



HM TREASURY

1 Horse Guards Road London SW1A 2HQ

David Richards
Principal Finance Officer
The National Assembly for Wales
Room 2.21
Cathays Park
CARDIFF
CF1 3NQ

Stephen Mitchell
Head of Better Public Services Team
Public Services Directorate
Tel: 020-7270-4738
Fax: 020-7451-7603
stephen.mitchell@hm-treasury.x.gsi.gov.uk
www.hm-treasury.gov.uk

09 December 2003

M FD (03) 01

Dear David

ASSESSING THE COSTS AND BENEFITS OF GOVERNMENT INSPECTION ACTIVITY: GUIDANCE

'The Government's Policy on Inspection of Public Services' (July 2003) states, as one of its key principles, that *'inspection itself should be able to demonstrate it delivers benefits commensurate with its cost, including the cost to those inspected'*. This letter covers further guidance on putting this principle into practice: *'Assessing the costs and benefits of government inspection activity: guidance'*. HM Treasury and the Prime Minister's Office of Public Services Reform (OPSR) have jointly developed this guidance, with considerable assistance from colleagues in government departments and inspectorates. We are very grateful for the help and cooperation of departments in preparing this.

In the context of both the Efficiency Review and the Spending Review (SR2004), departments responsible for the main public services subject to inspection will recognize the importance of taking forward analyses using this framework as soon as possible. The results of these analyses will be reported to the recently constituted Cabinet Sub-Committee on Inspection (PSX(I), which is chaired by the Chief Secretary to the Treasury.

In July 2003 the Government published its Policy on Inspection of Public Services together with the report *Inspecting for Improvement: Developing a customer focused approach*. This followed a review of inspection and external review, commissioned jointly by the Cabinet Office and the Treasury, and undertaken by the Prime Minister's Office of Public Services Reform.

The Policy document sets out ten principles for public service inspection. One of the key principles states that *'inspectors should have regard to value for money, their own included'* and that *'inspection itself should be able to demonstrate it delivers benefits commensurate with its cost, including the cost to those inspected'*. This is particularly important in the context of expenditure on inspection of public services having grown from £250 million in 1997 to £550 million in 2002/03.

The Policy is based on the report of the OPSR Review, 'Inspecting for Improvement; developing a Customer Focused Approach' (July 2003). The recommendations in



Chapter 7 of this report provide a clear action plan for government, departments and inspectorates. Specifically, departments were charged with creating efficiencies and effectiveness through 'reviewing the **cost effectiveness** of inspection activity' (Recommendation 7b) and inspectorates with 'developing an **agreed framework for estimating costs** of inspection for inspected services' (Recommendation 9d).

The guidance, which we are distributing with this letter, provides departments with a suggested framework for taking forward work on these recommendations and implementing the Government's policy on inspection. The framework is intended:

- as guidance to assist departments, having been discussed and developed through a workshop held with departments, inspectorates and service providers on 17 October 2003
- to be adapted and used within departments to suit local circumstances, whilst retaining a core methodology, and
- to be applied in such a way as to balance the need for a rigorous and robust approach without adding unduly to administrative burdens.

We are very grateful to those colleagues in inspectorates and departments who have contributed towards the production of this guidance, by attending and presenting at the workshop, and in subsequent discussions.

A new cabinet sub-committee has been constituted under the Chairmanship of the Chief Secretary: PSX (Inspection). This will have oversight of how the overall Policy, and the specific recommendations in the Review report, are being implemented. PSX(I) will be giving particular attention to questions about the resourcing of public service inspection over the next few months. We know that some useful work has already been done, and it is important that further analyses of the cost effectiveness of inspection get underway as soon as possible. We recognize that systematic analyses along the lines of the guidance will need to be carefully planned and conducted, and that analytical work of this nature should not be rushed. However, it is important that PSX(I) is in a position to consider at least the early findings from such analyses, and that such analyses can inform decisions about the resourcing of public service inspection in SR2004.

The guidance can also be viewed on the GSI websites of the [Treasury](#)¹ and [Cabinet Office](#)².

If you have any enquiries concerning the guidance, please contact Jeremy Skinner (020 7270 5482 or jeremy.skinner@hm-treasury.gsi.gov.uk). Copies go to Finance Directors in main departments.

Yours faithfully

Stephen
Stephen Mitchell

¹ http://www.hm-treasury.gsi.gov.uk/psd/delivery_performance/delivery_performance_home.htm

² http://www.cabinet-office.gsi.gov.uk/opsr/customers_1recent.htm