Behind Closed Doors
The Revolution in Central Support Services
District Auditors were first appointed in the 1840s to inspect the accounts of authorities administering the poor law. Auditors ensured that safeguards were in place against fraud and corruption and that local rates were being used for the purposes intended.

The founding principles remain as relevant today as they were 150 years ago. Public funds need to be used wisely, as well as in accordance with the law. The task of today's auditors is to assess expenditure, not just for its probity and regularity, but for value for money as well.

The Audit Commission was established in 1983 to appoint and regulate the external auditors of local authorities in England and Wales. In 1990 its responsibilities were extended to include the National Health Service. For more information on the work of the Commission, please contact Andrew Foster, Controller, The Audit Commission for Local Authorities and the National Health Service in England and Wales, 1 Vincent Square, London SW1P 2PN. Tel: 071-8281212.
In March 1993 the Audit Commission published *Realising the Benefits of Competition: The Client Role for Contracted Services* (Ref. 1), which reviewed the implementation of the Local Government Act 1988, extending compulsory competitive tendering (CCT) to a wide range of local government manual activities. The report examined how well authorities were fulfilling their role as clients for work carried out by contractors, both internal and external.

The essential elements of the client role were described, and stress was placed on the importance of fully involving the consumers, or end-users, of services. The report emphasised that, since many contracts are coming up for renewal in the next two to three years, it is important to learn from experience of the first round of contract letting. Previous problems should be avoided, ensuring that delivery of front line services to consumers is carried out economically, efficiently and effectively.

*Behind Closed Doors* looks at an equally important aspect of front line service delivery: the role of central support services, such as personnel, legal, and financial services, in assisting or enabling service delivery. These services are rarely visible to the general public, and are sometimes thought of as uninteresting and unimportant. But support of this nature is vital to successful provision of front line services. Many of the conclusions in the earlier report about client-contractor relationships for manual services under CCT are equally applicable to the delivery of support services. The imminent application of CCT to 'white collar' professional services adds urgency to this issue, whether contracts are eventually won internally or externally.

Simultaneously, the Commission has carried out a study of the provision of IT services in local authorities. IT is an important support function, not only to front line services but also to other central support service providers. A separate report on IT in Local Government will shortly be published by the Commission. There are also some useful parallels between the management of support services in local government and in the Health Service. The Commission is following up these parallels in a study of the management of health service provider units.

This study was carried out by a team from the Local Government Studies directorate of the Audit Commission, consisting of Greg Birdseye, Geoff Delamere and Janet Paske. Professor Kieron Walsh of the Institute of Local Government Studies (INLOGOV) at the University of Birmingham gave valuable advice.

During the course of the study the Commission was pleased to draw upon the professional advice and experience of an advisory group of senior local government officers. The Commission would also like to thank all those authorities which helped with the study, either by taking part in the detailed fieldwork or by completing questionnaires on recharges for central support services. In addition, surveys of head teachers and managers of Direct Service Organisations (DSOs) provided information on their relationships with central support service providers. The views of these two groups of support service users were particularly informative, since they have more
experience than many other parts of local government in managing their own budgets and articulating their needs for support services. The Commission's study team also visited a number of large private sector companies, where similar issues confront managers. The Commission is grateful for all these contributions in helping to formulate its conclusions. Nevertheless, the contents of this report remain the responsibility of the Audit Commission alone.

The subject matter of this report features as part of the 1993/94 audit programme at individual authorities. Assisted by the Commission's external auditors, authorities will have the opportunity to apply the overall good practice described here.
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Central support services (CSS) are a major resource in local authorities. Over 50,000 staff are employed in local authorities in England and Wales to provide support functions such as financial services, IT, legal services and personnel. This total excludes those finance staff involved in direct services such as local taxation and housing benefit administration. An additional 20 to 30,000 'central' support services staff have been decentralised to front line service departments, i.e. the users of central support services throughout the authority. The total cost of CSS is over £2 billion, including overheads such as IT equipment.

Over the past 20 to 30 years, CSS providers in central departments have often assumed a controlling role over front line service delivery departments. Chief finance officers have had tight control over budgets; chief personnel officers have restricted even small changes to departmental establishments; IT developments have been allowed only on the central mainframe when priorities allow. But things have changed. Increasingly, front line services are delivered at arms length from the centre, e.g. by locally managed schools, by social services care managers in the purchaser-provider split, and by Direct Service Organisations acting under contract. CSS providers have been slow to adjust to this change in the balance of power: their controlling role should now be replaced by a supporting role.

In many councils, there is confusion between the support role of central departments and strategic management at the core of the authority. This issue should be clarified. The corporate core is composed of the elected members, assisted by a small corps of senior officers. In general terms its role is to define the objectives of the authority, to reconcile priorities, assign budgets, monitor overall performance and evaluate effectiveness. It does not derive its authority from day to day control over services, but from its overarching strategic role. The report focuses on the corporate role in relation to the provision of central support services.

While accepting the authority's statutory and regulatory role, the traditional control role of CSS has no future. But the revolution to replace it with a support relationship has so far been rudimentary. The situation is in transition. CSS users show frustration at not getting the support they need and the control that CSS providers still try to exercise. They resent paying high central overheads when budgets are constrained, forcing cuts in front line services. They also resent paying high charges to CSS providers which are not justified in relation to the service provided and where the basis of charging is often crude.

The revolutionary moves to arms length service delivery and the freedom given to schools and care managers, are creating an 'internal market'. Some councils have adapted well to this changing environment; others have not, and there is increasing tension between users and providers. The development of an internal market has potential dangers. For instance, it needs to be regulated to ensure that the authority as a corporate body does not fragment, and it must not give rise to a bureaucratic 'paper chase'.
In coping with these changes, authorities should develop a corporate framework of ground rules and standards to govern the trading relationship between CSS providers and users. The framework should define the freedoms and responsibilities of both providers and users: a market free-for-all is unlikely to be in the best interest of the authority's customers, i.e. the general public, and is unlikely to provide value for money services. Development of the framework will emphasise the distinction between the regulatory role of the corporate core and the support role of central departments. It will also help to ensure proper communication and co-operation between CSS users and providers. Authorities should develop service level agreements (SLAs) to put user-provider relationships onto a rational basis. SLAs should define the parties to the agreement, the cost of the service to be provided, the level and nature of the service to be provided and the mechanism for redress in the event of service failures. An SLA therefore acts as a 'quasi-contract', within the corporate framework.

But there are further challenges facing authorities. Many are facing the uncertainties of reorganisation over the next few years, as the work of the Local Government Commission proceeds. In addition, CCT is to be extended to white collar services, starting in 1995/96.

Neither of these changes is a justification for delay. To the contrary, all authorities must begin to prepare for CCT. Those authorities affected by reorganisation must start now to plan to ensure continuity of service to the public, by specifying the support that front line service departments need. Even though reorganisation is distracting attention, the opportunity must be taken to introduce user-led SLAs to ensure that CSS providers can deliver the necessary support. In addition, authorities must prepare their client sides for CCT, learning from previous experience, but in addition basing service specifications on tried and tested SLAs. Whether contracts are won internally or externally, attention to the client role is important. Time is short to develop user (and provider) competence in working in a contractual environment.

This report analyses the pressures facing authorities and sets out good practice advice to assist authorities in dealing with the trauma of CCT and reorganisation, ensuring that the authority's customers continue to receive good quality, cost-effective services. Some authorities have already made good progress; many others are lagging behind. At the end of this report there are three diagnostics which authorities as a whole, users, and providers can use to evaluate their performance against the Commission's good practice.
Introduction

1. Increasingly, the delivery of services by local authorities is carried out at arms length from the centre - for example, by locally managed schools, direct service organisations working under contract (for refuse collection, for example), and care managers in the social services. Such service departments and front line service units can rarely function in isolation. They usually need professional or technical support such as legal advice, personnel support, Information Technology (IT) and financial expertise, provided from other departments. Precise definitions of these 'central support services' (CSS) vary, but in general terms there are six broad categories (Box A). Where services to the public are provided by small specialist units, they are unlikely to have their own internal professional support, and will need to 'purchase' such skills from elsewhere. As devolution of responsibility for front line service delivery increases and greater responsibilities are placed upon non-specialists such as head teachers and governors, this support becomes increasingly important: for example, assistance with budget preparation, or advice on redundancy procedures. From the point of view of the public, central support services are invisible, operating 'behind closed doors' in the town or county hall. However, effective support services can add considerable value to the services which the public receives. Conversely, inadequate support can seriously undermine direct services.

Box A
CENTRAL SUPPORT SERVICES

<table>
<thead>
<tr>
<th>Service</th>
<th>Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal categories</td>
<td></td>
</tr>
<tr>
<td>Financial services</td>
<td>Financial planning/advice, internal audit, exchequer services</td>
</tr>
<tr>
<td></td>
<td>and cash collection, payroll administration, accountancy services.</td>
</tr>
<tr>
<td>Computing services (IT)</td>
<td>IT strategy, IT systems procurement, software development, IT systems</td>
</tr>
<tr>
<td></td>
<td>operation, telecommunications.</td>
</tr>
<tr>
<td>Legal services</td>
<td>Advocacy and litigation, commercial and contractual work, conveyancing.</td>
</tr>
<tr>
<td>Personnel services</td>
<td>Staff planning, employee relations, welfare, training and recruitment,</td>
</tr>
<tr>
<td></td>
<td>equal opportunities.</td>
</tr>
<tr>
<td>Other categories:</td>
<td></td>
</tr>
<tr>
<td>Strategic property management</td>
<td>Property acquisition, disposal, valuation and review, property database</td>
</tr>
<tr>
<td></td>
<td>maintenance, energy management advice.</td>
</tr>
<tr>
<td>Administrative services</td>
<td>Purchasing, printing, secretarial and clerical support.</td>
</tr>
</tbody>
</table>

Notes:  
1. This report deals primarily with the four principal categories of CSS in terms of staffing and expenditure. Nevertheless the analysis and recommendations are equally applicable to the other categories.

2. The definition of 'Financial services' as CSS excludes staff involved in benefits administration and local taxation (Council Tax, NNDR, etc.) since these can be classed as front line services in their own right. Other activities of finance departments such as pensions administration and treasury fund management, which are not support services to front line service departments, are also excluded.
2. Traditionally, support has been provided from the centre of the authority, often from large departments of specialist professionals. In total, the cost of these central support service providers is significant. Best estimates suggest that the cost of CSS, i.e. staff costs plus overheads such as IT equipment, is perhaps over £2 billion, approaching 4 per cent of the gross revenue budgets of local authorities in England and Wales and of a similar order to the total value of work under contract following CCT required by the Local Government Act 1988.

3. But it is difficult to isolate the entire support function in local authorities. In many authorities, staff or spending power for what were once thought of as central support services are being moved closer to the users of CSS in front line service departments (Exhibit 1). One model is for some central staff to be ‘outposted’ or ‘outstationed’, i.e. while still coming under central management, staff are physically located in user departments, in order to encourage a greater understanding of user needs and improve communications and responsiveness. Other authorities have gone further and decentralised both staff and at least some managerial control. Often these staff operate as a stand-alone unit, line-managed by the service department but with professional management (i.e. adherence to professional standards) remaining the responsibility of the centre. Yet others have gone further, with decentralised staff fully integrated into the service department. Some aspects of professional management can also be absorbed into the service departments. The personnel function, particularly, has moved in this direction with a significant number of authorities no longer retaining a central department, other than a small number of strategic human resource planners. Over 50 per cent of personnel staff now work outside central departments (Exhibit 2). Such moves also tend to blur the role definitions of support staff: there is a trend towards generic administrative staff in service departments, carrying out a combination of roles. Many of the issues addressed in this report about the role of central support staff apply equally to staff located away from the centre of the authority, where for example, the personnel section in an Education department provides services to locally managed schools.

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1 Nevertheless all such support staff are likely to fall under the government’s definition of professional services for CCT, unless the proportion of time spent on support falls below a defined threshold.
4. In addition to these decentralised ‘central’ staff, other staff are employed in service departments who do not directly carry out support service functions but are associated with support provision. For example, an education department will often employ administrative staff who spend some of their time answering queries about payroll-related procedures such as self-certification of sickness. These staff are part of the departmental management structure and included in the departmental budget. There are also specialist staff in departments, for example those who maintain school television and audio equipment. These two categories of departmental staff are not generally considered to be central support services and are not included within the scope of the Commission’s study, although they can be significant in numbers and should not be overlooked. They may, nevertheless, also come within the scope of CCT.

5. Historically, central service departments have been regarded as the corporate centre of the local authority. This was particularly true of the smaller urban and rural district councils before local government reorganisation in 1974, and was reinforced by the move towards corporate management in local government in the mid-1970s. In the new authorities from 1974, the Chief Executive, and Directors of Finance, Personnel, and Legal Services were assumed to form the core of the authority, often reporting to a central Policy and Resources committee. Progressively these officers acquired statutory and regulatory responsibilities (Box B, overleaf).
Box B
EXAMPLES OF STATUTORY AND REGULATORY RESPONSIBILITIES

Section 151: Local Government Act 1972
— requires a local authority to "make arrangements for the proper administration of financial affairs" and to "secure that one of their officers has responsibility for the administration of those affairs".

Section 114: Local Government Finance Act 1988
— places a duty on the chief finance officer personally to make a report to all members of the Council if it appears to him that the council is about to make a decision, take a course of action that would result in unlawful expenditure or incur expenditure that would exceed the resources available.

Section 5: Local Government and Housing Act 1989
— established the role of "monitoring officer" (which must not be the chief finance officer), to prepare a report if the authority is likely to contravene any law or code of practice or would give rise to any maladministration or injustice.

6. But these corporate and regulatory roles have often become confused with the support role; and professionally-related support services located in the central departments came to be seen as support to the democratic process, the Chief Executive and the core function, rather more than as support to front line service delivery. The emphasis was on control at the detailed level, rather than to exercise the centre's statutory responsibilities. It was common that departmental staffing establishments could not be changed, even in a minor way, without the approval of the Director of Personnel and the appropriate personnel sub-committee; IT applications were allowed only on the central mainframe and had to compete for priority in the demands on the IT department; the Director of Finance prepared departmental budgets and had the power of virement, and spending decisions were tightly controlled. As a result, the central departments came to see themselves as the corporate core of the authority. Furthermore, the cost of central departments was automatically transferred to service departments, often in an arbitrary way. This led to tensions, particularly in county councils with large service departments such as Education which spent the largest fraction of the authority's budget. Leading members and the Chief Executive spent a considerable proportion of their time policing conflict between the centre and departments such as Education, Social Services, Housing, Police and Fire which were championed by their own powerful committees.

7. The 1980s and 1990s have seen increasing pressure to move away from the model of the controlling centre. The devolution of service provision, budgets and accountability to the point of delivery, e.g. in schools and homes for elderly people, has prompted a need for greater responsiveness to consumers and reduced the control that could be exercised from the centre. Equally, the need for DSOs to compete for work under CCT and survive in the market place has focused attention on the recharged costs of central departments, as these affect a DSO's financial viability. A combination of rising expectations from local authorities' customers, additional
responsibilities for local government and increasing pressures on resources generally, have led to very difficult decisions about priorities for front line services. As a result, service deliverers now question the level of support provided by central departments, and the "burden of overheads" imposed upon them.

8. These pressures, separately or in combination, provide challenges to the balance of power between the centre and service deliverers. Many front line service departments and delivery units such as schools now make their own decisions on staffing and expenditure. There is increasing emphasis on the delivery of service outputs rather than control of inputs, and recognition of the importance of management of performance. With the weakening of their role as a control mechanism, there is pressure on CSS providers to justify their cost and, increasingly, their role in the authority. This has brought into sharper focus the difference between the two discrete functions of central departments: their support role and their regulatory role. Typically the corporate core is now perceived to be composed of the strategic interaction between elected members and a relatively small group of advisory officers, setting objectives for the authority, assigning budgets, monitoring performance and evaluating results.

9. These trends amount to a revolution with which no authority has yet fully come to terms. In responding to the changes, authorities must continue to encourage CSS providers to be more responsive to the needs of users, in order to meet the authority's main purpose of serving the public. The processes to achieve this are more important than structures. The Commission's report therefore focuses on CSS user-provider relationships (Exhibit 3), rather than on structural forms.

Exhibit 3
USER – PROVIDER RELATIONSHIPS
The report focuses on user-provider relationships rather than on structural forms
10. As if these pressures were not challenging enough in their own right, the situation is further complicated by additional prospective changes. White collar services will be subjected to CCT within the next five years. The Audit Commission's earlier report *Realising the Benefits of Competition* identified difficulties with the implementation of CCT under the 1988 Act. In some authorities, under pressure to comply with the government's legislative timetable, insufficient thought was given to the authority's role as 'client' for CCT contracts. Initially, authorities saw their first priority as preparing their internal contractors for competition, with the client role as a secondary consideration. With the impending introduction of white collar CCT, there is growing evidence that authorities are failing to learn from previous experience and may repeat mistakes made under implementation of the 1988 Act.

11. There is further uncertainty, in the shire areas of England about the outcome of the ongoing review by the Local Government Commission. Many authorities will cease to exist within the next few years and new ones will be created. Similar uncertainty exists in Wales, with the Local Government (Wales) Bill currently before Parliament. Such changes create a fresh opportunity to review the role of central departments and a fresh need to do so. In anticipation of, and during, this transition to a new structure, front line services to the public must continue uninterrupted. Continuing support to service departments is therefore doubly important.

12. In the light of these forthcoming changes, this report concentrates on CSS provision from the perspective of front line departments. The Commission recognises the concerns of authorities to prepare their support service providers for competition, e.g. how to win business and survive in the run up to CCT. But it is important first to focus on user concerns in order to prepare them for working in a contractual relationship, with internal DSOs or an external contractor. Provider concerns will be considered further in a later Commission report, focusing particularly on the delivery of financial services.

13. The remainder of this report is in five chapters. *Chapter 1* identifies the CSS providers and users and describes the current position. *Chapter 2* discusses the pressures for change and the problems these changes are creating. *Chapter 3* provides the Commission's advice and guidance to authorities on how to manage change, at the corporate level and for both users and providers. Having advised on how best to address the current concerns, *Chapter 4* then discusses the additional impact of CCT and local government reorganisation. Finally *Chapter 5* sets out how individual authorities can take forward the Commission's good practice recommendations.
1. Who Supports Whom?

USERS AND PROVIDERS

14. In local authorities in England and Wales, there are about 51,000 central support services staff working within the four main central departments - finance, IT, legal and personnel services (as defined in Box A). These make up about 7.5 per cent of total non-manual local government staff (excluding teachers, police and the fire service). Almost half of these staff work in finance departments (Exhibit 4). In addition there are relatively small numbers of other CSS staff, such as those involved in strategic property management (about 3000), and central administrative staff involved in work such as word processing, printing and purchasing. Almost two-thirds of CSS staff are employed in the shire areas (districts and counties combined) and a third in the metropolitan areas (Table 1, overleaf). Despite differences in policies and circumstances, staffing is in very close proportion to overall population in the shire and the metropolitan areas at the aggregate level.

Exhibit 4
CENTRAL SUPPORT SERVICES STAFFING
Almost half of central support staff work in finance departments

* Financial Services includes only internal audit, payroll, accountancy and debtors and creditors (See Box A).


15. But these figures need qualification. Analysis is complicated by the extent of de-centralisation of staff and devolution of budgets to service departments, as described in Exhibit 1. There are no centrally compiled statistics of these decentralised staff. Estimates from a number of sources, including the Audit Commission's Quality Exchange and surveys by the Society of IT Managers (SocITM) provide a figure in the region of a further 20 to 30,000 support staff in England and Wales.
16. Central support services are provided to a wide range of users within an authority, including service departments such as Housing, Social Services and Education — and their frontline service delivery points such as locally managed schools. Support is also provided to DLOs and DSOs, operating under contract. In addition, the corporate core itself, as distinct from the central departments, can be a significant user of central support services as part of the strategic management of the authority - for example, for committee support, budget preparation or legal advice. Different support services are provided to these users in different proportions: in a unitary authority over a quarter of legal services can be provided to social services; a similar proportion of IT services are deployed in benefits administration and local taxation.

17. In addition to these 'external' users, a significant proportion of the work of some CSS units is carried out for other CSS units, to assist them to support the external users in the rest of the authority. For example, the payroll service provided by a finance department will itself be dependent on the service provided by the IT department; the IT department may need assistance from personnel for training and staff recruitment; personnel may need legal advice on employment issues; and legal services staff are paid by the payroll system of the finance service. Services are provided even within a CSS provider department - internal audit staff are paid by the payroll section, for example. There are many similar interactions which complicate the identification of responsibility (Exhibit 5). For example, if employees are not paid on time, should finance staff or IT staff be held responsible? How does a recharge for payroll services to external users allow for the cost of support services provided by, and to, other CSS providers? The external users should not have to deal with several different providers for one support service.

18. Quantifying this 'matrix of dependency' is not easy, but it is essential if authorities are to understand the function of their support services. The largest internal recharge in most authorities will be the cost of computing services supplied to the finance department. Often, over 20 per cent of the total cost of the finance department, to be recovered from users of CSS, will come from IT on-costs (Exhibit 6), but there are significant variations amongst authorities, with no apparent pattern by type of authority. There are other significant recharges between CSS providers in the matrix which need to be identified and quantified before the recharge to users of CSS can be accurately calculated, taking account of payments to, and income from, other CSS

### Table 1

<table>
<thead>
<tr>
<th>Central Support Services Staffing</th>
<th>London boroughs</th>
<th>Metropolitan districts</th>
<th>County councils</th>
<th>Shire districts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>3,600</td>
<td>5,000</td>
<td>7,000</td>
<td>9,100</td>
<td>24,700(48%)</td>
</tr>
<tr>
<td>IT</td>
<td>1,900</td>
<td>3,100</td>
<td>3,900</td>
<td>4,300</td>
<td>13,200(26%)</td>
</tr>
<tr>
<td>Legal</td>
<td>1,300</td>
<td>1,500</td>
<td>1,600</td>
<td>3,500</td>
<td>7,900(15%)</td>
</tr>
<tr>
<td>Personnel</td>
<td>1,300</td>
<td>1,100</td>
<td>1,200</td>
<td>2,000</td>
<td>5,600(11%)</td>
</tr>
<tr>
<td>Total</td>
<td>8,100(16%)</td>
<td>10,700(21%)</td>
<td>13,700(26%)</td>
<td>18,900(37%)</td>
<td>51,400(100%)</td>
</tr>
</tbody>
</table>

37% 63%

Staff per 10,000 population 10.9 10.6

Exhibit 5
SERVICES BETWEEN CSS PROVIDERS (EXAMPLES)
There are many possible interactions, which complicate the identification of responsibility

Exhibit 6
IT RECHARGES TO FINANCE UNITS
Often, over 20 per cent of the total cost of the finance department will come from IT on-costs.

Source: Audit Commission fieldwork (1992/93)
providers. This is not a trivial task because of the interdependency of the 'trading' relationships. Appendix A illustrates these internal flows for a typical authority.

**CHARGING FOR CENTRAL SERVICES**

19. There is wide variation in the charges levied by CSS providers on users even within type of authority (Exhibit 7). Charges in aggregate for the four principal categories of CSS (finance, IT, legal and personnel), as a proportion of an authority's net revenue expenditure (and the Housing Revenue Account (HRA) where relevant) vary by a factor of more than two to one. To an extent, this variation reflects the type of authority and the degree of decentralisation of staff. But some recharges suggest inadequacies in financial control, e.g. expenditure not properly identified to cost centres, or that the systems suffer from inaccurate data, such as the time spent on different tasks.

*Exhibit 7*

**TOTAL CSS RECHARGES TO USERS**

There is a wide variation in charges levied on users, even within type of authority

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![Graph showing total CSS recharges as % of net revenue expenditure (+HRA) for Shire districts, Metropolitan districts and London boroughs, County councils.]

Finance, IT, Legal, Personnel

*Source: Audit Commission survey (1992/93)*

20. Even where authorities can properly identify aggregate expenditure, they have adopted a variety of mechanisms for allocating charges to users (Exhibit 8). There has been a development over time: progressive authorities have moved away from a simple lump sum reallocation of 'central establishment charges' (CEC), where the treasurer's 'black box' produced a budget figure or reallocation with little or no justification. Clearly it is very difficult for users to judge whether recharges are justified, when there is no breakdown of the figures. As a first stage improvement, a growing number of authorities produce explanations for the CEC, sometimes on a simple basis such as staff numbers in the user departments or floor area of office space occupied. Others use an annual head count of staff involved in work for different users, or base charges on estimates of

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1 In its report on housing management in 1986 (Ref. 2) the Audit Commission emphasised that the imposition of unexplained and possibly unjustifiable lump sum CEC undermined proper accountability of a housing manager for the delivery of the housing service. But such practices still exist, as highlighted in the Commission’s 1992 report Building in Quality (Ref.3).
time spent for different users in the previous year. However, relatively few authorities relate the charges directly to the service provided, either on a unit input basis, such as the hours worked by lawyers providing legal advice, or an output basis, such as cost per invoice processed or cost per conveyance of right-to-buy housing.

**SERVICE LEVEL AGREEMENTS**

21. Authorities that relate charges to inputs and outputs have recognised that CSS providers must be responsive to the needs of users; that they must provide services that users require to deliver their own services to the authority's end consumers; and that they need both freedom and responsibility to do so. In these authorities the relationship between CSS providers and user departments is often defined in terms of a 'service agreement' or a 'service level agreement' (SLA). The latter term is in more common usage although a service agreement better describes the relationship since it encompasses all aspects of the service provided, not just its level. In general terms, an SLA can be described as an agreement between a service user and a service provider which quantifies the service to be provided to the user. However there is no generally accepted precise definition, or even consistency in the use of the term. A working definition is given in a report by the Association of Metropolitan Authorities et al (Ref. 4) in terms of an SLA's key components (Box C). The essential feature of the definition is a statement of the parties to the agreement.

**Box C**

**SERVICE LEVEL AGREEMENTS – DEFINITION**

A service level agreement (SLA) identifies:

— a *service* to be provided [at a specified price] (through a service statement or service specification);
— the *level* at which the service will be provided (its quality and quantity);
— the fact that an *agreement* has been made about the type of service and the level of provision;
— the mechanisms for charging for the service, for amending the service or the level, for dealing with disagreements, and for terminating the agreement.

*Source: Association of Metropolitan Authorities et al. (Ref. 4)*
agreement, the price of the service to be provided, the arrangements for monitoring of performance and the mechanism for redress in the event of service failure. This latter point is often ignored but is critically important.

22. Despite their attraction, SLAs have been adopted in only a minority of authorities. For most activities, only about 20 per cent of authorities have adopted SLAs for all user departments, and over a third have no SLAs at all (Exhibit 9). Yet even these surveys are likely to overstate the use, and usefulness, of existing SLAs, since they recorded only the views of the providers, not users, and there was no indication how successfully the SLAs are operating.

Exhibit 9

USE OF SERVICE LEVEL AGREEMENTS
For most activities only about 20 per cent of authorities have adopted SLAs for all user departments

![Graph showing percentage of authorities using SLAs for various services](image)


CONTRACTING FOR WHITE COLLAR SERVICES

23. As a step beyond SLAs, a number of authorities have already let external contracts for their support services, seeking contractors voluntarily in advance of the government's proposals for CCT. But the numbers are relatively small: in a survey carried out by the Commission's auditors, to which over three-quarter of all authorities in England and Wales responded, only 16 per cent had let significant contracts with external suppliers for any of their support services in the last three years (Table 2). Nearly half of these contracts were with facilities management suppliers of IT services, and most of the remainder for financial services, often internal audit (Exhibit 10). The average value of these external contracts is around £850,000 a year, although several are well over £1 million in value. The total value of white collar contracts entered into voluntarily by authorities is in the region of £100 million a year.

24. Other authorities continue with internal provision, but only after carrying out market testing of their internal prices in comparison with external providers. These comparisons, often on an informal basis, have been carried out by both providers and users of support services - providers to assess the scale of competition and users to obtain a stronger bargaining position. Reasons put forward by authorities for opting for voluntary contracting include obtaining greater flexibility of action, achievement of savings, identification of external competition (e.g. where only part of the service has been subject to contract), protection of support staff career
opportunities (e.g. through a transfer of staff), and raising service standards to cope with change. In addition, undergoing voluntary contracting in advance of CCT enables authorities to be selective in the activities they subject to contract. Many of these external contracts have been let only recently and it is therefore difficult to determine whether they have been 'successful'.

25. One basis for evaluating the benefits of voluntary contracting is to draw parallels with the use of external suppliers, or 'outsourcing', adopted in private sector companies. During the course of the study, the Commission's team visited a number of the UK's largest companies which have let external contracts. These companies have let contracts for functions such as legal services, exchequer and accountancy services, printing and marketing. The companies concerned stated that such moves were made to control costs, to be more flexible in the face of rapidly changing markets, to clarify lines of accountability for service provision within the company, and to utilise the expertise of specialist support service suppliers where the company's own core is in another area (Case Studies 1 and 2, overleaf).
**Case Study 1**

**LESSONS FROM OUTSOURCING IN THE PRIVATE SECTOR – 1**

**Financial Services**
- One major company recently externalised its exchequer and accountancy services in order to focus more on its core business. Discussions with a number of finance firms narrowed the choice down to one, which was the most expensive but had the experience required and was felt to be best able to provide the quality of service needed.
- Existing internal staff transferred or took redundancy terms, and operations were consolidated onto a single site near the company's main base, from three existing sites.
- Both client and contractor felt the contract was settling in very well. An important feature of monitoring the contract was to report on the performance of both sides, e.g. proportion of invoices paid by the contractor within the specified time, and proportion of invoices correctly authorised by the client organisation within a set time scale before being sent to the contractor.
- Discussions were continuing on how to improve the service provided, including development of SLAs within the framework of the contract.

**Key messages:**
- Quality as important as cost
- Negotiated transfer of staff
- Reciprocal monitoring of inputs and outputs
- Building a long term partnership

**Case Study 2**

**LESSONS FROM OUTSOURCING IN THE PRIVATE SECTOR - 2**

**Legal Services**
- A major company is committed to slimming down its corporate headquarters staff as part of a restructuring programme. Legal staff were decentralised to operating companies and a proportion of the work outsourced.
- External costs are substantially greater, e.g. for general commercial work, litigation and conveyancing, but justified as fulfilling the corporate aims.
- Contractor performance is monitored by internal high level specialists retained as a client side.

**Key messages:**
- Cost savings not the primary objective
- High level client monitoring
- Headquarters staff slimmed down to retain competitive edge.
26. There are limitations in the parallels that can be drawn between the private and the public sector. Many private sector companies provide single services or single products, compared with multi-purpose local authorities. In addition, local authorities as public bodies do not have the freedom allowed to private sector bodies. Standards of transparency and accountability for public funds are important, and local government is constrained by the application of both UK and EC legislation regarding the contracting process in the public sector. Since July 1993 the EC Services Directive applies to the letting of specified public sector service contracts over 200,000 ECU's (approximately £150,000). Nevertheless there are lessons that local authorities can draw from private sector experience (and from their peers), that contracting out can work where:
- the authority is clear on its objective in seeking an external provider;
- there are precise corporate guidelines;
- there is a detailed specification of service outputs as far as possible;
- monitoring of outputs (and inputs where appropriate) is regularly undertaken;
- the operation of the contract, and the responsibilities of both parties, are clearly defined.

27. Authorities are at different stages on the revolutionary cycle from traditional provider attitudes through to a more responsive attitude to user needs. There has been a process of gradual development in some authorities, from the position where providers exercised control from the centre, towards a negotiated user-provider relationship, with services purchased externally if this offers better value for money. The pace of change has varied considerably between authorities. For those councils that have been dilatory, there are clouds on the horizon: the government's proposals for white collar CCT are taking shape. There will need to be accelerated cultural change in many local authorities as fundamental as that for manual services CCT. But even without CCT all councils need to take stock of their circumstances, assess the path they need to take, consider the extent to which external pressures will reinforce or confound their chosen course, and adopt policies which maximise the contribution which their CSS make to consumer services, both now and in the foreseeable future. And even in progressive authorities, there is evidence of dissatisfaction amongst users of support services. These concerns are discussed in Chapter 2.
Central support services often need to act together to provide support to front line service departments... 

...to be continued...
2. Why is Change Needed?

PRESSURES FOR CHANGE

28. Local Government is in a turbulent phase. Pressures for change are felt at all levels — by
the authority as a corporate body, by users of central support services, and by their providers.
Some issues are of immediate concern. At the corporate level, there is evidence of confusion
between the authority’s core strategic functions and the support functions of its central depart-
ments; amongst front line and support services an internal market is forming, and financial
constraints create a need to ensure overall value for money in securing the transition to that
market. Difficulties between CSS users and providers are inevitable. Many authorities are
adapting well to these concerns but in others there is dissatisfaction about service standards and
cost felt by many users of CSS, and providers are coming under increasing pressure because of a
declining customer market.

29. The tensions brought about by the developing internal market will be exacerbated by
impending external pressures: the impact of local government reorganisation in England and
Wales and, more generally, the need to prepare for the extension of CCT to the white collar
services. Providers of CSS see this last point as their most pressing problem, but they would still
be under acute pressure without CCT. To cope with the external pressures, Councils need a sense
of direction so that they can assess the extent to which legislation and structural changes may
compromise that direction. Too often, Councils attempt to cope with external change without
taking stock of their own strategic ambitions. They should first address these internal pressures
before turning to external events. Therefore, the next two chapters will hold the issues of white
collar CCT and local government reorganisation in suspense. Once the effect of existing pressures
consequent on this developing internal market have been assessed, the influence of extended
CCT and reorganisation will be considered in Chapter 4, to determine the extent to which they
affect that assessment.

CORPORATE CONCERNS

IDENTIFICATION OF COSTS

30. Where there is lack of clarity between the corporate role of central departments and
their support role, there will be confusion about accountability and responsibility for service
provision. This lack of clarity is illustrated by the methods used to identify and allocate central
costs. Many authorities allocate a significant proportion of the costs of central departments to
various headings such as 'corporate management', 'unallocated central costs', or the 'cost of
democracy'. In April 1991 the Chartered Institute of Public Finance and Accountancy (CIPFA)
published new guidance to local authorities on the management of overheads (Ref.5). Debate still
continues among finance professionals on the definitions, but for the first time, the CIPFA
Finance and General Statistics (1993/94 estimates) included data on the identification of costs
to corporate management. The proportion of total costs under this heading varies enormously
(Exhibit 11, overleaf), indicating confusion about the nature and role of the corporate core. Some
shire districts define up to 10 per cent of their total expenditure and the HRA as corporate management. While there will be genuine differences in priorities between authorities, a variation of more than ten to one, for every type of authority, cannot be easily explained. The definition of 'corporate management' is open to wide interpretation, but there is a suspicion that some authorities use these allocations as a means of 'hiding' costs which belong elsewhere in service spending. Such allocative practices and the use of vague descriptive terms obfuscates the crucial importance of the centre and its strategic role in providing support to members. They perpetuate the unresolved confusion between the support and the core role. Publication of the CIPFA figures and similar statistics should encourage authorities to examine their own allocations critically.

31. Part of the problem lies in the difficulties some authorities have in even identifying central costs and recharges. Fewer than half of the authorities examined in detail by the Commission's study team could easily provide accurate information about recharges to their users or the recharge flows between CSS providers. Without such information, providers cannot accurately determine their own costs, and users of services have no chance of challenging the cost of service on offer. Absence of correct information undermines user confidence in providers, even if the cost estimates used as a substitute for true costs prove to be accurate.

USER FREEDOM

32. Ensuring support to the front line is an essential role of the authority as a corporate body. Corporate information - financial data, personnel records, property records - is the nervous system communicating between the separate elements of the authority. As front line service departments and their service delivery units are given increasing responsibility, the corporate centre needs to 'hold the ring' to ensure that the danger of complete fragmentation is avoided, by defining the freedoms and limitations available to users and collecting appropriate information on their activities. A critical area of user freedom is control of budgets and expenditure. If users do not
control their own budgets for CSS they will have little control over the standard of service provided. They will also have little incentive to look for greater value for money from CSS since they, the users, will not directly benefit from any efficiency gains (Case Study 3).

Case Study 3
NO DEVOLUTION, NO INCENTIVE TO SAVE MONEY.

33. Despite recent progress in some authorities, relatively few allow changes to departmental budgets once they have been set for the year. Consequently, the size of a CSS provider unit is normally fixed for the year, based on the initial estimates of aggregate demand from users. While the corporate authority may allow some flexibility, the overall size of the CSS is likely to be unchanged. As there is rarely a tradition of buying in supplementary resources to meet peaks in demand, except for essential work such as legal advice, CSS providers often cannot respond flexibly to changing user needs in the short term. Because users are normally tied to existing CSS providers, and are seldom allowed to vire expenditure between budgets, they are inhibited from adjusting their priorities for provision of front line services. This lack of flexibility inhibits the development of mature user-provider relationships conducive to maximum cost effectiveness. Consequently, CSS inflexibility can cascade into inflexible public services.

34. Even fewer authorities have progressed as far as allowing user departments complete freedom to seek alternative providers of central support services, either to improve flexibility or to seek better value for money. Those with powers of virement rarely have permission to seek external providers (Exhibit 12, overleaf). Where an external provider is allowed in principle, an authority is likely to qualify its permission to look outside by a requirement to act in the best interests of the authority as a whole. Thus external firms can only be approached via the central department. This typically happens for legal services. Use of an outside source for one user could adversely affect the cost of internal provision to other users because of the need to spread a fixed overhead, e.g. for accommodation, over a declining user base. In practice therefore there is very little external provision. Such a constraint, understandable in the early stages of the development of an internal market, is likely to come under increasing pressure as users seek to reconcile growing public demand and expectations with constrained resources.

'BUREAUCRACY'

35. In some authorities that have progressed in developing an internal market using SLAs, there is evidence of excessively bureaucratic systems evolving. There have been significant
increases in clerical effort, e.g. for processing invoices between provider units and users. Providers are tempted to send invoices weekly to all users with which they have agreements, in order to keep track of their own trading positions. Users may initially require invoices that list in great detail all elements of the services provided in order to reassure themselves that they know what they are paying for. Such a situation is not in the best interests of either users or providers in the long term, but is often the consequence of distrust built up over many years. A culture of openness and trust, and mutual respect, are essential requirements of a successful internal market.

USER-PROVIDER RELATIONSHIPS

USER DISSATISFACTION

School head teachers

36. Many support service provider units fail to understand that their role is to support, not control. Often members have been complicit in this misunderstanding. This has given rise to dissatisfaction amongst users. For example, recent work by the Commission's auditors explored the views of school head teachers about central support services. In a sample of over 800 schools from 20 authorities, particular concerns were expressed, e.g. about the provision of financial services. Almost a quarter of respondents were either very, or fairly, dissatisfied with the systems for payment of accounts and invoices. In one authority over two-thirds of head teachers were unhappy about the standard of service provided; two other authorities approached 50 per cent dissatisfaction. Although most authorities claimed to have contacted schools about the support services provided, this seemed to have little effect on satisfaction levels. Head teachers represent a group of users that either already have, or will shortly have the purchasing power under LMS to take their custom elsewhere if not satisfied. They are also experienced enough as users of CSS to appreciate the positive contribution that support services can make to enhancing front line service delivery. CSS providers need to come to terms with this, or face the loss of a significant fraction of their market.
General complaints

37. There were general complaints from officers at all levels in service departments that IT developments, and particularly modifications to systems, were very late and expensive. Several front line service managers said they would much prefer to have their own IT staff and finance specialists. Too often the standard of service currently available reflected more the wishes of the providers than the needs of users: for example in one authority the leisure services manager was dependent on an IT support service available only on weekdays in normal working hours, when the centres operated also at evenings and weekends. Booking records had to be recorded manually when the system was down, for input on the next working day. There was no provision for data entry on local micro-computers, and the manager had not been invited to discuss the costs and benefits of changes to the current system.

Problems for DSOs

38. The Commission's fieldwork revealed particular concerns of DSO managers, who are often experienced and articulate users of CSS. Many local authorities have recognised the importance of good, cost-effective, support services for the survival of their DSOs in a competitive market. But many DSOs expressed dissatisfaction. For example, one complained of difficulties in persuading a finance department to modify a standard management accounting report to be more immediately useful for monitoring income and expenditure. In another authority, advice from a personnel department - paid for by a lump sum CEC of £100,000 a year - turned out to be in error, resulting in a claim for unfair dismissal against the authority. The cost of an out-of-court settlement of £6000 had to be met by the DSO out of its own budget, not by the personnel department. The legal implications of liability for inadequate service are beyond the scope of this report, but in a case like this, the provider unit might be expected to bear the financial consequences of its actions. At the very least there should have been an arbitration mechanism within the authority to resolve such disputes.

39. These examples of individual concerns by DSO managers were confirmed as general problems by an Audit Commission survey carried out in co-operation with the Association of Direct Labour Organisations (ADLO). Nearly 40 per cent of respondents said they did not receive the standard of service from CSS providers that they required to run their business. Over half were dissatisfied with the provision of IT services (Exhibit 13, overleaf) where providers are often committed to large mainframe systems which are difficult to modify to precise user needs. Fewer than half of the DSO managers surveyed felt they had had meaningful negotiations with CSS providers. Significantly, of those respondents who had not been involved in meaningful negotiations, a much greater proportion were unhappy with the service provided. The Commission's findings confirmed those of an earlier survey by KPMG Management Consulting (Ref.6). Over three-quarters of a sample of building maintenance DLO managers said that they would welcome the opportunity to purchase support services from outside the authority. These user reactions illustrate the danger that the currently captive market of CSS providers will rapidly dissipate if it gains the freedom to do so, unless action is taken to address the concerns.
EXHIBIT 13
SATISFACTION WITH SUPPORT SERVICES
Over half were dissatisfied with the provision of IT services

LACK OF AGREEMENT

40. In most of the above cases the authorities concerned had made little progress with formal service level agreements. The Commission's survey of DSO managers also explored how far local authorities had progressed in this area. Only a minority had any sort of written service level agreements between DSOs and their support providers (Exhibit 14), and some of these SLAs were said not to be working satisfactorily. Some managers agreed the level of service but not the scale of charges for service. Those without this information are likely to find financial management of their business extremely difficult. The Commission's study team came across instances where supposedly agreed prices for CSS had been used as a basis for winning tenders but were then subsequently increased, either during the year or after the year-end when CSS provider costs had been calculated accurately. In one authority, the DSO was faced with a bill for an additional £10,000, double what had been agreed, even though the volume of service was unchanged. An internal SLA cannot have the strength of a binding contract, but a significant variation in charges for support services can adversely impact a DSO's financial viability, and eventually undermine the services provided to the public.

41. But even where SLAs exist, problems can still arise. Many are poorly developed: inadequately thought out at one extreme and bureaucratic at the other. Some are simply statements of services to be provided, with no detail of costs. Many do not meet the basic definition in Box C (above). Existing SLAs vary from under a page of often merely wishful thinking - vaguely worded and perhaps not surprisingly unfulfilled - to, at the other extreme, 50 or 60 pages of over-detailed specification which may be impossible to deliver or monitor in practice. The latter documents serve only to fill bookshelves, not to improve management. One authority admitted to having over 300 SLAs in a single department - each section of the department had an agreement with almost every other section, creating a bureaucratic merry-go-round of nightmare proportions. Introducing a poorly developed SLA where user-provider relationships are
antagonistic is likely to make the situation worse. To impose a quasi-contractual relationship where there is no existing goodwill between the parties will lead to legalistic arguments about responsibility if service does not meet expectations.

42. Some authorities look upon SLAs as 'the answer to all their problems' without fully appreciating both the inherent strengths and weaknesses of the SLA process. Often problems arise because SLA preparation is dominated by the CSS providers rather than the users. Analysis of a sample of over 100 SLAs from a wide range of authorities showed that in only 6 per cent of cases had the SLA been initiated by the user; a further 9 per cent were produced jointly with providers and 26 per cent were agreed upon as part of a corporate initiative. The remainder, over half, were written solely by the provider of the support services.

SHARING THE BLAME

43. But not all blame for problems in user-provider relationships can be laid at the door of providers of CSS. The Director of Finance in one authority spoke of the difficulty of getting users to give their attention to drawing up an SLA, or their commitment to make it work by meeting agreed targets for data input. In another authority, discussions held by the Audit Commission study team at different tiers within user departments showed that service levels agreed by higher management with CSS providers do not always reflect the actual needs of those delivering the services on the ground: front line service delivery staff felt that those agreeing service levels were out of touch with their needs. And some of the criticism of central support service providers can equally be addressed at departmental support providers. Some locally managed schools, for example, complain of the lack of support from the Education department on personnel matters, or in drawing up budgets and monitoring expenditure.
44. In isolation, evidence such as this would be unremarkable; but collectively it forms a disturbing picture. Clearly it will not always be possible to satisfy all user demands for individual service, and support services are an easy target for DSO managers facing a deficit. Nevertheless, while the complaints may not always be individually justified, the fact that they are so widespread and expressed so strongly indicates at the very least that, despite their best intentions, providers suffer from an unhelpful image in the eyes of users. This situation requires attention.

45. The revolution in relationships between front line services and the backroom staff of councils is only just starting. In almost all councils, there is evidence of a need for improvements in the support provided to front line service departments. Even if they were not faced with the complications of reorganisation and the challenge of CCT to provider units, authorities would need to improve the quality of support provided, so that front line services are delivered to meet the needs of the authority's customers. Above all, authorities need to adapt to change. Even progressive authorities cannot stand still. The next chapter sets out the Commission's good practice guidance. The focus is, firstly, on the corporate role.

...but when things go wrong...

...to be continued...
3. Meeting Today's Challenge

CORPORATE ACTION

46. Matters are urgent. All authorities need to consider their direction and purpose. Even without the challenge of reorganisation, many are already deliberating the nature of the corporate core, and different views are emerging. Such deliberations are running in parallel with debate about the enabling role of authorities and their strategic management processes. This report cannot attempt a comprehensive answer to all these questions.

47. But in the context of this report's subject matter, there needs to be a clear distinction between the corporate core of the authority and the central departments as support service providers. The core is a user of CSS in its own right, but with the wider responsibility for statutory and strategic functions and of ensuring value for money in service provision. The core needs to provide the right environment for a productive user-provider relationship. This includes both protecting users from dominant providers, and protecting providers (and the authority as a whole) from user mistakes caused by over-enthusiasm, naiveté and ignorance.

48. The most important role of the corporate core in the context of the internal market is to define an appropriate framework, which makes explicit the responsibilities and freedoms available to both users and providers. Surrey and Kent county councils, for example, have well developed corporate frameworks, defined in a series of internal documents (Appendix B). Other authorities, generally county councils, have also progressed down this path, including Norfolk, Cambridgeshire, Gloucestershire and Warwickshire. The framework, which needs to be regularly reviewed in the light of changing circumstances, should consist of a combination of ground rules, to regulate market behaviour, and standards, to protect the corporate interest (Exhibit 15, overleaf).

GROUND RULES

49. Ground rules govern both users and providers, and establish the trading relationship on a sensible basis. They are important at an early stage to ensure that the tensions inherent in moving towards an internal market are kept in reasonable check, and must develop over time as the internal market develops. Among the most important aspects are:

— how users can be given more control over the services they receive;
— the freedom of users to look elsewhere for their support services;

1 The Commission is, however, about to embark on a new study of the implementation of reorganisation. A series of advice papers will be issued over the next two years.
Exhibit 15
THE CORPORATE FRAMEWORK
The framework should consist of a combination of ground rules and standards

— how to deal with fixed costs, e.g. for redundant assets such as accommodation, if users choose to obtain services elsewhere or if there is a general reduction in the volume of services required;
— how to handle budgetary surpluses and deficits made by provider units;
— financial arrangements between providers and users of support services.

Increasing User Control

50. The single most immediate way to transfer control from providers to users is by the devolution of budgets from central departments to front line services, i.e. to give users the spending power. The CSS provider elements of central departments should not have a budget in their own right: they need to justify their existence by selling services to users. This will impose a discipline to be more responsive and attentive to user needs, as payment would be made only if the users are satisfied. User control of the budget for support services has a number of implications: users will decide how much service to buy, and when. They also need to know the amount of budget spent and remaining throughout the year in order to control their expenditure. Budgets should initially be disaggregated on the basis of the previous year's level of activity, but in subsequent years will need to reflect changes in service volumes and responsibilities. For users to develop their experience and skills in purchasing support services, devolution of budgets should ideally be phased over two to three years.

51. When users control the budget for central support services, they have the incentive to question what they are getting and can control the volume of service they purchase. Users should also have the power to vire to other budget heads, if it proves to be possible to manage with a lower input than originally estimated, or in order to respond to higher spending priorities.
elsewhere. Without this power of virement the full advantages of devolution of spending power are unlikely to be realised, and users will not be committed to making the process work.

Use of Other Providers

52. Coupled with control of spending power, an additional freedom for users is to be able to purchase central support services from other providers, if they can better meet the users' needs in terms of value for money. However the freedom to purchase can be exercised only in the context of the overall corporate framework of ground rules and standards which reflect the authority's interest as a corporate body and its statutory responsibilities. A free-for-all market place is unlikely to be in anyone's interest, any more than a rigid and inflexible regime.

Dealing with Fixed Costs

53. In the long run, the volume of CSS provided by traditional central departments will fall. As DSOs, locally managed schools and social services homes gain more experience they are less likely to call upon central departments for support, provision of IT equipment and so on. Some may carry out traditional central support activities themselves; others may decide they can manage with a lower level of service, or be able to negotiate lower charges. In addition, if private contractors win a greater proportion of work in the next round of contracting for blue collar services, coupled with the extension of CCT to housing management and increasing numbers of grant maintained schools, the calls upon existing central support providers will inevitably reduce. Furthermore, CCT for white collar services is likely to lead to some contracts going to external providers. The impact will be immediate: loss of the payroll contract to an external provider, for example, automatically leads to a significant reduction in the volume of IT services required. CSS providers will be faced with a spiral of decline: fixed overheads will need to be recovered from a reducing customer base. Unless action is taken, unit costs will rise, leading to a loss of even more business. Provider units will have to adjust to the reduced workload by reducing staffing in order to contain their costs.

54. Where the reduction in workload is outside their control, authorities will need corporate ground rules which allow for the consequent reduction in overheads, particularly for central IT equipment and office accommodation. It is clearly undesirable and counter-productive for charges for all remaining users to be adjusted upwards to absorb overheads no longer carried by lost business. Where authorities retain some control, the corporate ground rules should soften the transition, for example by requiring users to exercise their new freedoms in a phased way, giving due notice of an intention to purchase externally, or allowing internal providers to try to match external prices. But progressively, cost efficiency must be the dominant objective.

55. There are a number of options for tackling the problem of redundant assets. IT mainframe equipment is usually leased. It may be possible to re-negotiate the lease, or use the surplus capacity in another way. Some authorities have arranged Facilities Management contracts with external firms, whereby an increasing proportion of capacity can be sold to outside users. Other fixed costs in the form of surplus accommodation can be dealt with relatively easily if it is rented or leased: rental agreements come to an end and leases can be reassigned. More difficult

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1 There are, in addition, clear rules about the treatment of redundant assets following award of CCT contracts.
are long term assets, primarily office accommodation in purpose-built county halls and civic centres. In a depressed property market it may prove difficult to sell or rent out space, even if it were feasible to isolate the unoccupied parts of the council offices. But it would be inappropriate for providers releasing space to continue to shoulder the burden, or to pass the costs on to users. Recognising that property is a corporate asset, surplus accommodation should be transferred to a corporate account, the costs of which should be carried by the authority as a whole, until the property can be disposed of or redeployed.

Surpluses and Deficits

56. Prices for central support services, however defined, can be set at the beginning of the year only on the basis of best estimates of future costs and volumes of service likely to be needed during the year. Even well thought-out agreements may not turn out to be accurate. If demand for unit costed services does not meet expected targets, which may happen through no fault of the provider unit, or if there is a greater than expected call on a block contract (e.g. one which specifies that advice will be available on call if the need arises, for a fixed sum) then the authority must have a mechanism to cope. Small deficits could be written off, but for larger deficits it is not acceptable simply to impose retrospective charges on existing users since this would undermine the whole basis of the user-provider relationship.

57. Conversely, provider units may be more successful than anticipated if, for example, productivity improvements are made by provider staff or if users make greater than expected demands on a unit-costed service. Unit costs for the coming year will have been calculated on the basis of anticipated volumes over which fixed overhead costs have been spread. Increases in volume at the agreed unit cost will lead to over-recovery of fixed costs. While some of these surpluses should rightly accrue to the provider unit in return for higher productivity, ground rules should state what should happen to excessive windfall profits, e.g. those caused by over-pricing.

58. At one authority, an example was identified of the difficulty in encouraging providers to act in a business-like way while charging a fair price to users. The legal services unit had been placed on a trading account basis and became highly successful in improving its productivity, generating a surplus on its trading account. Part of the surplus was reinvested in improved information systems - leading to further increases in productivity, and increased surpluses distributed as bonuses to staff. Users were generally satisfied with the legal services received and their costs, but there was some resentment, mainly from other CSS providers, at the level and use being made of the surpluses. A lack of clarity and agreement over the original ground rules contributed to the situation. At the time of this study, the authority had not found a solution, but was trying to continue to encourage improved productivity from legal services without fuelling the resentment of other departments. Several authorities have anticipated such problems and have established ground rules for dealing with surpluses and deficits which in effect share the risk and the profits (Case Study 4).

Financial arrangements

59. Financial arrangements must balance the users' need for adequate control with overall value for money. Users such as DSOs or schools need to know their cash flow position, ideally at least monthly. They also need a mechanism whereby payments are made only if support services
have actually been delivered to the required standard, but without increased bureaucracy. As an alternative to making payments for detailed invoices every week or month, some arrange an automatic journal transfer in the accounts system, with the safeguard that users have 20 days to stop part or all of the payment if the service had been unsatisfactory or charges were excessive. One county council found that, as users' experience and confidence in the providers have grown, there is less need for detailed invoices.

STANDARDS

60. Corporate standards are important to hold together the integrity of the authority's management. Standards are required for two reasons:

— policy standards are necessary to protect corporate interests. In the case of property services, buildings must be maintained to a minimum standard. There should be professional standards, e.g. for legal and financial matters. There must also be minimum standards set for health and safety, data protection and equal opportunities.

— operational standards are required for certain services to ensure a compatibility of approach across the authority. In the case of information technology for example, the authority must ensure compatibility of equipment and data. In finance, adherence to a common coding system for recording transactions is required, to enable the authority's aggregate accounts to be compiled, and to allow corporate review of expenditure.

61. Standards set for corporate purposes should be at high level, not attempts to define the detail of contract provision. They ensure that the overall framework of the authority is sound, not only immediately but also to secure continuing quality of service into the future. The standards set by the centre should be carefully considered, since they will impose a cost on departments in complying with them.

**Case Study 4**

**TREATMENT OF SURPLUSES AND DEFICITS**

<table>
<thead>
<tr>
<th>Out-turn</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>'Genuine' surplus or over-recovery due to higher demand, or increased productivity.</td>
<td>Providers retain 50% of surplus to carry forward or for investments to increase business efficiency. Other 50% paid into central policy fund. These rules only apply when the price charged is not over the market rate.</td>
</tr>
<tr>
<td>Non-genuine surplus due to charging full price for less than the required level of service or due to 'over-charging'.</td>
<td>Surplus paid to central resources.</td>
</tr>
<tr>
<td>Deficits or under-recovery due to failure to bill for services provided, or inability to bill for services provided but not requested; failure to contain costs; lower demand than anticipated.</td>
<td>Deficit carried forward to following year as a debit against the provider's trading account. Review long term viability of provider unit if deficits continue.</td>
</tr>
</tbody>
</table>

*Source: Audit Commission fieldwork*
The process of ensuring that providers are meeting user needs should start with efforts to define and then raise user expectations: changing the culture from user dependency on, or even subservience to, support service providers, into an environment where both sides recognise that providers must deliver the required support in order to justify their existence. In order to do this, users must be able to articulate their needs and wants in constructive dialogue with providers. They must be able to define the volume, type and quality of the service they need from the provider.

But negotiations must not become adversarial, as users exercise their newly acquired bargaining power. Officers in some fieldwork authorities used expressions such as "settling old scores" and "at last it's the turn of the central overheads to feel the threat [of CCT]'*. Warwickshire County Council addressed such, perhaps understandable, sentiments by providing specific training in negotiation skills, including role-playing, for both users and providers. Within the first year, user-provider relationships moved to on a more constructive basis as the learning process matured.

SERVICE LEVEL AGREEMENTS

Service level agreements or 'quasi-contracts' are the most effective way of formalising the relationship. Going through the process of setting up an SLA, and working towards a
negotiated user-provider relationship, where costs and service are more explicitly defined, can bring significant benefits to users. In the Commission's survey of DSO managers, a higher proportion of managers was satisfied with the standard of service they received when they had a written SLA defining their relationship with the provider, than without (Exhibit 16). A number of authorities have adopted the SLA approach, including counties such as Kent and Surrey, metropolitan authorities such as Newcastle and small districts such as Delyn.

**Exhibit 16**

**THE BENEFITS OF SLAs**

A higher proportion of DSO/DLO managers was satisfied when there was an SLA

![Bar chart showing the benefits of SLAs](chart.png)

*Source: Audit Commission survey of DSO/DLO managers (1993)*

66. With effective SLAs, services will be more closely matched to what the users really need, and opportunities are opened for meaningful negotiations about the overall cost to the user. In one authority visited by the Commission's study team, the manager of a multi-functional DSO had made significant savings in the cost of CSS during negotiations to set up an SLA (Case Study 6, overleaf). At the same time, simply shifting costs into the DSO was avoided because savings were also achieved in the DSO's own internal support services.

67. It is possible that other user departments, who may have tested the SLA process less vigorously, could find themselves bearing some of the costs previously charged to the DSO department. Improved information for all users and greater clarity in costing for services will help overcome this. And as the impact of SLAs spreads, the scope for 'moving costs around' will diminish and both the provider units and the authority as a whole will have to face up to reducing central support services which can no longer be justified by user requirements.

68. While initially the impetus for an SLA might come from the provider, who will have the experience of managing the provider resources to produce the required services, the relationship will remain permanently unbalanced if providers simply impose an SLA on the user. Providers might be tempted to hide behind an inadequate SLA and continue to provide service which is not necessarily what the users want. At the very least, SLAs should be reviewed annually, with the user increasingly providing the lead as experience increases. It is also important that an SLA
should clarify the responsibilities of the user side: deadlines the user must meet for data input, for example, that allow providers sufficient time to process the information. Service level agreements should bind both parties. Appendix C provides a good practice checklist showing the essential elements of service level agreements.

'Umbrella SLAs'

69. There needs to be a sensible limit to the number of SLAs in the authority or within a department. SLAs should exist only between major cost centres or where there is a significant element of support provided. While SLAs will often be needed between individual users and providers, for many functions there should be authority-wide general agreements in the interests of overall value for money. A typical example is the payroll service, where outputs are part of general arrangements for all employees, e.g. that payments will be transferred to personal bank accounts by the penultimate working day of each month. There may be some scope for variations from the standard service for individual users but, by and large, the agreement will be collectively negotiated by all users and the provider at a corporate level. This will be in the best interests of value for money for the whole authority, taking advantage of economies of scale.

70. A personnel records system is another example. The system needs to be set up centrally, following a standard format to facilitate statutory returns and staff planning, but each user may require different reporting options or analysis. The overall service would be covered by the collective SLA, but with separately agreed variations with each user. Such 'umbrella SLAs' reduce bureaucracy. For example, instead of a school negotiating its own SLA, it can simply buy in to a collectively negotiated one: education departments should co-ordinate the needs of individual

<table>
<thead>
<tr>
<th></th>
<th>Charges for central support services (£000)</th>
<th>DSO internal support services costs (£000)</th>
<th>Total (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992/93</td>
<td>170</td>
<td>250</td>
<td>420</td>
</tr>
<tr>
<td>1993/94</td>
<td>120</td>
<td>200</td>
<td>320</td>
</tr>
<tr>
<td>Decrease</td>
<td>50</td>
<td>50</td>
<td>100</td>
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</tbody>
</table>

The overall decrease in support services costs between the two years was almost 25 per cent, equivalent to 1.25 per cent of annual turnover.

Reductions in central support services have been achieved through:
- vigorous bargaining in the SLA process, requiring central support service providers to justify or reduce their costs;
- ensuring only relevant central support costs are recharged;
- taking on more administrative tasks within the department from the centre while at the same time improving the DSO support unit's productivity.

A multi-functional DSO with a turnover in the region of £8 million has reduced its spend on support services in order to improve its own competitiveness:

Case Study 6

REDUCTIONS IN SUPPORT SERVICE COSTS

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schools (although each school will need its own formal agreement with the provider). Neverthe-
less such an arrangement must not be provider dominated or be seen simply as a means of
maintaining the status quo. Providers and, in this case, the Education department must recognise
that the support service should reflect the requirements of the users, rather than being a
continuation of 'we've always done it this way'.

---

71. All these improvements will start to bring immediate benefits. The revolution 'behind
closed doors' of the authority is underway in many councils. But the world is changing fast: white
collar CCT and local government reorganisation are looming closer. Chapter 4 explores the
further challenges these will bring authorities and sets out how they can be tackled.

...there is a need for Service Level Agreements, backed up by a corporate
framework of ground rules and standards...

...to be continued...
72. Chapters 2 and 3 will help authorities to recognise how well they are managing CSS and to identify any problems. Remedying deficiencies would be a significant managerial challenge in its own right. But the remedies must also take account of two critical external changes – CCT and local government reorganisation. These changes have led some councils to defer giving active attention to SLAs and the internal market for support services; but as this chapter argues, such procrastination cannot be justified.

**EXTENSION OF CCT**

73. In its November 1991 consultation paper *Competing for Quality* (Ref.7) the Government announced its intention to extend CCT to a wider range of local authority services beyond those, largely manual, services already defined. The Local Government Act 1988 allows the Secretary of State to extend CCT to new services and the Local Government Act 1992 subsequently provides for the CCT regime to be modified, for example, permitting competitive tendering for only a proportion of the work of professional services. On current proposals the first 'corporate' (i.e. white collar) services to be subject to CCT will be legal services, starting in October 1995, followed by IT, finance, personnel and corporate and administrative services.

**THE CLIENT ROLE**

74. CCT for white collar services poses additional challenges compared with the manual services defined under the 1988 Act. There is a danger that CCT will amplify existing problems in user-provider relationships. Many authorities currently see the preparation of their provider units for competition as their biggest challenge, but they must not forget the importance of CSS to users and the role of the authority as client for services carried out under contract. Authorities will need to set up appropriate structures and systems, based on an understanding of the role of central support services. These need to be addressed now, rather than waiting for government deadlines.

75. *Realising the Benefits of Competition* defined the client role in terms of six interdependent elements (Exhibit 17, overleaf). In general terms, this definition holds true for white collar services, although there are some differences in detail. Specifications for legal services, for example, will need different considerations compared with, say, a refuse collection contract — legal services cover a wider range of activities and the outputs are less easily defined. In the light of the interactions between different support service providers, authorities will need to consider how best to select the elements of service to be put out to tender. For example, an IT contract based on existing systems and current demand would limit the options for financial services contracts for payroll, accountancy and so on. Specifications will need to consist of a mix of service outputs, service processes and service inputs, but with perhaps more emphasis on the inputs where the outcome of the service is less easy to assess. Legal advice, for example, may initially need to be defined in terms of the hours of input by legally qualified staff, rather than by the quality of advice.
given, although the latter is ultimately how the service will be judged. Nevertheless, specifications based as far as possible on outputs will give contractors scope to develop their own approaches, which could lead to improved service delivery. Contract monitoring will be difficult and different, depending on the service concerned. It is more difficult to monitor the quality of the work done by professional services than the quantity for manual services. The consequence of not getting it right could be serious: for example, inadequate legal advice in a child-care case, would cause more serious long term problems than a missed refuse collection round. Service users will normally take on trust advice given by legal and financial experts, at least in the short term. Conversely, users can take an active role in some types of contract monitoring, for example in reporting on late payments of invoices.

76. Although the authority's role as client is understood, who should exercise this role is less clearly defined. The principle of a division of responsibilities and accountability between 'client' and 'contractor' is well established for existing CCT activities. But for professional services at the time the Commission carried out its fieldwork in 1992/93 only a small proportion of authorities had adopted a client-contractor split (Exhibit 18) – which CCT legislation will eventually force on all - where some elements of existing central departments are separated off and labelled 'client'. But the users of CSS are capable of carrying out many elements of the client role, at least in the longer term once contracts have been set up: users can monitor if the payroll service is working or if legal advice is slow to be provided, and so on. The role of the 'client' staff should therefore be to act as a 'user-agent' to help the users obtain the services they need (Exhibit 19). If the user has sufficient expertise, there may be no need for input from the user-agent, except perhaps for
technical help in drawing up and letting the contract. As user experience grows, even this assistance may no longer be necessary, and the role may be simply one of professional oversight of the quality of support provided in order to fulfil the authority’s statutory and regulatory responsibilities.

77. Some questions about the implementation of CCT remain unanswered, but in the meantime authorities should decide their strategic approach, having regard to their local circumstances, so that they will be able to take advantage of whatever freedoms are offered by regulations, when they emerge. Impending CCT for white collar services is no argument for inaction by
councils. Rather it gives compelling reason why authorities should introduce SLAs urgently, to prepare their users to fulfil the client role and their CSS departments to act as contractors. Such a rehearsal will stand them in good stead for when compulsory competitive tendering arrives. But the debate about the implementation of CCT is very much compounded by the uncertainties of local government reorganisation.

LOCAL GOVERNMENT REORGANISATION

78. The prospect of reorganisation in the shire areas overshadows the next few years. Subject to confirmation, the first changes will be implemented in April 1995, with shadow elections in most cases the year before. In Wales, reorganisation is timetabled to come into effect in April 1996. Studies for the remaining parts of England should be completed by the end of 1994, with implementation in April 1996 and 1997. For a number of years therefore, many authorities will be in a state of uncertainty.

79. Affected authorities in England will fall into two categories. Reorganised (or continuing) authorities are likely to continue largely unchanged but take on additional functions and, perhaps, extend their boundaries. Large shire districts, such as Bristol, fall into this category. These authorities should already be examining the role of central support services and preparing for CCT in the new environment. New authorities are those to be formed by the amalgamation of existing authorities. The constituent elements of these new authorities may feel inhibited from taking decisions or amending existing structures in the run-up to reorganisation, e.g. deferring purchases of IT equipment. Nevertheless, early discussions between the constituent parts of a new authority are required since continuity of front line service is essential, and continuing support will be required by service departments. In most cases, the staff currently responsible for service provision, both CSS providers and users, will transfer to successor authorities and experience gained in the run up to reorganisation will be invaluable.

ACTION SOONER RATHER THAN LATER

80. CCT for white collar services will be implemented progressively over the next five years. Reorganisation, where it occurs, will need to be addressed concurrently. Recognising the workload that will fall on authorities affected by reorganisation, the government has announced a period of exemption for white collar CCT, starting from the date when the order creating the successor authorities is laid before Parliament. The exemption period for CSS will last between 18 and 30 months, depending on the activity. But this does not mean that authorities can stand still and ignore the need to consider the nature and role of their central support services. Even authorities with a deferment of CCT while they are reorganised have little time in which to get things right. The exemption period cannot be regarded as a holiday, since preparation for CCT is a lengthy process. Contracts will need to start on or before the end of the exemption period. An important task in the first months of a new authority will be to prepare specifications in order to start the lengthy process of letting a contract. Authorities must start now to address the concerns described in the previous chapters (Exhibit 20).

81. Whatever the outcome of reorganisation, front line services to the public must continue. Authorities should therefore start by defining what they want from central services, i.e. set out a user specification, ready for the new authority to pick up. Existing authorities where consumer
interests are dominant in their thinking will be preparing user-led SLAs in advance of reorganisation; authorities which plead reorganisation as an excuse for inaction are likely to be those where traditional provider attitudes still dominate.

82. While some of the detailed implementation of CCT has still to be resolved, it is clear that action to establish a productive user-provider relationship will assist with preparation for CCT. A well organised and responsive provider business unit is more likely to be able to compete with external providers than one with no experience of operating in a business-like environment. Authorities will thus have an internal benchmark to compare with external bids. A well-written, user-led SLA that has proved its worth in practice can form the basis of a contract when the time comes. One of the difficulties identified by the Audit Commission in its previous report on manual services CCT was the lack of experience of some authorities in drawing up contracts: specifying the services and setting out the contract conditions. Authorities should follow the good practice on contracting skills in Realising the Benefits of Competition, and prepare for their new client role. Starting with an SLA that meets user needs, in advance of CCT for professional services, provides a learning opportunity for both user and provider units. At the same time, preparing users, and the authority as a whole, by working in a quasi-contractual environment will ensure they can successfully manage support service provision, from either an internal or external provider after CCT.

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1 The Commission’s third phase of its current CCT work, on provider issues - with particular emphasis on financial services, will focus on these concerns. A report will be produced in 1995.
Progress in all the areas outlined in Chapters 3 and 4 is important, and must be related to the degree of preparedness and relative maturity of the authority. The user/provider/corporate elements need to be carried forward in parallel so that coherent development takes place. Chapter 5 outlines, finally, how authorities should examine their own progress against the Commission's good practice recommendations.

...CCT and local government reorganisation reinforce the need for action now, rather than later...

...to be continued...
5. What Should Happen Now?

84. This report has emphasised that, if front line services are to receive the support they need to ensure high quality services for their customers, authorities must take a number of steps. A first step is the recognition that central support services exist only to support front line services. In addition, devolution of budgetary control to those front line services will help to ensure that their needs are recognised by the providers. Behind the closed doors of the county or town hall, CSS providers in progressive authorities are already adjusting to their newly defined role. Less well-advanced providers are likely to learn the hard way, as their previous captive market slips away. The Commission's study team found some interesting contrasts between complacent provider views: "We've talked to all our users and are quite confident" and direct contact with those same users, such as head teachers, who have said they plan to withdraw their custom at the earliest opportunity. Even less well prepared were providers which had not entered dialogue with their users or had imposed SLAs simply reflecting their traditional way of working.

85. This recognition is a necessary precursor to the next step of establishing a mature and productive user-provider relationship, accepting that both sides have obligations to each other, in order that service delivery to the end-consumers can be most effective. A sensible, well thought-out, service level agreement is an essential element of a harmonious and productive user-provider relationship. Authorities that have not gone through this process are likely to be ill-prepared for CCT for white collar services. Simply to force through a client-contractor split incorporating traditional attitudes is a recipe for conflict between dissatisfied users and vulnerable provider units. And without the experience of working in a business-like way before CCT, CSS users, and the authority itself, may have difficulties with external contractors. Conversely, those authorities that have constructively used the time available before CCT will be in a much better position to put in competitive bids for the work subjected to CCT and hence retain the work in-house.

86. In developing a system of SLAs, authorities should prepare a carefully conceived implementation strategy. The sequence in which they establish SLAs between service users and providers will depend on particular local circumstances, the location of skill and initiative and the commitment of the Chief Executive. However, the starting point should be front line CSS users. They should specify the character and level of service which they require from support services. Once service requirements are established, CSS providers will be in a position to determine the extent to which they require support from each other. Consequently, the needs of the public should cascade back through front line service departments into the backroom central support structures. In overseeing this process, the corporate core will not only 'hold the ring' but should establish financial controls and targets to ensure that the benefits of clarity of relationships, specification of services, elimination of waste and cost comparison are realised. Whilst the
establishment of SLAs will entail some additional effort, at least in the early stages, the corporate core must ensure that a burgeoning bureaucracy does not outweigh the expected benefits of the exercise. A clear statement of objectives, including targets, will provide a basis for progressive evaluation by the core.

87. Thus a set of interlocking actions is required - for users, providers and the authority as a corporate body - phased over the next three to four years, but starting immediately (Exhibit 21). Many authorities are already some way down this path. Others have yet to start. All will need to have progressed at least as far as the year 3 stage by the time CCT is required. There is little time to waste: all authorities should examine their performance against these actions. With issues of this nature, there is the risk that readers will delude themselves with complacent and reassuring views about the performance and condition of their own authority. Boxes D, E and F (overleaf) set out good practice diagnostics to test whether an individual authority has reason to be confident. They should be completed both by users and providers in a council. The results, when compared, will probably indicate problems of perception and performance. In parallel, the Commission's external auditors will explore these issues in individual authorities. How well these problems are addressed will significantly influence the public experience of services from that authority.

…the Audit Commission’s diagnostics should help all authorities to evaluate their performance.
WHAT NEEDS TO BE DONE
Action by all three parties should start immediately

1. Identify core role of authority (separate from CSS provider) (para. 47)
2. Develop corporate framework of ground rules and standards (para. 48 et seq.)
3. Identify and describe support services provided to users (para. 62)
4. Provide information to users on disaggregated charges for CSS (para. 62)
5. Discuss user expectations in order to maximise user benefits from CSS (para. 63)
6. Introduce priced SLAs (initially based on provider information) (para. 65 et seq.)
7. Devolve part of budget to users (para. 50)
8. Review and revise corporate framework (para. 48)
9. Revise SLAs to reflect increasing user control (para. 68)
10. Devolve budget completely to users (para. 50)
11. Allow users virement freedom (para. 51)
12. Allow users choice of provider (para. 52)
**Box D**  
**GOOD PRACTICE DIAGNOSTIC – 1: THE CORPORATE AUTHORITY**

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>ACTION (IF 'NO')</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Has the authority identified a core role separate from central support services (CSS) providers?</td>
<td>II Make clear distinction between core functions and CSS</td>
</tr>
<tr>
<td>2. Has the authority set out a corporate framework of ground rules and standards within which users and providers of CSS operate in ‘the internal market’?</td>
<td>II Develop a framework as soon as possible, reflecting the current state of market development.</td>
</tr>
<tr>
<td>3. Are support services delivered to users on the basis of negotiated, priced service level agreements (SLAs)?</td>
<td>II Introduce SLAs, gradually increasing user control</td>
</tr>
<tr>
<td>4. Are users of CSS given: – control of budget (including virement)? – choice of providers?</td>
<td>II Devolve budgets in a phased way, and allow choice of providers where in best interests of authority</td>
</tr>
<tr>
<td>5. Are internal providers of central support services focusing on: – meeting user needs? – preparing business plans? – developing costing systems?</td>
<td>II Change culture among CSS providers</td>
</tr>
<tr>
<td>6. Is the authority actively preparing for white collar CCT (even if facing reorganisation)?</td>
<td>II Make maximum use of the limited time available</td>
</tr>
<tr>
<td>7. Have central ‘client’ functions been established to act as agents on behalf of users where necessary?</td>
<td>II Analyse the client role and identify degree of user competence</td>
</tr>
<tr>
<td>8. Is the authority (if faced with reorganisation) taking the opportunity to refocus CSS on user needs in order to ensure continuity of service to the general public?</td>
<td>II Use the period as a shadow authority to define a service strategy</td>
</tr>
</tbody>
</table>
Box E
GOOD PRACTICE DIAGNOSTIC - 2: USERS OF SUPPORT SERVICES

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>ACTION (IF 'NO')</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Do you have enough control over your central support service providers, their costs and the services they provide?</td>
<td>II Involve providers in dialogue to increase mutual understanding</td>
</tr>
<tr>
<td>2. Are you satisfied with the central support services your department receives with regard to:</td>
<td>II Negotiate SLAs which meet user requirements</td>
</tr>
<tr>
<td>— standard</td>
<td></td>
</tr>
<tr>
<td>— timeliness</td>
<td></td>
</tr>
<tr>
<td>— cost</td>
<td></td>
</tr>
<tr>
<td>— availability/accessibility</td>
<td></td>
</tr>
<tr>
<td>— responsiveness?</td>
<td></td>
</tr>
<tr>
<td>3. Are there any key areas where you would like to see improvements in the central support service?</td>
<td>II Make views known to provider and discuss implementation</td>
</tr>
<tr>
<td>4. Are you in discussion with providers about how to ensure continuity of service to the public after reorganisation?</td>
<td>II Start discussions well before reorganisation date</td>
</tr>
</tbody>
</table>

Box F
GOOD PRACTICE DIAGNOSTIC - 3: PROVIDERS OF SUPPORT SERVICES

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>ACTION (IF 'NO')</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Have you asked users what they think of your service and what they want?</td>
<td>II Carry out user satisfaction surveys, and rectify shortcomings</td>
</tr>
<tr>
<td>2. Are you planning to provide users with different/cheaper services?</td>
<td>II Provide a more responsive service</td>
</tr>
<tr>
<td>3. Are your users fulfilling their side of the relationship?</td>
<td>II Enter dialogue to encourage communication and cooperation</td>
</tr>
<tr>
<td>4. Are you planning to improve your service in readiness for CCT?</td>
<td>II Start to prepare business plans</td>
</tr>
<tr>
<td>5. Are you preparing to assist users in ensuring continuity of service to the public after reorganisation?</td>
<td>II Start discussions well before reorganisation date</td>
</tr>
</tbody>
</table>
Appendices

APPENDIX A
Internal Recharges for Central Support Services

APPENDIX B
Examples of Corporate Frameworks for Trading of Central Support Services

APPENDIX C
Service Level Agreements: Good Practice Checklist
APPENDIX A

INTERNAL RECHARGES FOR CENTRAL SUPPORT SERVICES (Illustrative example, based on a metropolitan district council)

Table A shows how CSS providers' costs are compiled, illustrating the interdependency of the 'trading' relationships, i.e. that providers can also be significant users of CSS. Table B shows how the recharges are distributed to 'external' users (i.e. front line service departments and others).

A: Recharges between CSS providers

<table>
<thead>
<tr>
<th></th>
<th>Direct costs1 (£000)</th>
<th>Recharges from (£000)</th>
<th>Total cost to be recovered (£000)</th>
<th>Income2 from other CSS providers (£000)</th>
<th>Recharges to 'external' users3 (£000)</th>
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<tr>
<td></td>
<td>Financial Services</td>
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<td>Legal Services</td>
<td>Personnel Services</td>
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<td>72%</td>
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<td>4%</td>
<td>8%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>11,800</td>
<td>400</td>
<td>1400</td>
<td>100</td>
<td>500</td>
</tr>
</tbody>
</table>

B: Recharges to 'external' users

<table>
<thead>
<tr>
<th></th>
<th>Recharges to 'external' users</th>
<th>Education</th>
<th>Social Services</th>
<th>Housing</th>
<th>Revenues and Benefits</th>
<th>Environment and Technical</th>
<th>DSOs</th>
<th>Corporate Management</th>
<th>Other Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>3500 (10%)</td>
<td>28%</td>
<td>18%</td>
<td>13%</td>
<td>1%</td>
<td>13%</td>
<td>10%</td>
<td>8%</td>
<td>9%</td>
</tr>
<tr>
<td>IT</td>
<td>5700 (100%)</td>
<td>36%</td>
<td>9%</td>
<td>20%</td>
<td>15%</td>
<td>3%</td>
<td>0%</td>
<td>14%</td>
<td>3%</td>
</tr>
<tr>
<td>Legal Services</td>
<td>600 (100%)</td>
<td>4%</td>
<td>19%</td>
<td>25%</td>
<td>3%</td>
<td>41%</td>
<td>1%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Personnel Services</td>
<td>2000 (100%)</td>
<td>16%</td>
<td>25%</td>
<td>19%</td>
<td>1%</td>
<td>10%</td>
<td>1%</td>
<td>17%</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>11,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Based on Audit Commission fieldwork 1992/93

Notes:
1. Direct costs are defined as staffing costs plus overheads, principally accommodation.
2. Income for each CSS provider is equal to totals in 'recharges from' columns.
3. Recharges to external users (as in Table B) are the CSS providers' direct costs net of income from, and payments to, other CSS providers.
4. Total of 'Recharges to external users' = Total of direct costs (i.e. all costs are redistributed to external users).
APPENDIX B
EXAMPLES OF CORPORATE FRAMEWORKS FOR TRADING OF CENTRAL SUPPORT SERVICES

Relatively few authorities have formally established a corporate framework including a set of ground rules for users and providers to ‘trade’ central support services. Several counties however have developed this approach to a significant degree, e.g. Surrey County Council and Kent County Council. This appendix outlines the ground rules documentation for those authorities and gives examples of some of the ground rules themselves.

SURREY COUNTY COUNCIL

Surrey County Council has issued a series of internal documents under the umbrella title of ‘Management of Change’. The individual documents vary from 4 to 40 pages and include the following titles:

— Overview: Organising to Achieve Our Goals
— Corporate Core
— The Corporate Framework
— Internal Market: The Role of the Client

Several of these documents have been re-visited, after two years’ experience of their operation, to develop the approach further. The documents are available from the council in the Management of Change Resource Pack.

The Corporate Framework document sets out briefly the council's framework under a series of headings:

— Freedom — Role of Chief Officers — Corporate Information
— Law — Corporate Policy — Personnel
— Probity — Contractual Management — Finance
— Role of Members — Corporate Consultation — The Internal Market
— Purchasing and Supply — Property — Regulations

An example of a ground rule is:

The Internal Market -

"iv) The only justifiable criteria for opting out of in-house trading will be price and perceived value. Due notice must be issued of intent to opt out."
KENT COUNTY COUNCIL

Kent County Council has developed an information pack for its managers in A5 loose leaf binder format. This contains:

— The Hitch-Hiker's Guide to Competition
— The Purchaser Framework
— The Internal Business Unit Framework
— Cross Boundary Service Provision
— Fitness in a Competitive Environment

Training and support for purchasers and provider managers is also provided.

An example of a ground rule is:

<table>
<thead>
<tr>
<th>Internal Business Unit (IBU) Framework:</th>
</tr>
</thead>
<tbody>
<tr>
<td>— &quot;IBUs (Support Service Providers) must restrict their business activities to those for which they have been accredited and in accordance with their annual business plans;</td>
</tr>
<tr>
<td>— IBUs must not compete with each other&quot;</td>
</tr>
</tbody>
</table>

A separate document, in the same format, entitled Finance for Internal Business Units has also been prepared. This focuses on developing costing systems, trading accounts and accounting for providers' overheads.
APPENDIX C  
SERVICE LEVEL AGREEMENTS: GOOD PRACTICE CHECKLIST

GENERAL  
— The main focus in SLA preparation should be on those services that account for the majority of the cost paid by the user. Users and providers should not attempt to draw up an SLA for every aspect of every support service.

— The SLA should contain a brief statement of its overall purpose.

— SLAs will probably have been drawn up by the provider initially, but users should take a more pro-active role in subsequent years as they gain experience in negotiation and purchase of support services.

— A successful SLA could form the basis for contract documentation for contracted service provision.

FORMAT  
— Once trust between user and provider has been established, 3 or 4 pages should be sufficient, with references to other documentation (such as the corporate framework) as necessary.

— The SLA should be clearly set out in terms of content, responsibilities and operation.

CONTENT  
— There should be separate sections for service specification and conditions under which provider and user operate.

Service Specification  
The SLA should define:

— outputs required from services, where possible;

— the time scale for achievement of outputs;

— processes and inputs (where definition of outputs would not be sufficient), e.g. for some professional services the quality of the service will depend on who is carrying out the work. Users may wish to specify named individuals or qualifications to obtain an assurance of quality;

— an estimated volume of service required;

— reciprocal duties of the user, allowing the cause of service failures to be more clearly identified, while keeping the provider's responsibilities the main focus of the SLA.

The SLA should also:

— be flexible in order to anticipate likely changes in circumstances;

— build in continuous improvement goals over the period of the SLA;

— clearly identify prices. User and provider accounting and coding systems should facilitate the recording of expenditure and income.
Conditions

The SLA should specify:

— the parties to the agreement (i.e. departments, section, etc.);

— named officer contacts (i.e. operational responsibility on provider and user side), e.g. who may make purchases or order extra work;

— powers and responsibilities of individual users, providers and the core;

— how changes are to be made to the specification, i.e. how variations are to be negotiated and priced;

— payment arrangements, i.e. the frequency, mechanisms and period of charging; facility for the user to stop payment to provider; automatic transfer of internal income to provider after specified period if no user 'stop' action taken;

— how to deal with poor performance, e.g. action the user can take if the provider fails to meet standards specified; arbitration procedures for major disputes;

— factors outside the control of the parties to the SLA;

— the date the SLA ceases to be effective (most SLAs are annual) and an indication of renewal procedures.

OPERATION

A successful SLA should allow users to control:

— standard of service:
  • identify standards of support services they can expect;
  • observe whether these are being met;
  • amend these standards, through an agreed procedure, in the light of experience;

— cost of service:
  • users should be able to achieve cost reduction or an improved service for the same cost;

— volume and type of service:
  • the operation of the SLA, together with the corporate ground rules, should allow users to be flexible in the volume and type of support services purchased, possibly over several SLA cycles;

— the cost of processing SLA transactions:
  • should be minimised e.g. by invoicing users monthly or quarterly and transferring funds from user to provider automatically within 28 days of the invoice date for undisputed items.
References
