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Mr Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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Our ref: HVT/2288/fgb

Dear Darren

INVEST TO SAVE FUND

On 10 February 2015, the Committee considered my report on *Managing early departures across Welsh public bodies*. During the course of that discussion, the Committee noted the references in my report to the Welsh Government's Invest to Save (I2S) fund. I offered to provide a note to the Committee about the fund and possible options should the Committee wish to take forward any further scrutiny.

I2S is intended to support the introduction of new or proven ways of working so that public services become more efficient and effective. Investments made from the fund are fully repayable, interest-free, with flexibility on the payback period. The Welsh Government's Invest to Save Annual Report 2014 shows that between 2009-10 and 2014-15 the Welsh Government allocated £96.3 million across 70 different projects. Around two-thirds of the funding (£60 million) has been invested in the NHS. Just three projects account for more than half of the £96.3 million allocated: Voluntary Exit Schemes in the NHS (£30 million); Public Sector Broadband Aggregation (£14 million); and the Gwent Frailty project (£7 million). The thematic analysis below shows that the largest single area of spending is under the 'workforce category'.

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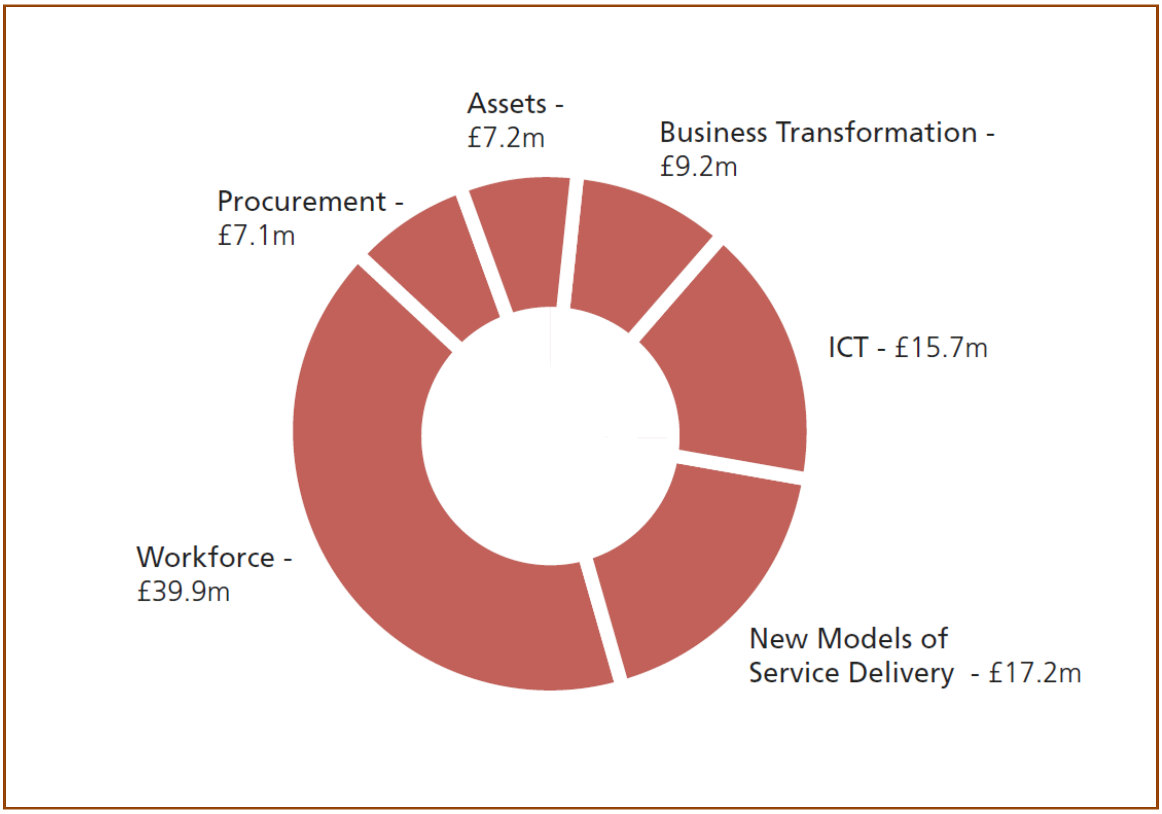

Source: Invest to Save Annual Report 2014

I2S has been subject to review and scrutiny in recent years. In May 2014, an independent evaluation report by SQW Ltd for the Welsh Government found that I2S provided value for money. SQW identified gross cash-releasing savings of £3 for every £1 spent. Of 23 projects reviewed, SQW found that at least 15 had delivered cash-releasing savings. I2S was also the subject of a Finance Committee report in March 2013. The Finance Committee's report sets out that "*we have learned that invest-to-save works. We have heard and seen how services have been transformed, and how savings generated have allowed the initial loans to be repaid and recycled*". The Public Policy Institute for Wales (PPIW) has also examined the extent to which good practice from I2S was being shared. The PPIW report, published in November 2014, concluded that there is "*potential for cross-sector learning from some of the I2S projects which seems to be currently unexploited*".

While their overall conclusions on I2S were positive, SQW, the Finance Committee and PPIW identified areas for improvement. Based on the findings from these reviews, I would categorise the key risks to value for money as follows:

1. The risk that the individual projects funded through I2S are not actually achieving the financial and service benefits as intended or as reported; and
2. The risk that I2S is not maximising its potential to encourage and shape transformation and innovation across public services.

I have not undertaken any audit work to assess the extent to which the Welsh Government is now mitigating these risks.

The risk that the individual projects funded through I2S are not actually achieving the financial and service benefits as intended

The I2S fund requires that projects pay back the investment at an agreed rate, regardless of whether, and at what level, savings are achieved. The SQW report found that "*evidencing savings remains challenging, and quality of the information varied"*. Previous audit work in Wales, and the work of other UK public audit bodies, shows that public bodies often struggle to evidence that they have actually achieved the savings they report.

Measuring the non-financial impact of projects is important. Firstly, it helps to ensure that intended benefits are being achieved, secondly it helps ensure that actions to achieve cash-releasing savings do not impact the level or quality of services. The SQW evaluation found weaknesses in processes for measuring non-financial benefits. It found that there was evidence of benefits in individual projects, but these were not being consistently measured. The review concluded that "*addressing the absence of processes and systems to track non-cash releasing benefits is an important issue going forward"*.

The risk that I2S is not maximising its potential to encourage and shape transformation and improvement across public services

The SQW evaluation also suggests that the projects were generally – though not exclusively – lower risk and less innovative than might have been expected if I2S had sought to test new forms of service delivery. It has generally delivered incremental rather than radical change in terms of service delivery and outcomes. SQW found that many of the project ideas were pre-existing and had been bent to match the requirements of I2S rather than being driven by I2S's objectives. SQW note that I2S does not have a high failure rate. There may be questions for the Committee to explore about whether the low rate of failure reflects a low risk appetite and risk aversion in the choice of projects.

The apparent lack of innovation is highlighted by the fact that the largest single area of spend is voluntary exit schemes, primarily in the NHS. Voluntary exit schemes can be an important enabler of transformation as part of wider efforts to change the way services are provided so that they can sustain levels and quality of service with fewer staff. However, the Welsh Government acknowledges in its 2014 Annual Report on I2S that it has not monitored whether the significant funding for voluntary exit schemes has enabled transformation of services. Earlier this month, the Finance Committee noted in its report on the Welsh Government's Second Supplementary Budget for 2014-15 that it is seeking further detail on the value for money of voluntary exit schemes funded from I2S.

One area of concern is the sharing of good practice from I2S projects to enable other parts of the public services to learn from success and failure. At present, the sharing of learning comes primarily through case studies included in the I2S annual report. The Finance Committee recommended that the Welsh Government do more to share good practice. The SQW report found that mechanisms for sharing learning from projects were of mixed quality and that there was a risk that "*practices will not be retained and embedded to the degree that might have been expected*". Although not specifically focused on I2S, the sharing of learning and good practice is an area where I and the Public Accounts Committee have previously raised broader concerns in our respective Picture of Public Services reports. The PPIW review shows that there is still considerable progress to be made in sharing learning from I2S.

Options for further scrutiny of Invest to Save

If members wanted to examine the entire I2S programme or specific aspects of it there are a number of possible approaches. For example, Wales Audit Office staff could look to prepare a factual memorandum drawing on publically available information about I2S alongside some supplementary information, such as on the repayment schedules and reported savings from projects. The Committee could use this factual memorandum as a basis for taking further evidence.

I could alternatively consider adding I2S to my programme of value of money studies. Any detailed audit work would probably be best focused on the two key areas of risk that I identified earlier in this letter. For example, it could look at the quality of the evidence behind the reported savings and non-financial benefits, with a view to some in-depth testing of a sample of projects. I could also explore whether the Welsh Government's programme management is adopting an appropriate balance between securing financial payback and encouraging innovation and managed risk-taking. I would however need to give further thought to the scope of any such audit work and the extent to which it would be likely to add much to the findings of previous reviews. There would also be the opportunity for the Committee to consider the broader issue of the contribution of I2S to public service innovation and transformation when considering my third Picture of Public Services report, which I intend to publish in the autumn.

There are, of course, opportunities for the Committee to explore the use of I2S funding for voluntary exit schemes as part any future evidence sessions following on from my recent *Early Departures* report. The Committee could also return to this issue with any relevant organisations in the autumn, on the assumption that the Committee will again be scrutinising the accounts of a selection of public bodies where voluntary exits supported by I2S funding might feature. In addition, my current review of the development of Natural Resources Wales should give me scope to consider in further detail how voluntary exit arrangements are supporting the development of that organisation.

In any of the scenarios mentioned above, there would be the merit in the Committee confirming with the Finance Committee its own intentions with regard to any on-going monitoring of the use of I2S funding.

Yours sincerely

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AUDITOR GENERAL FOR WALES