

Public Sector Spending

The Welsh Assembly Government is likely to face some tough choices in respect of public spending in the years ahead. The Assembly has a total of £12.6 billion at its disposal in 2005-06, with the budget set to grow to £14.3 billion by 2007-08. The budget has almost doubled since the Assembly was established in 1999. This period of strong and sustained growth in funding is, however, coming to an end and the rate of growth in the Assembly finances will be much slower over the next three years. In the context of a more frugal UK public expenditure climate and in the wake of the Gershon public sector efficiency review, public sector organisations in Wales, as across the rest of the UK, are going to be expected to make considerable savings in the years ahead.

In the light of this, the Welsh Assembly Government has published a consultation document - *Making The Connections: Delivering Better Public Services for Wales* - on its proposed new model for the public services in Wales and its approach to achieving the required efficiencies (Welsh Assembly Government, 2004). The targets set for resource savings are indeed ambitious with a total of £600 million's worth of value for money improvements to be achieved by 2010. This is equivalent to around 5 per cent of the current total investment in public services, which in broad terms will require that public sector agencies become around 1 per cent more efficient year on year for the next five years. This is to be achieved through a new, more co-operative model of service delivery in Wales, with scale economies to be achieved through more effective co-operation and co-ordination between agencies across the whole of the public sector in Wales and more innovative use of ICTs in service delivery. For example, it is estimated that £120 million's worth of value for money improvements are attainable through better, more collaborative, public procurement by 2008, building on the foundations laid by the Welsh Procurement Initiative.

There are already positive efforts being made across many of the major public bodies in Wales to achieve efficiency savings. Local government, for example, is already making good progress towards the development of more joint working arrangements, particularly in the area of routine, back-office functions. For example, Cardiff and Blaenau Gwent Councils have developed joint delivery of key IT services. There is room for further progress here, particularly in relation to the development of shared service

consortiums such as for the procurement of social care goods (e.g. medicines and health care equipment). Further progress is also needed in the area of e-government which is not particularly well-developed across Wales compared with England. More dedicated funding in the short-term for such initiatives will clearly be needed in order to release resources over the longer-term.

An even tougher challenge lies ahead. As well as making savings or spending *less*, the Assembly will have to become more adept at spending *better*. The magnitude of this challenge is perhaps best illustrated using the example of the NHS in Wales. Since its inception, the Assembly has presided over an unprecedented increase in NHS funding. Indeed, health spending has consistently been given the highest priority in the Assembly's spending plans with a 30 per cent increase in spending on health and social services occurring in Wales between 2002-03 and 2005-06. As well as rising substantially in absolute terms, health spending consumes a larger share of total Assembly spending than in 1998-99. Yet Wales does not get as much out of its health spending as it should. This is one of the central messages contained in the Wanless review of health and social care in Wales (Wanless, 2003). The Review observed that in every year but one since 1994-95, NHS organisations have reported deficits of over £10 million in Wales. In social care, cost pressures are increasing, and there is significant variation in the level of spending on social services between local authorities (as one would expect) and in its cost-effectiveness. Moreover, the NHS in Wales has been plagued by continuing poor overall performance against key indicators such as waiting times for cardiac surgery and availability of beds, whereas similar indicators in England have shown considerable improvement.

Clearly this situation reflects in part the nature and scale of health problems in Wales. But the current debates around health service spending also point to some more general issues around public spending which are likely to become more prominent in the more prudent spending climate ahead.

First, it is clear that new performance management and incentive systems which are necessary in health provision and other public services in Wales to help create best practice are themselves resource intensive in the short-term and inevitably take time to bed in and yield positive results. The Welsh Assembly

Government has, for example, set aside some £30 million in 2005-06 to implement key elements of the Wanless recommendations for the NHS with this figure set to rise to £167 million by 2007-08. Change, whether in respect of front-end delivery or in broader organisational and strategic terms, incurs costs which need to be built into financial management plans. The NHS in Wales has experienced considerable organisational upheaval in recent years, particularly with respect to scrapping health authorities and their replacement by local health boards. Similarly wide-ranging organisational reform will impact upon many other areas of spending in Wales with the proposed cull of the quangos and the merging of key development agencies. This will inevitably incur some considerable financial and social costs, at least in the short-term.

Secondly, there is a growing case for changing the metrics used to measure public sector spending efficiency. Statistics gathered by the Office for National Statistics reveal that productivity in the NHS across the whole of the UK had fallen by 8 per cent between 1995 and 2003 in that the costs of providing services had outstripped the value of services in cash terms. While NHS output grew by 28 per cent during this period, spending grew by between 32 and 39 per cent, with spending on hospitals alone rising five times as fast as the number of hospital treatments. However, these statistics fail to capture changes in the quality of health care such as the long-term improvements in health that may be achieved by increased spending on measures which prevent illness in the first place and promote better health and well-being. Such measures are clearly becoming more important in Wales with initiatives such as Health Challenge Wales. Developing more innovative ways of measuring the impacts of such initiatives will be important in assessing where resources will be targeted most effectively in the years ahead.

References:

Wanless, D. (2003) *The Review of Health and Social Care in Wales: The Report of the Project Team Advised by Derek Wanless*, Report commissioned by the Welsh Assembly Government, June 2003.

Welsh Assembly Government (2004) *Making the Connections: Delivering Better Public Services in Wales*, Welsh Assembly Government, October 2004.