wales to consider developing something similar.

Resources and Outcomes

- 5.8 The required clarity on outcomes, together with a new approach to service delivery introduces scope for a different relationship between resources applied and our public finance system. CIPFA has undertaken research in the area of whether our public finance system was now fit for purpose and ready to meet the challenge of outcomes and spend of a preventative nature.
- 5.9 What we found was that fundamentally, the most important governing factors were the local choices that were made rather than the means of funding or distribution.
- 5.10 What this means in practice is that the real and practical drivers for change in Wales will be the development of a more mature 'budget choice' mechanism at local levels.

CIPFA's Recommendations:

- **an integrated framework for a system of public performance management in Wales which enables performance measurement at both government and organisational levels ;**
- **a focus on comparative benchmarking information should be included in the framework;**
- **consideration of a national transparent performance framework; and**
- **modernisation of local budget choice mechanisms.**