



# **ROLE OF EXTERNAL REVIEW IN IMPROVING PERFORMANCE**

**by Sir Ian Byatt and Sir Michael Lyons**



Public Services Productivity Panel



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# Foreword by the Chief Secretary to the Treasury



This Government is committed to deliver the biggest reform in public services for a half century. To do this leaders need to acquire new ways of looking at what they do, implement new ways to manage their organisations, develop new solutions that provide a 21st century service for the people of this country.

There is a huge amount that is good in our public services, but under investment has run down the infrastructure and the public's expectations have grown. The Government has responded by announcing a large investment in public services. But investment can only work if it levers change.

The Government has set out the key targets for organisations in the Public Service Agreements. These are, and are intended to be, challenging, and we do not underestimate the scale of the change required. I am therefore very grateful to have the Public Services Productivity Panel to advise organisations on how they can meet these expectations, and deliver a better service for the consumer. The Panel members, with their experience of managing large private and public organisations, can bring a fresh perspective.

This second Panel has identified a theme of "securing ownership for performance" throughout the organisation and has been looking at accountability, flexibility to innovate and incentives for delivery.

I am very grateful to Sir Michael Lyons (Director, Institute of Local Government Studies, University of Birmingham) and Sir Ian Byatt (former Director General, OFWAT) for preparing this report. External review of public services has an important part to play in driving up standards, but it needs to be coordinated and proportionate to be effective. This report sets out how to strike the right balance, keeping the focus firmly on making a positive impact on performance.

This is the type of change that organisations will need to consider if real and lasting improvement is to be achieved.

A handwritten signature in black ink that reads "Andrew Smith". The signature is written in a cursive, slightly slanted style.

**Rt Hon. Andrew Smith MP**  
Chief Secretary to the Treasury

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# Role of external review in improving performance

## SUMMARY

1. We recognise that the Government is strongly committed to driving up standards in public services, and that Ministers see inspection as an important tool in that process. Inspection can offer a public assurance role, where there are explicit standards and findings are publicly shared.

2. Well-researched evidence on the effectiveness of different inspection regimes is not available and we believe that there should be **more systematic appraisal of costs and benefits**.

3. There is growing concern about the rising costs of inspectorate regimes and the costs imposed on the inspected, including compliance costs. There are also suggestions that inspection practices can generate perverse outcomes, with the inspected distracted from other key responsibilities.

4. We are concerned that there is not a clear enough link between external review and those responsible for delivering change. We want to emphasise the role of leadership, be it by elected councillors, chief constables, or managers of local authorities, agencies or other public bodies. Future external review activity should recognise these accountabilities and be **designed to support such leadership in effecting change**.

5. We believe there must be a **more rigorous search for evidence of the costs and benefits of regimes of external review**. Primary responsibility for impact assessment should reside with individual external review bodies, but the framework for these assessments should be drawn up by a central government department, which would also monitor implementation. Individual review bodies would then evaluate their own achievements/costs within the agreed framework and report publicly to their sponsoring organisation.

6. In the course of our work we have looked in detail at the current system of Regulatory Impact Assessments, which are used to assess the effects of government policies and regulations on the private and voluntary sectors. It may be appropriate to extend these to public sector institutions, if this can be achieved without a significant increase in bureaucracy or cost. Whatever new arrangements are established for the systematic exploration of costs and benefits, they will need to be linked in due course to a full review of the coherence and appropriateness of external review of all public services.

7. In local government, Best Value has brought new requirements for external review. The original intention to return responsibility for quality and cost effectiveness of services to local authorities<sup>1</sup> is entirely right. However, the first year of operations shows that there is much to be learned about effective implementation: there is evidence of too much fragmentation and duplication of effort. This provides a particular opportunity to refocus.

i. As *Improving Local Services Through Best Value* put it, "it is appropriate that decisions are taken, wherever possible, by locally informed, elected and accountable people...the Government intends to restore fiscal responsibility and accountability to Local Government and to become less involved in the detail of local decision."

8. We are concerned that too frequently inspection under the current arrangements looks at only part of a Council's or Police Authority's work and believe that there are benefits to be secured from a more co-ordinated look at the Council/Police Authority, as a **whole organisation**. We have found support for this principle in our discussions with representatives of Local Government and the Police Service. This more coordinated approach should include better integration of audit and inspection, both organisationally (e.g. within the Audit Commission) and in practice. We advise moving quickly to a system in which external interventions (including reviews and support measures) are driven by a Base Line Inspection. This would be a corporate assessment of strengths and weaknesses to identify which interventions (if any) would most improve performance. We stress that this change can and should be addressed immediately. It does not depend on completion of the impact assessment and review recommended in §5.

9. We believe that, by taking forward these recommendations, the burden of costs imposed on reviewed organisations can be lightened and the focus of external review can be adjusted to increase effectiveness.

10. **Coordination and sharing of learning between inspectorates** has been weak and is becoming increasingly needed. We recognise the steps being undertaken jointly by inspectorates in this area. These need to be built upon quickly. The Audit Commission is the appropriate body to take the lead role. As well as improving the effectiveness, including coordination, of existing inspections, this work will help to develop external review in areas of public policy (e.g. crime and safety; public health) where the focus is not just the whole organisation, but the collaboration between public bodies. A new form of joined up inspection capability is required, though we do not advocate amalgamating inspectorates as the solution.

11. We recognise that we are dealing with a moving picture. Our recommendations are intended as a balanced package. The benefits of taking them forward together are greater than the sum of what they would each produce individually. They do not involve significant institutional change, but rather a development of existing arrangements. **A summary of recommendations appears at the conclusion of this paper.**

## THE PANEL STUDY

12. The Panel project has looked at external review of public sector performance, with the aim of helping to improve its impact on performance. Its scope covers all public services. Fieldwork has focused on examples from local government and the police, leading to some specific recommendations on local government. The remit of the project covers most inspection and performance audit regimes, but excludes financial audit, one-off reviews and the work of the National Audit Office.

13. We do not start from the question “how can external review contribute to improved performance?” Our perspective is rather “how can performance be improved?”, and subsidiary to that “what role should external review play within the system?”

14. The project has involved:

- a preliminary literature review;
- seminars with representatives of local government, the police and inspectors;
- interviews and liaison with stakeholders;
- two research studies into feasibility of improving information on impacts;
- extensive documentary review;
- site visits.

15. We thus have a significant evidence base. It does not, of course, put us in a position to give all the answers on a complex set of questions spanning all public services. In some areas, we have drawn firm conclusions; in others we have set out ideas, but acknowledge the need for further work. We have received evidence and reflections indicating that current inspection arrangements can sometimes represent a burden and can produce perverse results. Equally, we have seen evidence of high levels of satisfaction in some areas.

16. Fieldwork has focused on local government in particular, and also the police. We have looked in most detail at some of the main review bodies in these sectors: the Audit Commission (including the Best Value Inspectorate), the Social Services Inspectorate, HM Inspectorate of Constabulary and the Office for Standards in Education. Our work gives us reason to believe that findings have wider applicability.

## CONTEXT: MODERNISING GOVERNMENT, PUBLIC SERVICE AGREEMENTS AND BEST VALUE

17. In the context of high aspirations for public services, external review provides a potentially valuable incentive for improving performance as well as providing independent assurance on standards. *Modernising Government* demands this dual role for inspection: it recognises that inspection needs to be combined with performance management to achieve the goal of continuous improvement<sup>1</sup>. A key principle is to focus on outcomes, striking the right balance between intervening where services are failing and giving successful organisations the freedom to manage<sup>2</sup>.

18. The role of external review in providing assurance on compliance applies where national service standards have been defined, e.g. relating to schools or social services. There is a role in providing assurance both to the public and to ministers responsible for national standards.

19. Public Service Agreements represent part of a new approach to the accountability of public sector organisations<sup>3</sup>. Where targets for priority objectives are met, the centre will provide greater freedoms to allow service managers to innovate.

20. The introduction of Public Service Agreements at national level means that public services should have their own performance targets flowing from the Public Service Agreements of their sponsoring departments, or from national Public Service Agreements which cut across departmental boundaries.

21. In local government, Public Service Agreements provide a model for establishing a contract between central and local government. A transparent statement of who is responsible for what is critical to better performance. The contract must specify in terms of standards and outcomes the top national priorities which local government is to deliver, and those areas where targets are a matter for local discretion. Clear and secure funding should be set out for each national target and for the area determined by local choice (without restricting local authorities' freedom to allocate resources). With responsibility for outcome targets should go the operational flexibilities to determine how best to deliver them. Recently piloted Local Public Service Agreements are at an early stage of development. When they meet this model effectively they could provide the right framework for assessing how external review can add value.

22. The Best Value system places a duty on local authorities to deliver services to clear standards by the most effective, economic and efficient means available<sup>4</sup>. It was introduced as a means of returning responsibility and accountability for the quality of local services to local authorities. Local authorities are required to undertake performance review of their services and set out targets for improvement in Best Value Performance Plans. External review arrangements, focused on performance, are intended to provide a clear picture to the public and to central government of whether best value is being achieved<sup>5</sup>. The system is now in its second year of implementation and many learning points have come out of the first year.

23. As a result of the work of the Audit Commission, Public Service Agreements and the stimulus provided by new inspection processes and other initiatives, the availability of data on the performance of public services is improving<sup>6</sup>. This itself makes an important contribution to the improvement of those services.

## THE OVERALL IMPACT OF EXTERNAL REVIEW

ii. *Modernising Government* and *Wiring It Up* emphasise the need for public sector organisations to work together to meet national objectives.

24. Each of these aspects (a dual role for review, focus on outcomes, a new approach to accountability, clear priorities for public services, learning from Best Value, better performance data and more joint working)<sup>ii</sup> affects external review. The work external reviewers have been undertaking to adapt to these changing circumstances needs to be developed further.

25. The volume of external review has increased, with the creation of new external review organisations and new responsibilities for existing organisations. Spending on regulation has more than doubled over the past twenty years<sup>7</sup>. Since 1997 the number of inspectors has risen by an estimated 50%<sup>8</sup>. Each type of external review has its own history, objectives, accountability arrangements and approach<sup>9</sup>. With a multiplicity of external reviews, it becomes more important to look at the overall impact, and guard against risks:

- failure to get the most from the system, by not looking at the overall picture;
- duplication of effort;
- excessive cumulative burdens;
- creation of a compliance (rather than performance improvement) culture;
- inconsistency.

Risks vary according to performance levels. External review can stimulate significant performance improvement. However, where inspection finds good performance, what it can add may not outweigh the cost of the inspection process. Where performance is judged poor, repeated reviews may get in the way of measures to improve. Where performance is particularly problematic, the review may lead nowhere if the organisation lacks the ability to respond to findings.

26. There is some evidence that potential risks are beginning to translate into actual problems<sup>10</sup>. Therefore, we recommend that all external review regimes should be subject to a systematic assessment of impact, taking account of recent changes in context. This should set out clearly:

- the rationale for external review and why alternatives were rejected;
- to whom the reviewing organisation is accountable, and for what;
- how the success of the external review will be judged;
- the expected costs, including those imposed on the reviewed organisation;
- the expected benefits and other impacts, including in terms of performance of the reviewed organisation;
- the relationship between the external review and the wider regulatory system, including other reviews.

A net positive, validated impact assessment should be a precondition of any extension of external review. This could be achieved by the extension and adaptation of existing Regulatory Impact Assessments<sup>11</sup> designed to assess the impact of government policies and regulations on the private and voluntary sectors to the public sector. We are, however, eager to ensure that our recommendations do not entail a significant bureaucratic burden or the cost that would be associated with it and are confident that this can be achieved. These impact assessments should be at the level of the system (regime), not that of individual inspections or reviews.

27. Guidance on regulatory impact assessment and economic appraisal exists and needs to be applied to new external review arrangements<sup>12</sup>. To assist with this, to help the analysis of interaction with other external review and to limit the cumulative burden, there should be a central point in government (e.g. located in Cabinet Office or HM Treasury) with oversight of these issues. This small central function should scrutinise these assessments and help to promote consistency and good practice. The central function should lie outside departments with service delivery responsibilities, so that it can take an independent view, recognising that external review will increasingly serve objectives that cut across organisational boundaries. Its effectiveness should be reviewed within two years of its commencing operation.

28. The one-off impact assessment recommended in paragraph 26 would remain valid for as long as there was no major change in policy or environment. In addition, review bodies should be subject to the same requirements to report annually on performance against objectives as other public sector organisations. This should include an assessment of the extent to which expected costs and benefits materialised, and any consequent learning. It should also contain performance indicators reflecting the rationale of the review regime(s) (so that where external review bodies have objectives other than improving the performance of reviewed organisations, a balanced picture of performance is presented). This will assist central government in gauging the overall burdens it imposes on those charged with service delivery, by sector. However, the exact format should not be centrally prescribed; what is appropriate and proportionate will depend on the objectives and circumstances of each external review body (e.g. we do not advocate a full Regulatory Impact Assessment each year).

29. Our review has focused on external review of local government and the police. We believe a full review of the coherence, consistency and appropriateness of audit, regulation and inspection across the public sector is needed. It should look at external review in the context of the wider system of central control and performance management. It should be linked to the production of the one-off impact assessments described above (§26) for each external review regime. These should be developed by the review bodies and their sponsors with guidance and support from a central review team. We are aware that the Select Committee on Public Administration<sup>iii</sup> has called for a similar review.

iii. Seventh report, 28<sup>th</sup> March 2001

30. The cost of the review should be proportionate to the expected benefit. Where substantial prior work exists, new input needed might be minimal. Any other requirements for scrutiny of review bodies should be deferred or covered as part of the full review. We recommend the full review reports by the end of July 2002.

31. Currently, the impact expected from external review is insufficiently clear<sup>13</sup>, and it is not judged in the context of the whole system or of cumulative burdens placed on services. Thus while some areas might benefit from additional review, the risks tend to lie on the other side: that some external review does not repay its full costs. Our recommendations for better impact assessment should reduce overall burdens and help to focus resources where they will have most impact.

## BETTER EVIDENCE

32. Evidence on the effectiveness of inspection is limited<sup>14</sup>. Where the expected impact of inspection and its place in the wider regulatory and control system are clear, the information base should be improved by:

- development of a framework for evaluating external reviews, to be piloted in different sectors;
- analysis of the correlation between inspection verdicts and other performance indicators, and the record of inspection verdicts as predictors of performance;
- the degree of reliability (i.e. extent to which separate, independent inspections of the same organisation would reach the same conclusions) of inspection should be independently tested, in order to assist decision makers in judging the weight to give to inspection findings.

33. We believe this programme should be led by a central department (e.g. Cabinet Office and/or Treasury), in close collaboration with external review bodies, and in consultation with bodies reviewed.

## EXTERNAL REVIEW OF LOCAL GOVERNMENT

iv. Performance review here covers review of economy, efficiency and effectiveness against objectives from the perspective of whether these can be improved. It is contrasted with assurance that (minimum) standards are being met.

### PERFORMANCE IMPROVEMENT AND EXTERNAL REVIEW

34. External review of local authorities is particularly complex because of the range of services provided and the combination of local and national accountabilities. Experience suggests an important factor in performance in particular service areas is the quality of leadership and corporate governance of the authority as a whole. Responsibility for delivery lies with Elected Members, the Chief Executive and the management team, and external review must not get in the way of their ability to lead and take responsibility for decisions. It should not flood them with detailed lists of recommendations at operational level. Nor should an inspection of a particular service in effect pre-empt decisions about priorities between services, negating local public choice.

35. The accountability of local government to deliver the priorities of the local population must never be undermined by review sponsored by central government. Ministers will want to set national standards, which legitimately impose restrictions on local choice (providing this is done openly and funded adequately). Centrally sponsored review can play a part in assessing performance against nationally set objectives. Within this context, however, it should avoid recommendations that inappropriately constrict local choice.

36. Local authorities are currently subject to external review of **performance**<sup>iv</sup> in several ways, including:

- Audit Commission national thematic studies
- Performance aspects of local audit
- Best Value inspections
- Service specific inspections (e.g. Ofsted and SSI inspections).

37. The starting point for Best Value, in making clear the responsibility of local authorities for quality and cost effectiveness of services, is one we endorse. It is an ambitious system that attempts to be comprehensive. The external review element is newer and less well-established than other inspection regimes. Both reviewers and reviewed recognise, following the first year of operation, that there is much to be learned on how the system has been implemented. We believe the difficulty of implementing a comprehensive review mechanism without established benchmarks has been underestimated, and the result has been inspections which are fragmented and which have not always had the intended impact on performance. Moreover there is a risk of duplication. Best Value inspection and audit thus provide a particular opportunity for refocusing of external review in local government.

38. Our starting point is performance improvement (rather than external review). The means by which performance can be improved depends, for example, on the level of performance, an organisation’s internal capacity to improve and the certainty with which blockages have been identified. We believe that an independent, expert corporate assessment of the current position of an organisation, including an element of on site inspection (a Base Line Inspection), can be a keystone for performance improvement. The Audit Commission are undertaking some pilot work on corporate assessment.

	<b>BASE LINE INSPECTION</b>
<b>WHY?</b>	To assess existing standards of performance To assess the organisation’s own perception of its weaknesses To evaluate the strategy and action plan for improvement To evaluate corporate capability to achieve the action plan
<b>WHO?</b>	Multidisciplinary review team drawn from bodies with responsibility for external review of the local authority, led by a Nominated Lead Inspector and with input from a Peer Assessor.
<b>WHEN?</b>	At start of strategic planning cycle (once every 4-5 years)
<b>HOW?</b>	On site visits, review of plans and performance data and stakeholder interviews covering strengths, weaknesses, risk assessment, change management, engagement with users, quality of inter-agency work.
<b>OUTPUTS</b>	Evidence-based recommendations on whether the authority’s plans for performance improvement need any adjustment (including whether additional funding is required or, exceptionally, if external intervention is needed), based on assessment of performance, capacity to improve and strength of risk management. A single recommended Forward External Review Programme for the authority, covering the scale and timing of all planned external performance reviews over the strategic planning cycle.

39. The corporate assessment should be focused on performance improvement. It is not additional to existing external review; it should include a critical assessment of whether any other imposed external review would add value. It should assume less need for imposed inspection:

- the closer the authority appears to be to a high standard of performance against objectives (the less inspection can add);
- the smaller the capacity the authority has to respond to findings (better to build capacity than inspect);
- the greater the certainty there is about how and why performance falls short of the best (better to address issues than inspect).

We believe following these principles should usually lead to a substantially reduced programme of review better focussed where it will most add value. For example, it should inform the public and national government without necessitating detailed inspections of every Best Value Review.

40. Local authority resources which might otherwise have been used on external review could be channelled towards developmental activities. These could include invited external reviews by inspectorates additional to those in the forward programme, but that is for the local authority to decide.

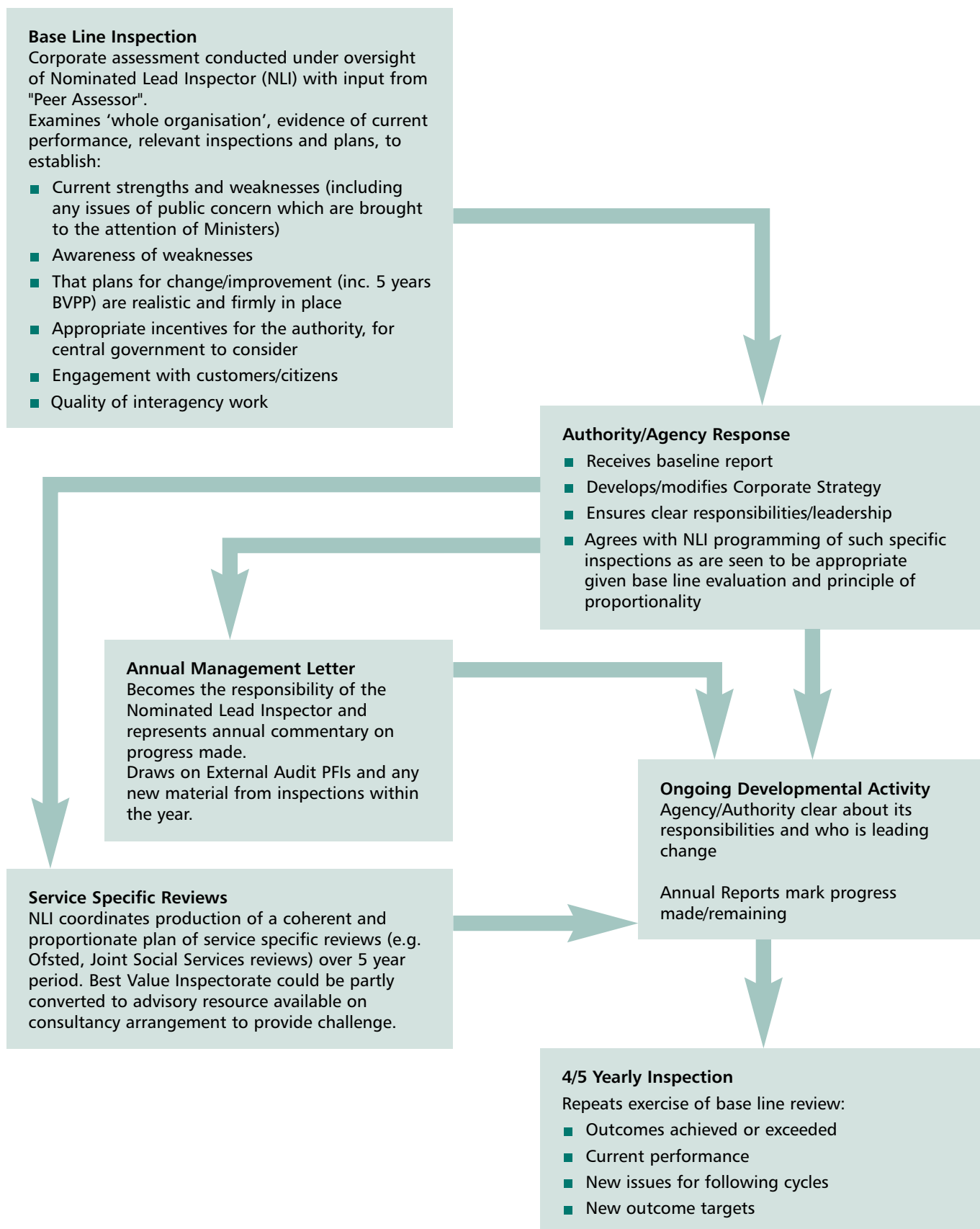
41. Such a system would be effective only if the external review team were of the highest quality, including those with practical experience of delivering change in complex organisations working with many partner agencies. This has implications for the recruitment and training of inspectors.

42. The Lead Inspector should be nominated by the external review bodies, and will need to develop a continuing relationship with the organisation. Lead inspectors should be distributed between different external review bodies, the choice being determined by availability of skilled staff and the circumstances of the local authority.

43. Figure 1 sets out how the Base Line Inspection would drive a cycle of external review.

Figure 1

**WHOLE AUTHORITY/AGENCY INSPECTION**



44. Following the Base Line Inspection, the authority would review both its plans and its capacity to achieve them. This would be expected to lead to a programme of organisational development, capacity building and specific proposals for the improvement of individual services, but would also provide the basis for negotiations with a Nominated Lead Inspector and relevant external review organisations concerning any changes to the proposed Forward External Review Programme. Successful self-development and peer review should be taken into account in judging needs for future external review.

45. During each subsequent year of the cycle, the Annual Management Letter would become the responsibility of the Nominated Lead Inspector. The focus would shift radically towards progress made against performance improvement plans, drawing on evidence from performance indicators, the audit of the Best Value Performance Plan, material from inspections throughout the year and outputs from Best Value Reviews and other developmental activities. Local auditors would contribute from their own knowledge of the organisation.

46. This procedure could, where a fuller review was judged cost ineffective, fulfil the requirement for inspection of Best Value reviews. Where performance varied from expectation, this might lead to adjustments to the Forward External Review Programme.

47. Programmed service specific reviews would continue. At the end of the cycle, a new Base Line Inspection would be undertaken.

48. We recommend this system of Base Line Inspection for all local authorities, both those that are performing well and those starting from more difficult circumstances. Base Line Inspection should itself be proportionate (with a less intensive inspection element where for example outcome indicators and past inspections have been favourable and there is evidence of strong self-review). The focus of external review for the most successful authorities should be shifted towards:

- independent verification of best practice
- identification of exceptional circumstances
- verification that there are no perverse behaviours not picked up by other evidence
- sustainability of progress.

49. A transitional period would be necessary to introduce this system, reflecting the resources available to undertake Base Line Inspections. Where Base Line Inspections had not yet been undertaken, external review bodies ought nevertheless to coordinate to produce a single Forward External Review Programme for authorities.

50. Ministers would need to provide direction for the introduction of the new system and decide the coordinating machinery. A duty should be placed on inspectorates to collaborate in order to deliver the system proposed. The system, including the Forward External Review Programme, would not require any change to existing statutory duties of the various external review bodies, which generally allow considerable discretion as to the scale, scope and timing of external review<sup>15</sup>.

51. There is a need for an agency to lead coordination. We would advise that the Audit Commission should have responsibility for coordinating the new system, including the transition. Such coordination would include administrative support, initiating proposals for development and ensuring appropriate consultation. Consultation would be important to ensure that the expertise of specialist inspectorates is drawn upon in the design and operation of the new regime. Advantages of the Audit Commission taking the coordinating role would be that it covers both audit and inspection, its perspective goes wider than a single sector, it is not tied to a single government department and it has the resources to take on the role. Coordination should be done in such a way as to avoid placing obstacles to wider joined up working (e.g. between local government and the NHS or the Criminal Justice System).

52. Additionally, there is a need for responsibility to be given for advising ministers on whether the system is being implemented effectively.

53. There may well be other improvements possible to the system of external review of local government (e.g. relating to style of review, supply of reviewers). It should thus be included in the scope of the full review and additional research recommended above.

54. The approach to corporate assessment that we are recommending here re-enforces local responsibilities and fits neatly into the government's developing plans for Local Public Service Agreements. Furthermore the approach is entirely in keeping with the type of evaluation which would be needed were the government to follow up the suggestion in the recent Green Paper<sup>16</sup> on local government finance concerning local authority credit ratings.

#### ASSURANCE AND OTHER INSPECTION OBJECTIVES

55. Inspection can be intended to provide **assurance about standards** as well as being a catalyst for improved performance. It can also have other objectives, for example providing information to service users or in support of policy decisions. Changes in the approach to performance inspection would not necessarily affect the need for assurance or other forms of inspection. However, other forms of inspection also impose costs and need to take into account the changing environment. Relevant questions are:

- Does improved performance information (including user surveys) reduce the need for on site inspection or allow for better targeting?
- With more delegation, who is responsible for failure to meet standards?
- How does the impact and likelihood of the risk protected against weigh against costs imposed?

56. Inspections for assurance and other purposes should be programmed in as part of the Forward External Review Programme drawn up as part of the Base Line Inspection, and adjusted annually. This will help coordination of external review.

#### WIDER APPLICATION OF CORPORATE ASSESSMENT

57. We believe that the main elements of model of whole organisation review developed for local government would read across to performance review of other services. These include:

- recognising more clearly the link between the external review process and the leaders who have responsibility for delivering improvement;
- establishing a view of organisational capacity as a base line in choosing the balance between external review and other activity to promote improved performance;
- setting jointly a forward external review programme over the planning cycle.

58. Like local authorities, police authorities and forces area are subject to several separate and distinct inspection and audit processes<sup>17</sup>. Applying the model of external review proposed for local authorities to the police would mean that that external review of performance should be driven by a whole force inspection recognising the responsibility of the Chief Constable to deliver change. Additional performance review, whether focused on a theme or locality, would be justified only where the base line review had identified this as the best means of assisting improved outcomes.

## JOINED UP EXTERNAL REVIEW

59. The system of external review needs to adapt to increased joint working across organisations in order to meet cross-cutting objectives. Review recommendations produced from a single service perspective risk reinforcing obstacles to joint working. A new form of joined up inspection capability is required.

60. Designing more joined up review is a challenge that will require significant effort. It could build on the useful early work being undertaken jointly by inspectorates. Work on models of joined up external review will be of limited value unless there is authority to hold reviewed organisations accountable and bring about any change indicated. We recommend urgent work to improve the focus of external review and develop effective accountability arrangements for cross-cutting objectives. Providing these steps are taken, work on joint inspection should be developed rapidly, and we feel that the Audit Commission is well placed to play the lead role.

61. We consider that amalgamating inspectorates under current circumstances would impose costs of change without a clear pay-off. We do not advocate such a solution.

## QUALITY, SKILLS, STANDARDS

62. Good quality inspection is:

- Focussed (related to clear standards);
- Expert (skilled, informed, challenging);
- Proportional (related to costs and risks);
- Well-Directed (usable by those who will effect change).

Inspectors must, of course, be seen to meet the highest standards of integrity, avoiding any impression of being subject to influence that would compromise their independence.

63. In order to add value, inspectors should be drawn from amongst the most skilled and experienced. We have heard praise of inspectors from Ofsted, the Social Services Inspectorate and HM Inspectorate of Constabulary, with indications that these organisations achieve a degree of respect and credibility. Rapid growth in inspection does, however, seem to be placing strains on the ability to recruit sufficient skilled inspectors, leading to a danger of poor quality inspection and weak inspection processes (box ticking). Moreover there is a danger of extracting too many highly skilled inspectors from service delivery organisations, reducing their ability to effect the very improvements we are seeking from the system.

64. Inspectorates should undertake further work to improve the quality of the inspection process. Our initial work suggests there is growing evidence of what works best in terms of effective inspection and we found both local authorities and the police willing to engage in an open debate about how matters can be improved for the future. It is clear that the inspectorates themselves have engaged in a debate about self-improvement, and we found representatives of the various inspection services concerned to improve cost effectiveness and to get a proper balance in terms of expectations of their work amongst Ministers, the public and the inspected. We therefore believe that there is an excellent opportunity to promote a fuller public debate about what high quality inspection can achieve and how current processes could themselves be improved.

## USER FOCUS

65. External review of performance needs to reflect the vital dimension of service as it appears to the user. It should not be the role of external review to act as an intermediary between service users and service providers or to form an independent view of user priorities. It is the responsibility of providers to seek and respond to the views of users. External reviewers can and should, however, review how effectively service providers fulfil this role. This does not preclude external review including an element of gauging directly user experience of services. The increasing availability of independent surveys of users may in some cases assist external reviewers in this task.

## SUMMARY OF KEY RECOMMENDATIONS

### OUR TWO MAJOR RECOMMENDATIONS FOR IMMEDIATE ACTION ARE:

- A: Ministers should initiate better assessment of the impact of external review.
- B: Ministers should agree the introduction of a more performance-focused system of external review for local authorities driven by a corporate assessment of capacity to deliver. We advise that the Audit Commission should take a coordinating role.

### Additionally we recommend:

- C: The Audit Commission should lead on work to improve the contribution of inspection to joined up government (§60).
- D: Inspectorates should take forward work to improve the quality of the inspection process (§64).

### In more detail:

- A1: There should be a **full review of the role of external review of public services** (§29), in which each external review regime would be subject to a one-off **assessment** setting out how its success will be judged, its expected costs, benefits and other impacts and its place within the wider performance management system (§26). It should cover coherence and consistency across external review regimes and develop a framework to assist future impact assessment (§29).
- A2: All review organisations, in their annual reports, should include **assessments of impact**, learning derived and other performance indicators reflecting the rationale for review (§28).
- A3: A central team should be given responsibility to **promote coherent and proportionate inspection**, coordinating the full review (§29), scrutinising and comparing impact assessments, providing guidance (§27) and leading a research programme to improve evidence on effectiveness of review (§32).
- A4: A net positive, validated **impact assessment should be a precondition of any extension of external review** (§26)
- B1: External review of local government should be driven by periodic **corporate assessment of organisational capacity** to deliver improved performance (Base Line Inspection), and the extent to which any external measures (support, review or intervention) would aid better performance (see Figure 1).
- B2: The Base Line Inspection should cover strengths, weaknesses, risk assessment, change management, engagement with users and quality of interagency work, and should be proportionate (§38).
- B3: A Forward External Review Programme should be drawn up jointly as an output of the Base Line Inspection, taking into account performance, capacity to improve and uncertainty about how to improve (§38).
- B4: The Annual Management Letter would become the responsibility of the corporate assessment's Nominated Lead Inspector, and its focus would shift radically to progress on performance improvement (§45).

## SUPPORTING DOCUMENTATION

The following documents were referred to as background material in the course of the Panel's study. They do not necessarily reflect the views of the Panel. Copies of these documents can be found on the Panel's web site,

<http://www.hm-treasury.gov.uk/pspp>

1. **External Review** P. Vass and G. Simmonds, Centre for the Study of Regulated Industries
2. **A Scoping Exercise on Quantitative Analysis in the Evaluation of External Review of Public Services** NERA
3. **Preliminary Literature Review** HM Treasury
4. **Fieldwork Analysis** Sir Michael Lyons and Adrienne Roberts
5. **Examples of Legislation Governing External Review of Public Services** O. Fashade, Panel Unit
6. **Notes on Performance Management of Inspectorates** O. Fashade, Panel Unit
7. **Public Sector Inspectorates and Review Bodies** Panel Unit

## SUPPORTING NOTES

1. "Inspection has a positive role to play in supporting improvements in services as well as in providing assurance about standards" *Modernising Government: White Paper* (March 1999), p46
2. "On both targets and inspections, we will focus on key outcomes and strike an appropriate balance between intervening where services are failing and giving successful organisations the freedom to manage." *Modernising Government: White Paper* (March 1999), p36
3. "The publication of Public Service Agreements represents a fundamental change in the accountability of government to Parliament and the public." *Public Services for the future: Modernising, Reform, Accountability: HM Treasury* (1998), p8
4. "Best Value will be a duty to deliver services to clear standards - covering both cost and quality - by the most effective economic and efficient means available. In carrying out this duty local authorities will be accountable to local people and have a responsibility to central government in its role as representative of the broader national interest" *Modern Local Government In Touch with the People: DETR White Paper* (July 1998), para 7.2
5. "New audit and inspection arrangements will be needed to give a clear view of whether best value is being obtained. There will be a rigorous external check on the information provided by authorities in local performance plans, and on the management systems that underpin them." *Modern Local Government In Touch with the People: DETR White Paper* (July 1998), para 7.35
6. Among many examples of improved performance information, OFSTED's Performance and Assessment Reports (PANDAs) are issued to schools in England annually as part of the Autumn Package. The reports are designed for use as a management tool to help schools in the development and implementation of plans to raise standards. (see <http://www.ofsted.gov.uk/public/summaries/pandainfo.htm>). Best Value Performance Indicators have been developed to enable local authorities to report performance on Best Value (see <http://www.localregions.detr.gov.uk/bestvalue/indicators/indicatorsindex.htm>).  
For information on Public Service Agreements, see [http://www.hm-treasury.gov.uk/Documents/Public\\_Spending\\_and\\_Services/Public\\_Service\\_Agreements\\_2001-2004/pss\\_psa\\_index.cfm](http://www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/Public_Service_Agreements_2001-2004/pss_psa_index.cfm)

7. An estimate of the growth in direct costs and staffing of regulators of public services up to 1995 can be found in Chapter 2 (see Table 2.3, p 30) of *Regulation Inside Government*, Hood C., Scott C., James O., Jones, G. and Travers, T., Oxford (1999). Appendix II of this publication gives further details of direct costs and staffing. Since 1995, a number of new external review bodies have been created, for example: the Best Value Inspectorate, the Adult Learning Inspectorate, HM Crown Prosecution Service Inspectorate, the Commission for Health Improvement, the National Care Standards Commission, the Housing Inspectorate. The Institute of Public Policy Research estimates the cost of inspecting local government functions in 2000/01 to be £600m (*Delivering Change, Supporting Change*, IPPR (2000)).
8. Estimates are complicated because, for example, of changes in responsibilities and overlap between inspection and other roles. The biggest increases have arisen from the creation of new inspectorates (see preceding note), with existing external review bodies typically having expanded more modestly if at all.
9. For information on status, funding, remit, accountability, objectives and performance indicators for inspectorates, see Supporting Document 6, *Notes on Performance Management of Inspectorates. External Inspection of local government: Driving Improvement or Drowning in detail?* Davis, H., Downe, J. and Martin, S., Joseph Rowntree Foundation (September 2001) details some differing approaches to inspection, on a spectrum broadly characterised as supportive-punitive.
10. For example, supporting document 4, *Fieldwork Analysis* notes that Best Value Inspection has required the same amount of effort without regard to the size or performance of the area being inspected (section A, p2). It also notes evidence of duplication, e.g. in requirements for strategic information (Section B, p3). Equally it notes some evidence of a compliance culture (Section B, p3).  
*An Inspector Calls: A Survey of Local Authorities on the Impact of Inspection*, Local Government Association (March 2001) shows that less than half of inspected authorities felt that inspections had led to improved services for citizens and users, while 96% believed inspections were very resource intensive, i.e. they imposed high costs.

11. A Regulatory Impact Assessment is a policy tool which assesses the impact in terms of costs, benefits and risks of any proposed regulation which could affect businesses, charities or the voluntary sector. Reference: *Good Policy Making, A Guide to Regulatory Impact Unit*, Cabinet Office Regulatory Impact Unit (Jan 1998). See <http://www.cabinet-office.gov.uk/regulation/2000/riaguide/default.htm>.
12. See note 7 above. See also *Appraisal and Evaluation in Central Government*, HM Treasury (1997 <http://www.hm-treasury.gov.uk/mediastore/otherfiles/75.pdf>).
13. "It is clear...that we do not yet have a sufficiently detailed understanding of what the costs and benefits of inspection are." *External Inspection of local government: Driving Improvement or Drowning in detail?* Davis, H., Downe, J. and Martin, S., Joseph Rowntree Foundation (September 2001)
14. "There is very little literature on the burden of regulation and the application of existing methodologies to assessing this burden." *External Review*, Vass, P. and Simmonds, G., Centre for the Study of Regulated Industries (Supporting Document 1) (2001), p17.  

"We are at a very early stage in developing theories to explain why regulation develops and to evaluate the costs and benefits of the activity." Regulation inside government: Public interest justifications and regulatory failures. *Public Administration* 78[2], James, O. (2000), pp327-343.

"Authorities are not generally collating the actual costs of inspection". Supporting Document 4, *Fieldwork Analysis*, Sir Michael Lyons and Adrienne Roberts (August 2001), Section A, p2.

Supporting Document 6, *Notes on Performance Management of Inspectorates*, does not find any examples of reporting by inspectorates on the costs imposed on inspected bodies.
15. See Supporting Document 5, *Examples of Legislation Governing External Review of Public Services*.
16. See *Modernising Local Government Finance: A Green Paper*, DTLR (2001), para 4.2 p21 (See <http://www.local.dtlr.gov.uk/greenpap/greenpap.pdf>).
17. Among external review regimes applying to police forces and authorities are full police force inspections, inspections of individual Basic Command Units (within a police force), Best Value inspections (of a police authority), HM Inspectorate of Constabulary thematic inspections (of police forces), Best Value Performance Plan audits (of the police authority) and Audit Commission National Value for Money studies (of the police authority but normally focusing on force activities).



Further details of the Public Services Productivity Panel, including this and copies of earlier reports and details of work in progress can be found on:

[www.hm-treasury.gov.uk/pspp](http://www.hm-treasury.gov.uk/pspp)

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