Improving Economy, Efficiency and Effectiveness in Local Government in England and Wales

Audit Commission Handbook

Volume II

December 1984
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   Local Authority Profile
   Annex — Grouping of Authorities by Family

2 — Evaluating the Management Arrangements

3 — Identifying Specific Local Improvement Opportunities
   A. Management of Council Housing
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Introduction

1. In November last year, the Audit Commission for Local Authorities in England and Wales (the Commission) published the first volume of a handbook on Economy, Efficiency and Effectiveness. This handbook incorporated a statistical profile for each authority, set out the Commission's views of the appropriate overall management arrangements within local government and described some of the opportunities that appeared available to secure better value for money in further education, the police, refuse collection and purchasing.

2. The Commission's first Annual Report, published recently, records the encouraging progress that has been made since that handbook was issued. This second volume sets out the programme for the audit of the accounts for 1984-5 which will begin in late 1984. It builds on the experience of the last twelve months.

3. The management challenge facing local government has not become any easier in the past year. Indeed, in many respects, the situation has become more difficult. The need for many of the services provided by local authorities is increasing inexorably, fuelled by demographic, economic and social trends which they can do little to influence. Conversely, other trends are reducing the numbers of children coming into care, the number of pupils in secondary education and the number of planning applications. Exhibit 1 shows two of the most significant trends from local government's point of view. At the same time, resources to meet new needs are limited. Central support is being reduced in real terms; and local ratepayers not unnaturally oppose steep increases in their rates, and are encouraged to do so by the government as well as the media. Councils thus face conflicting demands for more and better services, but all at lower or no greater cost to ratepayers. Unless these challenges are tackled effectively, the outlook is bleak: frustrated councils, disillusioned residents and demoralised employees.

Exhibit 1

SELECTED DEMOGRAPHIC TRENDS AFFECTING LOCAL GOVERNMENT
1977-1988, England and Wales

4. Unfortunately, some councils are still not well placed to face these challenges. They are large organisations, with the inertia that often comes with size — total revenue expenditure by local government exceeds £30 billion a year, or over £1,600 per household. While they have a well deserved international reputa-
tion for probity and regularity in conducting their affairs, their financial planning is based mainly on the control of inputs — regulating how much is to be spent on individual services or functions. Some councils are less well equipped to ensure that their resources are being used wisely. Is the council getting what it is paying for? Does the council need to provide all its present services, some of which may well be geared to the needs of an earlier era? Should resources be redeployed to meet new needs and demands (e.g. in secondary education, where pupil numbers are now falling sharply)? Are there more economic ways of delivering the same benefits? Is the council being managed well? These are questions that residents, ratepayers and special interest groups are increasingly asking of authorities — to which, often, there are still no ready answers.

5. One of the aims of the Commission is to help authorities adapt to the changing environment in which they find themselves. This handbook, the second to be produced, describes how it proposes to achieve this aim. It should be read in conjunction with the Commission's Code of Local Government Audit Practice for England and Wales, which prescribes the way in which auditors are to carry out this and their other functions under the Act, and also with the reports published by the Commission over the past year and available from HMSO:

- Bringing Council Tenants' Arrears Under Control
- Reducing the Cost of Local Government Purchases
- Securing Further Improvements in Refuse Collection
- Improving Vehicle Fleet Management in Local Government
- Obtaining Better Value for Money in Education: Aspects of Non-Teaching Costs in Secondary Schools*
- Managing Personal Social Services for the Elderly*

The handbook has been designed for use by members as well as by senior officers and auditors. Each section contains an executive summary, printed on yellow paper, for those who do not wish to read the material in full.

6. The auditors that the Commission appointed to each authority last year will remain its principal means of providing the help appropriate to each local situation. The Commission intends auditors to allocate some 40-50% of their time to reviewing the 'overall arrangements for securing economy, efficiency and effectiveness' in the use of resources, and to undertaking specific value for money (VFM) projects focusing on particular services or costs. Clearly, the amount of time devoted to VFM projects will vary by authority; for example in smaller shire districts, where total auditing time is limited to 60 man-days, there will be less time available for VFM projects than elsewhere.

7. The size and complexity of local government, combined with the differences in local circumstances will mean that auditors must continue to be very selective in the projects they undertake, for the following reasons:

(a) There is a limit to the number of substantial (i.e. 25-40 man-day) VFM projects that can sensibly be undertaken in the course of an audit, given the minimum fee levels that the Commission has established — perhaps one or at most two in a large shire district and three or four in a county or metropolitan district.

(b) The amount of change that any authority can absorb in a relatively short space of time is also restricted. Even if more value for money work could be carried out, serious 'digestion' problems would be likely to arise.

(c) There are many important areas of local government where good practice cannot easily be defined, where the appropriate way to measure economy, efficiency and (particularly) effectiveness is not generally agreed, or where consistent and reliable local information is simply not yet available.

*HMSO will accept standing orders for all Commission publications; these two reports are being prepared for publication in the next 2-3 months.
Auditors must be able to take VFM projects to the point where (assuming that the authority agrees) specific action can follow. Again there is a limit to how much can be achieved with a restricted effort.

Against this background, auditors will be taking four different, but complementary approaches to helping authorities secure improved value for money in the services they deliver, and at the same time discharging their legal obligations. Exhibit 2 overleaf shows how these four sets of initiatives are related to some of an auditor's statutory responsibilities.

8. First, auditors must be concerned for probity and regularity in the way in which the authority conducts its financial affairs and presents its results. This work is an integral part of the duty of auditors 'to satisfy themselves by an examination of the accounts or otherwise that an authority has made proper arrangements for securing economy, efficiency and effectiveness in the management of its affairs (and that these arrangements themselves are effective).'

9. Second, the effort must be focussed on those costs or services where there is potential improvement. Local authorities are too large and the time available to officers and auditors too short to permit effort to be wasted in examining areas where no substantial gains in value for money are likely. A 'profile' has again been prepared for each principal authority, drawing on the most up-to-date and reliable information available centrally. These profiles are designed to help both the authority and the auditor to identify those elements of cost or those services on which attention should be concentrated. Of course, such comparisons only identify questions apparently worth examining; they do not and must not be used to imply any answers. Value for money is not synonymous with economy, still less with cheapness. Local judgements about priorities would always be required. Nonetheless, some basic facts are necessary if members are to reach informed judgements. The first section of this handbook includes a profile for the authority and some relevant comparisons using the latest available information. This updates the profile issued last year and reflects the many constructive comments received from authorities on the first edition.

10. Third, the arrangements for securing economy, efficiency and effectiveness in each authority will be reviewed annually as part of the audit. Improved value for money can only be secured by the concerted action of members and officers. It cannot be pursued independently. It is invariably the result of changes in the way the organisation works. The Commission's experience over the past year confirms that the broad characteristics of good management practice can be defined and that authorities with more of these characteristics tend to perform better than those with less. The second section of this handbook outlines the kind of overall management arrangements that the Commission believes are consistent with achievement of economy, efficiency and effectiveness, and for which its auditors will be looking. Exhibit 3 overleaf summarises the main differences in management arrangements that have proved necessary to enable authorities to deal with the challenges of an era of limits. These arrangements are not theoretical or academic: they have been shown over the past 12 months to apply to the best of local government in Britain today.
Exhibit 2
Arrangements for securing economy, efficiency and effectiveness
THE AUDIT APPROACH

REGULARITY WORK
- Arrears/Debit Control
- Cash Management
- Payments
- Budgets/Accounts/Controls
- Balance Sheets
- Returns

SPECIAL STUDIES
- Specific Topics
- Methods

PROFILES
- Staffing
- Costs/Income
- Inputs
- Comparisons
- Trends

THE AUTHORITY - FINANCE, SYSTEMS SERVICES AND OVERALL ARRANGEMENTS FOR VFM

OVERALL ARRANGEMENTS
- Use questions and interviews to highlight areas for examination
- Vision
- Structure
- Systems
- Staffing-Skills
- Style
- Key Issues
- Capital Programme
- Revenue Plans
- Service Indications
- Committee Officer
- Budgets Personnel
- Computers/ New Technology
- Training
- Turnover
- Trends
- Overtime, Bonus
- Member/ Officer Relations
- Commitment
- "Feel"
Exhibit 3  Local Government — Strategic Eras

<table>
<thead>
<tr>
<th></th>
<th>1945-75: Meeting rising expectations</th>
<th>1975-: Adjusting to an era of limits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td>Growth “Bigger is better”</td>
<td>Redeployment “Small is beautiful”</td>
</tr>
<tr>
<td><strong>Structure</strong></td>
<td>Centralised</td>
<td>Decentralised</td>
</tr>
<tr>
<td><strong>Key systems</strong></td>
<td>Allocation of extra resources</td>
<td>Strategic planning and control</td>
</tr>
<tr>
<td><strong>Key skills</strong></td>
<td>Professional</td>
<td>General management and technical</td>
</tr>
<tr>
<td><strong>Style</strong></td>
<td>Bureaucratic</td>
<td>Managerial</td>
</tr>
<tr>
<td></td>
<td>Risk averse</td>
<td>Experimental</td>
</tr>
<tr>
<td><strong>Staff</strong></td>
<td>Heavy central overhead</td>
<td>Lean central overhead</td>
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<tr>
<td></td>
<td></td>
<td>Intensive use of information technology</td>
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</tbody>
</table>

11. Fourth, specific opportunities for action must be identified in local services or functions. It will not be sufficient for auditors to concentrate exclusively on reviewing authorities’ management systems, important though these are. They must also be able to generate practical recommendations to improve value for money in individual services or functions. Fortunately, there is considerable experience to draw on, most notably from individual authorities. The Commission has again identified a limited number of costs or services to be looked at in every relevant authority. These are summarised in the table below.

Table 1: Value for Money Projects 1985 and 1986

<table>
<thead>
<tr>
<th>1985 (summarised here)</th>
<th>1986 (now planned)</th>
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<tbody>
<tr>
<td>Vehicle Fleet Management</td>
<td>Cash Management</td>
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<td>Non-Teaching Costs in Secondary Schools</td>
<td>Teaching Costs</td>
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<td>Social Services — Children in Care</td>
<td>Social Services</td>
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<tr>
<td>— The Elderly</td>
<td>— Mentally Handicapped</td>
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<td>Housing Management (part)</td>
<td>— Fieldwork</td>
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<td>Housing Maintenance (part)</td>
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<td></td>
<td>Housing Management (balance)</td>
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<td></td>
<td>Purchasing — Part II</td>
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<td></td>
<td>Energy</td>
</tr>
</tbody>
</table>

The third section of the handbook describes some of the opportunities to improve value for money in the four main services to be examined during the coming audit round. In total, these services represent around £6 billion of annual gross expenditure by local authorities, approximately 20% of the total. The special studies carried out by the Commission suggest that improvements worth up to £400 million a year at current prices could eventually be available without any necessary reduction in standards of service. The purpose of the VFM projects will be, as it was with last year’s successful efforts, to identify the scale of the potential in each authority and to agree on an appropriate local action programme. In addition to these four topics, auditors will also be reviewing aspects of the fire service, and initiating a study of computer management in local authorities.

12. The Commission does not intend these topics to pre-empt all the time available for value for money projects at the local level. In larger authorities there is scope within the agreed fee levels for auditors to be able to respond to local needs and priorities. Of course it is always open to any authority to agree to more audit time than the minimum established by the Commission.
13. This handbook is intended as background reading to the current audit round; but it also has the purpose of stimulating action, not just on the specific VFM projects, but on improving management generally. Sufficient copies are available to enable distribution of four copies to shire districts and six copies for all other principal authorities. The Commission's intention is that a copy should be made available to the Leader, Chief Executive, and the Treasurer of each authority, and they in turn will be free to decide how to distribute the additional copy/copies to the appropriate departments. Equally, they are free to distribute it in whole or in part as widely within the authority as they think fit. Additional copies of this document are available from the Commission's Bristol office: St Lawrence House, 29-31 Broad Street, Bristol BS1 2EX, at a cost of £10 per copy.

14. Any comments on the contents of this handbook, and particularly on the section on overall management arrangements and how these are to be applied, will be gratefully received — especially if they contain some constructive suggestions for improvement, as did many of the comments made on Volume I. They should be addressed directly to Peter Brokenshire, Director of Management Practice, Audit Commission, 1 Vincent Square, London SW1P 2PN. (Telephone No. 01-828-1212).
2 Evaluating Overall Arrangements for Securing Economy, Efficiency and Effectiveness

1. The Code of Local Government Audit Practice approved by Parliament requires each auditor to verify independently that authorities have suitable arrangements in place to ensure economy, efficiency and effectiveness in their use of resources.

2. The Commission recognises that individual value for money projects concentrating on selected services or costs will not provide the necessary broad overview of the management arrangements — though they will provide evidence (positive and negative) about their effectiveness. A framework is required to enable auditors (and, more importantly, authorities) to consider the overall effectiveness of councils in managing their resources.

3. This part of the handbook provides such a framework. It is derived from the best current thinking on organisation design in the private sector; and it reflects as well the experience of leading local authorities. The framework, and the attached questionnaire in particular, is designed to prompt constructive questioning. Authorities should be able to judge for themselves whether changes in their management arrangements are likely to be helpful. The framework has been field tested over the past 12 months. In general, it has stood up remarkably well provided (and the proviso is important) that authorities and auditors view the arrangements within the context provided by the regularity work, profiles and individual value for money projects.

4. This chapter discusses in turn the characteristics of well managed authorities, covering all the main elements of organisation effectiveness which need to be managed both to reinforce each other and to reflect a council's political priorities: (i) Vision: what the authority is seeking to be or to achieve. (ii) Strategy: how this vision is to be translated into reality. (iii) Structure: the way the authority — its members, officers and staff — is organised to implement the strategy. (iv) Systems: the way in which the people in the organisation plan, decide, control and monitor day-to-day actions as well as longer term progress. (v) Staffing and Skills: the way in which the critical resource in every authority — people — is acquired, trained, deployed, motivated and rewarded. (vi) Style: the ‘way we do things’ and the way members, officers and employees relate to each other and to those they are there to serve.

The framework is intended to be no more than a guide to authorities and their auditors, to ensure that the right questions about the management arrangements are asked — and answered — regularly. The questionnaire is not a report card, to be published. Rather it prompts a series of standard questions, to help those concerned to identify the local problems (and opportunities) that need to be tackled.

5. As was the case this year, the Commission does not expect its auditors to issue public reports on the overall management arrangements unless there are serious problems that would call for a report in the public interest in any event. Neither the Local Government Finance Act 1982 nor the Commission's Code of Practice requires such a report — though auditors may well have comments to make informally or in their management letters and they must be prepared to
respond to objections that the authority has not made appropriate overall arrange-
ments.

6. This gradualist approach reflects both the need for a longer term perspective on overall arrangements as well as a recognition that change takes time and must be phased carefully. It also reflects limited audit resources. Particularly in smaller shire districts, auditors will simply lack the time to carry out a comprehensive review every year in addition to their other responsibilities. (However, in such cases it is of course open to the authority to agree additional audit expenditure, if this appears warranted.)

7. Therefore, the Commission's main purpose in again providing this frame-
work now is to underline what it means and understands by sound management arrangements in the local government context. As with all the Commission's work, it is concerned both to stimulate councils to act on their own account, and to identify and disseminate good practice.
6. Economy, efficiency and effectiveness do not just happen. In almost every situation, changes — often uncomfortable changes, involving people doing things differently — will be involved. Those organisations in the public and private sectors which have been most successful in securing beneficial change have created an environment that thrives on challenge and change, by managing the following elements in such a way as to reinforce each other.

(i) **Vision**: what the authority is seeking to be or to achieve.
(ii) **Strategy**: how this vision is to be translated into reality.
(iii) **Structure**: the way the authority — its members and staff — is organised to implement the strategy.
(iv) **Systems**: the way in which the people in the organisation plan, decide, control and monitor day-to-day actions as well as longer term progress.
(v) **Staffing and Skills**: the way in which the critical resource in every authority — people — is acquired, trained, deployed, motivated and rewarded.
(vi) **Style**: the ‘way we do things’ and the way members, officers and employees relate to each other and to those they are there to serve.

7. Sometimes the steps required are carefully thought out in advance; in others they are taken by leaders, almost instinctively. The sections that follow describe, under each of these headings, what appear to be characteristics of well managed authorities. All the arrangements described are in successful operation somewhere, often in many different places; none are mutually incompatible; no single authority probably has them all — although a number come close. The attachment to this section provides a framework for self-assessment to help members and officers, as well as the auditor, to evaluate the local arrangements. It provides some of the leading indicators that an auditor can reasonably accept as evidence that ‘good practice’ arrangements are in place and working effectively. Members of authorities who can answer ‘yes’ to most of those questions are likely to promote value for money — though not necessarily at lowest cost of course.

8. Those authorities that fall well short of the good practice implied by the various questions in the attachment have serious grounds for concern. Management is not an end in itself, but a means to enable authorities to change. And change, however uncomfortable, cannot be avoided. Councils must meet new demands and different needs with less central government support than they have had in the past — in real terms, and as a proportion of their total expenditure. This challenge cannot even be faced, still less overcome, unless sound arrangements are in place for managing the complex range of services and functions which local authorities provide.

9. Councils must come to terms with the possibility — indeed the likelihood — of a future of no real growth in resources with which to meet changing needs and new demands from local residents. Whether the Commission approves of this situation or deplores it is beside the point. *Managing Better with Less*, the theme of a recent Society of Local Authority Chief Executives (SOLACE) conference is the challenge facing local government in the 1980s.

10. Hence this framework. Its main purpose is to ensure that the right questions are asked regularly — rather than to suggest particular answers to specific local situations. It should not be used in isolation. It is to be set in the overall context of the local situation which will be familiar to those who will be using it, and reflected in information such as that provided in the *Profile* included in the preceding section of this handbook. It should also be considered in conjunction with evidence arising from particular value for money studies and other detailed examinations of particular aspects of a council’s operations. In other words, the framework should be regarded as a working tool — *not* as a report card, to be published.

11. The framework represents a first step. The Audit Commission will be publishing detailed descriptions of the way the arrangements implied by the framework operate in practice in successful local authorities. The Commission will
be approaching the Local Government Training Board and institutions such as the
Institute of Local Government Studies and the School of Advanced Urban Studies
with close connections to local government, to work with them in meeting the
training needs implied by the managerial challenges facing individual councils;
and it will continue to seek to work closely with the professional bodies connected
with local government.

12. The Commission has drawn on many sources to prepare this material. In
particular, SOLACE, the Society of Chief Personnel Officers in Local Govern­
ment, the District Auditors' Society, the Chartered Institute for Public Finance and
Accountancy, the experience and publications of leading academics, management
consultants and firms of accountants active in the local government field in the
United Kingdom and North America have been drawn upon extensively. Most
important of all, however, the Commission has found the practical experience of
authorities — members and their officers — and their auditors invaluable. This in
itself is a heartening confirmation that the Commission's own strategy of helping to
transfer good practice from one authority to another is soundly based.

13. Any successful organisation, especially one involving political choice and
action affecting the general public, requires some guiding concept — a set of values
and aspirations. In the case of local authorities, clear communication of what
broadly the council hopes to achieve is a necessary, if not sufficient, condition for
securing beneficial change. This is scarcely surprising. Most councils are very large
organisations. Even a small district employs over 500 people, and would therefore
be among the 1,000 largest industrial concerns in the United Kingdom; and a
medium-size county employs over 20,000 people, which would place it well within
the top 100 companies in the country in terms of employment. The problems of
communicating effectively to all employees are clearly immense; yet without such
communication, the prospects for constructive action are poor.

14. In some cases, the vision of what the council is seeking to achieve forms part
of the manifesto presented to the local electorate at the council election. But in
many cases, councils have been reluctant to accept the risks inherent in setting out,
explicitly, a philosophy of 'what we are about and how we want to change' with
which people can disagree, and priorities — among clients and services — which by
definition favour some interests at the expense of others. While clarity of purpose
may be difficult to achieve in a democracy (and may lead to a polarisation of oppo­
sition), without it an authority loses its sense of direction and becomes ineffective.
This leads to inefficient management. Members blame officers for lack of achieve­
ment, and officers complain of lack of direction. Energies that might be channelled
into managing change can be dissipated into mutual recrimination.

15. The Commission believes that some explicit vision of the future is essential
to translate any council’s political intention into action. Any statement of vision, to
be useful, needs to meet the following conditions:
(a) It must be based on a set of ideas not only about what the council aims to
become, but how these aims are to be achieved. It must therefore be related
to an awareness of the local and national environment and the resources
that are likely to be available.
(b) It must be consistently supported by leading members and chief officers in
their day-to-day decisions and actions, as well as on public platforms and
in interviews.
(c) It must be reassessed and readjusted in light of the changing environment
facing the council. Political, social, economic and legislative develop­
ments all present authorities with new challenges. These may require some
shift in the overall direction in which the council is moving.
(d) Despite this it must be sufficiently robust to be pursued persistently for a
number of years. Order, counter-order and disorder are the all too familiar
results of over-frequent changes in vision. But this need not be one of the
inevitable costs of democracy.
16. As with all large and complex organisations, it is difficult and usually costly for councils to achieve significant changes in direction in under 12 months. In many cases the lead time, e.g. to complete capital projects, change manning levels and so forth is considerably longer. The arrangements for securing economy, efficiency and effectiveness must therefore include a method for the council to choose how it is going to allocate the available resources over the longer term, and to be sure that its choices are implemented by its officers. The vehicle for making these choices is a strategic planning process, the outcome of which is strategy. The term can be defined as 'those major initiatives that a council proposes to take in response to, or in anticipation of, changes in its external environment — social, political, economic and/or technical — to achieve its vision of what it is trying to do or become'. Any strategy, whether implicit or explicit, requires a council to decide such questions as:

(a) The services to be provided, over and above those that the authority is statutorily obliged to provide.

(b) The standard of the service to be provided in each case. (In both (a) and (b) a questioning of underlying assumptions may lead to changes.)

(c) The priorities among different groups of clients or services; where choices are unavoidable, in whose favour has the council decided.

(d) The way services are to be funded — the extent to which gross expenditure is to be met by ratepayers, the users of services, raising debt or improving asset utilisation.

(e) The staffing and support functions required to implement it.

17. The existence of such a strategy is, in itself, of little use unless it is communicated directly to all committee chairmen and their chief officers and through them to their immediate subordinates and thence to the workforce. Obviously, the content of such a strategy document is for the council; it might be selective or all embracing and its format will also depend on local circumstances. However it will need to be more than just a set of financial and staffing projections — strategic thinking is not synonymous with vain attempts to predict an increasingly uncertain future. The process will need to provide a multi-year perspective, and cover:

(a) The perceived needs of the area in terms of physical development as well as new and/or different services — taking into account economic, social and financial demands or constraints.

(b) The main changes in service, client or management priorities that the council plans over the next few years.

(c) The standards of service to be provided. The document should set out how the council (and, by implication, the public) should evaluate the performance of each of the services in question. Service standards should, wherever possible, be defined in terms of the results to be achieved, or at least in terms of what might be termed intermediate outputs — rather than in purely input terms.

(d) Planned allocation of resources (manpower and revenue expenditure) to major services, with a variance analysis showing how much of the difference from current expenditure is due to such factors as volume of demand, inflation, productivity changes, new service standards required by central government, new services or improved standards required to implement council policies and priorities.

(e) Planned capital expenditure. The document should identify separately those projects and expenditures which are already committed and those which have been newly approved.

(f) The planned source and application of funds showing the critical assumptions about developments outside its direct control that the council has made on such things as the level of central government support, local wage and cost inflation, and identifying the main risks involved.
(g) Contingency plans, setting out the proposed reaction to unfavourable developments — i.e. steps taken if any of the risks should eventuate. This is a key issue in times of uncertainty and change.

18. In view of the importance of communicating priorities to their own staff as well as to the electorate, some councils take positive steps to bring their strategy (or a summary of it) and its policy and political implications, directly to the attention of senior officers, employees, as well as the local electorate.

19. Finally, strategies need to be subject to regular review — to be sure that they remain relevant to the circumstances of the authority, take account of shifting political priorities and emerging local needs and demands as well as technical developments and professional thinking (e.g. on the most appropriate way to meet particular client needs). These reviews should build on the policy review system discussed below. They should not simply cover the allocation of additional resources (or cuts); rather they should provide an opportunity to re-examine the continued appropriateness of all expenditure under the council’s control.

20. Structure divides the tasks to be undertaken by an organisation and then secures any necessary co-ordination. It balances specialisation and integration, the advantages of scale and control through centralisation, and those of motivation, responsiveness and experimentation through decentralisation. There is no ‘correct’ organisation structure for any individual authority, though there are some well established management principles which remain valid in most circumstances: one man/one boss, grouping of like activities, commensurate authority and responsibility.

21. Besides these general rules of organisational design which apply as well to local authorities as they do other organisations, structure should follow strategy. An inappropriate structure can frustrate a council’s strategic intentions, as priorities and concerns shift. Whatever the council’s strategy, however, there are some other structural characteristics that have proved conducive to economy, efficiency and effectiveness in the use of a council’s resources:

(a) Simplicity. In general, the fewer committees (or sub-committees) and organisational layers within a council’s executive decision-making structure, the better from the standpoint of securing value for money. Simplicity can be made compatible with the complexity of the tasks facing local government.

(b) Alignment of the committee and management structures, so that members and senior officers of the council can work effectively together and jointly ‘own’ the direction of the service or the management of the function in question.

(c) A recognition also that committees have service and corporate responsibilities, and that these may need to be reconciled in achieving the council’s strategy. Policy committees and the council have to exert and ‘own’ their role too.

(d) Clear assignment of responsibility for the management of each major service and cost, to committees and to officers. This implies that there should be minimum overlap either horizontally (i.e. two departments involved in the same activity) or vertically (i.e. superiors duplicating the work of their subordinates), so that responsibility is not blurred or confused.

(e) Individual accountability for results. Budgets should be linked to recognisable cost centres, with managers being held accountable for achieving the agreed service standards within budgeted costs. This implies that within their assigned areas of responsibility and subject to service standards, managers should have the authority to:
- balance cost and quality
— plan for output and results, as well as resource inputs
— have a major say in recruitment, deployment, motivation and advance-
ment of people
— cover the whole cycle of planning, controlling, evaluating and review-
ing the services for which they are accountable
— ensure that the necessary support services are applied to achieve what
they (the line managers) are accountable for, and that these support
services themselves are efficient.

22. Management systems — the procedures that make an organisation work
day-to-day, year-by-year — are perhaps the single most important influence on the
overall effectiveness of an organisation. Changes in systems can often enhance an
organisation's effectiveness without the disruptive side effects that so often follow
from structural shifts — because they make individuals more productive, changing
the way they view their job. Systems are particularly important and make a systems
approach to audit especially appropriate in local government. In particular,
 improvements in economy, efficiency and effectiveness within local government
are likely to be difficult without effective systems within individual councils for:
(i) Reviewing the objectives and the effectiveness of existing services in the
light of changing circumstances.
(ii) Planning the allocation of resources and assigning performance objectives
to individual services and managers.
(iii) Monitoring performance, so that all those with a legitimate interest in the
performance of a council and its constituent services can see whether
progress is being made in the desired direction.

The rest of this section discusses each of these systems in turn.

23. Every major service or function within a local authority needs to be
reviewed regularly and systematically in depth — not necessarily as part of the
annual budget cycle — to question its purpose, relevance and efficiency. The scope
and timing of policy reviews will vary from authority to authority, but they should
always address the following issues:
(a) The continued validity of certain services in relation to a changed environ-
ment — should the service continue to be provided, at the present
standard?
(b) The service assumptions that are made at present — are these still realistic,
are there better alternative methods of service delivery?
(c) Trends in performance against the council's (non-financial) objectives. 
These should define the results to be achieved by the service as well as the
resources to be used and the key management actions to be undertaken.
(d) Comparisons with other similar authorities and (where appropriate) with
other organisations providing a similar service — taking the full costs into
account (including any associated overhead costs). Of course com-
parisons do not provide any definitive answers; but they can serve to
identify areas where further probing is required.
(e) Comparisons between similar functions or similar types of establishment
within an authority.
(f) Good practice as it is reported in professional journals and elsewhere.
Unlike the commercial world, there is much less reluctance within local
government to share successful experience. Policy review programmes
should take full advantage of this asset.
(g) Utilisation of scarce or expensive resources — both physical resources —
such as manpower, land, buildings and energy — and the financial
resources tied up for example in stocks and overdue accounts.
(h) The impact of changes in technology on the service. One mark of a well-managed authority is a willingness to exploit the new opportunities presented by technological development, e.g. in distributed data processing, to improve services and/or reduce costs.

(i) Opportunities to reduce overheads (or administrative support) without adversely affecting service standards.

24. The committee and the responsible managers should see that the performance of their service is kept under regular review — and that different ways of providing equivalent services are constantly examined and any necessary changes in direction initiated. Policy review cannot sensibly be divorced from overall management responsibility. Indeed, it lies at the heart of the whole management process. The questioning philosophy behind (a) to (i) above and the search for better ways of doing things is part of the way of life within successful authorities.

25. The council's strategy must ultimately be reflected in the allocation of resources to committees and their departments, with a concomitant acceptance on their part that the agreed objectives and results will be achieved. These decisions are usually incorporated into plans and budgets which in a well-managed authority might include:

(i) A Medium-Term Plan or Strategy (previously referred to) which summarises the changes in resources allocated to different services and functions that the council is planning to achieve. This plan should usually contain some non-financial performance objectives for each service as well as an overview of the planned allocation (again by service) of revenue, capital and manpower.

(ii) An Annual Plan which summarises for the council as a whole and for each major committee and service:
— the specific objectives to be achieved during the course of the year
— the timetable for major items to be presented to committee and performance milestones against which the management will be evaluated
— resources (people, revenue and capital) to be allocated for the year
— the results expected, at least in terms of workload and performance standards (if information on outputs, unit costs and efficiency is not available).

(iii) An Annual Budget which breaks down total income, expenditure and cash flow for the council as a whole into revenue and cost headings under the control of individual managers responsible for achieving them, and phases the revenue and budgeted expenditure over monthly or 4-weekly periods of the financial year. Value for money is likely to be enhanced if financial information is presented in a form that highlights subsidies and leads to greater accountability and where the budget holders are relatively close to the work involved. The more remote budget holders are from the level at which services are actually delivered to clients, the less likely it is that they will be able to secure improvements in value for money — for it is at the operating level that the critical ‘trade off’ decisions between cost and quality need to be made on a day-to-day basis.

26. Performance needs to be monitored at many different levels. The local public (ratepayers, taxpayers and clients) all have a legitimate interest in the council's performance. The council and its central committees will be concerned with progress towards the strategic objectives. Service committees will require details of the performance against plan and budget of the service for which they are responsible. Individual managers will need to monitor performance against their plans and budgets in order to identify the need for any corrective action before it is too late.

27. This hierarchy of different monitoring needs can best be met by a pyramid of reports, each building on the one below and comparing actual performance with...
the agreed annual plan budget and identifying the major reasons for any differences. Each authority will need to decide how to address its own needs and which parts of its structure are appropriate to receive which reports. Such reports might include the following:

(i) **Weekly cash flow** reports showing the state of the council balances at the close of business each week.

(ii) **Regular reports** during the year for all budget holders and committees showing actual against budgeted income, expenditure and staffing against all the main headings in the original budget, and where feasible, the changing relationship between expenditure levels and service performance achieved.

(iii) **Regular operations reports** presented by the chief officer responsible for each service. These reports might provide:
- a narrative account of any changes or developments during the period in question
- details of service delivery and demand against the original performance targets
- the use of resources (revenue, capital and manpower) again compared with budget, with the reasons for any variances.

(iv) **Annual reviews** of the service performance for each department. These reviews set out an annual assessment of performance and achieved workload by each department compared with the plan and budget — and identify the main strategic issues to be addressed in next year's planning round.

(v) **Annual reports** to be made available to the council and eventually the general public in effect showing how the council has discharged its stewardship for public resources and services. In addition to the statutory requirements, such a report might provide an overview of the situation, including:
- an outline of the council's organisation and finances
- a review of expenditure and performance levels compared with other similar authorities and the private sector (where such comparisons are appropriate)
- a summary of the services being provided with year on year trends so that productivity and other improvements can be assessed
- an overview of performance objectives for the following year.

28. Perhaps the single greatest handicap to securing improved value for money within many local authorities is what might be termed management style or the prevailing culture of the organisation. Time and again possibilities are blocked — or slowed down — by cultural constraints. Some will say that a coherent style cannot be developed within authorities because of recent mergers, and because people move from authority to authority. Others will argue that local government is an entity with its own national training and professional organisations who should and do address this issue. However, the task of achieving a unified approach to problems and processes within an individual authority is especially challenging and needs to be addressed.

29. Members and officers should recognise the importance of style, and the need to manage the way the top management team (members and officers) comes across to the organisation. Organisations may listen to what managers say; but they believe what managers do. It is not words, but patterns of action that are decisive. So the power of style can be managed — by the way members and chief officers reinforce the things that are important. For example, senior members and chief officers of authorities that have created a style compatible with securing improved value for money often take specific steps — often planned, but sometimes not — to:

(a) Create an open, outward-looking, problem-solving climate throughout the
organisation; and emphasise the need for experimentation and change, to keep pace with the council's changing requirements.

(b) Locate decision-making and problem-solving responsibilities as close to the source of information as possible.

(c) Build trust among individuals and groups throughout the organisation, making competition more relevant to work goals and managing the inevitable conflicts constructively.

(d) Increase the sense of 'ownership' of the organisation's objectives throughout the work force, securing participation in decision-making and planning and sharing information.

(e) Value the development of employees as people, encouraging greater degrees of commitment and responsibility.

(f) Reinforce throughout the organisation a commitment to serving the public, so that responsiveness is built in to the way individuals view their personal responsibilities.

Such steps are part of the responsibilities of leadership of any organisation.

30. Organisations facing major discontinuities must do more than adopt a new strategy or change the organisation structure and systems. They often need to develop new skills or recruit different people in just the same way as they acquire and develop capital assets. Improvements in economy, efficiency and effectiveness are most likely where:

(a) Individual responsibilities of chief officers, managers and principal officers have been geared to the achievement of key tasks and relevant results are reviewed as necessary with the members concerned.

(b) Performance and results are assessed annually against the agreed targets, and specific training and development needs clearly identified.

(c) Systems of rewarding individuals — by financial and other means — are introduced which recognise both the achievement of the organisation's mission (i.e. the economic provision of services) and also the development of the people that make up the organisation. Frequently a simple thank you is the cheapest and most effective reward for outstanding performance.

(d) The need for general management skills as well as professional competence has been recognised and rewarded; and steps have been taken to provide the necessary training, and the personal development, career and succession planning that managers need in order to be able to accept accountability on the job.

(e) All reporting officers have been trained in personnel counselling, so that the authority is in a position to promote career development actively and thus to 'grow its own timber' rather than importing managers from elsewhere; and opportunities for early promotion have been made available to those showing particular promise.

(f) Significant investments have been made in training both on and off the job to help officers and members carry their management and policy responsibilities successfully.

31. The attachment to this section sets out a framework for self-assessment for the use of members and officers as well as their auditors. It should enable them to determine whether appropriate arrangements are indeed in place for 'securing economy, efficiency and effectiveness in its use of resources'.

As was stated earlier, this framework is not intended to be used in isolation. It is intended to prompt constructive questioning and to help members and officers as well as their auditors to view the local situation in a new light. It does not imply anything about local service priorities or service standards; it deals only with how a council's policies are translated into action. It must be applied with a close (and
sensitive) understanding of local circumstances, personalities and traditions. The Audit Commission would be glad to receive any comments on the memorandum or the framework. They should be addressed to: Mr. Peter Brokenshire, at 1 Vincent Square, London SW1.
Indicators of Sound Overall Arrangements for Securing Economy, Efficiency and Effectiveness: A Framework for Self-Assessment

**Vision**

1. Is there any statement of the significant changes (in services or the way the authority is managed) that the council expects over the next few years?

2. Is there any summary statement of the aims of each major council service?

3. Is there a commitment by top management — at least down to third tier — to achieving these aims; and can they state their impact on their own jobs?

If you ask the Leader, the Chief Executive, or the Chief Officer: “What are you trying to achieve?” what do they say? Could you restate it in meaningful terms to local electors?

Is there a manifesto? Is there a Policy Statement that is issued annually? Do such statements appear in the annual report of the authority? If there is no such statement for all services, is it done for some, and is this likely to be extended? Does the Leader in his annual budget speech make comments on what the authority is wishing to achieve in the years ahead and is this reflected in any subsequent strategy document? Is there a ‘Key Issue’ report, or its equivalent? Are these matters related to resources and therefore practical?

If there are such statements, can they be related to a service or a department? As a result, can the impact on such departments be seen and thus can a commitment by those departments to implementation be demonstrated? The existence of such an approach, or if it is non-existent, should be readily observable.

For example:
- Do objectives feature in regular management meetings? Are they meaningful and practical?
- Can officers point to steps not taken as a result of council vision?
- Do chief officers and their reports say the same kind of things as (1) above?
- Are activities started and then stopped as a result of no policy direction?

**Strategy**

4. Is there a strategic planning process for implementing the vision, covering more than two years? If so, does it cover:

If there is such a process, then there should be a strategy document for the authority as a whole or perhaps for certain of its key services. It would certainly be a document that would be reported to the council’s Policy Committee and/or the council itself.
5. - An analysis of the area — physical, economic and social?

This might be an abstract of statistics, a profile of the authority or a Trends Document produced by the Planning Department. These should ensure that the council recognises the changes taking place in the external environment and that it is taking account of these in the development of services. The increasing elderly population or changes in school population are examples, as might be the physical development of the area.

6. - Planned changes in client, service and management priorities?

This would be particularly significant for education and social services, but applies to other services too.

7. - Standards of service to be provided by each main Committee, defined in terms of output or results?

This is straightforward: it is a question of whether service standards have been defined in reasonable detail.

8. - Planned allocation of resources (principally staff) by service, with an analysis of the reasons for changes from status quo?

This should be reflected in some longer term financial and manpower plan which would be related to the capital programme and the longer term revenue forecasts. It would indicate also how the council saw its future manpower requirements in terms of growth, reductions, turnover and early retirements.

9. - Planned capital expenditure by project, identifying committed and new approvals?

This relates to a capital programme and whether it is realistic and related to capital allocations that were likely to be available. Its control and efficient implementation together with the systematic appraisal of new schemes should be subject to question: Is the capital programme achieved?

10. - The planned source and application of funds?

This is a programme or forecast for revenue resources and again it would be a question whether this was realistic in relation to future grant levels and rate forecasts. What was realistic in terms of rate forecasts would be something for the authority to determine.

11. Is the strategy made available to the general public and communicated to the staff?

This might be done in a staff newsletter, in a civic newspaper, in press releases or in statements made by the Leader of the council or at committee meetings.

12. Is it reviewed annually by the council?; if so:

It would be self-evident if there were such a document; and its acceptance by the Policy or other council committee would be covered in a report to those bodies.

13. Does the planning document and the subsequent debate cover all council expenditures or just proposed increases and cuts?

These would be answered if such a strategy document existed. The question would be whether there was any long-term planning within the authority. Here one might question the planning assumptions and the recognition the authority had given to the possible obstacles to implementing plans.

14. Do cuts discriminate between departments/services or are they of the '2 per cent across the board' variety?

- What actually happened last time cuts were imposed?
- How did the actual outcome compare with the plans?
- Can chief officers answer the question "What happens if..."?
- Do members' chief officers meet to thrash out priorities; or is there still no more than a 'bidding' system?

15. Are there agreed contingency plans, to cope with the main risks to the council's plans?

Generally

All of the above questions 1-13 relate to the purpose and direction of the authority, how it is defined, communicated and achieved. In the absence of any clear strategic direction, are adverse effects being experienced in the delivery and general management of services in the authority as a whole?
Structure

16. Is the committee structure aligned with the management organisation and council policies and services?

17. Have any steps been taken in the past three or four years to streamline the organisation to make it more relevant to the achievement of the council’s strategy?

18. Is there a review system to keep the organisation/structure under regular scrutiny?

19. Is responsibility for each service and cost clearly assigned to individual?

20. Can responsible managers recommend pricing actions, personnel changes and the allocation of resources within ‘their’ budget?

Generally

This section addresses the effectiveness and relationship of the structure, both member and officer. Are there any weaknesses that have led, or are leading, to inefficiencies, and can these be demonstrated?
Systems
Policy Review

21. Is there a systematic longer-term policy review process for all significant services? If so, does it cover:

22. The continued relevance of services, the assumptions underlying service standards and alternative methods of delivery?

23. Comparisons with other similar authorities, within the authority and with the private sector if appropriate; and evaluation of the council's services, and pricing policies, against recognised good practice?

24. Examination of the utilization of scarce resources, principally skilled manpower, land, buildings, equipment and energy?

25. Systematic evaluation of the potential contribution of new information technology to improving services and/or reducing costs?

Planning, Budgeting

26. Is there an annual action plan, related to the overall strategy, summarising the steps to be taken and performance milestones within each service or function?

27. Does the annual budget identify responsibility for income and expenditure for recognisable cost centres, i.e. does it relate to the organisation?

This might be approached by seeing if there is a Policy Review Committee or a Performance Review Committee. If there is, does the Committee look at these kind of questions or does it accept the policy of the council and just look at service delivery. Alternatively or additionally, do service committees regularly review the economy, efficiency and effectiveness of their own services?

Have any discretionary services been discontinued or service standards changed in the last 3 years?

Are reports on service/cost comparisons submitted to committees? Are comparisons made between similar areas or establishments within the authority? Are functions that are comparable with the private sector (e.g. solicitors, architects) so examined? Does any action take place as a result? It would be appropriate to examine any relevant information contained in the Profile.

An examination of internal audit programmes and management services programmes and the role of both these functions might indicate whether the authority is carrying out such work, the basis on which such programmes are drawn up and implementation performance. For example:

- Are they agreed by the chief officer, by the management team of the authority or by the committee or committees of the council?
- Is there an energy-saving plan for the council and who is responsible for it?
- Is there a property register and how is the whole question of land and property reviewed? Has any property been sold recently?
- Are recommendations acted upon, or do they 'gather dust'?

Is there a data information processing strategy? How old is it and are all chief officers aware of it? How are computer costs reviewed and are they allocated to departments and functions?

Is the council's strategy for exploiting the potential of word processing, telecommunications, mini and micro processing and the mainframe computer being co-ordinated, and if so by whom?

In addition to management services, internal audit and data processing programmes, are there work programmes for other services or departments? Do departments produce, annually, statements of the service improvements that they intend to make?

Are action plans produced at the same time and related to the budgets that are formulated?

Does the budget attempt to look at the cost of functions within central departments? Are departmental budgets (e.g. education, housing and social services) related to the management structures of these departments? Is it possible to put a name to each budget and expect that budget holder to manage that function with the information which is provided?
28. Are output/performance measures considered as an integral part of the budget process and are they linked to the budget cost centres?

Performance Review

29. Is there a regular report (e.g. monthly/bi-monthly) to all budget holders of actual versus budgeted income and expenditure and manpower levels available within fifteen working days of the period end? If so
30. — Does this identify sources of variance; and are budget holders called upon to explain any shortfall from budget by their superiors?
31. — Are major variances from individual budgets commonplace?
32. In the last two years, has the year-end audit revealed any significant surprises in the management of current assets; have there been unexpected cost over-runs on major capital projects?
33. Are performance reports submitted by chief officers to members regularly during the year, e.g. quarterly; if so
34. — Do these analyse trends and variations from performance targets and progress made?
35. — Is there an annual review of performance against plan for the council as a whole? Is the review made available to the general public; and does it meet the voluntary Code of Practice on information to the ratepayer?

This should cover all those issues that would come under the description of Revenue Expenditure controls. In each authority the auditor could select a service/department and examine
— format of reports
— extent to which sources of variance are identified
— machinery for securing follow-up action to correct 'off-plan' performance.

Under this heading the analyst should draw on evidence relating to the management of current assets, such as debtors, stocks, investments, payments, grants receivable, cash collection, cash flow and debt management.

This will depend on whether the budget process is principally one of financial input or whether outputs in terms of workload performance measures/standards and unit costs are related to a work programme or action plan whose implementation is monitored and reviewed.

An annual review would be better than none at all. The possibility of extending the planning/budget system in this way might be suggested. It might be valuable to examine the situation in one service in detail.

Items 21-35 are much more easily definable than some other areas within this document, and contain many items covered by the concept of Key Areas. These Key Areas relate mainly to financial items and include:
- Management services
- Computer services and new technology
- Manpower management
- Land and property management
- Energy and conservation costs
- Appraisal procedures for new developments
- Revenue expenditure controls
- Capital expenditure controls
- Management of current assets
- Cash flow and debt management
- Ordering and tendering
- Fixing and reviewing charges for services.

The important issue is whether any of these items have resulted, or are likely to result in reduced value for money opportunities.
36. Do the Leader and Chief Executive periodically discuss the style of the organisation and how (if at all) it needs to be changed?

37. Does the Leader meet staff members (other than chief officers) regularly to discuss his or her priorities and concerns; does the Chief Executive routinely spend time within individual departments understanding problems at first hand?

38. Are steps taken to encourage or reinforce the need for experimentation and change within the council’s organisation? For example:

- is there a contingency reserve to finance policy initiatives?
- do standing orders encourage flexibility in the use of resources (i.e. virement)?
- are there rewards/encouragement for suggestions from staff?

39. Is responsibility for decision-making and problem-solving delegated as far as possible?

40. Are attempts made to secure the participation of employees and supervisors in decisions affecting their future, and does the system encourage the development of people?

41. Are steps taken by senior officers throughout the organisation to reinforce the commitment to serving the public well: has any employee been rewarded for outstanding service?

42. Are positive steps taken to increase community involvement in the pursuit of the council’s objectives?

This obviously is a difficult area on which to give advice, since it will vary considerably from authority to authority. In many authorities the Leader and the Chief Executive meet on a regular basis and discuss many issues that come under the heading of style. In many authorities, too, the way in which the authority presents itself may well be defined as part of the manifesto commitment (e.g. open style of government, all information to be made available to the general public, etc.). In others the style may be implied by custom and practice.

Staff consultative committees might be the way in which this is done. In other authorities regular meetings take place with the Leader or leading members and trade union staff representatives. The agendas and minutes of such meetings will be available.

In any organisation, senior management (members and officers) must be seen, regularly, by those they aspire to lead.

This section may well be the most difficult to comment on since it is almost an intangible quality of an organisation. Auditors would be well advised to base any comments on hard facts, since it will require an experienced practitioner to demonstrate the adverse effects that the style of the organisation is having on its
management and the delivery of effective and efficient services. However, style is an important and integral component of the management process — and one which is a particular barrier to effectiveness in the public service.

Skills and Staffing

43. Are the individual responsibilities of the top three levels of management defined in terms of the results to be achieved?

44. Is every individual manager's performance regularly assessed by his/her superior against the agreed results, and are training and development needs explicitly identified?

45. Is there a significant investment in training for members and officers in relation to their policy and general management responsibilities; have all officers been trained in personnel counselling?

46. In the last 12 months, has any senior officer been personally affected (positively or negatively) by the performance of his/her service, or the development of his/her staff?

47. Is there any system for rewarding managers who consistently achieve more than their planned results?

48. Does the council have to recruit middle management levels from outside or does it 'grow its own timber'?

49. Are manpower vacancies subject to review before they are filled?

50. Have there been any systematic attempts over the past two years to reduce overheads significantly in any single department (by more than, say, 15%)?

All of these questions are pertinent to a philosophy of achievement as distinct from a measurement of input to a service. In certain areas performance is implicit (e.g. budgets/accounts have to be prepared in time, wages have to be paid weekly), but does it apply to other areas where this is not so apparent? Are steps being taken to address this issue? Is the performance of chief officers reviewed periodically by the Chief Executive/Leader/Chairman? Do chief officers review the results achieved by their staff: Are they trained to do this type of review?

— Is there any member training?
— Are there 'off agenda' meetings for members to discuss the policy or direction of the authority (e.g. weekend 'retreats')?

— How many senior and middle managers receive more than 5 days off-the-job training a year?
— Is a senior officer responsible for overall management training?

In a very few authorities rewards may mean cash payments, but this is not necessarily the only way to reward. Are other rewards systems in place, e.g.
— Sabbaticals.
— Accelerated promotion.
— Special training.
— Secondments (e.g. to central government, industry).

This is related to the council's training policy and its links with management and manager development.
— Has the authority identified those skills which it needs most of, and those which are likely to be surplus?
— Are retraining programmes in place?

Chief officers (and the Personnel Officer) should be able to identify specific instances of vacancies not filled. The key issue is whether opportunities are used to review staffing levels in all or selective areas.

With pressures on resources, delivery of 'front-line' services is the crucial issue. In this situation the role, purpose and cost of central functions are increasingly being questioned.

Local Government is a 'people business': over 50% of costs are wages and salaries. This section covers the commitment of the authority to rewarding and training their staff. Are there opportunities to use this key resource better?
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3 Identifying Specific Local Improvement Opportunities

1. In addition to focusing attention on those services or costs where the authority appears out of line and to evaluating the local management arrangements as described above, the Commission expects its auditors to help identify specific local opportunities to secure better value for money.

2. To this end, every year the Commission selects a limited number of services or costs to be the subject of value for money projects. Last year, attention was concentrated on purchasing, refuse collection, further education and the use of civilians in the police force. A total of over 1,600 projects was completed; and the total value of the opportunities identified amounted to many tens of millions of pounds. Implementation progress in each of these projects is being tracked, so that authorities and their auditors can be assured that the opportunities are being taken.

3. This year, the Commission has identified more services or costs to be examined in value for money projects. The notes that follow describe the nature and scale of the opportunities that have emerged from the special studies that have been carried out over the last 12 months in the following services:
   A — Management of council tenants' arrears.
   B — Non-teaching costs in secondary schools.
   C — Vehicle Fleet Management.
   D — Social services for children and the elderly.

4. The notes are intended as summaries of the opportunities that appear available in many authorities and of the performance measures that may prove useful. They do not pretend to be exhaustive. Those interested in a particular service can read the relevant Commission report. Three are available from HMSO: Bringing Council Tenants' Arrears Under Control, Improving Vehicle Fleet Management in Local Government, and Obtaining Better Value in Education: Aspects of Non-Teaching Costs in Secondary Schools; a fourth report, Managing Social Services for the Elderly is in preparation for publication early in 1985.

5. In every case, detailed audit guides have been produced describing how projects can be carried out in such a way as to minimize the time spent on unproductive enquiries.
Annex

Shaw Classification:
Groupings used in 1984/5 Profiles

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<td>Knowsley</td>
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|                                 | South Tyneside |
|                                 | Stockport     |
|                                 | Sunderland    |
|                                 | Tameside      |
|                                 | Trafford      |
|                                 | Wakefield     |
|                                 | Walsall       |
|                                 | Wigan         |
|                                 | Wirral        |
|                                 | Wolverhampton |
### Non-Metropolitan Counties

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Corby
Darlington
Derby
Gloucester
Hyndburn
Leicester
North Bedfordshire
Nottingham
Pendle
Preston
Rossendale
Slough

Family 5
Alyn & Deeside
Ashford
Aylesbury Vale
Babergh
Basildon
Basingstoke & Deane
Blyth Valley
Bracknell
Brantree
Broadland
Bromsgrove
Broxbourne
Castle Point
Charnwood
Chelmsford
Cherwell
Chester-le-Street
Chorley
Colchester
Congleton
Crawley
Dartford
Daventry
East Hampshire
Eastleigh
 Fareham
Forest Heath
Gedling
Gillingham
Glanford
Gosport
Gravesham
Halton
Harborough
Harlow
Hart
Havant
Holderness
Horsham
Huntingdon
Kingswood
Lichfield
Luton
Maidstone
Maldon
Malvern
Mid Bedfordshire
Mid Suffolk
Milton Keynes
Monmouth
Newbury
Northampton
Northavon
North Hertfordshire
North Wiltshire
Oadby & Wigston
Peterborough
Redditch
Ribble Valley
Rochester upon Medway
Rochford
Rugby
Rushmoor
Rutland
St. Edmundsbury
Selby
South Bedfordshire
South Cambridgeshire
South Norfolk
South Northampton
South Oxfordshire
South Ribble
South Staffordshire
Spelthorne
Stafford
Stevenage
Stratford on Avon
Stroud
Surrey Heath
Swale
Taff-Ely
Tamworth
Test Valley
Tewkesbury
Thamesdown
The Wrekin
Tonbridge & Malling
Tunbridge Wells
Uttlesford
Vale of Glamorgan
Vale of White Horse
Vale Royal
Wansdyke
Warrington
Warwick
Wellingborough
West Lancashire
West Oxfordshire
West Wiltshire
Wimborne
Wokingham
Wychavon
Wycombe
Wyre Forest

Family 6
Beverley
Brentwood
Castle Morpeth
Chiltern
Dacorum
East Hertfordshire
Elmbridge
Epping Forest
Epsom & Ewell
Guildford
Hertsmere
Macclesfield
Mid Sussex
Mole Valley
Reigate & Banstead
Runnymede
Rushcliffe
St. Albans
Sevenoaks
South Bucks
Tandridge
Three Rivers
Waverley
Welwyn Hatfield
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Windsor & Maidenhead
Woking
Woodspring
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2 Evaluating Overall Arrangements to Secure Economy, Efficiency and Effectiveness

1. The Commission's Code of Practice states (paragraph 41) that 'the achievement of economy, efficiency and effectiveness depends upon the existence of sound arrangements for the planning, appraisal, authorisation and control of its use of resources. It is management's responsibility to establish these arrangements and to ensure that they are working properly. The auditor's responsibility is to verify independently that these arrangements are in place and are effective'.

2. The purpose of this section of the handbook is to provide auditors with guidance on how to discharge their responsibilities for verifying that appropriate arrangements to secure economy, efficiency and effectiveness are in place. It should also be helpful to those such as Leaders of Councils*, Chief Executives and all those who are concerned with the overall performance of the authority.

3. There is no single 'right way' to run any complex organisation, let alone every local authority. Too much depends on the nature of the local environment, the policies and priorities of the authority, the skills of the members and officers — not to mention established local custom and practice and the nature of the present arrangements. However, it is possible to identify some general arrangements without which it will be more difficult, if not impossible, for the authority in question to achieve sound value for money; and conversely, if the arrangements described below are in place, members of councils and their electorates can be assured that reasonable steps are being taken to ensure that the organisation is likely to prove effective in securing economy, efficiency and effectiveness.

4. Effective management of local authorities requires a series of partnerships to be established. Members and officers, different departments and services, and indeed the council and those it exists to serve, should all work together towards common aims. Local government is too delicate and complex to yield to go-it-alone solutions, imposed by one faction or another. The concept of partnership need not entail muddle or duplication of effort. On the contrary, it requires responsibilities to be clearly defined and understood. In particular, in the context of the overall management arrangements within an authority, members need to provide overall policy direction; they should look to their officers to implement it — having first secured their contribution to the policy development process. Councils should not seek to do management's job for it; officers should not seek to pre-empt policy decisions. Perhaps the key role in the management of a local authority is that of the Chief Executive. It is essential that the council looks to its Chief Executive to secure implementation of its policies, and that it holds him accountable for translating them into action. It must be able to replace him if he loses their confidence. Equally, the Chief Executive must have authority, where necessary, to direct individual chief officers. All those authorities that have so far been identified by the Commission as being particularly soundly managed have effective Chief Executives in post enjoying the confidence and respect of their councils. Experience of managing large and complex organisations in the private sector underlines the critical importance of effective general management and personal leadership. In the public sector too, members of the board cannot manage 'the business'. That is a management's job.

*Throughout this handbook the term 'Leader' of a local authority should be understood to mean 'those responsible for the overall direction of the authority'.

3
5. The effectiveness of an organisation stems from the interaction of several factors, some not particularly obvious or well analysed. Exhibit 1 below provides a framework for considering an organisation's effectiveness. The framework suggests several important ideas.

(a) A number of factors influence an organisation's ability to change. All these factors must be taken into account, not just one or two to the virtual exclusion of the others.

(b) The variables are interconnected. It is difficult, perhaps impossible, to make significant progress in one area without making progress in the others as well. Notions of organisational change that ignore its many aspects or the extent to which they are interconnected are dangerous — and all too common.

(c) In many organisations, the problem is not so much the wrong strategy as difficulty in securing its effective execution. Inadequate systems, ill-equipped or poorly motivated staff and an inappropriate managerial style can frustrate authorities' best laid plans.

(d) The framework has no starting point or implied hierarchy. A priori, it is not obvious which of the seven factors will be the driving force in changing a particular organisation at a particular point in time.

Exhibit 1

AN OVERALL VIEW OF ORGANIZATION

- STRUCTURE
- STRATEGY
- SYSTEMS
- VISION
- SKILLS
- STYLE
- STAFF
A Management of Council Housing

Local authorities manage five million dwellings in England and Wales, one-third of the country's housing stock, and worth about £100 billion. Housing is the most important activity of most district councils, and the local government service that provokes the greatest volume of public complaints.

Having already published a report on rent arrears, the Commission has now undertaken a special study of housing management. Housing management (excluding repairs) costs £850 million a year; this cost appears to have risen by 15-20% in real terms during the last three years, and there are wide differences between individual authorities' unit costs. It comprises a very wide range of different activities, each of which may warrant special attention by auditors.

General Management

The Commission has already identified the need to bring tenants' arrears under better control; this study describes ways in which authorities can improve their effectiveness in other areas, in particular by reducing voids, by using more economical methods of collecting rent, in the applications and letting function, and in other areas. It suggests that authorities might well spend more on estate management, and it identifies housing benefit administration as a subject warranting further investigation.

Special Services

Under this heading the study focuses particular attention on sheltered housing, on the opportunity to charge more for services to the elderly (reimbursable in housing benefit), on caretaking and cleaning, and on some other services.

Overall Management Arrangements

Finally the study focuses attention on the generally weak control of costs that characterises local authority housing management, which is due mainly to the unsatisfactory way in which housing costs are usually reported. This makes it difficult to assign individual responsibility for costs, and also to compare one authority with another.

Auditors are being asked first to complete a standard questionnaire at each authority; the result of this nationwide survey will then be used in their subsequent value for money projects.
A Management of Council Housing

1. Managing council houses is very big business indeed; it covers about one-third of the country's housing stock, or five million dwellings in England and Wales. These are worth about £100 billion excluding land. Their management alone costs £850 million a year, excluding maintenance and capital costs.

2. For most district authorities, housing represents their largest asset and their most important activity when measured in terms of income and expenditure. It is also the local government service that gives rise to the largest number of complaints to councillors and Members of Parliament.

3. There are also unusually wide differences between authorities' reported management costs per dwelling, both in total and on individual components. And the total cost of managing council houses appears to have risen by 15-20% per unit in real terms over the last three years. Reported costs are a particularly unreliable guide to authorities actual level of expenditure in the housing area, let alone to their efficiency; nonetheless it should be remembered that every £1 per dwelling per week represents no less than £250 million per year across the country as a whole.

4. For all these reasons, the Commission has decided to give priority to a review of economy, efficiency and effectiveness in council house management. It has already published a report on rent arrears, *Bringing Council Tenants' Arrears Under Control*. The special study described here has now examined housing management practices and organisation, excluding maintenance and new building. And the Commission plans to launch further projects covering housing maintenance and computer information systems. This study is based on fieldwork undertaken between 1982 and 1984 at 15 housing authorities covering a spectrum of inner city, urban and rural conditions: auditors will extend this sample by collecting further information from every housing authority.

5. These notes summarise the main improvement opportunities that the study so far suggests warrant investigation in most sizeable authorities during the forthcoming audit round, which will also include a detailed review of arrears and voids to follow up the investigations carried out this year and published in the Commission's report on rent arrears.

6. Local authority housing revenue account (HRA) expenditure is estimated to amount to £5,405 million in 1983-84. The major components of this sum are shown in Table 1 overleaf.
Table 1: HRA INCOME AND EXPENDITURE
1983-84, Estimates

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<th>Income</th>
<th>Total</th>
<th>Per Dwelling</th>
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<tr>
<td>Income</td>
<td>£m</td>
<td>£</td>
</tr>
<tr>
<td>Net rent income</td>
<td>1,888</td>
<td>378</td>
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<tr>
<td>Certificated rent rebates</td>
<td>1,065</td>
<td>213</td>
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<tr>
<td>Government subsidies</td>
<td>873</td>
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<td>Rate fund contributions</td>
<td>549</td>
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<tr>
<td>Interest on the sale of dwellings</td>
<td>494</td>
<td>99</td>
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<tr>
<td>Other HRA income</td>
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<td>93</td>
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<td></td>
<td>5,338</td>
<td>1,068</td>
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<tr>
<td>Supervision and management</td>
<td>463</td>
<td>93</td>
</tr>
<tr>
<td>— general services (for all houses)</td>
<td>396</td>
<td>79</td>
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<tr>
<td>Repairs and maintenance</td>
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<tr>
<td>Loan charges</td>
<td>3,089</td>
<td>618</td>
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<tr>
<td>Other expenditure*</td>
<td>248</td>
<td>50</td>
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<tr>
<td></td>
<td>5,405</td>
<td>1,082</td>
</tr>
</tbody>
</table>

*including notional deficits on transferred stock.

Source: CIPFA Housing Revenue Account Statistics.

7. The management of council houses comprises a wide range of very different types of activity, each one of which may warrant individual review by auditors. The Commission's study has therefore subdivided the field into 26 separate elements, as shown in Exhibit 1 opposite. Variations in expenditure on any one of these activities often result from small increments in effort which are difficult to evaluate because so many aspects of housing management interact with each other. Even so it is possible to identify good practice for many aspects of housing management, although these notes must be treated as preliminary and tentative — until the results of the sample survey are to hand. Some of the conclusions of the study are discussed below, under the headings of Managing Tenancies (General Management), Special Services, and Overall Management Arrangements, where the need for better control of costs is particularly emphasised.

8. General supervision and management, as it is generally called in the accounts, comprises services provided to all tenants and dwellings as a whole — for example, allocating houses and collecting rents. The expenditure involved is about £450 million a year, and the study has identified a number of important opportunities for improvement in this area, notably in reducing voids and arrears.

9. Voids: At least £20 million a year would be saved in authorities with void levels above 2% achieved this level and the study shows that many authorities better this by reducing the time taken to relet dwellings and by other initiatives.

10. Arrears: As Exhibit 2 overleaf shows, arrears too are still unacceptably high at some authorities and the costs involved include the interest cost of carrying the debt (about £24 million per annum) and bad debt losses of at least £10 million per annum. In the longer term, one-third of the total annual cost of perhaps £60 million may be avoidable, if arrears can be brought back to acceptable levels as the experience of some authorities suggests is perfectly possible. Savings may also be made by the provision of better information and other actions. The Commission's report, Bringing Council Tenants' Arrears Under Control covers both these issues quite extensively.

11. Rent collection: Considerable savings are possible by encouraging tenants to use variable direct debits or other methods which do not require the tenant to make a positive action to pay rent (44% of council tenant households are estimated to contain at least one person with a bank account but only a small number of authorities collect a significant proportion of rents this way). Other economies
Exhibit 1

HOUSING SUPERVISION AND MANAGEMENT

Elements covered in Commission’s special study

- Allocation of housing
  - Waiting lists and allocations
  - Control of voids
  - Homelessness administration
  - Housing aid centres

- Collection of rent
  - Rent collection
  - Rent accounting
  - Current tenants’ arrears
  - Former tenants’ arrears

- General supervision and management
  - Estate management
  - Gypsy sites
  - Repairs administration
  - Research and project management
  - Sale of council houses
  - Central establishment charges
  - Insurance
  - Other management costs

- Other general management
  - Community centres
  - Central heating
  - Communal lighting
  - Lifts
  - Caretaking and cleaning
  - Services for the elderly
  - Maintenance of open spaces
  - Provision for the homeless
  - Other services

- Special services
  - Housing benefit administration
Exhibit 2

Arrears per tenant vary significantly, even within similar authorities.

COUNCIL HOUSE ARREARS IN LONDON
£ per tenant in arrears, at 30 September 1983

Current Tenants

INNER LONDON

Poorer

115

123

OUTER LONDON

Average

110

110

Richer

45

149

London Average
£197 per tenant in arrears

Former Tenants

INNER LONDON

Poorer

224

152

OUTER LONDON

Average

195

157

Richer

149

114

OUTER LONDON

346

258

Key:
- Best Two Boroughs in Group
- Worst Two Boroughs in Group
can be achieved at some authorities by replanning the workload of rent collectors and cash office staff to adjust to the reduced numbers now paying in cash (because of housing benefit and sales), possibly changing to fortnightly collection, and using caretakers and wardens to collect rents: savings of the order of £6 million per annum might be achieved in these ways.

12. **Waiting list administration:** Many councils spend more administering waiting lists than they do on estate management (excluding arrears work). Few councils use computers for waiting lists, and staff levels are fixed without reference to the efficiency and practices of other authorities. This is a difficult area in which to generalise because each authority's approach has unique features; but between £7 and £10 million a year might be saved if all councils achieved a cost level even 40% above that of one urban council which combines efficiency with reasonable levels of service. Savings may also be made by rationalising visiting arrangements.

13. **Central establishment charges:** These are not subject to any detailed control by housing departments although the charges amount to between £150 and £200 million per annum. Enabling user departments to scrutinise and challenge such costs is an effective way of ensuring value.

14. **Insurance:** Preliminary indications are that perhaps £5 million a year might be saved if authorities that are big enough to self-insure for smaller risks only insured their stock for catastrophes; further study is needed in this area.

15. **Housing Benefit Administration:** The new responsibility for housing benefit which has now fallen on local authorities is one of the items that has contributed to the increase in housing management costs. A brief review of the costs of benefits administration has identified large variations in the unit costs per case. The Commission will review this topic later when the scheme has had more time to settle down.

16. **Estate Management:** Finally, expenditure on estate management generally appears too low. There is often a good case for increasing it, provided the effort is well directed. The benefits should include lower arrears and a better condition for the stock, thus prolonging its life. Prevention is more cost-effective than the cure, which is the rehabilitation of run-down estates.

17. This heading covers services provided to particular parts of the housing stock, for example high-rise flats and sheltered housing. Evaluating such activities in terms of cost per house of the total stock is thus particularly misleading. The expenditure involved amounts to about £400 million per year, although a good deal of this is recovered in charges for the services provided.

18. **Sheltered schemes:** New technology makes it possible to provide a lifeline to elderly people for a fraction of the cost of building and operating sheltered accommodation. If sheltered schemes were used in future for the elderly with minor disabilities and if those isolated in the community but with no disability were served selectively by central alarm systems, the community might save sums of the order of up to £200 million per annum in reduced operating costs. This would be used to provide services for the increasing number of elderly people who need more intensive care. In addition, more people would remain in their familiar surroundings, which is generally preferred by the social work professionals as the most appropriate environment for those who can be sustained in the community.

19. **Very sheltered schemes:** These schemes (often called Part 2½ schemes) are an intermediate form of care for the elderly, between sheltered schemes and social services Part III residential homes for the elderly. The provision of additional very sheltered accommodation puts a charge on housing authorities and provides a saving to social services authorities. The effectiveness of this form of provision can only be assessed by reference to the full net costs (including social services and other public services' costs) of the alternative means of care and the tenants’ welfare, and should compare individuals with similar dependency. Insufficient data is available to draw definite conclusions and more work is needed on this...
Overall Management Arrangements

Overall Management Arrangements

However, doubts are held by some social services professionals who question whether some councils' very sheltered scheme provide good value for money because tenants' needs are not matched carefully to the resources and care levels such schemes are designed to provide. Liaison with social services authorities is required to ensure maximum co-operation.

20. **Charges for services for the elderly**: Only a minority of authorities make service charges for sheltered housing and other services for the elderly, yet such charges are allowable under the housing benefit regulations. Other tenants and ratepayers are therefore subsidising these services through their rent to the extent of £50 to £60 million a year, much of which could be provided through housing benefit.

21. **Caretaking and cleaning**: A full-time caretaking service at high-rise blocks is costly, between £75 and £100 per dwelling per annum. The study has identified and costed various service options for caretaking. At some councils, reviews of service levels may enable significant cost savings to be achieved. The study shows wide variation in workloads for many management activities as well as for caretakers and sheltered wardens; more objective reviews of workloads involving comparisons with councils with leaner staff levels should identify considerable but unquantifiable opportunities for improved efficiency.

22. **Other special services**: The study identified many weaknesses in the control of this expenditure, particularly communal lighting and maintenance charges for open spaces and lifts. There may also be scope to reduce deficits for central heating, community centres and laundries. No estimate of potential savings is yet possible, until details are available from a wider sample of authorities.

23. Exhibit 3 opposite, drawn from the Commission's report on rent arrears, summarises the characteristics required for effective control over rent arrears and voids. These characteristics apply equally to housing management more generally, and, as that report indicated, the organisational effectiveness of many housing departments can be significantly improved by:

(a) giving chief housing officers responsibility for all day-to-day tenant and property management functions, particularly maintenance and arrears;

(b) bringing management closer to the tenants;

(c) improving management accounting and other control information.

24. The study has shown that control over the costs of housing management activities is commonly weak. There are three main reasons. First, chief housing officers often exercise little practical control over material amounts of management costs charged to the HRA. The authorities' approach is that of controlling expenditure in relation to budget rather than controlling the costs of individual activities or services. Second, there is little responsibility accounting, and subordinate officers are not held accountable for the costs they control. Finally, the presentation of HRA accounts and the amounts included differ from authority to authority; as a result, comparative data can be misleading and housing accounts are difficult to disentangle.

25. There is also still much scope for improved control, service and efficiency by using computers and by the better design of systems. In particular, there are benefits in an integrated design for day-to-day information processing and management control reporting. Many councils could advantageously ensure that a greater quality of effort goes into systems design.

26. Finally, the study found no clear evidence of economies of scale in housing management, implying that unit costs need be no higher in very small authorities than in the very large.
**OVERVIEW OF A SUCCESSFUL LONDON HOUSING ORGANIZATION**

<table>
<thead>
<tr>
<th>ORGANIZATION STRUCTURE</th>
<th>MANAGEMENT SYSTEMS</th>
<th>STYLE</th>
</tr>
</thead>
</table>
| Integrated: management and maintenance | Integrated management information  
- voids  
- payment record  
- maintenance  
- arrears  
*On-line, instant information in all offices*  
*Departmental (not central) computer*  
*Weekly payment, via cash offices (door-to-door for elderly, housebound)*  
*Up-to-date rent books*  
*Weekly arrears printout for each responsible manager*  
- amount due  
- last payment  
- maintenance requests outstanding  
*Up-to-date on Housing Benefit* | Firm, but fair  
Informal, but well informed  
Fast reaction to arrears (one week)  
Prepared to act, if necessary  
Individual management accountability for results  
- arrears  
- voids  
Innovative, in use of technology (eg. to maintain central register of elderly in sheltered accommodation)  
DIY approach to MIS on computers: standard package tailored to local needs  
- user friendly  
- no programmers |
| Area based (3,500 houses per area) |  |  |
| Decentralised: one assistant for 500 dwellings |  |  |
| Generalist: line management responsibility for arrears |  |  |
| Lean overhead (total staff, including 56 wardens for sheltered housing: 250) |  |  |

Sources: Audit Commission interviews with local members and senior officers, January 1984
27. The Commission's special study was restricted to a rather limited sample of authorities, inadequate to take full account of alternative patterns of service and differing local circumstances. Before embarking on a detailed review, auditors have therefore been asked to complete a standard questionnaire on the management arrangements and costs at each housing authority. This will serve two purposes: first, the results of this survey will be collated centrally and then fed back to auditors, thereby providing them with much more comprehensive information than is currently available. Second, having already prepared this local data, auditors and their client authorities will be well placed to decide which area genuinely warrants further examination and which does not.

28. Auditors will also be tracking progress in reducing current and former tenants' arrears in those authorities where the previous survey showed that there were opportunities for improvement, to determine whether the steps set out in the Commission's report on tenants' arrears (which was accepted by all those professionals working in this field) have been taken, and if so to what effect.

29. Queries or questions on any aspect of housing management should be addressed in the first instance to Dr. C. E. R. Tristem, Director of Special Studies, Audit Commission, 1 Vincent Square, London SW1P 2PN.
B Aspects of Non-Teaching Costs in Secondary Schools

Education accounts for about half the total expenditure by local authorities — some £12 billion per year. A major part of the Commission's efforts to help authorities improve value for money will therefore be devoted to education. This year, the Commission has reviewed a range of non-teaching costs associated with secondary education, in particular premises costs, which total well over £500 million of annual expenditure.

This area was chosen for the Commission's first study of education mainly because of the critical importance of adjusting building capacity to the dramatic decline in secondary school rolls. Further aspects of education will be dealt with in subsequent years. The study has pointed out opportunities to improve value for money in four main areas.

Tailoring Secondary School Capacity to Likely Demand

The number of secondary pupils in England and Wales is forecast to decline from over four million to under three million by the early 1990s. The saving from reducing this surplus capacity is enormous — potentially as high as £200 million. The educational costs of not making appropriate adjustments are equally important, if not more so — there comes a time when Local Education Authorities (LEAs) can no longer afford to provide an adequate curriculum to a school with declining rolls. The objective of the study has been to suggest what steps each LEA should take in order to tackle this challenge most effectively.

Reducing Schools' Cleaning Costs

Cleaning secondary schools costs local authorities £190 million; with the quality of cleaning not usually at issue, the key performance measure here is the cost of cleaning per square metre, or the area to be cleaned per staff hour. These measures are set in various ways, and the study reveals remarkably wide differences between the standards applied under different approaches.

Better Maintenance of School Buildings

LEAs spend some £180 million on repairing and maintaining school buildings and grounds — a major current cost and a critical activity for the future fabric of the schools. The study suggests that LEAs are generally spending too little on routine maintenance, and outlines a number of ways in which they could manage maintenance more effectively.

Increasing Delegation to Schools

Finally the Commission believes that value for money should be improved by greater delegation of financial responsibility to individual schools — providing that this is done properly. The study outlines a number of ways in which delegation could be usefully widened, and how the change should be put into practice.
B Aspects of Non-Teaching Costs in Secondary Schools

1. Education expenditure amounts to about £12 billion a year and accounts for about half of local authority expenditure. Improved value for money in local authority services as a whole must depend in large part upon improved value in education. The Audit Commission therefore intends to take a continuing interest in the education service in the search for greater economy, efficiency and effectiveness.

2. The Commission's interest in value for money in education is also due to the nature of the managerial challenges facing the services as they seek to respond to a combination of financial and educational pressures:
   (a) Financial pressures result from the fall in pupil numbers. In the secondary phase of education, that fall is from about four million pupils in 1980 to about three million in 1990.
   (b) Educational pressures result at present from a number of changes intended to improve the service. For example, the Manpower Services Commission is to fund a quarter of non-advanced work-related education; children with special educational needs are, as far as is practicable, to be educated in ordinary schools; parental choice is subject to a new set of procedures; there is talk of continual testing of pupils' performance and ability; and the powers of school governors and the composition of boards is under review. The Secretary of State has called recently for a reduction in size of the teaching force and more investment in in-service training to ensure that all teachers in practice are as effective as they could be; and finally there is continuing fundamental review of the curriculum.

3. This year, the Commission has reviewed a range of non-teaching costs associated with secondary education, in particular: building capacity, which affects £550 million of premises-related expenditure; cleaning (£190 million), day-to-day maintenance (£90 million), and support staff. Exhibit 1 overleaf shows the main areas of cost covered in the special study, about three-quarters of all relevant costs which amount to £1.35 billion in total. During the current audit round auditors will be concentrating on these areas, and particularly on how authorities are managing school capacities in line with declining secondary school pupils. Further aspects of education will be similarly covered in subsequent years.

4. These notes summarise in turn the main improvement opportunities and the performance indicators that could be applied by both authorities and their auditors. They are based on a Commission report, *Obtaining Better Value in Education: Aspects of Non-Teaching Costs in Secondary Schools*, to be published by HMSO. That report is based on a study of 12 sample Local Education Authorities (LEAs) and 140 individual schools.

**MAIN IMPROVEMENT OPPORTUNITIES**

5. The study has pointed out four main opportunities to secure better value from non-teaching costs in secondary schools:
   (i) Tailoring secondary school capacity to likely demand;
   (ii) Reducing school cleaning costs while maintaining standards;
   (iii) Maintaining school buildings better;
   (iv) Increasing delegation to schools.
   These are discussed in turn.
Exhibit 1

Study has covered almost three-quarters of relevant costs

BREAKDOWN OF NON-TEACHING COSTS IN SECONDARY SCHOOLS
1983-4 Estimates

Source: CIPFA
6. The forecast decline in secondary pupil numbers is dramatic, from a total in England and Wales of just over four million at the beginning of the 1980s, to less than three million in the early years of the 1990s. Figures will vary from area to area, but typically pupil numbers are expected to fall by 25-30% over the next ten years.

7. Between 1975 and the end of 1980, English LEAs removed 62,000 secondary places from use. DES Circular 2/81 on *Falling Rolls and Surplus Places* was designed to provide information on the number of pupil places LEAs planned to take out of use between 1981 and the end of 1986. An arbitrary target of removing two out of every five surplus places was set for every LEA. Table 1 summarises the present position according to the DES.

<table>
<thead>
<tr>
<th>Table 1: SECONDARY SCHOOL ROLLS 1981-1986</th>
</tr>
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<tbody>
<tr>
<td>England only, (’000 pupils)</td>
</tr>
<tr>
<td>Potential surplus places on Jan 1</td>
</tr>
<tr>
<td>367</td>
</tr>
<tr>
<td>Taken out of use (cumulative)</td>
</tr>
<tr>
<td>— planned</td>
</tr>
<tr>
<td>40</td>
</tr>
<tr>
<td>— actual</td>
</tr>
<tr>
<td>35</td>
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</tbody>
</table>

8. Table 2 illustrates the financial implications, without making any allowances for changes in teaching costs, of the reduction in pupil numbers from nearly four million at present to three million by the beginning of the 1990s. It shows that the potential savings could amount to over £200 million a year (at current prices) if secondary school capacity can be adjusted to demand by the early 1990s. The savings which actually accrue to individual authorities will depend crucially on the particular local circumstances, and on the way they respond to this challenge.

<table>
<thead>
<tr>
<th>Table 2: FINANCIAL IMPLICATIONS OF TAKING SURPLUS ACCOMMODATION OUT OF USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>England and Wales</td>
</tr>
<tr>
<td>Assumed Numbers of School Closures</td>
</tr>
<tr>
<td>Annual</td>
</tr>
<tr>
<td>Average (over 5 years)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>220</td>
</tr>
<tr>
<td>440</td>
</tr>
<tr>
<td>660</td>
</tr>
<tr>
<td>880</td>
</tr>
<tr>
<td>1,100</td>
</tr>
</tbody>
</table>

9. The apparent DES target for LEAs of removing two out of every five surplus places implies between 90 and 120 school closures a year between now and the end of the decade — a marked increase on the average of around 50 over the last six years. Even if the more extreme assumptions are unachievable in practice (e.g. because of the difficulty of maintaining the average size of the school in rural areas) it seems reasonable to conclude that the potential cost savings available are between £100 million and £150 million per annum. Changes in teaching staff costs have not been included, of course.

10. These savings amount to some £230 per place per annum. The extra savings, over and above the £100 per place per annum quoted in Circular 2/81, are, apart from inflation, in respect of interest savings generated by the sale of surplus land and buildings — offset in part by an increase in the cost of home-to-school transport.
If the maximum annual savings, in the order of £215 million, were to be achieved, some capital expenditure on new buildings may be necessary to cope with the expected upturn in pupil members in the 1990s. Some capital expenditure may be necessary anyway in the 1990s, because the growth in pupil numbers may not occur in the convenient areas (i.e. where there is surplus accommodation) any more than does the fall in pupil numbers.

11. The costs of failure to rationalise secondary school capacity are not merely economic. Indeed, almost every proposal to close secondary schools is not made on economic grounds, but on educational ones: there comes a time when LEAs can no longer afford to provide teachers to support a reasonably broad curriculum in small schools.

12. Every LEA should undertake a comprehensive review of its secondary school capacity to determine whether changes are needed to sustain an affordable broad-based curriculum and to avoid unnecessary waste of scarce resources. This review should comprise four main stages:

(i) Identify needs and places.
(ii) Generate and evaluate the options.
(iii) Implement the selected option.
(iv) Check that planned results are actually achieved, both costs and benefits.

13. **Stage One: Measuring Needs and Places.** The first stage of the review is to compare present building capacity with likely future requirements, based on the LEA’s projection of pupil numbers over the next decade. Except in comparatively sparsely populated areas it is seldom possible to look at any single school in isolation.

14. **Population Forecasting.** Unlike primary pupils, it is possible to forecast secondary pupil numbers for up to some ten years ahead without having to make any assumptions about future birth rates. Nearly all LEAs forecast pupil numbers, at least over the next decade, with the totals generally analysed by year groups, and for individual schools. However, in one of the shire counties visited, members had no comprehensive view of the county’s need since it had prepared no summary of the individual areas’ forecasts.

15. **Measurement of Building Capacity.** Most of the authorities visited during the course of the study had undertaken (or were undertaking) an inventory check of their existing accommodation, reporting on the location, quality and capacity of their existing schools at the outset of the review. In assessing existing capacity two complementary approaches can be used:

(a) Pupil numbers as a percentage of available places, taking account of the area requirements specified in the *Education (School Premises) Regulations of 1981*. The number of places is probably a reasonable guide to school capacity for use by management for internal intra-authority reviews.

(b) Floor space per pupil. When carefully defined, this provides a more consistent measure than number of pupils as a percentage of the number of places. The DES yardstick which underlies the *Education (School Premises) Regulations of 1981* is 6.5 square metres per secondary pupil place.

16. The study’s fieldwork indicates that systematic analysis of capacity against demand for secondary school places is the exception rather than the rule. In many cases, LEAs did not know how much capacity they had in a particular area; in others, there were no accurate projections of demand for places between now and the end of the decade.

17. **Stage Two: Generating and Evaluating Options.** School closures are painful for all concerned, and almost invariably encounter vociferous local opposition from parents, governors and staff involved (as well as local Members of Parliament in many cases). Many authorities therefore appear to adopt what can only be described as an ostrich-like attitude — hoping that something will turn up to make
the closures unnecessary. The study provides a disturbing number of examples of refusal to face the economic and (more important) educational consequences of failure to bring capacity into line with demand:

- In one compact urban authority, despite an expected 30% decline in secondary pupil numbers, the strategy to avoid closures was to reduce pupil numbers in the larger schools as bases for an anticipated future upturn in population.

- In one metropolitan district visited there is already 'spare' capacity in secondary schools of approaching 20%, (using DES work places to measure capacity), with an expected further decline in numbers of some 30%. If no action is taken, therefore, schools will be 50% empty.

- Financial advisers, whether from the treasurer's department or from within the education department, appear to have a very limited role in the reviews. This reflects the relatively low priority accorded to financial considerations.

- In considering options, risk and uncertainty had usually not been evaluated.

- Alternative opportunity costs of the resources involved, which may be very significant, were not being taken into account by the sample LEAs.

18. Any comprehensive review of options must include the following steps:

(a) Determine the nature and extent of the potential problem (or opportunity), making a range of assumptions about key demand variables such as local housing development, staying-on rates and so forth. This should be done for the authority as a whole, and then shown on a division-by-division or town-by-town basis.

(b) Determine the cost of doing nothing, in financial and in educational terms, before any options are considered.

(c) Agree in advance the main decision criteria and their relative importance, before options have been identified in detail, and certainly before developing specific proposals.

(d) Evaluate the options both in educational and financial terms, taking into account the possible risks (e.g. that demand may not be as projected, for given reasons), and the timing of changes, and calculating the net present value of the various choices.

19. Stage Three: Implementation of the Chosen Option. As stated earlier, nearly all LEA proposals for closure meet with substantial local opposition. Nobody likes change; protest costs the protestor little and the losses affect a few profoundly whereas the benefits are spread over all local ratepayers.

20. The experience of those LEAs who have determined to manage the problem positively is that — in addition to political courage — there are some fairly obvious key requirements for success:

(a) Sound staffwork on likely capacity/demand imbalances.

(b) A comprehensive rather than piecemeal approach, so that the support of potential beneficiaries of changes can be enlisted.

(c) 'Open Government'. Rumours are almost invariably more damaging than reality. Experience suggests that there are considerable advantages to a staged approach. For example:

- releasing a discussion paper outlining the problem and the costs of doing nothing;

- publishing the decision criteria before any detailed options are developed;

- publishing the full range of options with the cost and educational implications spelled out for discussion at local meetings before the LEA has decided what course it would like to adopt.

(d) Incentives to encourage the education committee and the local community to accept unpalatable changes. In about one-half of the sample LEAs, at least a share (e.g. 30%) of the capital receipts from the disposal of sur-
plus buildings is given back to the education committee; in the other LEAs capital receipts go into a central ‘pool’ and are therefore ‘lost’ to education.

(e) Diversion to alternative uses of the whole or large parts of establishments is fairly common. The DES Architects and Building Group has published a number of briefs on the alternative use of school buildings, e.g. use by further education, as a dance centre and as Magistrates’ Court accommodation. The associated costs (including the opportunity costs) which are being incurred as a result should, however, be quantified so that members are fully aware of the costs of their decisions.

21. Stage Four: Follow-up and Review. The Commission’s study suggests most LEAs do not follow up implementation to check that the intended costs and benefits actually materialised. Reviewing the effects of past decisions can improve future appraisals in many ways, as well as improve current management performance. An authority may not wish to question the validity of past decisions for political reasons; but for management purposes, awareness of the success or failure of past projects is vital. This process was not in evidence in some of the LEAs visited. For instance, some did not compare their actual performance in taking places out of use with their plans in response to DES Circular 2/81.

22. The equivalent of some 39,000 full-time employees are engaged in the cleaning and caretaking of secondary schools in England and Wales. The annual cost is at present around £190 million. As Table 4 shows, there are large differences in caretaking and cleaning staff costs per pupil — which is the only performance measure readily available for all LEAs.

<table>
<thead>
<tr>
<th>Table 4: SECONDARY SCHOOLS CARETAKING AND CLEANING STAFF COSTS</th>
</tr>
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<tbody>
<tr>
<td>Annual Cost per Pupil £ per Pupil</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>ILEA</td>
</tr>
<tr>
<td>London boroughs</td>
</tr>
<tr>
<td>Metropolitan districts</td>
</tr>
<tr>
<td>Non-metropolitan counties</td>
</tr>
<tr>
<td>All authorities</td>
</tr>
</tbody>
</table>

Source: CIPFA Statistics

23. There is no objective measure of the effectiveness of cleaning and the resulting cleanliness of a school. Assessments of effectiveness have to be based on the subjective views of teachers and other clients of the service. In general these people appear in the sample LEAs satisfied with the cleanliness of schools cleaned by LEA staff. Complaints have been received from schools cleaned by outside contractors; but these may be caused by teething problems.

24. Assuming that the quality of service is acceptable, the key indicator of school cleaning performance is the cost per square metre of floor space. In the absence of complaints about cleanliness, the lower the cost per square metre on a sustained basis, the better. This is a more relevant measure than cost per pupil which is dependent not only on the cost of cleaning but also on the floor space per pupil — an indicator of the level of occupancy of buildings.

25. Table 5 shows that there are wide variations in cost per square metre within the 140 schools examined.

<table>
<thead>
<tr>
<th>Table 5: SCHOOL CLEANING COST PER SQUARE METRE</th>
</tr>
</thead>
<tbody>
<tr>
<td>£, 1984</td>
</tr>
<tr>
<td>Lower quartile</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Upper quartile</td>
</tr>
</tbody>
</table>
Within the sample of 140 schools, savings of over 25% could be achieved if the mean cost per square metre for all schools could be brought down to that of the best 35 schools, implying 33 square metres or 350 square feet per hour. If this sample is typical, the potential saving amounts to about £50 million a year across the country as a whole.

26. The experience of the LEAs visited during the course of study is that productivity gains are possible from a combination of a number of changes:

(a) Modifying provincial agreements. Conditions of service for school caretakers and cleaners are negotiated at three levels: national, for determination of pay rates and major conditions of service; provincial, which in particular specifies levels of cleaning assistance; and local LEA. There is nothing within the national or provincial agreements which constrains LEAs from negotiating bonus schemes or other productivity improvements.

Provincial council formulae for the determination of the level of cleaning assistance still apply to a considerable number of LEAs, including five of the 12 sample LEAs. As Exhibit 2 overleaf shows, the level of cleaning assistance laid down in these agreements varies from one hour per week for each 180 square feet (or 17 square metres) to one hour for each 300 square feet (or 28 square metres), with differences also in the minimum size of the schools for provision of cleaning assistance. There seems to be no reason, based on the evidence of the sample data, why there should be such wide disparity between the provincial agreements.

(b) Introducing productivity schemes. There is a clear indication that productivity based schemes provide lower costs and better value for money than provincial schemes, as Table 6 shows:

| Table 6: COST (£) PER SQUARE METRE OF FLOOR SPACE 1984 — £ |
|-----------------|-------------------|-------------------|
|                 | Productivity schemes | Provincial schemes | Difference (%) |
| Lower Quartile  | £4.60              | £5.00             | 8               |
| Median          | 5.10               | 5.70              | 11              |
| Mean            | 5.10               | 5.90              | 14              |
| Upper Quartile  | 5.60               | 6.60              | 15              |

Perhaps the best overall performance found within the 12 LEAs was based on a bonus scheme which dates from 1974. The scheme provides for 33.5 square metres per cleaning hour which is twice that of the appropriate provincial council agreement.

(c) Using caretakers appropriately. Supervision of cleaners is particularly important; and the role of the caretaker in this is therefore critical in providing on-the-spot supervision. But the practice of using assistant caretakers for cleaning does not, generally, represent good value for money.
Cleaning allowances in provincial agreements, vary widely

ALLOWANCE FOR CLEANING A SCHOOL OF 7600 M²

Cleaner hours per week

- NORTH WALES: 460 hours
- WEST MIDLANDS: 420
- SOUTH WALES: 420
- NORTH WESTERN: 410 ('suspended')
- EAST MIDLANDS: 370
- MID SOUTHERN: 300
- GLC: 260
- NORTHERN: 240

NB: Caretaker cleaning is additional to the above

Source: Analysis of Provincial Agreements
Better Maintenance of School Buildings

27. The 104 LEAs in England and Wales spend about £180 million on repairing and maintaining secondary school buildings and grounds, or £38,000 per school and £46 per pupil. There are, however, significant variations as shown in the table below.

Table 7: EXPENDITURE ON REPAIRS AND MAINTENANCE OF SCHOOL BUILDINGS AND GROUNDS
All LEAs in England and Wales

<table>
<thead>
<tr>
<th></th>
<th>per pupil £p.a.</th>
<th>per school £000 p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILEA*</td>
<td>78</td>
<td>69</td>
</tr>
<tr>
<td>London borough*</td>
<td>48</td>
<td>40</td>
</tr>
<tr>
<td>Metropolitan districts</td>
<td>39</td>
<td>32</td>
</tr>
<tr>
<td>English counties</td>
<td>45</td>
<td>36</td>
</tr>
<tr>
<td>Welsh counties</td>
<td>42</td>
<td>41</td>
</tr>
<tr>
<td>All LEAs</td>
<td>46</td>
<td>38</td>
</tr>
</tbody>
</table>


*London costs have been reduced by 17% to reflect London Weighting.

In most authorities the Commission believes that overall maintenance expenditure on secondary schools needs to be increased (in those schools that will continue to be required), and that the balance needs to be shifted in favour of longer-term planned maintenance.

28. Level of expenditure. There is no objective measure of the appropriate level of maintenance — only the professional judgements of building surveyors based on a detailed survey of individual buildings. In general their view is that standards are unsatisfactory. A recent survey carried out at the Society of Chief Architects of Local Authorities (SCALA) suggest that current maintenance expenditure in schools is 40–50% below the level considered desirable. The low level of preventative maintenance is causing buildings to deteriorate and will inevitably lead to an increase in essential repair work in the future. Redecoration in particular has suffered: many authorities have not redecorated their schools internally for nearly 10 years; and in one authority, the current level of redecoration means that schools will only be redecorated once every 50 years!

29. Balance between longer-term and day-to-day maintenance. The £180 million spent on maintaining secondary schools splits about 50–50 between the two types of work. Regular or planned maintenance is likely to prevent deterioration of property and so reduce the need for day-to-day repair work. All but one of our sample LEAs could analyse their total maintenance expenditure between day-to-day and programmed maintenance, although only a few regularly reported this analysis.

30. The distinction between day-to-day and routine maintenance is particularly appropriate in times of expenditure constraint. If overall expenditure on maintenance is reduced it is to be expected that routine maintenance will suffer first. The first question that arises is whether such action gives best value for money in the longer term. If expenditure reductions lead further to neglect of immediately needed repairs, questions of a more efficient approach to day-to-day maintenance arise.

31. Most of the sample LEAs spent between 60–70% of their total building maintenance funds on day-to-day maintenance and only 30–40% on programmed maintenance. This is in marked contrast to the suggestions of the DES Architects and Building Group to the Expenditure Steering Group (Education), which was that only 35% should be on day-to-day maintenance and 65% on programmed work. A survey was carried out for the Audit Commission by SCALA into five areas of routine maintenance: external painting, flat roof maintenance, electrical rewiring, boiler renewals and resurfacing paved areas. With the exception of elec-
Exhibit 3

TARGET MAINTENANCE CYCLES IN HOSPITALS

<table>
<thead>
<tr>
<th>ELEMENT</th>
<th>ROUTINE MAINTENANCE</th>
<th>REPLACEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROOF COVERINGS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Felt</td>
<td>3.4</td>
<td>16</td>
</tr>
<tr>
<td>Slate</td>
<td>4.8</td>
<td>80</td>
</tr>
<tr>
<td>Tile</td>
<td>4.2</td>
<td>59</td>
</tr>
<tr>
<td>Asbestos</td>
<td>6.1</td>
<td>26</td>
</tr>
<tr>
<td>Asphalt</td>
<td>6.1</td>
<td>28</td>
</tr>
<tr>
<td><strong>WALLS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brick</td>
<td>28</td>
<td>94</td>
</tr>
<tr>
<td>Timber-clad</td>
<td>10</td>
<td>35</td>
</tr>
<tr>
<td><strong>WINDOWS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wood</td>
<td>13</td>
<td>46</td>
</tr>
<tr>
<td>Steel</td>
<td>9</td>
<td>41</td>
</tr>
<tr>
<td>Aluminium</td>
<td>5</td>
<td>42</td>
</tr>
<tr>
<td><strong>MISCELLANEOUS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cast-iron pipes</td>
<td>15</td>
<td>59</td>
</tr>
<tr>
<td>Drains</td>
<td>1.1</td>
<td>93</td>
</tr>
<tr>
<td>Fire escapes</td>
<td>1.7</td>
<td>58</td>
</tr>
<tr>
<td><strong>FLOOR COVERINGS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carpet</td>
<td>3.5</td>
<td>9</td>
</tr>
<tr>
<td>Vinyl</td>
<td>5.8</td>
<td>16</td>
</tr>
<tr>
<td>Terrazzo</td>
<td>9.5</td>
<td>61</td>
</tr>
<tr>
<td>Quarry tile</td>
<td>6.7</td>
<td>53</td>
</tr>
<tr>
<td>Wood block</td>
<td>5.1</td>
<td>44</td>
</tr>
<tr>
<td><strong>WALLS AND CEILINGS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plaster</td>
<td>3.9*</td>
<td>77</td>
</tr>
<tr>
<td>Plasterboard</td>
<td>4*</td>
<td>56</td>
</tr>
<tr>
<td><strong>JOINERY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doors</td>
<td>61</td>
<td>48</td>
</tr>
<tr>
<td>Screens</td>
<td>7.7</td>
<td>51</td>
</tr>
</tbody>
</table>

* Target repainting cycles for wards and corridors was 5-6 years (depends on the finish, eg. gloss, eggshell or emulsion)

Source: Hospital Building Maintenance, LGORU 1972
Increasing Delegation to Schools

32. Education officers in the sample authorities were, with one exception, satisfied with the service provided by private contractors, given the financial constraints within which the budget was completed. Co-operation between departments appears to be good in these authorities. However dissatisfaction with the performance of the DLO was common within education departments, for a number of reasons: poor quality of work done, poor response times, lack of education department influence over the expenditure incurred, and suspicion as to the true competitiveness of the DLO.

33. The study suggests the following requirements for responsive day-to-day maintenance:

(i) Clear assignment of responsibility for maintenance of individual schools within the property organisation; and regular, effective communication between the surveyor concerned and local staffs.
(ii) Effective preventive measures, to minimise unplanned maintenance requests.
(iii) Use of mobile workteams and computer scheduling to improve response times.
(iv) Better follow-up of maintenance work, to see that it has been done properly — around 50% of jobs should be inspected independently of the contractor (or DLO).
(v) Tighter financial control. The maintenance budget for each school should be discussed and agreed at least with the education department and ideally with the headmaster concerned, even if responsibility for the maintenance budget is exercised by the property function.
(vi) Work should be put out to tender in a manner designed to attract competitive bids, if necessary broken down into manageable blocks of work. Schedules of rates for particular routine maintenance jobs should be agreed. Information on the price competitiveness of DLOs is inadequate in many LEAs; and it has not been possible to establish the price competitiveness of DLOs with private contractors on schools' maintenance.

34. In approaching the issue of delegation to schools the stance of the Audit Commission is, as implied in the philosophy set out in the first volume of Economy, Efficiency and Effectiveness, that in principle it is to be encouraged. This view is also held by central government, which is putting the principle into practice through the Financial Management Initiative launched in May 1982. Similar views are common throughout business and industry.

35. The Commission considers that more delegation of authority and responsibility to the local level will result in better value for money and avoidance of waste, provided, and the proviso is crucial, that the ground is properly prepared in advance.

36. As Exhibit 4 overleaf suggests, the obvious addition to most capitation schemes would be to give head teachers authority over items such as telephone costs, funds for in-service education of teachers, examination fees and expenses (where schools have reasonable discretion over examination entries), and control over books, materials and supplies — including the possibility of virement (i.e. transferring expenditure) between headings and a facility to carry forward items from year to year. In addition to relatively small items of expenditure, there are three other areas where giving heads increased authority and responsibility could be expected to bring benefit: heating and lighting, cleaning and maintenance, and teaching support staff.
Exhibit 4

Possible increases in delegated responsibility would bring 25% of costs under local control

COST PER PUPIL — 1983

£

Source: Audit Commission analysis of school accounts
37. However, many difficulties will have to be overcome if delegation is to be increased effectively. Specifically, authorities need to take the following steps to prepare the ground:

(i) Approach the increase in delegation gradually — and pilot test the approach and the systems used with some enthusiastic volunteers to gain experience of the practical difficulties and build credibility for the policy.

(ii) Ensure that the ground rules are well established, in writing, and in advance; and provide the school with accurate and timely management information.

(iii) As delegation is extended on a LEA-wide basis, reduce the staffing levels at the centre.

(iv) Provide the heads involved with the necessary management training.

(v) Plan the changes in detail in advance and communicate early and frequently with all the interests involved.

PERFORMANCE INDICATORS

38. The first purpose of the value for money project on non-teaching costs in secondary schools is to ensure that members' and officers' judgements on building capacity are arrived at after considering all the relevant facts, financial as well as educational. If the current strategy to deal with decline of secondary school pupils is leading to higher unit costs, then members and officers need to satisfy themselves that these extra costs are reflected in additional educational 'value', however that judgement is arrived at. The first performance indicator therefore is the existence of a fact-based strategy for dealing with the local problems associated with the decline in the number of secondary school pupils.

39. However, for other aspects of non-teaching costs in secondary schools it is possible to develop performance indicators, as set out in the following table.

Table 8: SELECTED INDICATORS OF GOOD PRACTICE PERFORMANCE IN EDUCATION NON-TEACHING COSTS

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>Good Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Floor space per pupil</td>
<td>6.5m²</td>
</tr>
<tr>
<td>Rolls as % available places</td>
<td>95%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cleaning</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Square metres cleaned per hour</td>
<td>33m²</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maintenance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>External decorations (windows)</td>
<td>Every 5 years</td>
</tr>
<tr>
<td>Internal decorations</td>
<td>Every 7 years</td>
</tr>
<tr>
<td>Approximate spending level on maintenance per annum, of which;</td>
<td>1.8% of insured value</td>
</tr>
<tr>
<td>Day-to-day maintenance</td>
<td>30% to 40%</td>
</tr>
<tr>
<td>Planned maintenance</td>
<td>60% to 70%</td>
</tr>
</tbody>
</table>

40. These notes should be read in conjunction with the Audit Commission's report, *Obtaining Better Value in Education — Aspects of Non-Teaching Costs in Secondary Schools*, which is obtainable from HMSO. Detailed Audit Guides have been distributed to auditors, who will be prepared to discuss them with members and officers at a local level. Any general queries should be addressed in the first instance to Mr. B. Benham, Audit Commission, 1 Vincent Square, London SW1P 2PN. Telephone 01-828-1212.
Effective transport is a critical ingredient to most local authority services, and although it is only a minor cost in most cases, local authorities as a whole spend around £1000 million on all forms of transport. The Commission's special study of vehicle fleet management has revealed that there are wide differences in management practices in this field, wide differences in the resulting costs, and hence substantial opportunities for reducing costs in this area without loss of service standards. Four main subjects are dealt with:

- **Controlling Fleet Size.** There are major differences in the number of vehicles operated by individual authorities in relation to the workload. The study has derived good practice yardsticks for each type of service, and suggests that economies can be achieved by pooling vehicles between departments, by greater use of spot-hiring, by keeping better records of utilisation, and by more co-operation between authorities.

- **Better Procurement Policies.** Good procurement and disposal practices can reduce costs in a number of ways, for example, by greater standardisation of vehicles, by keener buying, and by more systematic replacement decisions.

- **Reducing Operating Costs.** Greater use can be made of drivers' time, and there are various ways of reducing fuel costs.

- **Reducing Maintenance Costs.** Above all, the study shows that there can be very substantial opportunities to reduce maintenance costs. Service intervals are often too short; inspection can often be reduced or eliminated, and other indirect costs reduced. Well-designed bonus schemes can make a major difference. The study provides detailed yardsticks whereby each authority can evaluate its maintenance costs and workshop manning taking into account the size and composition of the fleet involved.

Finally, the study suggests that there are two essential ingredients for successful vehicle fleet management: first, an effective central transport organisation, and second, regular information on how its costs compare with outside sources such as contract hire, so that users can be satisfied that they are obtaining best possible value for money.
C Vehicle Fleet Management

1. Local authorities in England and Wales spend around £1 billion on transport, of which about £700 million is on their own fleets of vehicles. A typical county council might operate 500 vehicles and spend £3 million to £4 million a year on transport excluding police and home-to-school transport; many district councils operate 100 vehicles or more (see Table 1).

<table>
<thead>
<tr>
<th>Table 1: ILLUSTRATIVE VEHICLE FLEET COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>1983-84</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Shire</td>
</tr>
<tr>
<td>County</td>
</tr>
<tr>
<td>Shire District</td>
</tr>
<tr>
<td>£m</td>
</tr>
<tr>
<td>£m</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
</tr>
<tr>
<td>Fuel and Oil</td>
</tr>
<tr>
<td>Overheads and Depot Charges</td>
</tr>
<tr>
<td>Licences and Insurance</td>
</tr>
<tr>
<td>Vehicle Replacement</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

2. The Commission's special study* has shown very wide variations in practice, even between authorities known to be better than average in terms of vehicle fleet management. Numbers of vehicles, maintenance costs and operating costs all vary by factors of two or more, even after differences in local conditions are taken into account. This situation has arisen for two main reasons:

- much of the expenditure on transport is controlled by individual service departments, where it may represent only a small proportion of the department's budget and therefore not get the attention it warrants;
- many workshops are still designed and staffed to meet the demands of the 1970s and have not yet adjusted to the reduction in maintenance workload that has followed from improved vehicle design and contracting fleet sizes.

Table 2 shows the differences observed on some fairly standard performance indicators.

<table>
<thead>
<tr>
<th>Table 2: FLEET SIZE AND VEHICLE COSTS IN SAMPLE AUTHORITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Task Unit</td>
</tr>
<tr>
<td>Lowest           Average          Highest        Good Practice</td>
</tr>
<tr>
<td>Park Labourer     .14               .23           .30           .20</td>
</tr>
<tr>
<td>Building Maintenance Tradesman .08               .24           .70           .33</td>
</tr>
<tr>
<td>Street Lighting 1,000 columns .17               .48           1.70          .35</td>
</tr>
</tbody>
</table>
| Maintenance      
| General Highways Work Employee .14               .37           .83           .33 |
| Mechanical Sweeping 1,000 channel miles swept .13               .43           1.11          .25 |
| Manual Sweeping  
| Orderly .15               .83           .70           .25 |
| Refuse Collection Round 1.13               1.36           1.62          1.20 |
| Social Service 100 client trips per day 2.19               2.89           3.94          2.0 |
| Gully Emptying 100,000 gullies flushed 3.3               8.2           13.3          8.0 |

Annual Costs per Vehicle (1982-83, excluding fuel)

| Cars and Light Vans 1.150               2.040           2.690          1.650 |
| Medium/Large Vans 1.500               2.570           3.700          2.200 |
| Minibuses 1.660               3.030           5.180          2.700 |
| Lorries/Tippers <7.5 tonnes GVW 3.800               4.640           6.190          4.200 |
| Refuse Collection 7.600               11.690          18.190         9.500 |

*Improving Vehicle Fleet Management in Local Government, HMSO.
These notes describe some of the opportunities available to authorities to improve vehicle fleet management; the Commission's special study suggests that these could be worth up to £125 million a year. The notes also set out some of the performance indicators that will be applied by auditors in the coming audit round.

**MAIN IMPROVEMENT OPPORTUNITIES**

3. Exhibit 1 opposite shows the main initiatives that authorities should consider to reduce the number of vehicles and maintenance costs per vehicle without compromising service or safety standards. Some of these are discussed in more detail below.

4. The number of vehicles owned determines about half the total cost of running the fleet — capital costs of new vehicles, tax, insurance, garaging costs and a significant proportion of maintenance are all directly related to fleet size. It follows that the most direct way to reduce transport costs is to reduce the number of vehicles. The study revealed wide variations in the amount of work done by vehicles in different authorities' fleets, adjusted for the scale of services provided. And it suggests that in many authorities fleets could be reduced by 20%. This could be achieved in five main ways:

5. **Avoiding over-caution in setting reserve vehicle levels.** Reserve vehicle levels are often higher than they need be, even given current maintenance practices. This is especially evident in the refuse collection service, where reserves of 35% or more are common even though 25% should suffice in most cases. Maidstone operates only two reserve vehicles for 16 regular rounds — a reserve ratio of 12.5%. This is similar to the ratio in some private contractors. Requirements for reserve vehicles can also be significantly reduced if maintenance is undertaken outside the normal working day. This can be a viable proposition in a main workshop or where there is a municipal bus fleet sharing the main fleet's workshop. One county provides a night shift on four nights per week; some special arrangements have to be made, but the extra costs are justified by the reductions in the number of reserve vehicles.

6. **Pooling vehicles between departments.** Education and social services in particular often fail to pool vehicles such as minibuses for which they have complementary uses. Hillingdon has successfully pooled its minibuses for social services and special schools transport, and social service and education department clients even share the same trip. Many vehicle types — light and medium-sized vans for example — are used on several services and should be pooled between departments, if necessary distinguishing between clean tasks (e.g. school meals delivery) and dirty tasks, such as highway maintenance. In Maidstone, transport management is centralised and there are a number of vehicles that swap departments during the course of a day.

7. **Use of spot hire to reduce reserve vehicle requirements.** It is more economic to cater for the average demand for vehicles in-house and to spot hire during periods of peak demand even when spot hiring rates are double or treble the authority's internal hire rate. Currently, spot hire rates are quite low because of the recession; and specialist vehicles are now more widely available for hire than five years ago. Many authorities wrongly regard cutting back on spot hire as an economy; as a result, levels of spot hire in small authorities in particular are often now too low. Ideally spot hire should be centrally co-ordinated, with rates obtained by annual competitive tender.

8. **Improved records of utilisation.** Current records of utilisation are often unreliable and inconsistent. Better records, regularly reviewed, would alert management to excess vehicles. Most vehicles should be achieving 1,500 hours use per year, and general-purpose light vehicles should achieve 1,700 hours per year.
Exhibit 1

SUMMARY OF POSSIBLE INITIATIVES TO REDUCE TRANSPORT COSTS

Objective: reduce transport costs of owned vehicles

- Review fleet size
  - Examine reserve vehicle levels
  - Pool vehicles between departments
  - Spot hire to meet peak demand
  - Monitor utilisation of individual vehicles
  - Increase inter-authority hiring of specialist vehicles

- Review procurement policies
  - Consider contract hire
  - Standardise
  - Purchase in batches
  - Avoid over-detailed specifications
  - Determine economic lives for each vehicle group
  - Sell by auction
  - Drivers to undertake additional duties
  - Supervise drivers' maintenance
  - Monitor fuel consumption
  - Colour fuel

- Review running and driving costs
  - Extend scheduled visit intervals
  - Review need for specialist inspectors and indirect staff
  - Contract out specialist work
  - Review workshop location

- Review maintenance
  - Introduce vehicle availability bonus scheme
  - Establish Manning levels in relation to "support man hours"

- Review management arrangements
  - Arrange for parts ordering and storage to be under workshops control
Better Procurement Policies

9. Greater inter-authority co-operation, for example, by inter-hiring spare refuse freighters and contracting out maintenance to neighbouring authorities (for example, of vehicles garaged inconveniently far from the nearest in-house workshop). Districts in Lancashire operate a mutual aid scheme for winter maintenance of highways which arranges vehicle transfers between districts. In Norfolk, a significant proportion of vehicle maintenance on the County’s fleet is undertaken by a district council.

10. Having determined the number of vehicles needed, authorities can then economise on their ownership costs by good procurement and replacement policies. For example:

11. Contract hire. Authorities should make regular comparison of their transport costs against the contract hire rates open to them. In-house provision should be cheaper overall in a well run authority; but contract hire is particularly competitive for light vehicles as Exhibit 2 opposite shows. With contract hire the authority enters into a contract with a company for the provision and maintenance of a vehicle or fleet of vehicles over a long period of time, typically three to five years. The contract will stipulate the total vehicle costs excluding fuel, subject only to an annual adjustment for inflation. The contract can also stipulate the provision of a replacement vehicle in the event of a breakdown lasting more than a certain period, except usually for specialised vehicles such as refuse freighters.

12. Increased standardisation of vehicles. In deciding which vehicle type and make to acquire, authorities should consider not only the purchase price but also the whole-life costs including fuel and maintenance. There are likely to be benefits from standardisation on one or two makes of vehicle. Having selected the appropriate vehicle type and make, the best prices are achieved through:

- maximising the number of vehicles purchased at one time;
- avoidance of over-elaborate specifications;
- requesting of retroactive discounts from suppliers.

This requires central co-ordination by a transport specialist, and may necessitate streamlining of current standing orders. As major purchasers of vehicles, local authorities should be able to achieve discounts of at least 18%.

13. Planned replacement. Good practice should include regular vehicle-by-vehicle analysis of the trade-off between maintenance and replacement costs. In the absence of such an approach, authorities tend to keep vehicles too long, probably because it can appear attractive to postpone replacement as a short-term economy measure.

14. Sale by auction. This is administratively convenient and increasingly popular; other methods should require specific justification.

15. Good management can also secure worthwhile economies in fuel costs, and improvements in driver productivity.

16. Competitive driver productivity. To secure best value, authorities should ensure that drivers undertake other work when there is insufficient driving work (e.g. by designating them as highways drivers/road men). They should also avoid assigning drivers exclusively to one vehicle or vehicle type and ensure adequate supervision of drivers’ maintenance of vehicles.

17. Attention to potential fuel economies. Tighter control of issues and monitoring of consumption against mileage (e.g. with automatic dispensing equipment) is a worthwhile investment for most authorities. Many authorities are making increasing use of alternative fuels such as LPG and electric vehicles. The indications are that LPG can be economic if vehicles are travelling more than 8,000 miles a year. The simple device of colouring fuel can also effectively discourage pilfering.

Economic Running and Driving Costs
Exhibit 2

For many sample authorities, contract hire rates may be attractive

ANNUAL COSTS VS CONTRACT HIRE
% authorities where in-house costs are higher

CARS AND LIGHT VANS

MEDIUM VANS

REFUSE COLLECTION

MINIBUSES

LORRIES (3.5–7.5T)

64%

30-40% of average fleet

Source: Quoted contract hire rates
Analysis of sample authorities' costs

57
Reduced Maintenance Costs

18. After reviewing fleet size, the next most important item for authorities to review is maintenance. In many cases, maintenance costs per vehicle can be reduced by 20% without reducing availability or safety levels. Also, vehicle availability can be improved by better maintenance practices. Some of the measures authorities can adopt to improve maintenance performance are set out below:

19. Fewer scheduled workshop visits and less frequent servicing. As Table 3 shows, some authorities' vehicles make scheduled visits to workshops up to four times more frequently than those of others maintaining their vehicles in equally roadworthy condition. Some authorities incur unnecessary costs by servicing their vehicles at every scheduled visit to the workshop, irrespective of mileage since the last visit. Service intervals should conform to the manufacturers' specifications.

Table 3: OBSERVED SAFETY-CHECK INTERVALS

<table>
<thead>
<tr>
<th>Vehicle Category</th>
<th>Lowest</th>
<th>Average</th>
<th>Highest</th>
<th>Guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light vehicles, very low mileage</td>
<td>4</td>
<td>12</td>
<td>26</td>
<td>25</td>
</tr>
<tr>
<td>Light vehicles, normal mileage</td>
<td>4</td>
<td>9</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Normal HGV</td>
<td>4</td>
<td>7</td>
<td>16</td>
<td>12-16</td>
</tr>
<tr>
<td>Special HGV</td>
<td>4</td>
<td>6</td>
<td>9</td>
<td>6-8</td>
</tr>
</tbody>
</table>

20. Inspection by skilled fitters. Workshops which rely on the skilled fitter to detect vehicle defects maintain their fleets equally satisfactorily, 30% more economically and with faster vehicle turnaround than workshops which make separate inspection (see Table 4). A full-time workshop inspector/examiner is only likely to be justifiable in fleets of more than about 300 vehicles (where there is sufficient work examining vehicles with major problems or for potential disposal) or where there is a light MOT station.

Table 4: WORKSHOP PRACTICES AND MAINTENANCE COSTS

<table>
<thead>
<tr>
<th>Workshop Practice</th>
<th>Cost per Weighted Vehicle £ p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>No specialist inspectors</td>
<td>£680</td>
</tr>
<tr>
<td>Some staff inspectors but routine service inspection by fitters</td>
<td>790</td>
</tr>
<tr>
<td>Full inspection at all scheduled visits</td>
<td>990</td>
</tr>
<tr>
<td>No body/paint shops or only minor repairs</td>
<td>730</td>
</tr>
<tr>
<td>Full body and paint shop</td>
<td>960</td>
</tr>
</tbody>
</table>

21. Fewer indirect staff. A receptionist to deal with booking-in vehicles and external liaison should not be necessary if fewer than 20 vehicles are entering the workshop each day. But if more than 20 vehicles enter a day, the foreman/chargehand will need assistance with reception duties. Other indirect staff should not be needed except in the largest workshops; employment of semi-skilled fitters for lubrication and moving vehicles, or of full-time vehicle cleaners is not recommended.

22. Contracting out specialist maintenance work. Specialist work such as bodywork and painting, unit overhauls and fitting additional equipment to vehicles should only be undertaken in-house where the full cost is identified and shown to be cheaper than contracting out. This is unlikely to be the case for a mixed fleet except where police, fire or bus fleets are maintained in the same workshop. The argument that specialist work occupies spare capacity is usually only valid in the very short term. Often the unidentified overhead costs of such work — under-utilised equipment and the need for more supervision than routine work — are the underlying cause of overall poor workshop performance (see Table 4 above). For a typical district council the cost penalty could be £100,000 per annum.

23. Convenient location of premises. It is advantageous to locate maintenance facilities close to users' garaging depots. In a county, this implies a network of small workshops, perhaps with one central repair workshop.
24. **Effective bonus schemes.** Traditional bonus schemes based on job by job assessment of work content are associated with high maintenance costs. By concentrating on the amount of work done (the input) they either encourage over-maintenance or require duplication of inspection work to control them (see Table 5). They are also costly to administer (up to 40p for every £1 of bonus paid).

**Table 5: RESULTS OF DIFFERENT INCENTIVE SCHEMES**

<table>
<thead>
<tr>
<th>Type of Incentive Scheme</th>
<th>Charged Manhours per Weighted Vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Range</td>
</tr>
<tr>
<td>Traditional job by job assessment of work content with</td>
<td>58-76</td>
</tr>
<tr>
<td>pre-inspection</td>
<td></td>
</tr>
<tr>
<td>Traditional job by job assessment of work content without</td>
<td>45-62</td>
</tr>
<tr>
<td>pre-inspection</td>
<td></td>
</tr>
<tr>
<td>Support manhours, vehicle availability, task completion</td>
<td>34-52</td>
</tr>
<tr>
<td>or time allowance per workshop visit</td>
<td></td>
</tr>
</tbody>
</table>

25. A preferable type of scheme is one in which bonus reflects the number of vehicles supported per man and the success with which vehicles are kept in road-worthy condition. Such schemes are especially appropriate where implemented subsequent to a traditional scheme which has established a reasonable level of productivity. They require:

- a manning level agreement based on an assessment of total support man-hours needed for the fleet;
- bonus, paid according to measures of vehicle availability or task completion (e.g. number of services).

Nottinghamshire have adopted a bonus scheme based on support manhours/vehicle availability and have achieved very high levels of vehicle availability, as Table 6 shows:

**Table 6: VEHICLE DAYS OFF THE ROAD/YEAR**

<table>
<thead>
<tr>
<th></th>
<th>Good Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cars and Light Vans</td>
<td>6</td>
</tr>
<tr>
<td>Medium Vans</td>
<td>9</td>
</tr>
<tr>
<td>HGV up to 7.5T GVW</td>
<td>15</td>
</tr>
<tr>
<td>HGV 7.5-16T GVW</td>
<td>17</td>
</tr>
</tbody>
</table>

26. **Competitive workshop productivity.** Exhibit 3 overleaf shows the variation in weighted vehicles per workshop in the authorities surveyed, and the range of local maintenance costs. Manning levels should be calculated by an assessment of the total support manhours required for the fleet. To perform this calculation precisely it is necessary to apply a weighting to each category of vehicle, reflecting the typical extent of maintenance work. The special study derived a set of weights for performing this calculation. An average vehicle has a weight of between 2.0 and 2.8 in a district council and between 1.5 and 2.0 in a county council. Further details are given in the report. Labour utilisation may be poor due to ineffective working, undeclared lost time, excessive work content or time spent attending the transport user (for example travelling time and ferrying vehicles). It is important to record lost time and the reasons for it so that it can be controlled and justified.

27. **Parts ordering and storage.** It should minimise costs and stock levels if these are under workshops’ control because double handling of information is avoided and the workshops have the clearest understanding of the engineering aspects, such as patterns of component failures. Overmanning should be avoided by use of open substores controlled by the foreman/chargehand. There should be low stockholding, comprising mainly service spares, key spares for priority vehicles and those presenting supply problems.
Exhibit 3

Most authorities studied had excess maintenance capacity

MAINTENANCE CAPACITY INDICATORS – 1984

16 Sample Authorities

WEIGHTED VEHICLES PER WORKSHOP PERSONNEL (ALL GRADES)

On average, the higher cost authorities have the potential to reduce their annual maintenance costs by £250 per weighted vehicle

SAMPLE AUTHORITIES: TOTAL MAINTENANCE COST PER WEIGHTED VEHICLE – 1983

Improvement at good practice = 23%
28. The Commission considers that the good practices outlined above will be difficult to achieve unless two further conditions are met:

- First, responsibility for transport should be centralised. Service departments must of course be responsible for the way vehicles are deployed and used. But other decisions require effective co-ordination and expertise, especially procurement, reserve vehicle numbers, spot-hire, maintenance arrangements, licensing and insurance. This is most readily achieved by centralising control under a transport manager. To avoid complacency and inefficiency, the central transport organisation should then be placed under firm competitive pressure by users: regular comparisons should be made with contract hire rates and outside maintenance costs, and user departments should have the ultimate sanction of being able to go outside the authority for their vehicles or maintenance if they can demonstrate that it would be consistently cheaper.

- Second, effective management information systems will be necessary to provide critical facts on vehicle costs and utilisation. Authorities with over 100 vehicles should consider computerising their management information, and above about 250 vehicles the benefits of computerisation will be considerable.

Exhibit 4 overleaf shows the main features of a successful transport organisation.

29. Local authorities can set improvements in train now by the following steps:

(i) As a starting point, ensure that they have a comprehensive inventory of the fleet.

(ii) Next, compare their fleet size against the yardsticks listed in Table 2 above. This should be followed by a review of the vehicles used on each task to see whether improvements in productivity can be achieved by better deployment of vehicles to tasks.

(iii) Review the list of initiatives set out in Exhibit 1 and determine which topics could be relevant and useful to reduce local transport costs.

(iv) Assess the present transport management arrangements against the criteria set out in Exhibit 4.

(v) Review the management information system; where appropriate computerising it.
### Vision

Provide a central transport organisation that will provide service departments with vehicles 20% cheaper than if they obtained them on contract-hire.

### Strategy

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>STRUCTURE</th>
<th>STYLE</th>
<th>SYSTEMS</th>
<th>SKILLS/STAFFING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer a &quot;contract hire with maintenance&quot; service to the users</td>
<td>Central control of all transport provision and maintenance</td>
<td>Run like a commercial hire firm. Non-bureaucratic approach</td>
<td>Computerised management information system</td>
<td>Lean, professional staffing (2 or 3 central staff in a district, no more than 10 in a county). Assign the following responsibilities*:—</td>
</tr>
<tr>
<td>Use available scale to negotiate better purchasing discounts on new vehicles and spare parts. Spread overheads over the whole fleet</td>
<td>Maintenance treated as separate cost centre within transport</td>
<td>Treat user departments as &quot;customers&quot;</td>
<td>— utilisation</td>
<td>— procurement and disposal of vehicles</td>
</tr>
<tr>
<td>Check internal hire rates against private firms. Users free to go outside if consistently cheaper to do so</td>
<td>Use outside garages for maintenance where appropriate</td>
<td>Liaise with neighbouring authorities</td>
<td>— fuel consumption</td>
<td>— customer liaison/sales manager</td>
</tr>
<tr>
<td>Pool all reserve vehicles (except police and fire)</td>
<td>In counties, locate workshops close to the main users' depots</td>
<td>Market services to neighbouring authorities and health authorities</td>
<td>— maintenance</td>
<td>— utilisation officer to co-ordinate spot hiring and secure utilisation of 1,500 hours/year</td>
</tr>
<tr>
<td>Maintain vehicles owned by police and fire (in counties)</td>
<td></td>
<td>Council Committee agrees budget and main programme but avoids involvement in details</td>
<td>— bonus scheme, based on vehicle availability</td>
<td>— information officer</td>
</tr>
<tr>
<td>Seek arrangements with neighbouring authorities for maintenance of out-stationed vehicles and pooling reserve specialist vehicles</td>
<td></td>
<td>Workshop manning levels based on support man hours</td>
<td>— Regular checking of internal charges and costs against</td>
<td>— maintenance manager, with a target of £700 per weighted vehicle</td>
</tr>
<tr>
<td>Contract-out for vehicles and maintenance where more economic to do so (eg. for specialist maintenance work, vehicles with irregular demand)</td>
<td></td>
<td></td>
<td>— contract hire</td>
<td></td>
</tr>
</tbody>
</table>
PROPOSED PERFORMANCE INDICATORS

30. The Commission has produced an Audit Guide/Value for Money handbook which contains full details of performance indicators by which authorities can judge their efficiency. A selection of these for vehicle operations is given in Table 2 above, and Table 7 below does the same for maintenance; (the notion of weighted vehicles is explained in paragraph 26 above).

Table 7: PROPOSED INDICATORS OF VEHICLE MAINTENANCE PERFORMANCE 1984-85

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Practice</th>
<th>Unsatisfactory Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days off-the-road per annum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— cars and light vans</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>— medium vans</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>— heavy goods vehicles up to 7.5T GVW</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>— heavy goods vehicles over 7.5T GVW</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>— refuse collection vehicles</td>
<td>25</td>
<td>35</td>
</tr>
<tr>
<td>Annual Maintenance Cost Per Weighted Vehicle</td>
<td>£700</td>
<td>£850</td>
</tr>
<tr>
<td>(Parts Cost included in above Maintenance Cost)</td>
<td>(£250)</td>
<td></td>
</tr>
<tr>
<td>Weighted Vehicles Per Workshop Employee (all grades)</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Weighted Vehicles Per Fitter</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Booked Hours Per Weighted Vehicle p.a.</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Weighted Vehicles Per Bay</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Bay Utilisation</td>
<td>70%-80%</td>
<td></td>
</tr>
<tr>
<td>% Maintenance Contracted Out (Counties)</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Safety Check Intervals (normal mileage, excl. Special HGV)</td>
<td>12 weeks</td>
<td></td>
</tr>
</tbody>
</table>

31. Authorities or auditors interested in examining vehicle fleet management in greater depth should read the Commission’s report referred to earlier, *Improving Vehicle Fleet Management in Local Government*, available from HMSO, price £3.50. The report identifies a number of individual authorities whose officers will no doubt be pleased to respond to specific queries about different elements of good transport management practice. Further information on ways to review efficiency and set improvements in train is contained in the Audit Guide available from the Commission (there are separate volumes for vehicle operations and vehicle maintenance; in addition a short guide to municipal bus maintenance has been produced). Any general queries or comments should be addressed to the project manager concerned, Mr. S. E. Evans at the Audit Commission, 1 Vincent Square, London SW1P 2PN (telephone number 01-828-1212).
Additional copies of this year’s material are available from the Commission’s Bristol office: St Lawrence House, 29-31 Broad Street, Bristol BS1 2EX, at a cost of £2 per copy (payment with order).

14. Any comments on the contents of this handbook, will be gratefully received – especially if they contain some constructive suggestions for improvement, as did many of the comments made on previous volumes. They should be addressed directly to Peter Brokenshire, Director of Management Practice, Audit Commission, 1 Vincent Square, London SW1P 2PN, 01-828 1212.
Local authorities in England and Wales spend £1,500 million on social services for the 90,000 children in their care and for the elderly. Few of the activities of local government are as difficult to manage, and few are so acutely affected by the combination of limited resources and rising demands and needs.

Auditors will be examining both of these areas during the coming round of VFM audits, using the results of special studies undertaken by the Commission. This chapter of the handbook describes some of the ways in which these studies suggest value for money could be improved within these two groups of services, which are briefly summarised below:

**Services for Children in Care**

The study focuses on three main opportunities:

- **Increasing fostering rates.** Residential care costs on average £75 per week more than fostering. Fostering percentages vary considerably between authorities; comparatively little of this variation is explained by differences in the characteristics of the children being cared for, while a good deal is due to differences in the authorities' degree of commitment to fostering.

- **Increasing adoption rates.** The study likewise suggests that some authorities could considerably increase the number of older children placed for adoption, though, like increased fostering, this requires a high degree of commitment, and a significant initial investment in specialist staff.

- **Controlling admission to expensive forms of care.** Community Homes with Education, and Observation and Assessment Centres can cost from £15,000-£45,000 per year. While essential for some children, the study suggests that some authorities could do more to control the numbers admitted to such expensive forms of care, and their length of stay.

**Services for the Elderly**

Local authorities provide a wide variety of services to the growing number of old people; and these only constitute a small part of the total range of care available to them. The most appropriate set of services depends on the degree of dependency of the old person, and on the availability of other services, whether from their family or from the NHS, and thus varies from individual to individual and from authority to authority. In very general terms, NHS provision is the most expensive form of care, and community care is the cheapest, and usually the best for most old people, unless there is a definite reason for their being in residential care. The study suggests that some authorities could significantly improve the value for money derived from these services by:

- **Concentrating residential services on high-dependency clients.** There is evidence that better use could be made of this scarce and expensive resource by ensuring that only those clients are admitted who really need it.

- **Increasing the emphasis on community care.** There is evidence that some authorities could well spend more on community care, and again, make sure that the services are provided to those who need them most.

- **Making better use of available resources,** for example in the staffing of residential homes, and by improving the efficiency of other services such as home helps, transport and meals.
1. The total costs incurred by local authorities' social services departments on services for children in care and the elderly almost certainly exceed £1.5 billion a year. Table 1 below shows the cost of some of the main services involved.

<table>
<thead>
<tr>
<th>Services</th>
<th>England and Wales</th>
<th>Typical Shire County</th>
<th>Typical Met. District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children in care</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Fostering</td>
<td>80</td>
<td>1.0</td>
<td>0.6</td>
</tr>
<tr>
<td>- Residential care</td>
<td>310</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>- Fieldwork</td>
<td>180</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Care for the elderly</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Residential care</td>
<td>420</td>
<td>5.0</td>
<td>3.0</td>
</tr>
<tr>
<td>- Home helps</td>
<td>270</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>- Day care</td>
<td>40</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>- Meals-on-wheels</td>
<td>20</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1320</td>
<td>14.5</td>
<td>9.0</td>
</tr>
</tbody>
</table>

2. Social and demographic changes will increase the pressure on social services departments. Two special studies have therefore been carried out in recent years to identify possible opportunities to secure better value for money in providing services for the elderly and for the children in the care of local authorities in England and Wales. The first study on children in care was completed for the former Audit Inspectorate in late 1981 and has been recently updated; the second on services for the elderly was carried out in the last 12 months for the Commission, and also builds on previous work done for the former Audit Inspectorate. One report has already been discussed widely within the social work profession and elsewhere, *The Provision of Child Care: A Study of Eight Local Authorities in England and Wales*. A second report by the Audit Commission summarising the findings of the study of the way services for the elderly are managed will appear shortly.

3. These notes summarise in turn:
   (i) The improvement opportunities that the studies suggest are worth examination in most social services departments.
   (ii) The performance indicators that authorities and auditors can use to determine whether changes are worth serious consideration at the local level.

**POTENTIAL IMPROVEMENT OPPORTUNITIES**

4. Directors of Social Services and their staffs are responsible for deploying the resources under their control — principally residential staff, home helps, staff providing meals-on-wheels, social workers and other professional staff — to provide appropriate services for the children in their authorities' care and the elderly who for one reason or another require some level of support from the local authorities. The management task is, clearly, a difficult and sophisticated one:
   (a) Needs vary considerably from one authority to the other, and the number of children in care, and of old people requiring some support from the formal sector (i.e. the National Health Service or local authorities), is not
Support for Children in Care

constant. Local social and economic conditions as well as demography directly affect both need and demand for services. And relatively small increases in the number of people highly dependent on the public sector can have a large effect on expenditure incurred by individual social services departments.

(b) The level and mix of resources available to and provided by the local authority also varies widely. Some authorities have a tradition of relatively generous provision of social services support; others have, historically, spent less than similar authorities. Moreover, where residential accommodation exists there is a natural tendency among the staff directly involved to want to see it used to the fullest possible extent, perhaps without always giving sufficient regard for the other alternatives and because the cost at the margin is relatively small.

(c) Levels of care available in the community are difficult to assess. It has been estimated that over 95% of care for the elderly is provided by family and friends with little or no support from the formal sector. But in some areas, particularly in deprived inner city areas, community support may not be available to the same degree. Similarly, in some areas, it is no doubt easier to recruit suitable foster parents than in others. It will be evident that relatively small differences in the levels of community support or in the availability of suitable foster parents can also have a large effect on the need for local social services provision.

(d) Professional opinion on the most appropriate mode of care for particular groups or clients changes as new initiatives are undertaken and evaluated.

(e) Social services need to work closely with other local authority services — most notably education and housing — as well as with the National Health Service, the courts, and the private and voluntary sectors. Co-ordinating different services to provide appropriate support for individual clients is difficult at the very best of times.

5. The situation has become more difficult recently. Pressure on local authority budgets has coincided with unfavourable demographic shifts — most notably in the number of people over 75 who are particularly likely to become dependent on the local authority social services — and increased pressure on hospital beds and a rapid growth in private residential nursing accommodation.

6. There is a wide variation in patterns of social services' support both for children in care and the elderly. The rest of this section identifies the main opportunities that appear to be available in many authorities to secure better value for the very considerable sums of public money now devoted to these services.

7. Analysis of the factors underlying the differences in the patterns of child care and the impact they might have on costs and 'value' for money provided, suggests that three main opportunities are worth evaluating at the local level in many instances:

(i) Increasing fostering rates and the utilisation of fostering as an alternative to more expensive residential care.

(ii) Increasing adoption as an alternative to fostering.

(iii) Controlling admission to the most expensive forms of care: community homes with education (CHEs) and observation and assessment centres (O & As).

The primary thrust of the first two initiatives is for better care; that they are also less expensive forms of care is an added bonus. An overview of developments in each of these areas, is set out below.

8. Fostering. The original report for the former Audit Inspectorate concluded that there was some scope for increased fostering in most of the authorities visited, and that a significant initial investment in a programme which was required to
provide for an increase of, say, 10% in the percentage of children fostered could be recouped within three years.

— only a small part of the observed variation in fostering percentages could be accounted for by differences in the characteristics of the children in care at each authority;
— there was a strong link between fostering percentage and an authority’s commitment to fostering in its staffing policy;
— there was no evidence to suggest a correlation between a high fostering percentage and a high rate of breakdown;
— cost differentials between foster care and a rationalisation of residential care were striking, but potential savings could only be realised through a rationalisation of an authority’s own residential accommodation following increased emphasis on fostering.

In the period from March 1981 to March 1983, the overall percentages of children in care in England and Wales, by type of placement have changed as follows:

<table>
<thead>
<tr>
<th>Placement of Children in Care</th>
<th>1981</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boarded out</td>
<td>37%</td>
<td>44%</td>
</tr>
<tr>
<td>Residential</td>
<td>31%</td>
<td>27%</td>
</tr>
<tr>
<td>Home-on-trial</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: CIPFA Personal Social Services Statistics

9. The largest percentage movement has been the increase in the proportion of children in care boarded out by local authorities. Of the 104 authorities for which data was available from CIPFA statistics for the years ended March 1981 and March 1983, the changes in the percentages of children fostered were as follows:

<table>
<thead>
<tr>
<th>1981 Fostering %</th>
<th>Reduction in fostering %</th>
<th>Increase in fostering %</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&gt; 10%</td>
<td>5-10%</td>
<td>0-5%</td>
</tr>
<tr>
<td>10-20%</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>20-30%</td>
<td>2</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>30-40%</td>
<td>2</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>40-50%</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>50-60%</td>
<td>2</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>60-70%</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Of these authorities, 50% have increased the percentage of children in care fostered by at least six points over the two years, the larger increases in fostering percentage (greater than 10%) having been obtained by those authorities entering the period with fostering percentages at or below the then national average. Analysis suggests that the increase cannot be attributed to factors outside authorities’ control; it appears to reflect successful efforts by management to find suitable foster homes for more difficult children as well as for those easier to place. Specifically:

(a) The overall increase in the percentage of children in care who are placed with foster parents has arisen despite a reduction in the proportion of children in care who are under 10 years of age, who might be considered more easily placed with foster parents. The proportion of children generally considered more easy to place has fallen slightly between 1979 and 1981.
The increase reflects the ability of authorities to develop foster placements for both of the sexes.

Further, the overall increase in the percentage of children in care who are placed with foster parents has not arisen as a result of an increase in the proportion of children in care admitted under Section 1 of the Children's Act 1948/Section 2 of the Child Care Act 1980 who might be considered easier to place than children admitted under Care Orders; the proportion of children generally considered more easy to place has in fact fallen slightly between 1979 and 1982.

Using average costs developed from CIPFA statistics for the year ended March 1983, the potential savings from an increased emphasis towards fostering and away from an authority's own residential accommodation are estimated to be approximately £75 per week, on average, per child fostered. Of this figure, 40% is dependent on the closure of residential accommodation not subsequently required. These potential savings would amount up to approximately £200,000 a year for an authority with 600 children in care, where the national average of approximately 19% were placed in community homes, and to over £30 million a year for authorities in England and Wales in total.

Given the costs of fostering and residential care options, the extent of potential savings depends on the proportion of children in residential care to be fostered as a part of an enhanced fostering programme, and to the average increase in staffing considered to be required for those remaining in residential care. Table 4 shows the figures.

Table 4: MAXIMUM INCREASE IN STAFF: CLIENT RATIO FOR CHILDREN REMAINING

<table>
<thead>
<tr>
<th>Proportion of children in community homes to be fostered</th>
<th>To maintain potential savings of £75/week</th>
<th>To make no savings (i.e. to break even)</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30</td>
<td>12</td>
<td>37</td>
</tr>
<tr>
<td>40</td>
<td>29</td>
<td>58</td>
</tr>
<tr>
<td>50</td>
<td>51</td>
<td>86</td>
</tr>
<tr>
<td>60</td>
<td>86</td>
<td>130</td>
</tr>
</tbody>
</table>

The average increase in the staff:client ratio required to support the children remaining in residential care must be a matter for professional judgement. However, as the proportion of children boarded out is increased, the likelihood is that those remaining in residential care will, on average, require higher levels of care and control.

Adoption. The original report concluded that most of the authorities visited could increase significantly the numbers of older children placed for adoption. The level of adoption of children in care, especially of older children in care, was closely linked to an authority's commitment to adoption in its staffing policy, although adoption could be costly, especially if it were necessary to apply to the courts to dispense with parental consent.

Since the original report was published, changes in legislation have been enacted which enable local authorities to apply to the courts to dispense with parental consent, and thereby to 'free' children for adoption at an earlier stage than had previously been allowed. In many instances therefore, the burden of the court case may be removed from potential adoptive parents by the local authority. Until recently, however, there was some concern as to the status of children so 'freed'; local authorities were unclear whether the current legislation empowered them to spend any money on these children prior to their placement with adoptive parents. This area of concern is now covered by a formula developed by the DHSS.

The process of 'freeing for adoption' can indeed be costly. But the authority which had achieved the highest level of adoption of those visited confirms that the
process remains cost-effective in the longer term — especially for younger children who might otherwise be placed in long-term foster care until the age of 18 which will involve payment of fostering allowances and (most likely) continued support by social workers.

16. Also, the provision for payment of 'approved adoption allowances' to adoptive parents, originally included in Section 1 of the 1975 Children's Act, has been given effect in law, and a number of local authorities have submitted adoption allowance schemes to the DHSS for approval. Subsequent developments suggest that payments under these schemes appear to be identical or similar to the allowances that might otherwise have been paid should a child have remained in foster care. Any savings arising from the adoption of children where such approved adoption allowances are paid only arises, therefore, in terms of the social work time no longer required to support the previous foster placement, but gives a greater sense of security to both the child and parents.

17. The potential for increasing the proportion of children in care placed for adoption in most authorities continues to exist. In the authority which had achieved the highest level of adoption of those visited during the original study, the numbers placed for adoption since the time of visit have been as follows:

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>Number of Children Placed for Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1980/81 (2 years)</td>
<td>32</td>
</tr>
<tr>
<td>March 1982</td>
<td>32 (+18 awaiting placement)</td>
</tr>
<tr>
<td>March 1983</td>
<td>49 (+13 awaiting placement)</td>
</tr>
<tr>
<td>March 1984</td>
<td>32 (+19 awaiting placement)</td>
</tr>
</tbody>
</table>

Of the 32 children placed for adoption in the year to March 1984 almost 70% were other than the very young babies considered most easy to place. These levels of adoption are supported by a central, specialised, adoption team in the authority concerned and may not be attainable by many authorities without a similar commitment.

18. Community Homes with Education (CHEs) and Observation and Assessment (O & As). The original report concluded that control over admission to these expensive facilities, and control over length of stay in relation to O & A centres, was essential in maintaining value for money. The degree of control exerted by authorities varied considerably. Control was particularly important because:

- both CHEs and O & A centres were the most expensive care resources available to local authorities;
- whilst some of the authorities had reduced their utilisation of CHEs considerably, following reviews of the children placed in them, most authorities provided no community-based resource as an alternative to CHEs;
- less expensive community-based alternatives to residential O & A provision existed, but few authorities had such facilities.

19. In the period since the original report was developed, CHEs and O & A centres have continued to be the most expensive care resources available to local authorities. Placement of a child in a CHE for a period of one to three years, typical at the time of the study, would cost an authority an average of £15,000-£45,000 at current prices. Placement of a child for the generally accepted period of three months in an O & A centre would cost an authority, on average, around £3,500. These costs may, however, be doubled in instances in which the more expensive regional facilities are utilised.

20. The utilisation of CHEs has fallen markedly in the last two years; at the year ended March 1981 approximately 6,500 children (61% of children in care) were accommodated in these establishments, whereas, at the year ended March 1983, this figure had fallen to approximately 3,800 children (less than 41% of children in care). Similarly, the utilisation of O & A centres has fallen in the same period, from
approximately 4,500 children in O & A centres in 1981 to approximately 3,900 children at the year ended March 1983; the proportion of children in care accommodated in O & A centres has, however, remained at around 41% of the total.

Services for the Elderly

21. There is a widespread professional view that if old people can be supported to live in the community without undue risk, their contact with the community and relative independence adds to their quality of life (unless they have a definite preference for residential care). This implies that, in general, to secure most value for an old person (although not necessarily for friends and relatives), hospital and residential care should be used only when care in the community clearly cannot cope. In general, hospital care is more expensive to the public sector than residential care; and residential care is generally more expensive to social services than care in the community (although a very intensive package of care in the community can, in some places, cost more than a place in a residential home). Therefore, for many, the form of care which is most effective and appropriate is also less expensive for the local authority to provide. In particular, for many of the least dependent old people who would normally be admitted to residential care, less intensive community-based alternatives offer the prospect of being better for them and also significantly less expensive.

22. As Exhibit 1 indicates, there is a wide variation among authorities in the provision of residential care. Only a little of this variation can be explained in terms of differences in demographic factors and NHS hospital provision. Some authorities have found that general improvements in community care and for controlling admissions to residential care have reduced demand for residential care. These authorities have been able to plan for increases in the number of old people without increasing their level of residential provision by corresponding amounts.

Exhibit 1

Residential Provision

23. The Commission's study, to be published shortly by HMSO, suggests that there are three main opportunities to improve value for money in providing social services to the elderly:

(i) Concentrate residential services on high-dependency clients.
(ii) Increase emphasis on community care, and support for carers.
(iii) Make better use of existing resources.

These opportunities are summarised below.
24. Concentrate residential services on high-dependency clients. In the short term, authorities with relatively high levels of residential provision may be able to effect a worthwhile shift in their use of resources by emphasising the provision of care in the community to those on the borderline of requiring residential care; and then, possibly, securing reductions in their level of residential provision. In total, the authorities with higher than average residential provision spend at least £20 million per annum more than if they were at the national average, after taking account of differences in unit costs, known demographic factors and the additional community services required. Authorities wishing to reduce their provision levels towards the national average of 17 places per thousand elderly people in the population will need to ensure that residential care is concentrated on those most in need, and that those who would henceforth be cared for in the community receive adequate support.

25. In the longer term, there is prospect of increasing value to the elderly themselves by providing specific community-based alternatives to residential care for some groups of the elderly. Even after taking account of the projected increase in demand, these alternative forms of support could allow a further reduction in residential provision to below the current national average. There is a range of community-based alternatives, including:

(a) 'Intensive community care': the provision of a co-ordinated package of community care provided at relatively high levels, e.g. using specialist home helps who may visit an old person several times a day.

(b) 'Very sheltered housing': an extension of conventional sheltered housing (usually provided as a co-operative venture between the social services and housing departments), with specialised facilities, residential wardens and other community services.

(c) 'Phased care': the use of regular short-term placements in residential care, often combined with intensive community care while the old people are in their own homes.

26. If these types of care are to be realistic alternatives to residential care, determined and effective management is needed to provide sufficiently intensive packages of care on a sufficient scale, to achieve the co-ordination of the necessary services to individual clients in the community and to secure the changes necessary. The authorities providing these alternatives believed that it was possible for this to be done. There was, however, little consensus of view among them about the extent to which each alternative was yet proven.

27. The provision of explicit alternatives to residential care may make it possible either to reduce the number of residential homes or to meet the growth in demand for residential places from those who cannot be supported in the community within the existing provision.

28. But authorities can only plan for the appropriate shift in resources if they have some reliable means of evaluating their current provision, and the extent to which it is genuinely being focussed on those in the greatest need. This necessitates reliable information about the dependency levels of the authority's elderly clients. Some authorities are getting this information, or at least have data about the dependency levels of the people currently in their residential homes. Of the seven authorities studied five have little or no up-to-date information which would allow them to plan such a change in their provision.

29. There may be substantial long-term benefits from diverting resources away from residential care:

— analysis suggests that the eventual scope for reduction in residential provision nationally may be as much as one-third or more of current provision levels. The importance of this issue is indicated by the amounts of money involved. Depending on the specific residential care alternatives chosen, and their cost, the difference in revenue cost between residential care and its alternatives for one-third of those currently in residential care is up to £55
million per annum nationally. (This figure includes the £20 million which may be available in the relatively short-term as discussed above.); a move towards community-based alternatives to residential care would also allow some old people to live with greater independence and with more contact with the community through increased aids to daily living. Visits by local community representatives may be required if this is to be achieved.

30. The importance and urgency of pursuing these prospective benefits is emphasised by the financial implications of the continuing growth in the number of people aged 75 and over. If policies towards care for the elderly are not changed, this growth would imply a need to increase residential expenditure by about £40 million per annum nationally by 1991. It should therefore be worthwhile for most authorities to invest in the resources to obtain the local information required. Authorities could then set about implementing any implied changes in the balance of their resources.

31. Increase Emphasis on Community Care. The pattern of services provided to old people living in the community is very diverse as Exhibit 2 illustrates. In different authorities — and often in different areas of the same authority — the amount and type of service provided for old people with similar needs varies considerably. Of the 25 authorities in England and Wales spending less than 60% of the national average expenditure on community services — after taking account of differences in the level of residential care provision — two were visited during the Special Study. These two authorities placed considerable emphasis on the allocation of services to those most in need. Even so, the services given to the highly dependent could not be sufficient for basic care unless there is heavy dependence on care provided by friends and relatives. Authorities with relatively low levels of expenditure therefore need to check that they are co-ordinating their provision of services to those most in need; and that they are effectively mobilising other possible forms of support.

Exhibit 2

32. Some other authorities provided a level of services which was well above this low level. Only a small part of this higher level of provision could be explained in terms of different unit costs, known demographic factors, and differences in local residential and hospital provision. Nationally up to £70 million a year, or 20% of total community expenditure is spent on providing services over and above the lowest levels seen in England or Wales.

33. The two authorities studied which provided the highest level of community services spent about three times as much per elderly person as the lowest authorities (after making adjustments for different unit costs and differences in local residential and hospital provision). For the highly dependent this extra
expenditure provided care to more people, including the provision of additional relief to caring friends and relatives. For the less dependent the use of the extra expenditure was very varied, ranging from the provision of low-intensity day care and lunch clubs to additional provision of home helps to collect pensions and do shopping.

34. In general, the provision of higher levels of community care is likely to provide additional value to the old people concerned. It is therefore a matter for local political judgement as to how much should be spent, and on what services, to achieve this additional value. However, the decision to provide community service at a high level means that less money is available for other purposes. Given the very large amounts of money involved — and against the background of continuing growth in demand — authorities need to satisfy themselves that this expenditure corresponds with explicit policies about the purpose of each type of community care and the amounts of care which should be provided to individual old people in the context of possible alternative uses of the money. They would also have to ensure that, where relevant and possible, such judgements are based on information and research about the preventative effects of particular community services.

35. *Better use of available resources.* Finally, a number of suggestions which might result in the better use of the available resources.

(a) **Review of residential accommodation staffing.** Authorities can take the following steps where employee costs per resident appear out of line with those for similar authorities:
- determine whether there is an explanation in the dependency levels of residents: is a high proportion of the residents severely physically disabled?
- review the combined effect of unexpected overtime, use of agency staff and unfilled vacancies to see whether these indicate the need for new staffing policies;
- evaluate the possibility of combining the roles of sleeping and active night-staff. Due to increasing dependency of residents, some authorities have recruited active night-staff; but the staff who formerly slept overnight (and were paid in allowance for doing so) have been retained. The cost of this duplication of effort, in the form of allowances for overnight 'sleepers' in a medium-sized county can easily exceed £75,000 a year;
- develop plans for rationalising residential accommodation where changes in patterns of service seem likely to result in under-utilization of existing facilities.

(b) **Reducing home helps' travelling time.** Travel time by home helps varies from around 2% to 10% of available time, at least in the authorities studied, and may be reduced considerably by reviewing travel routes. One authority has identified potential improvements worth £100,000 a year by reorganising the workloads of different home helps to minimize distances between clients.

(c) **Reducing day-care transport costs.** The largest single element in the cost of day care is transport; and in some authorities, the lack of transport limits the number of people attending centres, even though there is available capacity. Several approaches for reducing transport costs and/or increasing capacity at peak times economically are worth evaluating locally:
- using day centre transport to transport people to and from lunch clubs;
- employing drivers to work in day centres during the middle of the day (i.e. in off-peak periods);
- using local taxi services at peak times;
- sharing transport with other departments.
New approaches to meal preparation for meals-on-wheels. Calculations in one authority suggest that revenue savings of the order of 15p a meal (£50,000 a year in a typical authority) are possible by converting to innovative or cheaper methods, e.g. 'cook-chill methods' where the meal is cooked in advance and pre-heated prior to delivery. The annual capital cost is estimated at 8p a meal. The authority is planning to introduce a cook-chill service for meals for residential establishments for the elderly as well.

PERFORMANCE INDICATORS

36. It is of course no legitimate concern of auditors what priority an authority attaches to social services or what level of service members decide should be provided. Moreover, there will never be any adequate substitute for well informed professional judgements on how the needs of individual clients can best be met with the resources available locally.

37. The purpose of the value for money projects in social services to be undertaken this year is to ensure that members' and officers' judgements are reached with a reasonable appreciation of the relevant facts — financial and other. If a particular strategy is leading to higher costs, members and officers will want to satisfy themselves that the additional expenditure is more than offset by the enhanced 'value' delivered to local clients — however this value is to be assessed.

38. The following table lists some of the indicators that will serve to identify higher costs being incurred by authorities, so that members and officers can determine whether these higher costs reflect their policy judgements and explicit or implied service priorities. Where an authority is apparently out-of-line on the indicators shown, this should simply prompt members and officers to examine the reason, to determine whether the additional value delivered is sufficient to justify the extra expenditure, in light of the competing demands for the available resources.

Table 6: SELECTED INDICATORS OF PERFORMANCE IN SOCIAL SERVICES

<table>
<thead>
<tr>
<th>Enquiry Indicators</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children in Care</td>
<td></td>
</tr>
<tr>
<td>% boarded out</td>
<td>50</td>
</tr>
<tr>
<td>% in residential accommodation</td>
<td>22</td>
</tr>
<tr>
<td>Change inboarding out since 1981 (% points)</td>
<td>+10</td>
</tr>
<tr>
<td>% increase in children placed for adoption vs. 1981-82</td>
<td>+30</td>
</tr>
<tr>
<td>% in CHEs or O &amp; As</td>
<td>9</td>
</tr>
<tr>
<td>Services for the Elderly</td>
<td></td>
</tr>
<tr>
<td>Level of residential care places per 1,000 elderly</td>
<td>17</td>
</tr>
<tr>
<td>Home helps (FTEs) per 1,000 elderly</td>
<td>7</td>
</tr>
<tr>
<td>Home help hours per week per recipient</td>
<td>4</td>
</tr>
<tr>
<td>Home helps travel time</td>
<td>&lt;4%</td>
</tr>
</tbody>
</table>

39. These notes should be read in conjunction with the original report for the Audit Inspectorate on The Provision of Child Care and also with the Commission's forthcoming report Managing Services for the Elderly More Effectively. Detailed audit guides have been distributed to all auditors who will be glad to discuss them with members and officers at the local level. Any general queries should be addressed in the first instance to Dr. C. E. R. Tristem, Director of Special Studies, at the Audit Commission, 1 Vincent Square, London SW1P 2PN. Telephone number 01-828-1212.
Improving Economy, Efficiency and Effectiveness in Local Government in England and Wales

Audit Commission Handbook

Volume III

December 1985

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Introduction

1. In each of its first two years of existence, the Audit Commission has published a yellow handbook on *Economy, Efficiency and Effectiveness*, which included a statistical profile for each authority, set out some of the Commission's views on overall management arrangements within local government, and outlined the main areas in which auditors were being asked to help authorities identify opportunities to improve value for money during the coming audit round.

2. Subjects covered in 1983 were further education, police, refuse collection and purchasing. Last year's subjects were housing management, non-teaching costs in secondary schools, care of children, care of the elderly, and vehicle fleet management. It is not the intention to reproduce a complete handbook this year, but the material that follows can be inserted into the binders supplied last year.

3. The Commission intends auditors to allocate some 40-50% of their time to reviewing the 'overall arrangements for securing economy, efficiency and effectiveness' in the use of resources, and to undertaking specific value for money (VFM) projects focusing on particular services or costs. Clearly, the amount of time devoted to VFM projects will vary by authority; and auditors must continue to be very selective in the projects they undertake, for the following reasons:
   a. There is a limit to the number of substantial VFM projects that can sensibly be undertaken in the course of an audit, given the minimum fee levels that the Commission has established.
   b. The amount of change that any authority can absorb in a relatively short space of time is also restricted. Even if more value for money work could be carried out, serious 'digestion' problems would be likely to arise.
   c. There are many important areas of local government where good practice cannot easily be defined, where the appropriate way to measure economy, efficiency and (particularly) effectiveness is not generally agreed, or where consistent and reliable local information is simply not yet available.
   d. Auditors must be able to take VFM projects to the point where (assuming that the authority agrees) specific action can follow. Again there is a limit to how much can be achieved with a restricted effort.

Against this background, auditors will be taking four different, but complementary approaches to helping authorities secure improved value for money in the services they deliver, and at the same time discharging their legal obligations. Exhibit 1 overleaf shows how these four sets of initiatives are related to some of an auditor's statutory responsibilities.

4. First, auditors must be concerned for *probity and regularity* in the way in which the authority conducts its financial affairs and presents its results. This work is an integral part of the duty of auditors 'to satisfy themselves by an examination of the accounts or otherwise that an authority has made proper arrangements for securing economy, efficiency and effectiveness in the management of its affairs (and that these arrangements themselves are effective).'

5. Second, the effort must be focused on those costs or services where there is potential improvement. The time available to officers and auditors is too short to permit effort to be wasted in examining areas where no substantial gains in value for money are likely. A 'profile' has again been prepared for each principal authority, drawing on the most up-to-date and reliable information available centrally. These profiles are designed to help both the
Exhibit 1

Arrangements for securing economy, efficiency and effectiveness

THE AUDIT APPROACH

- Arrears/Debit Control
- Cash Management
- Payments
- Budgets/Accounts/Controls
- Balance Sheets
- Returns

SPECIAL STUDIES
- Specific Topics
- Methods

PROFILES
- Staffing
- Costs/Income
- Inputs
- Comparisons
- Trends

THE AUTHORITY - FINANCE, SYSTEMS SERVICES AND OVERALL ARRANGEMENTS FOR VFM
- Vision
- Strategy
- Structure
- Systems
- Key Issues
- Capital Programme
- Revenue Plans
- Service Indications
- Committee
- Officer
- Budgets
- Personnel
- Computers/New Technology
- Training
- Turnover
- Trends
- Overtime, Bonus
- Staffing-Skills
- Styles
- Member/Officer Relations
- Commitment
- "Feel"

OVERALL ARRANGEMENTS
- Use questions and interviews to highlight areas for examination
authority and the auditor to identify those elements of cost or those services on which attention should be concentrated. Of course, such comparisons only identify questions apparently worth examining; they do not and must not be used to imply any answers. Value for money is not synonymous with economy, still less with cheapness. Local judgements about priorities are always required. Nonetheless, some basic facts are necessary if members are to reach informed judgements.

6. Third, the arrangements for securing economy, efficiency and effectiveness in each authority will be reviewed annually as part of the audit. Improved value for money can only be secured by the concerted action of members and officers. It cannot be pursued independently. It is invariably the result of changes in the way the organisation works. The Commission’s experience over the past year confirms that the broad characteristics of good management practice can be defined and that authorities with more of these characteristics tend to perform better than those with less. Last year’s handbook outlined the kind of overall management arrangements that the Commission believes are consistent with achievement of economy, efficiency and effectiveness, and for which its auditors will be looking.

7. Fourth, specific opportunities for action must be identified in local services or functions. It will not be sufficient for auditors to concentrate exclusively on reviewing authorities’ management systems, important though these are. They must also be able to generate practical recommendations to improve value for money in individual services or functions.

8. The range of special subjects is more restricted this year, in order to give auditors more time to follow up on work already initiated, and to explore value for money opportunities in the areas of greatest priority to individual authorities. Only three subjects are included, one of which is a continuation of work started two years ago. These are energy management, cash flow management, and purchasing and supply.

- **Energy management.** Local authorities spend about £800m per year on the heating and lighting of buildings. There is a mass of well-documented evidence that those who have not already done so can typically save about 20% by a comprehensive energy efficiency programme. The techniques and methods of good housekeeping and improving efficiency are well-known; what is often missing is the concerted approach by management to identify the main opportunities, to draw up a comprehensive plan to exploit them, and then to see this plan through systematically. It is this issue that auditors are being asked to focus on, aided by a simple diagnostic model to estimate how much energy individual buildings ought to be consuming (given their size and other characteristics) and thus indicate how much it should be possible to save.

- **Cash flow management.** Local authorities disburse some £32bn each year on revenue account, in the form of payroll, payment to suppliers, debt charges and so on, and they collect the same sum in grants, rates, rents and sundry income. The administrative cost of collecting and disbursing this money totals around £500m. The way these cash flows are managed can make a significant difference to authorities’ finances – for example collecting rates one week earlier would save district councils some £30m p.a. in interest. The Commission’s study has identified a large number of areas in which authorities could improve their results by adopting good practice that is well-established elsewhere. Savings well in excess of £50m appear to be possible given time and the necessary top management attention.
Purchasing and supply. Local authorities spend about £3bn on purchased goods alone—excluding utilities. The survey organised two years ago demonstrated the wide range of prices paid for the same commodities by individual authorities, and the apparent impact of different methods of purchasing. A study undertaken in co-operation with a number of authorities and purchasing consortia has now thrown more light on good practice in the areas that are key to effective purchasing, storage and distribution, and how improvement opportunities can be identified and put into effect.

Auditors have been supplied with detailed audit guides outlining the ways in which value for money can be improved in these three areas. In due course the results of each of these studies will be published as a Commission report; the energy report will appear shortly; those on cash flow and purchasing next year.

Finally, auditors will also be examining housing management. Last year’s handbook described the preliminary results of the Commission’s study of housing management. Since then, auditors have administered a standard questionnaire on this subject at nearly every housing authority; this data has now been analysed by the Commission and used to compare each authority’s figures with the national pattern. All the main components of housing management were dealt with individually, and the comparative information that has now been fed back to auditors. This not only takes account of the number of houses the authority has to manage, but also of some of the local circumstances that have been found to affect the magnitude and difficulty of the tasks involved. Thus, for example, authorities will be able to compare their waiting list staffing per application with that of other authorities facing the same degree of urban problems. The method used was multiple regression analysis of the data supplied, including some relevant census data.

For each element, auditors have been given a good practice indicator for each authority, which takes account of its circumstances insofar as the data in the questionnaire allows. Like any purely statistical comparisons, these figures do not represent final conclusions. Rather, they are the starting point, and their value is in the questions that they raise. Auditors are likely to devote some time during the coming year to reviewing these results, and where the authority’s figures significantly exceed the indicator, the auditor is likely to enquire into the reasons—which may be attributable to higher levels of service rather than inefficiency. If so, the auditor may enquire whether this is the result of an explicit decision by members, taking account of the extra costs involved; otherwise he will be focusing his attention on those apparent differences that are not so easily explained by higher service levels.

The study team will be visiting a number of authorities which the survey showed to be performing particularly well, to obtain further information about good practice in this area. The Commission’s final report will be published in February 1986.

This handbook is intended as background reading to the current audit round; but it also has the purpose of stimulating action, not just on the specific VFM projects, but on improving management generally. Sufficient copies are available to enable distribution of four copies to shire districts and six copies for all other principal authorities. The Commission’s intention is that a copy should be made available to the Leader, Chief Executive, and the Treasurer of each authority, and they in turn will be free to decide how to distribute the additional copy/copies to the appropriate departments. Equally, they are free to distribute it in whole or in part as widely within the authority as they think fit.
Cash Flow Management

1. Local authorities' gross revenue expenditure in 1984-85 amounted to some £32bn, distributed and financed roughly as follows:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>£14bn</td>
</tr>
<tr>
<td>Capital charges</td>
<td>6</td>
</tr>
<tr>
<td>Other expenses</td>
<td>12</td>
</tr>
<tr>
<td>Grants</td>
<td>£14bn</td>
</tr>
<tr>
<td>Rates</td>
<td>12</td>
</tr>
<tr>
<td>Rents</td>
<td>4</td>
</tr>
<tr>
<td>Other income</td>
<td>2</td>
</tr>
</tbody>
</table>

Total £32bn £32bn

2. The Commission has prepared an audit guide this year on the management of these cash flows, excluding rent collection which is being dealt with in a separate study. It concludes that the more general adoption of good practice in this area could be of considerable benefit to local authorities, in two ways:

- Interest expense could be saved by more effective collection of rates and general income, and to a lesser extent by closer control over payment of creditors.
- There are important opportunities to reduce the administrative costs of collecting and disbursing these sums. Although they are not often identified or analysed, they must total some £500m per year, and unit costs vary widely between authorities.

The following sections describe some of these opportunities, beginning with the collection of rates.

RATES

3. Twelve billion pounds of local authorities' income come from rates. Every week's delay in the payment of rates costs some £30m in interest; and rating authorities spend £150m per year on the collection of this income. The main opportunities for improvement are more prompt despatch of rate demands, advancing the due dates for payment, and more effective recovery action.

4. Rates cannot be collected until some time after the despatch of demand notes. The first requirement is to make the rate as early as reasonably possible. It is usually difficult to do this before the first or second week of March, but if the cash flow benefits are to be maximised, the rate should be made by the middle of March, even if this requires a special council meeting. The objective should then be to despatch a high proportion of demand notes by the end of the month. In practice, about 50% of authorities manage to achieve this, but up to 20% have not done so until the second half of April. Prompt processing and despatch of rate notes demand a concerted effort, and can be facilitated by using paperhandling machines or special stationery.

5. Due dates for payment vary considerably. However, the argument that early collection of rates imposes hardship has lost much of its force now that all ratepayers have the right to pay by instalments, and 31 May seems a reasonable date. There also seems little to be said now for sending out two half-yearly demands, which adds to expense and has other disadvantages; in any case, instalment payments commencing in April are probably preferable in cash-flow terms to biannual payments.
6. About 30% of ratepayers now pay by monthly instalments. It should be perfectly feasible to demand the first instalment in the first half of April, yet over half of authorities set this date in May. The other major opportunity for improvement is to increase the use of direct debit, which is undoubtedly the most efficient method of collecting any type of regular income; yet only half of authorities use it. The pros and cons of different payment methods are described in some detail in the audit guide.

7. Twenty-two authorities give discounts for prompt payment; this may or may not be advantageous and authorities should analyse carefully the interest gained by earlier payment compared with the cost of the discount given away.

8. Normal practice is to send one reminder within two weeks of the due date, followed fairly promptly by recovery action. The guide describes various ways in which this can best be managed, including, for example, better liaison with the local magistrate's court. Consideration can also be given to proceeding direct to the summons stage following advertisement in the press that the rates are now due. This can improve cash flow, and avoid the cost of reminders.

GENERAL INCOME

9. Local authorities collect some £2bn per year of general income other than rent and rates, for example from leisure services, housing mortgages, and car-parking charges. Here too, good practice can both reduce costs and speed up collection of the money.

10. Sundry debtor income is invariably fragmented over several departments, and individual accounts are often small. There is typically little pressure to improve performance – unlike in the private sector, where this is often one of the keys to financial survival. As a result, this tends to be the Cinderella among financial services, with low priority for staff and computer resources. At the same time, collecting small debts can also be exceedingly expensive.

11. The best way to improve their collection and reduce cost is simply to avoid the use of debtor accounts. In some authorities, perhaps half of such accounts could be handled differently, mainly by increased use of payment in advance or at point of sale. For example, commercial refuse can be collected in pre-paid sacks; home helps can collect cash or receive stamps; hire of council facilities can be prepaid. Collection can also be farmed out, e.g. to sports organisations to collect from individual clubs.

12. Where debtor accounts cannot be avoided, it is often possible to change the collection method. For example, recurring payments such as rents can be paid by direct debit or standing order, though they rarely are. Increased use of standard charges can facilitate payment in advance and simplify administration. There would appear to be no legal objection to prompt payment discounts, though the Commission found no authority practising this.

13. Like rents and rates, effective collection of sundry debts requires prompt and firm follow-up. Action should focus on large amounts, which is rarely done as they are not usually highlighted by the system. Similarly, performance monitoring is often poor, relying on manual or outdated computer systems. In the most streamlined systems, details are entered on-line in departments, and all invoices automatically sent out from the finance department.
14. The main opportunity here is to increase the use of direct debit; the inconvenience of repeated changes in payments can alternatively be avoided by giving mortgagors the option of extending or reducing the period of the loan as interest rates alter. It is vital to monitor mortgage arrears promptly, with priority for new accounts – where the sum owed can quickly reach problematic levels. At the very least, arrears should all be identified within one month. Likewise, prompt recovery action including early visits is the key to avoiding problems.

15. There are two main opportunities for improving the collection of unpaid excess parking charges:

(a) Increase unprompted payment. About half of local authorities give discounts for prompt payment. When the discount is introduced the undiscounted penalty is typically doubled, e.g. for payment later than one week. Prompt payment can also be encouraged by the excess charge notice making clear that a summons will be issued, e.g. within 14 days, with no reminder. In off-street car parks it is possible for the notice to allow for the purchase of extra tickets on the spot.

(b) Streamline collection of unpaid charges. The main opportunity is better use of the computer. Owners’ details can now be obtained from the Swansea DVLC by tape exchange, which greatly reduces the response time and saves clerical effort at both ends. Thereafter, overdue payments should be able to be handled in the same way, and by the same system, as other sundry debtors.

16. General income which proves difficult to collect is typically referred to the legal department – where it often receives rather low priority. Consequently there is often room for improvement. Effective legal action requires close liaison between service, finance and legal departments, including clear guidelines on how to issue accounts that are legally enforceable. It also requires the selection of the best procedures unconstrained by departmental boundaries; for example, ‘solicitor’s letters’ can be most conveniently sent by the debtors’ section of the finance department, but in the name of the legal officer. In a few authorities the finance department takes cases to court as well; this appears to work well.

17. Where legal departments have a large case load, computerisation is clearly advantageous, both to streamline administration, and to ensure prompt action, and to improve management information. Ideally, the system should be linked to that in the finance department. Authorities should also use logical criteria for the extent to which debts are pursued, including value limits, based on up-to-date costs, below which legal action is only taken in a proportion of cases. For some types of debts, it may be most cost-effective to employ outside collection agencies.

18. Cash is in many respects the least convenient form of payment and authorities should seek to encourage other methods. However, in addition to a central cash office, many district councils feel the need to collect cash at many small outlying locations. Each office’s cost should be compared to the number of transactions handled. Unit costs in small offices can be reduced by part-time opening, or by staff handling other work at the same time (e.g. taking repairs enquiries, or even selling rail passes and bus tokens). Alternatively, the task may be transferred to the Post Office. The key issues at large offices are usually the flexible use of staff, tailoring opening hours to demand and providing maximum capacity at peak hours, while other work is undertaken at slack periods.
PAYROLL

19. Local authorities pay employees some £14bn per year, in two very different forms:
   (a) Salaries: usually pre-set amounts, paid monthly by automatic bank transfer;
   (b) Wages: usually paid weekly, much still by cash, and only the minority by automatic bank transfer. The amount normally has to be calculated from employees' time-sheets.

Either way, two main costs are involved: payroll administration, i.e. calculating what should be paid, and effecting the payment in whatever form. Both types of cost can often be substantially reduced.

20. Calculating and checking the payment due to a manual employee on a complex bonus scheme has been found to cost as much as £10 per week – £500 per year per employee. As the Commission has stressed before, there is therefore a considerable opportunity to save costs by simplifying bonus schemes, and, more radically, by paying more employees on the same basis as salaried staff, i.e. standard amount unless there is a special reason otherwise. The audit guide also describes different ways in which payroll work can be organised in terms of the responsibilities of service departments and the central finance department, and the division of work within central payroll sections.

21. It costs about 50p to pay an employee by cash, 20p by cheque (70p for an open cheque), and only 6p by BACS bank transfer. This cost is incurred once a month for monthly paid staff, four times for those paid weekly. Costs can thus be reduced in two ways:
   (a) Method of payment. Bank transfer is much cheaper than cash, it carries less security risk and it reduces time lost attending pay parades. The issue is thus how to persuade employees to accept this form of payment, since many are not legally obliged to do so. For weekly-paid staff, whose wages need computing from time-sheets, it is generally necessary to pay wages two weeks in arrears. Progress varies widely from authority to authority, as do the inducements offered to gain employees' agreement; however, the key factor appears to be the energy with which the goal is pursued.
   (b) Frequency of payment. There is likewise a major opportunity to save costs by switching from weekly to fortnightly or monthly pay. Again, progress in this direction varies widely, and employees have to be persuaded to accept the change.

CREDITORS

22. Almost all authorities operate a decentralised creditors' system in which service departments place orders, receive the goods, and check and certify the invoices, while the finance department makes the payment and keeps the accounts. As Exhibit 1 shows, average staff costs for checking and processing creditor payments can vary widely, even at similar volume levels. The audit guide describes possible alternative systems that deserve to be considered more seriously; in particular, a centralised procedure analogous to that commonly used in the private sector. If modern technology is fully utilised, the laborious transmission of paper both within the authority and between the authority and its suppliers can be eliminated. The larger authorities should now be appraising such data-linked systems.
### Exhibit 1

**STAFF COSTS FOR CHECKING AND PROCESSING CREDITOR PAYMENTS**

Sample Authorities – Staff cost per invoice

<table>
<thead>
<tr>
<th>SERVICE DEPARTMENT</th>
<th>FINANCE DEPARTMENT</th>
<th>Invoices/Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>206p</td>
</tr>
</tbody>
</table>
|                     |                     | 13
|                     |                     | 177
|                     |                     | 34
|                     |                     | 34
|                     |                     | 128
|                     |                     | 47
|                     |                     | 200
|                     |                     | 177
|                     |                     | 519

Note:

Costs shown are for salaries only (no oncosts) of administrative staff only, i.e. excluding the time of checking goods received, surveyors examining building repairs etc.

23. Within the normal decentralised system, there are three key issues: the extent of checking, the speed of paying creditors, and the method of payment used.

24. A major part of the workload involved in paying creditors consists of checking, at the point goods are received (e.g. the school), then within the service department, and then within the finance department. Value for money may well be improved by reducing the extent of this checking, in two respects:

(a) *Reducing duplication.* Many finance department checks duplicate work that should have been done in the service department; good practice should be to improve the control exercised by the service department, and for the finance function basically to ensure that these controls are operating effectively. Some checks are of questionable value in themselves, e.g. arithmetical errors are unlikely in computer-produced invoices.

(b) *Selective checking.* Typically 5% of invoices account for 60-70% of the value while the 80% of small invoices account for only 10%; hence the rationale for selective checking – for example, full checking of all invoices over £200, and a 20% sample of the rest, possibly modifying the routine in the light of the frequency of errors found. Yet selective checking does not appear common in finance departments.
25. Most authorities rightly aim to pay creditors on time; however, they are often unaware of how quickly they are actually paying, which may well be unnecessarily early. Using the computer it is perfectly possible to control payment dates so as to minimise this loss of interest. It is particularly worthwhile controlling payment dates for large amounts with pre-set dates such as PAYE. It is also clearly advantageous to reclaim VAT in advance – one authority gains a ‘float’ of over £500,000 in this way – yet only half of authorities do this.

26. Most creditors are paid by cheque. However, for regular payees BACS has exactly the same cost advantages for creditors as for debtors. Bank charges and cheque handling cost about 30p per payment; BACS costs only 3p, and has other advantages including better control of payment dates. The disadvantage is that BACS transfers are typically cleared five days sooner than cheques – an interest loss of, say, £1.60 per £1,000 paid. Authorities should evaluate the pros and cons, as it is always possible to delay BACS payments by an offsetting period, or they may justify the speedier payment in the interest of good supplier relations.

27. Some authorities also pay utility bills by computer tape exchange. This can reduce substantially the processing effort for many thousands of individual invoices, and also provide very convenient information for monitoring usage. The disadvantage is that such schemes normally provide for earlier payment – thus the terms offered should be examined carefully. On-line invoicing and payment is also being developed between some authorities and major suppliers of purchased goods.

BANKING & SHORT-TERM CASH MANAGEMENT

28. Banks play a key role in the management of cash: their service is critical, and their charges form an important part of the cost. The main issues involved in dealing with banks are the agreed banking terms and the way short-term cash balances are managed.

29. Authorities’ banking terms vary widely: the banks have different standard corporate terms (for example in the delay between presenting a cheque and getting credit). Authorities can negotiate various types of special arrangement – often surprisingly different, and the level of charges varies widely. Banking terms form a complex package of services rendered, charges, and the balance of interest paid and received for a given cash-flow pattern. The moral is that each authority should carefully weigh up the various elements in this package, assess the costs and benefits of individual services, and then negotiate – frequently and vigorously. And as for any other major bought-in service, authorities should also go to tender occasionally unless they have very good reason not to.

30. Most authorities are well aware of the advantages of careful management of their short-term banking position. The ideal is a zero bank balance; credit balances are to be avoided (especially over the weekend), since normal banking terms clearly justify the adage ‘if in doubt, lend out’; and money can be saved by careful timing of major cash flows such as precepts and salary payments, and, of course, making grant claims as early as possible. Longer-term debt management is not dealt with in this guide, but will be the subject of a separate Audit Commission/CIPFA study currently under development.

* * *
31. Auditors will be completing a questionnaire for all authorities during November 1985 – March 1986. The audit guide will be applied simultaneously to assess authorities’ procedures. A special study report including conclusions and indicators derived from the questionnaire will be published in mid-1986. Auditors will follow up previous work as appropriate using this report. Any queries relating to the guide or questionnaire should be addressed to Paul Carey at the Audit Commission, 1 Vincent Square, London SW1P 2PN, 01-828 1212. Copies of the Audit Guide are available from the Commission’s office at St Lawrence House, 29-31 Broad Street, Bristol, price £7.00.
Energy Management

1. Local authorities in England and Wales spend about £1,000m per year on energy, of which £800m is on the heating and lighting of non-domestic buildings such as schools, residential homes, recreational facilities and offices – an amount of money comparable in scale to the total local authority effort on care of the elderly. Individual authorities’ expenditure will differ widely: a typical shire district council operates about 50 significant buildings and spends about £0.5m per year, while a typical major authority will operate about 1,000 buildings and spend about £7m. This amounts to 3-4% of an authority’s spending, but 10% or more of the expenditure that lies most immediately under authorities’ control, i.e. excluding employment costs and capital charges.

2. Energy offers a ready opportunity for saving money, without reducing services to clients, or loss of employment. A number of authorities have already succeeded in reducing their total energy bill by as much as 20% – as illustrated in Exhibits 1 and 2 facing the next page. Analysis undertaken during the special study showed that the worst 25% of buildings of a given type typically use twice as much energy as the best 25%, after allowances for their size and other factors such as opening hours and the local climate. Some of the individual authorities that took part in this survey were found to be spending 50% more on energy than others, again after adjusting for the nature of buildings involved, the weather, etc.

3. Reducing energy consumption involves two steps: controlling energy usage by good housekeeping measures such as switching off lights, and improving the technical efficiency of buildings and heating plant, for example, by better insulation. Good housekeeping requires publicity and training; improving efficiency requires money to be spent. However, experience has shown that the investment required is typically paid back in only two years, and a successful energy management programme should typically result in net savings after deducting all the costs involved of 10% per annum. With a progressive build-up, it can be self-financing from the start.

4. Finally, the technology and methods needed to reduce energy consumption are well-established and well-documented. What is missing in the many authorities that have still to realise their energy-saving potential is the management effort to identify systematically where energy costs should be able to be reduced, and then to finance and mount an effective programme to put this potential into practice. It is this gap that has been principally addressed in the special study and in its report. Auditors have been asked to help those authorities where there is apparently worthwhile scope for improvement to launch the necessary initiatives during the coming audit round.

ASSESSING THE POTENTIAL FOR IMPROVEMENT

5. Energy is consumed in individual buildings, each of which is different, so improvements have to be made building by building, and the potential for improvement is likely to vary widely from one to the other. The first, and in many ways the most difficult, task is to identify which buildings need priority attention, and what the potential level of improvement is likely to be.

6. The first step is to select the buildings on which to target the improvement effort. In most authorities, a small proportion of buildings, e.g. 20%, will account for a large proportion of the total energy expenditure, e.g. 50-70%. The programme should initially focus on this 20%, so the first step is to list the authority’s buildings in decreasing order of energy cost, ignoring those costing under £1,000. For a shire district the top 20% is likely to include up to 25 buildings; for a county council it might include 150-300.
Exhibit 1
ENERGY CONSUMPTION IN DORSET CC

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total energy consumption corrected for weather and estimated changes in building stock</td>
<td>Millions kWh</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>267</td>
<td>229</td>
<td>233</td>
<td>221</td>
<td>214</td>
<td>205</td>
<td></td>
</tr>
</tbody>
</table>

Source: Study team analysis of Dorset's data

Exhibit 2
TYPICAL ANNUAL SAVINGS FROM BETTER ENERGY MANAGEMENT

<table>
<thead>
<tr>
<th>TYPE OF AUTHORITY</th>
<th>COUNTY COUNCIL</th>
<th>METROPOLITAN DISTRICT/LONDON BOROUGH</th>
<th>NON METROPOLITAN DISTRICT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical annual energy spend on non-domestic buildings</td>
<td>£6.6m</td>
<td>£4.0m</td>
<td>£0.45m</td>
</tr>
<tr>
<td>Typical potential for gross saving</td>
<td>£1.1m</td>
<td>£0.7m</td>
<td>£90,000</td>
</tr>
</tbody>
</table>

This saving could be used to:
- Cater for a 35% increase in the number of home helps
- Provide community centres

Source: Study team analysis of potential for improvement in 30 authorities, FY 1984, and experience in the 18 host authorities
7. The next step is to estimate the potential for improvement in each building, i.e. the difference between its actual energy cost and what this might reasonably be expected to be. This is not a straightforward task, since the energy consumed by a specific type of building of a given size will depend on a number of factors other than simply its efficiency, for example how long it is kept open, and where it is situated.

8. The Commission, in collaboration with the Energy Efficiency Office of the Department of Energy, has developed an approach that should greatly facilitate this task, which it is asking auditors to apply at each authority. To assess individual buildings on a reasonably comparable basis, it has devised a ‘Normalised Performance Indicator’ (NPI) which adjusts for four of the most important factors: floor area, hours of use, exposure to the elements, and local weather conditions. This enables authorities to calculate the energy consumption of each building, in kilowatt-hours per square metre, adjusting for these factors. The main factor that this indicator does not take into account is the type of construction of the building, which is outside the authority’s immediate control.

9. Using this standardised approach the study team has surveyed over 3,000 buildings in 30 authorities and recorded the range of normalised energy consumption. Using this data, an efficiency yardstick has been established for each type of building, broadly corresponding to the energy consumption of the best 25% of buildings. Having calculated the NPI of a building, it is possible to estimate the difference between this and the efficiency yardstick achieved by the best buildings, as tabulated in the audit guide and in the Commission’s report *The Management of Energy in Local Authority Buildings* available from HMSO.

10. For example, among primary schools without a swimming pool, the best 20% of those measured used 180 kWh per square metre a year, with standard hours of use of 1480, and under normal exposure and weather conditions – while the worst 20% used 320 kWh as Exhibit 3 shows. This indicates the scope for improvement: an individual school whose calculated NPI is, say, 360 kWh/m² should in theory be able to reduce its usage by 50% (i.e. 180/360) – though some of this difference may be due to the basic construction of the building, and thus not susceptible to immediate corrective measures. If the actual energy cost of that school were £30,000, the potential for improvement would be worth £15,000.

Exhibit 3
ANNUAL, NORMALISED ENERGY CONSUMPTION IN PRIMARY SCHOOLS WITH NO INDOOR POOL
kWh/m²/annum

Source: Study Team Analysis of information from 17 LEAS (total of 996 buildings)
11. Similar estimates can be made for all the other main buildings selected showing the ratio of the NPI indicator to their yardstick, and hence the potential saving. The buildings can then be re-ranked in this order to identify those apparently warranting the most attention, and to help in phasing the programme. In general those selected on this basis are likely to include very large buildings even if their efficiency gap is quite modest, and fairly small buildings where the gap is very large. Buildings that could benefit from a change of fuel need to be identified separately.

12. Having selected the priority targets, the next step is to organise energy surveys of each building, to identify the actual measures needed to reduce its energy consumption. These measures can be grouped into three types, depending on their cost, i.e.
- No cost, e.g. good housekeeping, repairing faults to equipment.
- Low cost, for example, lagging plant and pipe and draught-stripping.
- High cost, where capital investment is required in more energy-efficient plant or heat-recovery equipment.

13. Surveys of this kind can be undertaken by specialist consultants or by the authority’s own staff. The Energy Efficiency Office of the Department of Energy provides grants of up to 50% for short surveys, subject to a maximum of £250, and £10,000 for more detailed and comprehensive surveys. The audit guide and the Commission report document some of the measures that have proved successful in different situations.

14. ‘No-cost’ measures can be put into effect almost immediately; low-cost and high-cost measures should be put into a pool, with the schemes ranked according to their rate of payback – i.e. the capital cost divided by the gross annual savings, or the number of years within which the investment will pay for itself. The authority can then draw up a programme either by applying a payback filter, for instance, all schemes paying for themselves in under two years, or by imposing a financial ceiling, e.g. the schemes with the quickest payback up to a total of £50,000.

15. This programme can then be rolled forward each year, extending to schemes with lower paybacks and extending the surveys to buildings with lower potential savings. Exhibit 4 summarises the approach.

MOUNTING AN EFFECTIVE ENERGY MANAGEMENT PROGRAMME

16. The steps described above are essentially mechanical. However, the key to achieving successful results will be the way in which this effort is managed, in terms of the commitment from the authority as a whole, the financial investment made available, the staffing involved, and the way in which the results are monitored and controlled. Each of these factors is discussed further below.

17. One of the main conditions for success is a high level of commitment from members and from chief officers. The study found that members invariably endorse energy efficiency as a general principle, but in only a few authorities do they take a real interest in the programme itself. These were usually authorities that had achieved the greatest degree of success. At the same time, the study found many instances of authorities subject to capital constraints postponing energy-saving investments with a two-year payback in favour of building schemes.

18. This commitment also needs to be made public, which can be done in a number of ways. For example, some authorities have produced written energy policy statements, demonstrating to ratepayers and to staff that they are committed to the success of the programme, and setting down explicit
Exhibit 4

MAKING IMPROVEMENTS

- Policy Statement
- Energy Management Unit or Officer
- Monitoring and Targeting System
- Tariff Analysis
- Publicity and Training

Identify buildings on which to concentrate
- identify the highest consuming buildings accounting for about 70% of the energy spend

- calculate NPI for each building and identify potential savings from change of fuel (if any)
- carry out energy surveys and identify conservation measures for those buildings with greatest savings potential

Implement 'no cost' measures

Implement investment programme
- Rank measures by payback
- Prepare phased programme
- Bid for funds
- Implement measures in order of payback

Monitor savings achieved
Prepare annual report

Extend programme to buildings covering 90% of total energy spend
objectives. An annual Energy Report should also be presented to the council highlighting the progress to date and setting out the forthcoming programme of improvements.

19. Better control of energy by the users of buildings can generally contribute about as much to reducing energy costs as improved technical performance. This requires publicity, training, and also some incentives. For example, an effective way of motivating schools to conserve energy can be to allow them to retain part or all of the energy savings from an agreed target, and the audit guide describes a number of ways in which such incentives can be applied.

Financial Investment

20. There can be no hard and fast rule for the amount any authority ought to spend on energy efficiency measures, as this will depend on the current condition of their buildings, how much has already been done, and the size and payback of the remaining opportunities. However, as a general rule of thumb, the Commission suggests that a minimum of 10% of the total energy bill should be spent on such measures, building up to this level over a number of years if such a programme is not already underway. The study showed that such a level of expenditure over five years is typically associated with gross savings of 20%, hence net savings of 10%.

The audit guide describes the various ways in which such funds can be provided, either from a central fund, or by individual committees.

Staff

21. Staff are required to draw up and control the energy efficiency programme, to monitor energy consumption in major buildings, and to train and advise building users on the contribution they have to make to saving costs. Major authorities often have several full-time members of staff in a central energy unit, while smaller district councils typically nominate a part-time energy officer. A good rule of thumb is to employ one member of staff for every £1m energy expenditure on non-housing buildings. The senior energy officer should preferably report directly to a chief officer – normally in one of the technical departments. Needless to say, as well as the required technical knowledge, such staff will only be successful if they are able to develop good relations with building users.

Monitoring and Control

22. Finally, it is essential for energy consumption to be monitored and controlled by the central energy management unit or officer. In major buildings consumption should be monitored at least monthly and compared with a pre-set target, and the reasons for deviations investigated. This may be time-consuming, but is essential for controlling consumption and providing the database for planning a programme of improvements. In major authorities it has been found necessary to implement computer monitoring and targeting systems and some are now invoiced for all their premises by computer tape, which can facilitate the analysis of consumption, as well as reducing the clerical work involved in paying multiple individual invoices.

23. Electricity is also charged at a bewildering number of tariffs; each building should be checked periodically to ensure that the most economic tariff is being used. This simple step has achieved savings of as much as £250,000 per year in some authorities.

* * *
24. Auditors will be reviewing the management of energy at every local authority during the coming year. They will select a sample of about 20% of the authority’s buildings, accounting for 50-70% of non-housing energy consumption, and ask the authority to assemble the required information on annual energy consumption, floor area, hours of use, and so on. They will then assess the energy efficiency of the building stock by calculating normalised performance indicators for each building, and will interview the key officers within the authority on their approach to energy management. The table below shows the yardsticks for good energy consumption that have been developed and will be used in the course of the audit project.

**ANNUAL ENERGY CONSUMPTION YARDSTICKS**

<table>
<thead>
<tr>
<th></th>
<th>kWh/m² per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary schools</td>
<td>180</td>
</tr>
<tr>
<td>Secondary schools</td>
<td>190</td>
</tr>
<tr>
<td>Old peoples’ homes</td>
<td>450</td>
</tr>
<tr>
<td>Leisure centres with pool</td>
<td>900</td>
</tr>
<tr>
<td>Swimming pools/baths</td>
<td>1,250</td>
</tr>
<tr>
<td>Main office</td>
<td>230</td>
</tr>
</tbody>
</table>

25. Further details of this approach are set out in the *Audit Guide on the Management of Energy in Local Authority Buildings*, which can be purchased for £10 (payment with order) from the Audit Commission, St Lawrence House, 29-31 Broad Street, Bristol BS1 2EX. More general enquiries should be addressed to Stephen Evans at the Audit Commission, 1 Vincent Square, London SW1P 2PN, 01-828 1212.
Purchasing & Supply Practice in Local Government

1. Local authorities in England and Wales spend about £3bn each year on purchasing. Last year’s survey showed that many authorities’ purchasing is impressively effective, but that performance varied very widely, with major scope for reducing prices paid for goods if every authority could match the best. The Commission therefore suggested that each authority should consider undertaking a systematic review of its purchasing arrangements, to identify the overall scope for improvement, to develop a supply strategy, and to ensure that their purchasing arrangements operate effectively. To assist authorities in this process, the Commission has undertaken a special study with the assistance of 27 representative local authorities and purchasing consortia. This work has confirmed the scale of the opportunities that are available; and the audit guide shows how these can be realised.

IDENTIFY OPPORTUNITIES FOR IMPROVEMENT

2. A serious effort to improve purchasing can only be mounted if the authority has a clear picture of how its money is currently being spent, what it is paying for major items, how much it is spending on purchasing, storage and distribution, and what are the main alternatives open to it. The study suggests that many authorities lack this basic information, of which the main elements are described below.

3. The first step is to identify the main items on which the authority is spending its money, and the prices and volumes involved, i.e.
   - Estimate how the total purchasing expenditure breaks down by categories, and the rough volume in each.
   - Identify the major items in each category and the purchase volume over the year.
   - Record the unit price at a set date in the year; and for major items such as fuel with significantly fluctuating prices, the price paid each month. Exhibit 1 overleaf shows how prices for some commodities can vary month by month.

4. This was the focus of the initial work carried out two years ago, on a representative basket of purchase items. But that work was limited in scope in two important respects. First, it covered only a small – though reasonably representative – number of items; a more comprehensive approach is now justified, in the light of the value improvement potential. Second, the price comparisons were based on authorities’ buying-in prices and did not take account of any purchasing, storage and distribution costs incurred by the buyer; this had the inevitable effect of obscuring the case for smaller authorities in particular to buy through a larger neighbouring authority or a purchasing consortium. In addition some of the price comparisons made in the initial effort were open to challenge because, for instance, the specification of the item was not sufficiently ‘tight’, the effect of the size of the order had not been taken into account, or seasonal factors had been ignored.

5. The cost of obtaining any purchased item includes, in addition to the purchase price, the associated costs of purchasing, storage and distribution. It is particularly important to take these costs into account in evaluating alternative arrangements. Yet few authorities do this in any systematic fashion. Three types of cost are involved:
   (a) **Purchasing**. Establishing contracts, processing requisitions, and payment of invoices typically adds 4-6% to the costs of the items purchased (these costs will be incurred in different parts of the
authority according to the allocation of purchasing responsibilities).

(b) Storage. Warehousing expenses may be expected to total around 20% of the value of the goods handled, excluding delivery, but including administrative costs, an economic rental charge for premises used and interest on working capital – costs which are, of course, included by the supplier in the purchase price where goods are purchased for delivery direct to users.

(c) Delivery. This is also a major cost, that will vary widely depending on the nature of the goods involved and the frequency and size of the deliveries. It too is included by the supplier in the purchase price if items are purchased on a delivered basis.

6. Delivered prices calculated on this basis can then be compared with the available alternatives. These can include quotations from other commercial sources, supply from neighbouring authorities, use of a purchasing consortium, or HMSO and the Crown Suppliers. The results of this kind of exercise can be surprising. It is, of course, essential that the comparisons are made on a like-for-like basis and that the costs are properly calculated.

7. The Commission will again be issuing a set of guideline supply costs to its auditors for a further 'basket' of purchase items; these will take account of likely purchasing, storage and delivery costs for the item. However, the most relevant comparisons that really matter are the terms that can actually be obtained locally, rather than national guidelines.

8. There can be no absolute rules for the best sources for particular types of goods; however, the study has indicated that the most successful authorities tend to adopt standard practice for particular commodities. For example:

- Fuel. Bought on call-off contracts covering two to three years, with at least two alternative suppliers. Shire districts use counties’ contracts; and other authorities can combine, possibly through a consortium.
- Domestic equipment and cleaning materials. Large authorities purchase on annual contract for bulk delivery to central store, or direct to major establishments. Smaller authorities buy for direct delivery from the county or from a purchasing consortium.

Exhibit 1 illustrates the scope for improvement found at one authority in its derv contract.

Exhibit 1
MONTHLY VARIATIONS IN DERV PRICES
1984–1985
DEVELOPING A SUPPLY STRATEGY

9. A review on these lines can indicate the apparent scope for improvements, some of which may be fairly simple to put into practice. However, the Commission’s study has shown that the most successful purchasing authorities have always designed their purchasing arrangements in a very systematic fashion, and developed a clear and explicit purchasing strategy. Such a strategy lays down their external relationships with suppliers, their internal responsibilities for purchasing, and their systems for monitoring and control.

10. The importance of appropriate relationships with suppliers was demonstrated by the 1984 price survey which showed, for example, that for all items other than foods, the average prices of goods purchased one-off were significantly higher than those purchased on contracts. For most products, it was also shown to be generally cheaper for small or medium volumes to be bought from another authority or from a consortium rather than from the trade.

11. Purchasing consortia are separately constituted purchasing organisations in which member authorities are in effect partners. However, many authorities treat their consortium as they treat commercial suppliers, e.g. by asking it for tenders. This incurs administrative costs for the authorities and reduces the effectiveness of the consortium. Alternatively, and more appropriately, authorities use their status as members to exert pressure on the consortium to provide the supply service that they require.

12. Purchasing is almost entirely decentralised in many authorities; almost entirely centralised in others; or it may be handled by a wide variety of intermediate arrangements such as purchase by the main user. Again, there can be no absolute rule. But the 1984 survey and the subsequent study have shown that the least successful authorities were generally those with decentralised arrangements; the more successful authorities all have some degree of centralisation. The survey and auditors’ subsequent work also underlined the importance of purchasing discipline: there is no point in setting up arrangements that are not followed - i.e. ‘having a dog and barking yourself’ is not unknown among clients of central purchasing organisations or consortia.

13. The advantages of centralisation are clear:
- Reducing administration costs by avoiding duplication of effort and by streamlining systems and procedures.
- Improving terms simply by reason of the higher combined volumes involved.
- Permitting the employment of specialist staff who can be more effective in negotiating the most advantageous terms.
- Making more explicit and systematic decisions on specifications, service levels and other policy issues.

14. The most striking examples of poor value for money found by auditors have been the great number of instances of departments of an authority paying widely different prices for the same article.

15. There are signs that these advantages are being increasingly recognised; for example, over half the shire districts visited had made moves towards purchasing centred on two or three major departments, and a number were contemplating full centralisation.

16. There are, of course, arguments the other way; in particular, chief technical officers frequently advocate ‘major user’ purchasing, fearing that central buying may fail to meet their needs in terms of technical specifications and timing of deliveries. The Commission acknowledges the basis of these
concerns. However, the evidence is clear that the most successful local authorities - like the most successful commercial organisations - are those which combine the technical expertise of departmental staff with the purchasing expertise of professional purchasing managers. For example, in a major airline visited during the course of the study the purchasing director is on the panel that decides what engine to put in a jumbo jet.

17. Equally, centralising purchasing in no way reduces the responsibility of line management for the value for money represented by their major materials. There is little point in efficient purchasing of the wrong materials, and, again, what is needed is the proper combination of the two sets of skills and responsibilities.

18. Like any other activity, purchasing requires effective systems for monitoring and control of the results achieved. This requires systematic reports on the prices of key commodities, on purchasing on-costs, and so on. It also requires the regular involvement of members and senior officers in reviewing these results, since the best management information systems serve little purpose unless senior management are seen to be interested in the results.

19. There is scope for using the computer to replace manual work and eliminate paper, for example, by automatic production of repeat orders, and on-line communication with suppliers, permitting direct ordering. This can not only save money, but also promote more effective purchasing by relieving professional staff of routine work so that they can concentrate on managing exceptional cases, and on the search for improved results for their authority. It also provides excellent management control information.

ENSURING EFFECTIVE SUPPLY OPERATIONS

20. Having laid down its purchasing strategy and assigned appropriate responsibilities, the authority must ensure that these arrangements function efficiently and effectively. Some of the key activities are briefly dealt with below.

21. Proper specification is critical to price, volume, and, of course, to the value for money obtained:
- Too rigid specifications can restrict the opportunity for obtaining value for money. For example, one authority specified a lawn mower with a width of cut produced by only one manufacturer.
- At the same time, higher and more expensive specifications may also provide better value for money by reducing the full cost-in-use. For example, one county council showed that a higher grade of cooking oil which cost 40% more lasted three times as long during tests and thus cost less to use.
- Rationalising specifications for similar types of article can often produce major advantages through the higher volume obtained, and from the greater attention that can be devoted to a single major purchase.

22. Proper service is often as critical to users as the quality of the articles purchased. On the other hand, high service levels can also impose major additional costs. Effective purchasing, therefore, requires a systematic process for weighing up users' service needs against the costs that these imply, and considering more economic ways of meeting these needs.

23. Goods can be brought to where they are actually needed in one of two ways: delivered directly by the supplier to the point of use, or in bulk to a central store and thence to the user. Central storage is bound to impose major costs, and it is essential that it be well managed - in two respects:
(a) **Rationale for storage.** The extra costs of central storage can be justified on two grounds: either by the reduction in supply price from bulk purchase, or because the user's service needs can only be met this way. Both should be reviewed from time to time, particularly the economic argument since the relative advantage can shift over time. One major authority regularly asks suppliers to quote or tender both for delivery in bulk to central store and for direct delivery to users (the average extra cost for direct delivery to users is around 11.5%).

(b) **Costs of storage and distribution.** It is essential that stores operate effectively and economically in terms of stock-turn, operating on-cost and availability. Exhibit 2 shows some illustrative on-cost rates for different types of purchases; the Commission's report includes more detailed yardsticks for these measures for different types of stores.

**Exhibit 2**

**PURCHASING & DISTRIBUTION ON-COSTS**

% of buying-in price

<table>
<thead>
<tr>
<th>Description</th>
<th>On-Cost %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex-stock</td>
<td>21%</td>
</tr>
<tr>
<td>Fuel, vehicles</td>
<td>1%</td>
</tr>
<tr>
<td>General items</td>
<td>6%</td>
</tr>
<tr>
<td>Direct delivery</td>
<td>3.5%</td>
</tr>
<tr>
<td>Overall average</td>
<td>4%</td>
</tr>
<tr>
<td>Call-off contract</td>
<td>0.4%</td>
</tr>
<tr>
<td>Overall direct</td>
<td>4%</td>
</tr>
</tbody>
</table>

Ex-stock on-costs comprise: delivery (3%), warehousing (12%), buying and admin (6%). Costs include interest on net working capital, full re-charge of central administration costs, and market rental of premises. No suppliers' rebates deducted.

Source: Representative figures from major purchasing organisations.

**Staffing and Skills**

24. Much of the work in purchasing is routine but for purchasing to be carried out effectively it is essential for some of the staff to have considerable skill and knowledge. In order to make sure that the required skill and knowledge are present, it is not sufficient to transfer staff from routine work and pay them more. Staff with the appropriate aptitude need to be appointed, either from within local authority supply functions or from outside. Professional training is required for skilled staff whose knowledge is deficient.

**Procedures**

25. Local authority purchasing procedures are governed by standing orders. The report describes a number of ways in which standing orders may need to be reviewed to facilitate more effective purchasing. For example, it suggests that selective tendering based on approved supplier lists is generally preferable to open tender. It also emphasises the importance of controlling price variations by the way in which contracts are drawn up, and by monitoring the operation of the contract to limit price increases and to obtain justified price reductions. Procedures for users should also be properly laid down to ensure that the real benefits of central purchasing are not lost, without imposing plainly unreasonable restrictions on local initiative.
26. Exhibit 3, reproduced from the Commission’s earlier report, summarises the way a notably successful county supplies organisation operates. There is no reason why every local authority should not be able to acquire an equivalent expertise and enjoy similar standards of service at comparable cost.

The management of the purchasing activity will therefore be the subject of audits in all local authorities during the latter part of 1985 and early 1986 based on a detailed audit guide reflecting experience gained during the reviews of 27 authorities carried out over the past year. Following these audits the Commission will be publishing a national comparative report on the subject. Enquiries about this topic may be addressed to any of the Commission’s study team involved: Bert Benham, James Kennedy, or Roger Williams. They are based at 1 Vincent Square, London SW1P 2PN, 01-828 1212.
OVERVIEW OF A SUCCESSFUL COUNTY SUPPLY ORGANIZATION - 1984

VISION

Provide a central purchasing organization that will enable clients to achieve delivered costs 10% lower than they could secure by themselves.

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>STRUCTURE</th>
<th>SYSTEMS/STYLE</th>
<th>SKILLS/STAFFING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use available scale to negotiate better terms and achieve economics in ordering, storage and distribution:</td>
<td>Organised by Product Groups</td>
<td>Run it like a wholesale distribution business:</td>
<td>Lean, professional staffing with close understanding of suppliers’ economics as well as users’ needs:</td>
</tr>
<tr>
<td>• Large Range (100,000 catalogue items, 10,000 in stock)</td>
<td>• Clearly defined levels of authority and responsibility for buyers</td>
<td>• Item-by-item costing, to cover administration, warehousing, stockholding and distribution</td>
<td>• Total staff 275*, 4.5 per £1m supplied</td>
</tr>
<tr>
<td>• Wide Coverage - 5,400 dropping points, Districts and Health Authorities</td>
<td>• £5k Buyer</td>
<td>• Mark-up, to cover costs (only)</td>
<td>• 30 buyers, all with relevant professional qualifications</td>
</tr>
<tr>
<td>• Mix of Channels:</td>
<td>• £5–£20k Securer Buyer</td>
<td>• On-line computers, linked to suppliers and users for ordering and payment</td>
<td>• 20 buyers with suppliers’ or private sector experience</td>
</tr>
<tr>
<td>- weekly delivery, ex-stock (14%)</td>
<td>• £20–30k Buying Manager</td>
<td>• Batching of deliveries to smaller users</td>
<td></td>
</tr>
<tr>
<td>- direct order, supplier delivers (45%)</td>
<td>• £30–50k Assistant Director</td>
<td>• Monthly statements of costs/contribution vs budget for all responsible managers</td>
<td></td>
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<tr>
<td>- call off contracts (37%)</td>
<td>• over £50k Director</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- in-house production (4%)</td>
<td>• Close links with Trading Standards on Contracts and Supplier’s performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Enforceable Contracts</td>
<td>• Separate cost/contribution centres for buying groups, reprographics, maintenance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- rejects under 1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• High Share: Over 95% of County orders for bought-in goods and services.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• High Service Levels: 98% availability on stock items</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

* administration, purchasing, warehousing and distribution