Choosing well

Analysing the costs and benefits of choice in local public services
The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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Summary

Key messages

a) The public wants more choice and has a clear view of the services in which more choice should be provided. But taxpayers do not want to pay more to get more choice, so the need to assess the costs and benefits of choice is critically important in order to promote value for money.

b) The opportunities and constraints in providing choice will not be the same in every service or in every local authority.

c) In the services we examined we found that, properly introduced and under the right conditions, choice can produce higher-quality and more efficient services. When choice is introduced inefficiently, it can add to costs and reduce value for money.

d) The best local authorities are adept at understanding the economics of choice and competition, and are single-minded in the way they exploit the opportunities it provides in order to maximise the benefits and minimise the costs involved. Others need to follow their example in order to be effective in using choice and competition as a lever for improving value for money.

e) The Audit Commission will assist them in this transition. The principles and methods of assessing the costs and benefits of choice outlined in this report can be applied to any service. The questions for local authorities in this report will help them to understand when choice is feasible and desirable. The Commission will work further with public service providers and other stakeholders to develop thinking and practice in this area.

Providing more individual choice can be challenging for local service providers because it may appear to conflict with other policy objectives and priorities. Local authorities in particular are more used to promoting collective choice and establishing opportunities for communities to have a voice in collective decision making, as a way of ensuring that priorities for scarce resources are fairly set. Individual choice may, therefore, represent a departure from traditional ways of planning and delivering services.

Promoting individual choice can also be contentious, particularly if it is associated with outsourcing, competition and the possibility of users transferring to another provider, perhaps from the private sector. But providing choice to individual users calls for a much broader and dispassionate analysis.
The Commission believes that providing individuals with more choice about the local public services they receive is welcome in principle, but also that the circumstances in which it is introduced are important in determining its success. The wider public interest and other policy objectives such as value for money and equity must always be considered. A decision to promote individual choice, or not, should be made on a case-by-case basis, following a clear analysis of the costs and benefits to users, taxpayers and to providers.

Evaluating choice in local public services

The public’s views
We conclude that the public wants more choice, but as taxpayers, members of the public are not willing to pay more to get more choice. We accept that many people might rather have good local services than a choice of service or provider. But we have found that people understand that the quality of services in different areas is not uniformly good and that their ability to exercise choice might assist them in securing better services for themselves.

Service quality
Based on our research in the three services we examined, choice-based lettings in housing, direct payments in adult social care, and call centres and other forms of customer access facilities, we have found that the introduction of choice can lead to higher-quality services. Choice can, if managed properly, provide better matching of limited supply to preferences and needs. It can make small but very important changes, which users greatly value, in how and when services are offered. Choice can give users more control and therefore increase their level of satisfaction with local services. But we also found that choice might not improve the quality of services if the local authority lacks the capacity to implement it effectively.

The costs of choice
As with any change, providing more choice may increase costs, particularly set-up costs or for particular aspects of expenditure, for example, the provision of information. These costs will increase if choice is not introduced efficiently.
Value for money
But greater choice can improve value for money, even when additional costs are incurred. A certain volume of business may be required before savings or efficiency gains can be realised. The extent of the savings may also depend on the single-mindedness of the authority in pursuing them, for example, through reviewing staffing requirements. Already efficient councils may not be able to achieve substantial gains through choice, but they could still reach a valid conclusion that extending choice was worthwhile, if they can judge that any additional costs are likely to be justified by the additional benefits.

Equity
Evidence of the effect of choice on equity in the three services we examined is at best patchy. Local authorities are monitoring the take-up of direct payments and both local authorities and housing associations are monitoring the take-up of choice-based lettings to see if some groups are marginalised, but no clear picture has yet emerged. Neither choice-based lettings nor direct payments involve a net change in the numbers of winners and losers. Choice-based lettings provide a better match of users’ preferences to the existing volume of properties. The proportion of social care clients that opts for direct payments in no sense disadvantages others who opt for traditional domiciliary social care. In both of these services, therefore, we consider that greater choice represents a win-win outcome for users and for local authorities.

Barriers to choice
Local authorities identify a number of barriers, or potential barriers, to introducing more choice including a concern to protect vulnerable local residents. In most cases, however, these barriers are based on inaccurate or untested assumptions about costs (disadvantages) and demand. Local authorities should not protect professional interests at the expense of introducing greater choice for local people. There is evidence of staff resistance to the introduction of choice on these grounds.

Local authorities need a better understanding of their cost base. Without this they cannot conduct a cost-benefit analysis to see what contribution, if any, introducing choice may make to efficiency savings or improved value for money. We found, in particular, that customer access centres had frequently been introduced without an agreed business case setting out the expected costs, demand, and potential benefits of the new service.
Some local authorities do not understand or manage their markets. In direct payments, for example, we found that councils did not fully understand how to set prices at a level that achieved cost savings while ensuring sustainability and growth in the supply of provision.

Choice and competition

Local public service providers need to understand when choice involves competition and when it does not, and what the potential benefits are in each case:

- Choice without competition can bring more flexibility and better personalisation for users, and help to match limited supply to demand better.
- Choice with competition can bring more efficient and more responsive services, as providers try to win business and encourage users not to switch to a rival.

Choice with competition can take one of two forms: competition for the market is familiar to public service agencies with a role as a commissioner or procurer of services. It entails competition among providers for a monopoly contract to supply to a market (for example, waste disposal). Competition in the market, however, is new in many services, and involves different suppliers competing for business directly among the public or groups of service users.

Choice and competition may bring costs as well as benefits. Costs include the financial and administrative costs to local public bodies of introducing greater choice, and the information costs to users who need to find ways to choose between different providers or ways of accessing provision. Benefits include overall savings and higher-quality services.

The work of the Audit Commission

The Commission will work with stakeholders to help local public bodies to understand and approach these issues more effectively. It is already taking steps in this direction. It is developing the approach outlined in this report and will pilot its use in local authorities and housing associations. It will publish a report on competition and contestability in 2007, which will build on the findings in this report.
The introduction of greater choice is particularly contentious in public services such as health and education, but is outside the scope of this study. The Commission intends to work with other stakeholders to supply evidence to improve our understanding of the effect of greater choice in these and all other local public services.

The costs and benefits of choice in specific services

We explored the costs and benefits of choice in three local authority services, customer access centres, choice-based lettings, and direct payments, in order to understand the issues better and to see how providing more individual choice might affect the quality, equity of access and value for money of local public services.

Customer access centres

Customer access centres, such as call centres and one-stop-shops, provide a choice of offering. There is no choice for users of service or of provider, but there is choice of access or route to services and providers. They are fundamentally important in widening access to services, a key component of choice.

Benefits of customer access centres can include: faster service and better outcomes for users; increased efficiency for local authorities through use of low-cost communications; and possibly improved equity through more tailored access for minority ethnic groups. The costs can be substantial and involve investment and operating costs for information and communications technology (ICT), plus costs of staff recruitment and training to run the centres. Web-based access to information about services is becoming increasingly popular and will significantly affect the development of call centres and other access points.

Choice-based lettings

Choice-based lettings involve choice without any significant competition, since it is hard for new providers to enter a market and long lead times are required to build new properties in response to greater demand.
The benefits of choice-based lettings focus on the better matching of a fixed supply of properties to high demand. The benefits to users include greater transparency about how properties are allocated, resulting in increased customer satisfaction, and better matching of users’ preferences to the available supply, including the letting of previously hard-to-let properties. The benefits to housing providers include: administrative cost savings, because there is less time needed to offer properties; better planning information; and critically, a reduction in the number of days that properties are empty, which brings savings.

The costs to providers of introducing choice-based lettings can be substantial and include ICT and set-up costs, ongoing advertising costs; and additional staff to support disadvantaged users in making their choices. This last point illustrates the additional cost to users of researching the available options. How authorities address these issues significantly affects their ability to realise savings.

**Direct payments**

Direct payments in social care is an example of choice with competition, because new providers can, and do, enter the social care market in response to demand from users who are free to choose the providers they think will best meet their needs and preferences.

Benefits of direct payments for users include: higher quality through more customised and flexible services; more empowered users, who have control over who provides their care; and possibly greater equity, since users can choose care packages that correspond with their cultural, ethnic or medical requirements. Benefits for local authorities include: lower administration costs, since much of the administration is handled directly by users; and lower overall costs of provision in cases where prices for direct payments are set at a lower rate than for domiciliary home care.

Setting the price for direct payments is a key component of the system, which can have consequences for the supply for a wider group of service users.

The costs to councils include recruiting and training staff to support, advise and guide clients, and possibly also to regulate the quality of care packages chosen by users. The costs to users include research and information of options, and the burden of being an employer.
Recommendations

Recommendations a) to h) are to local authorities, as our principal evidence base is from local government services. But other local public bodies and providers of local public services will find them relevant and of interest.

Our **general recommendations for local authorities** are that they should:

a) conduct research to understand the choices that their local communities and individuals want and assess whether the public is really seeking higher minimum standards of service rather than more choice, or whether it wants both;

b) through this research assess which groups and individuals, if any, might be more disadvantaged as a result of extending choice, so that remedial action can be taken if necessary and appropriate;

c) develop the skills needed to become more adept at understanding the implications of choice and competition. They need to be more single-minded in using choice, competition and in analysing costs and benefits to drive out inefficiencies. They need to be more willing to consider collaboration to achieve this, particularly if they are small local authorities; and

d) use the simple models in this report for assessing at a basic level the costs and benefits of extending choice, as part of the preparation of a business case for change.

Our **specific recommendations for local authorities** that provide the three service areas our research has addressed are shown below.

**Choice-based lettings**

e) Local authorities and housing associations should look carefully at the cost-effectiveness of their approach to determine whether they could maximise the benefits with reduced, shared or no ICT investment, fewer advertising channels, and fewer staff. Sharing set-up costs with other choice-based lettings organisations can be particularly important in achieving greater efficiencies.
Direct payments

f) Local authorities should adopt a clear numbers-based rationale for setting prices for direct payments, based on an understanding of the effect of these prices on the supply of provision. This requires them to develop sufficient skills within their workforce to manage and foster choice and possibly competition.

g) They should ensure they understand and prepare for any additional regulatory costs of direct payments. Although direct payments involve delegating responsibility for administering funds to users, local authorities retain a duty to ensure that these funds are properly accounted for and that the quality of care obtained through them is appropriate to meet users’ needs.

Customer access centres

h) Local authorities should appreciate that the costs of introducing customer access centres are driven by the number and type of access channels and the range of services involved. It is particularly important that local authorities prepare a robust business case before introducing them and that they regularly review and monitor the effect on anticipated costs and benefits and on business flows and processes. Business cases for current and future access centres should be reviewed to ensure that they take account of alternative access channels, such as web-based services

Central government should:

i) be clearer in its use of language when discussing policies to increase choice, setting out whether the choice involved is a choice of offering or choice of provider, and if the latter, whether the choice involves competition or not, and whether any competition is for the market or in the market (Table 2, page 20).

Regulators and inspectorates should:

j) assess the capability of local authorities and other local bodies to create and manage effective and efficient local markets. This will require them to develop their own skills and capacity to understand the issues involved in managing markets, choice and competition, and to support local authorities’ changing role as commissioners, as well as providers.
Introduction

‘My mother’s menu consisted of two choices: Take it or leave it.’
(Buddy Hackett, American comedian, 1924-2003)

Purpose of this report

1 The purpose of this report is to analyse whether greater individual choice can help improve local public services and to help local bodies understand when and why a policy of increasing individual choice can be implemented fairly and cost-effectively. The report sets out a means of analysing some of the costs and benefits of providing choice in local public services.

2 The report looks in detail at three services to illustrate this: choice-based lettings; direct payments in adult social care; and customer access centres, including call centres and one-stop-shops. We selected housing and social care because they are services in which choice has been implemented to a greater extent than elsewhere. We selected customer access centres because our research suggested that providing a wide range of options for contacting councils was an important component of how the public views choice in local government, opening up possibilities for obtaining information and engaging in transactions.

3 However, our analyses of costs and benefits do not involve precise measurement. The framework outlined in this report is an assessment tool, not a predictive model. It is based on the sometimes limited evidence collected in fieldwork; local authorities and other public bodies can adapt and augment it, if they are able, with additional local data specific to their services.

4 This report is a contribution to a growing debate. It does not seek to portray the whole picture regarding choice in local public services, nor to provide a definitive statement about it. It does, however, add a new dimension to the continuing discussion about the feasibility and desirability of extending choice in local public services.
Why is the Audit Commission publishing this report now?

It is likely that the principle of providing more choice in local services is here to stay. Not only does it feature prominently in recent Government policy announcements, such as the Health White Paper (Ref. 1) and the Education and Inspections Bill (Ref. 2), both issued in 2006, but the principle of greater choice is becoming more widely accepted among the public. Once it is gained, people are unwilling to give up the power to choose. But the actual power to choose local public services currently enjoyed by members of the public is limited. The extension of individual choice into local public services is still at an early stage.

The rhetoric in favour of individual choice has yet to be made a widespread reality. As a result, the many claims for (and against) providing more choice are sometimes unsupported by empirical evidence. The research conducted for this study found that few local authorities have much hard evidence of relative costs and benefits, and have yet to develop a method of assessing with reasonable accuracy the impact on services of providing more choice.

Structure of the report

- Chapter 1: Choice and competition in public services: the principles of choice and competition and how these can apply in public services.
- Chapter 2: The public’s views on choice in public services: the evidence on whether the public wants choice in public services, and why.
- Chapter 3: Local people’s experience of the choices provided by local government: the views of the public and local authorities on what choices are provided.
- Chapter 4: The costs and benefits of providing choice in local government services: the costs and benefits of increasing choice in three services: choice-based lettings in housing; direct payments in social care; and customer access centres.
- Chapter 5: The lessons for policymakers and managers of local services: the principal barriers and drivers for managing and extending choice and competition in local public services.
The evidence for this report draws on the Commission’s own research over the past two years, as well as from other sources. Full details of the methodology are in Appendix 1.

The author of this report is Mark Wardman. The other staff that have worked on this study over the past two years are Marilyn Lister, Geoffrey Rendle and Ruth Alaile. Additional research for this report has been carried out by MORI and by Frontier Economics Ltd.

Background

This report is about the impact on local public bodies of providing individuals with greater choices about the local public services they receive. Whether or not there should be more choice for users of public services is sometimes a contentious question in public policy debate. There are equally passionate advocates in favour of and opposed to extending choice, depending on the context. The debate is often characterised by markedly different opinions on how public services should be provided in the future.

This report attempts to bring some clarity and objectivity to the debate by exploring the advantages (called benefits) and disadvantages (called costs) of increasing choice in local public services. The key questions are:

- When do benefits outweigh or justify the costs when choice is introduced into public services?
- Who bears the costs and who receives the benefits?

Public bodies continuously have to make difficult decisions, that is, choices, about which services to provide, at what level of quality, and how people should access them, within financial constraints. They cannot meet every need, nor please everyone. Local public bodies make these decisions, often explicitly on behalf of their communities, which affect budgets and services in a profound way. This collective choice by public bodies on behalf of individuals is the norm in the public sector.
In this report, however, the term choice is taken to mean the decisions that **individuals** (rather than public bodies) make about what services they receive and how they receive them. The ability of individuals to make some choices of public service is not entirely new – people have been able to choose a GP since at least 1948. What has changed is the scale, or potential scale, of individual user choice. Recent policy initiatives have sought to extend the principle of individual choice across public services. This has led to a belief that this form of choice can radically alter the relationship between users and providers of public services.

‘The patient will see you now, doctor.’
(BUPA advertising campaign, 2004)

**The policy aims of providing more individual choice**

As a policy, individual choice is a means to an end. It aims to contribute to the modernisation of public services, to make them more responsive and efficient and better able to meet both the needs and the wants of local people. Choice, it is argued, will give individuals and communities greater power over the decisions and services they rely on. But others believe it will lead to fragmentation, division and inequity, and raise unrealistic expectations that local public bodies will fail to meet.

The Commission starts from the presumption that to provide individuals with more choice of public services is welcome in principle, but only in circumstances where the benefits outweigh or justify the costs. There can be tensions with other important policy objectives and the wider public interest must always be considered.

The Commission published a report on choice in 2004 (Ref. 3), based upon research among the public. This research was designed to answer the question, Does the public want more choice in local public services? The findings were that:

- a majority of the public likes the idea of choice in local public services and wants to see it more widely available;
- choice is particularly popular among members of the public who depend on local public services, including women, members of black and minority ethnic groups and those from social classes D and E;
members of the public have a clear sense of the priorities for services in which they want to see more choice; and importantly

people are not prepared to pay additional taxes or charges in order to receive greater choice.

The Audit Commission has a key interest in addressing the question of choice because of its relationship with value for money in local public services. Our further work in this area has therefore been informed by three questions:

- Does greater choice improve local public services?
- Does greater choice lead to greater value for money for users and taxpayers?
- Does greater choice create greater inequity?

In addressing these questions, this report focuses on local authority services, but the principles explored here can be extended to other sectors. This report summarises the Commission’s findings to date and is a contribution to the continuing debate about choice in local public services.
Choice and competition in local public services

What does choice in local public services mean?

18 Choice is not a simple concept when applied to public services. It is sometimes conflated with competition although they mean different things. It is sometimes taken to mean personalisation – the flexibility or responsiveness of a service to accommodate people's preferences or wants, also called sometimes ‘choice of offering’. The discussion about choice has a number of aspects which need to be distinguished. In particular, it is important to understand the difference between choices that individuals make and those that organisations make on their behalf.

19 Largely, the debate about choice in public services has centred not on individual choices, but rather on the collective choices made by communities or their representatives. Collective choice is usually taken to mean how decisions can be made by local public bodies (local authorities, typically) or groups and organisations that represent communities or users, such as tenants’ management organisations. Collective choice is closely related to the concept of voice; the mechanisms through which local authorities understand and respond to the needs of communities, and through which communities can collectively influence the decisions local authorities reach.

20 More recently, the distinction between collective and individual choice has become blurred. The recent initiatives about empowering local communities embrace both individual and collective choice and voice:

‘My starting point is simple: devolve as far as possible. So the starting point is whether citizens can commission their own services, in the way increasing numbers of elderly and disabled people are doing.... But the power gap exists for neighbourhoods as well as for individuals – groups of people at sub-ward level who want real power over the way services are delivered, as they do in tenant management organisations, or influence over an area, for example by helping to set local policing priorities by meeting their neighbourhood police team, or registering dissatisfaction with a service and seeking redress.’

(Empowerment and the Deal for Devolution: Speech by Rt Hon David Miliband MP, Minister of Communities and Local Government, Office of the Deputy Prime Minister, 2006)
The Commission’s earlier report (Ref. 3) proposed that both individual and collective choice could be categorised as strategic, tactical or operational in nature and impact.

### Table 1

**A categorisation of types of choice**

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<thead>
<tr>
<th></th>
<th>Collective choices</th>
<th>Individual choices</th>
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<tr>
<td><strong>Strategic</strong></td>
<td>Society decisions: spending priorities between services</td>
<td>Lifestyle choices: moving house to get a better mix of services</td>
</tr>
<tr>
<td><strong>Tactical</strong></td>
<td>Community decisions: CCTV or community wardens, controlled parking or not</td>
<td>Provider choices: which school, which hospital, which council house or flat</td>
</tr>
<tr>
<td><strong>Operational</strong></td>
<td>Majority user view: change in leisure centre opening hours after survey of users</td>
<td>Personal preferences: what time of service, what method of payment</td>
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This report does not look at the way collective choices are made, although the majority of Audit Commission studies explore issues of collective choice. But it is worth noting here that both collective and individual choices in public services can be contentious because they affect, or are perceived to affect, value for money, fairness, and social cohesion.

### Are private sector choices different?

Choice in the private sector is relatively straightforward, at least in theory, and is very clearly focused on the decisions taken by individuals – the concept of collective choice is not usually seen as relevant. In perfectly competitive markets, individual consumers make spending decisions that send signals about demand to providers who can then adjust price levels and quantity and quality of supply accordingly. Inefficient providers fail and are replaced by new entrants; the market tends towards equilibrium of supply and demand, with goods and services produced efficiently and with prices equal to costs.

In practice, of course, markets are imperfect and may require regulation to protect consumer interests, by regulating price or quality levels, by penalising cartels or anti-competitive behaviour, or by protecting vulnerable, new or small providers. But the essence of private sector regulation is to promote more effective competition between providers, so that they have an incentive to reduce prices and increase the quality of the goods and services they provide in order to attract customers.
25 The threat of exit is a powerful incentive for efficiency in the market place: if consumers do not like a service or product, they can, in theory, choose a different provider. In a competitive market, providers will ensure that individuals’ voices are heard, so that they understand what consumers want and can offer it so that they do not take their business elsewhere.

26 But individuals have different levels of spending power, and this makes markets fundamentally unequal. Wealthier consumers can usually obtain better quality goods or services, although consumers can try to get the best value for their purchasing power. The fact that not everyone has the same purchasing power is not a fundamental obstacle to the operation of a market.

27 But these issues of choice, competition, exit and inequality translate uneasily into the provision of public sector services. There are long-standing and effective private markets in housing, health, social care and education, but the extent to which different sections of the public use them varies significantly by socio-economic group. Many people who rely on public services do not have the option of participating in the private market, at least not without undue financial burdens. The public sector is active in these areas precisely because the market has not always met everyone’s needs, either at all or to an adequate standard.

**Why is individual choice contentious in public services?**

28 Of the kinds of choices that individuals can make about public services, there appears to be general acceptance that people are entitled to make strategic lifestyle choices, and also to express more operational personal preferences. It is the tactical choice of provider, however, that appears to be most contentious, giving rise to the two principal arguments against promoting greater individual choice in public services.

29 The first concerns equity. When a market is created, it is presumed that some people will be better able to choose than others because, for example, they have more money or better access to information. With finite public resources, therefore, it is argued that choice may become a ‘zero-sum’ game, in which the more advantaged will win better services for themselves, while the more vulnerable and disadvantaged groups in society will get left behind.
‘Choice (in public services) creates advantages in the system for the confident and articulate middle classes, who make better and more choices of these free goods.’

30 This causes some to hold the view that decisions about public services should remain with the state, which is responsible for regulating provision and mediating competing interests and needs. Fairness or equity is usually a foremost consideration when making collective choices, in a way that is generally absent when individuals make choices in the market place.

31 The second argument concerns competition. Greater choice of public service provision could lead to competition between public bodies, or between public and private bodies, which will lead to a sullying of the public and community service ethos.

‘Schools and hospitals are not like market stalls: they acquire their character from longevity and their values and ethos from common understandings, shared with their patients and pupils and their parents.’
(‘The market is not always right’, Nomenclatura, Public, March 2005)

32 Competition is seen by some as problematic because of a fear that there may be insufficient capacity to meet all choices. When a popular school or hospital is over-subscribed, for example, it does not easily expand to supply more provision, as could a private sector firm to meet higher demand, or new entrants join the market place to the same effect. Instead, it is placed in a strong position to choose its own customers.

33 The fear is that providers will choose users that reflect best on their own performance, with schools selecting pupils by ability, or GPs choosing patients by their risk of illness. This sort of provider-led choice is usually called cream-skimming: when individuals compete with each other to gain access to a restricted number of good quality services, then the real choices (and hence the power) lie with the providers.

34 For some, the involvement of the private sector is contentious in its own right. The fact that the private sector makes profit from public services leads to an argument that private sector involvement can reduce efficiency or value for money. A parallel argument runs that the weakened link between private sector providers and the democratically elected public body diminishes accountability.
Those who promote competition as well as choice, however, contend that it can in fact lead to improved value for money, as it will drive providers to reduce costs and improve quality, and is more likely to lead to a more responsive service, due to the threat of exit. Value for money may be gained through choice and competition because they allow a better fit of demand to supply.

**What can we learn from the theory of choice and competition?**

Although both supporters and opponents of choice may not make the distinction clear, choice and competition are not synonymous. A guide to the distinction between the two is contained in a report commissioned by the Audit Commission from Frontier Economics Ltd, to support this study. The full report by Frontier Economics (Ref. 4) is available at www.audit-commission.gov.uk.

There can be choice with or without any associated competition. Without competition, it can be called choice of offering and refers to additional personalisation and flexibility of provision.

Choice with competition can take one of two forms: competition **for** the market and competition **in** the market. The former is familiar to the public sector in its role as a commissioner or procurer of services, as it entails competition among providers for a contract to supply to a market (for example, waste disposal). It is a form of competition that does not automatically involve any individual choice.

Competition in the market, however, will be familiar to some aspects of local government in its role as a regulator, for example, in setting concessionary bus fares for older people, or licensing pubs and restaurants. But in other areas, managing a market in which different suppliers compete for business directly among the public or groups of services users is relatively new.
Choice with and choice without competition have costs and benefits, in terms of their impact on equity and on their ability to match the available supply to what people want or need (Table 2). Depending on how choice is introduced, and in which services, there may be a preponderance of costs (disadvantages) or benefits, or an even mix of the two. It is perfectly possible that these costs and benefits may affect different groups in different services.

Table 2
Choice with and without competition has both costs and benefits

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<tr>
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<th>Choice without competition</th>
<th>Choice with competition</th>
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<tr>
<td><strong>Costs</strong></td>
<td>• Increased costs of service provision (eg, ICT)</td>
<td>• Regulation of the market, including quality control of providers and provision</td>
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<tr>
<td></td>
<td>• Increased costs to users (eg, research and information costs)</td>
<td>• A potential for higher prices and/or reduced quality, if there is inefficient competition</td>
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<td></td>
<td>• Costs associated with developing a quasi-market</td>
<td>• Loss of economies of scale, caused by having too many small providers</td>
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<td></td>
<td>• Risk of reduced equity</td>
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<tr>
<td><strong>Benefits</strong></td>
<td>• Better matching (of demand to supply)</td>
<td>• More responsive and flexible (user-focused) provision, as providers try to avoid exit</td>
</tr>
<tr>
<td></td>
<td>• Improved equity/social capital (because users feel more empowered)</td>
<td>• Efficiency incentives, as providers try to keep costs down and improve quality</td>
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<td></td>
<td></td>
<td>• Innovation, as providers try to gain competitive advantage</td>
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The distinction between choice with and choice without competition provides a conceptual framework for local public bodies that can help them to assess whether it is feasible to implement choice in a particular sector, what the costs and benefits are, and who would win or lose if it was introduced.

But theory only provides the starting point for understanding what users actually want. The next Chapter sets out more detail on research among the public about choice.
The public’s views on choice in public services

43 There has been much research in recent years, including from the Audit Commission, on whether the public wants more choice in public services.

44 At first glance, the evidence appears mixed and varies according to the questions asked. But findings can be broadly summarised into two general conclusions: first, that the public does want more choice and believes that this will lead to improvements in local services; but second, that people would rather have good local services than a choice of service or provider.

45 Our own qualitative research shows that people want first and foremost a good local school, or hospital, or council service.

‘We should just pay our council tax and get a service we deserve.’
(Female, ABC1, Essex)

46 But the public understands that the quality of services in different areas is not uniformly good and that their ability to exercise choice might assist them in securing better services for themselves. Those who can, will often take steps to ensure that they have access to higher-quality services. For example, the public is usually clear where the better schools are, and house prices in these catchment areas can rise substantially as a result. But choice is also seen by others who might not be able to afford this avenue as a means of improving the services they receive.

‘(Choice is) good because you can then shop around and find out what suits your needs, your child’s needs...it’s good for you to be able to have a choice, that you can try to find something which is closest to what you want, what you’re looking for.’
(Female, BC1C2, Harrow [BME])

47 It may be that the public is becoming keener to exercise choice. The most recent British Social Attitudes (BSA) Survey (Ref. 5) found that 63 per cent of the public believe that they should have ‘a great deal’ or ‘quite a lot’ of choice over which hospital they go to for treatment. It also found, however, that only 9 per cent believed in reality that they had such a choice.
Importantly, the BSA results show that ‘the least enthusiastic about patient choice tend to be those with higher levels of educational qualifications. Only 56 per cent of graduates think patients should have a great deal or quite a lot of choice, compared to 69 per cent of those with no educational qualifications. Women are more likely to be pro-choice than men (69 per cent compared with 56 per cent), and those aged over 55 are more pro-choice than their younger counterparts’ (Ref. 6).

This confirms the conclusion the Commission reached in 2004, based on public opinion research carried out for us by MORI. Those who most rely on public services are most in favour of choice; namely, women; those from lower socio-economic groups; and black and minority ethnic respondents. More recently, an evaluation of the London Patient Choice Pilot in the NHS (Ref. 7) showed that actual take-up of choice (as opposed to opinions collected through sample surveys) was as high among disadvantaged groups as among the more affluent, albeit with additional support, such as transport, to do so.

In part, therefore, the policy of choice seems to have been driven by users’ needs, and particularly the needs of those most reliant on public services for their quality of life. It was, for example, the impetus behind the government’s policy to introduce direct payments.

‘Choice was pioneered by disabled people, who saw that a direct payment of cash from the local council to buy their own services was an opportunity to have real control over their own lives.... Why should a disabled person not be able to get out of bed until a care worker arrives at 10am? Why should an older person not be able to choose the support that enables them to remain in their own home?’ (Jennifer Rankin, Guardian, 21 September 2005)

It appears that most people would rather have the chance to take some control over the important decisions that affect their lives. This is closely tied in to the idea of empowerment which, although a loosely defined term, must involve the ability to take one’s own decisions.

‘I should have a real choice to have what I want, how I want, when I want.’
(Male, ABC1, Greater London)

‘Does choice improve quality of life? Yes.... You choose what will improve your day to day life, not to be dictated to.’
(Female, C2DE, Leeds)
What sort of choices does the public want?

The Commission’s 2004 report identified that the public places different values on different kinds of choices. Figure 1 shows that, from a list shown to them, some choices are of more value to the public than others. Highest in priority are special needs education and choice of care for older people.

**Figure 1**

**The top choices**

Some choices are of more value than others.

![Bar chart showing the percentage of people who value different choices](chart.png)

**Base:** 1,063 members of the general public, July 2004.

**Source:** MORI
Service users were generally keener than non-users to see choices in the services mentioned to them. For example, council tenants were more than twice as likely as owner-occupiers to believe that giving council tenants choice over which property they live in was important (68 per cent and 33 per cent respectively). Similarly, parents (as measured by respondents whose households contained children) were more likely than others to want choice of school (73 per cent and 59 per cent respectively), and to be able to choose GCSE subjects (70 per cent and 56 per cent).

These various research findings, although not conclusive, suggest that the public is warming to the idea of having more choice over local public services. Wanting to have a good local service is not incompatible with wanting to have more choice.

The Commission’s 2004 report highlighted four broad challenges to the public sector:

- being clear about the relative values of particular types of choice; the costs; and whether people, either service users or wider council taxpayers, are willing to pay for it;
- ensuring that public sector services can match greater choice with greater equity;
- being clear about the real, practical barriers to expanding choice and how to overcome them; and
- managing the limitations of choice, in producing services that are more responsive.

Since then, the Commission has conducted more research into what choices are available in local government and further qualitative research among members of the public on their experience of choices provided by local authorities. Chapter 3 sets out the main findings.
Local people’s experience of the choices provided by local government

57 In 2005, the Commission conducted survey research among local authorities about their approaches to providing choice. It also conducted some further focus group qualitative research among the public on their experience of receiving choice from their local authorities.

58 A total of 71 local authorities in England took part in the survey. Although the profile of responding authorities broadly matched that of all local authorities in terms of type, location, and CPA category (see Appendix 1 for further details) the results need to be treated with some caution due to the relatively small proportion of participants. But the evidence is useful for indicative purposes.

59 The survey found that these local authorities do provide their residents with choices, ranging from a wider range of ways to contact the council, to the more fundamental and personal choices of type of childcare or residential home. Most could point to how choice had expanded over the previous year and to how they planned to do more in the future, although few seemed to have identified or used individual choice as a lever for improvement in service provision.

60 Figure 2, overleaf shows that local government officers perceive that there are both drivers and barriers to expanding choice:

- around three-quarters of this group of councils cite demand from users and the need to give fair access to services as key drivers for change, along with government policies and directives; and
- the overall costs involved in offering more choice, and the payments that service users would have to contribute, were perceived as the greatest barriers to introducing choice.
Drivers and barriers for expanding choice
Officers in councils’ corporate centres perceive that there are both drivers and barriers to expanding choice.

Base: 71 local authorities
Source: Audit Commission

We return to the issue of costs in Chapter 4. But it is worth noting here that the participants in our focus groups showed an awareness of the relationship between providing more choice and financial costs to them as council taxpayers, or to the council.
‘There is a cost attached to choice.’

‘Where choice has no associated cost, one would expect choice to be given.’

‘There is a trade-off between the level of council tax and standardised services.’

‘Yes, choice is worth it. You get what you pay for, if you want to pay less cost you get less choice.’

Types of choices offered by councils

Following the work we published in 2004, we asked councils in 2005 what choices they provided in the services of interest to the public. We highlight here three services: choice-based lettings in housing; direct payments in adult social care; and customer access centres, including a mix of different types of provision such as call centres and one-stop-shops.

We focus on housing and social care because they are services in which choice has been implemented to a greater extent than in others. We focus on customer access centres because our research suggested that providing a wide range of options for contacting councils was an important component of how the public view choice in local government, opening up possibilities for obtaining information, and engaging in transactions.

Housing

In traditional allocation systems, whether someone on the council housing waiting list (a homeless person, someone in private rented accommodation or an existing tenant who wants to exchange accommodation) receives an offer of a property depends on a number of factors. These include the number and type of properties the local authority has, the number of people on the waiting list, and their level of assessed need, expressed in a number of points. Not everyone on the list will obtain enough points to receive an offer from an allocations officer. The most recent work for the Commission in this area (Ref. 5) suggests that some local authorities believe that this system leads to points chasing by prospective tenants.
In this system, there is some limited choice. Typically, allocations officers make decisions about who is to be offered up to three properties. If prospective tenants decline all three, they usually will not receive another property for a specified minimum period.

Choice systems work differently. The core characteristics of choice-based lettings (there can be local variation) are that:

- rather than points, people are allocated a level of currency based on their assessed needs and this is the amount they can bid for any property;
- properties are advertised through a variety of media, usually weekly or fortnightly;
- people can bid for the properties they wish to, depending on their eligibility; and
- properties go to the bidder with the highest currency, and the local authority publishes the results on which properties have been let and for how much currency.

The Office of the Deputy Prime Minister wants all councils with responsibility for housing, whether they have retained their stock, or have transferred it, to offer choice-based lettings by 2010 (Ref. 8). Over half of the councils with housing responsibility that responded to our survey did not offer choice-based lettings. In 2005, when this survey was conducted, shortage of stock and concerns about set-up and running costs were the main reasons cited for not offering choice-based lettings (Table 3).

<table>
<thead>
<tr>
<th>Table 3</th>
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### Reasons for not offering choice-based lettings

<table>
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<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortage of housing stock</td>
<td>33%</td>
</tr>
<tr>
<td>Concerns about set-up and running costs of CBL</td>
<td>25%</td>
</tr>
<tr>
<td>Problems finding staff to run CBL</td>
<td>14%</td>
</tr>
<tr>
<td>Concerns over IT to run CBL</td>
<td>9%</td>
</tr>
<tr>
<td>Housing association reluctance to participate</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Audit Commission
But even without choice-based lettings, there can be choice. Figure 3 shows that sizeable proportions of councils that had not yet introduced choice-based lettings did still offer choice of location and facilities to tenants and prospective tenants. Involvement of tenants in choosing designs for new kitchens, general refurbishment and public realm improvements are long-established examples of good practice in councils.

**Figure 3**

**Choices in housing**

Sizeable proportions of councils that had not yet introduced choice-based lettings did still offer choice of location and facilities to tenants and prospective tenants.

Source: Audit Commission

### Social care

Direct payments provide cash payments to social care clients who then decide how the money can be spent, including the employment of carers, who may be friends or family members. Following an assessment of their needs, clients receive a fixed amount of money from the local authority and are then responsible for the administration of the money, including those of an employer (where relevant) and providing audited year-end accounts.
Direct payments are available to anyone who needs help in the home. Introduced in 1996, all local authorities that provide social care must offer direct payments to clients who need help with:

- personal care;
- respite care;
- household tasks;
- shopping; and
- participating in leisure activities.

Direct payments therefore involve a lot of responsibility for individual service users. The majority of adult social care clients, who are over 65 and often have physical and mental frailties, appear not to wish, or are unable, to take them up. Nationally, according to data returns from local authorities to the Chartered Institute of Public Finance and Accountancy (CIPFA), only 3 per cent of all adult social care clients in England are in receipt of direct payments. In the case study authorities the take-up of direct payments ranged from 4 to 12 per cent of all adult social care clients. According to the CIPFA data, three in five (61 per cent) of direct payments users in England are adults under 65 with physical or sensory impairments, who are confident and competent to take their own decisions and manage their own care (Ref. 9).

Clients who do not take up direct payments will continue to receive council-run care to help them live independently at home (called domiciliary home care). These services are usually provided by one or more agencies on a block contract. Clients are usually offered a choice of provider and are able to switch if they are dissatisfied. But the control rests with the local authority, not the user.

There can be scope for individual choice, even when clients do not opt for direct payments. We also asked councils about choices in domiciliary care (Figure 4). National monitoring by the Department of Health shows that a high percentage of clients say that the service met the changes that they requested to their care (Ref. 10).

Our research suggests that users’ preferences were generally articulated through individual assessments and care plans, reflected in the detail of care, for example the timing of services, and supported by satisfaction surveys. A minority were giving more direct power to individuals through their contracting processes.
‘We have developed outcome-based contracts with domiciliary care providers, thereby offering better choice to service users.’

‘Yes – spot purchasing means individually tailored contracts to suit the service user.’

**Figure 4**

**Choices in social care**

Few councils routinely offered clients a choice of provider.

![Bar chart showing the percentage of 30 councils that responded to the question of whether domiciliary care clients can choose which organisation provides their care.](chart)

Source: Audit Commission

But others retained traditional block contracts that allowed some choices, but proscribed others.

‘Providers must provide choice in specific areas such as the choice of what breakfast to have, but as contracts with providers are quite prescriptive in what they are permitted to do, the capacity for choice is limited.’
Customer access

76 Many councils have made substantial investments in improving customer access in recent years. Some councils experienced a relatively high percentage of lost calls, where the caller was kept waiting, or routed through to the wrong number – as high as 50 per cent was mentioned in the course of this study. To tackle this problem, many councils have established call centres, which create one point of contact for the public to use to gain access to multiple services. An alternative approach is to centralise information management through any point of contact, particularly true for the internet.

77 Some councils combine either approach with establishing one-stop-shops and other means by which personal callers can visit a number of sites to obtain a variety of services. In this report, the term customer access centres describes any of these initiatives to enhance the traditional 9am to 5pm access by telephone or in person to a restricted number of sites.

78 Participants in focus groups expected local authorities to make access to services as easy as possible; they gave councils little credit for offering a range of options for contacting the council, because they expected these options as part of a normal service. They drew on experience elsewhere, for example in the privatised utilities, in framing their views about what was acceptable.

‘I think it is important to have the choice of different ways of contacting the council because there’s all the different individuals involved, because some people, maybe they’re not very good at writing a letter, they want to do it over the phone, or another way, is it the computer, and they always send emails, I think that’s what modern people do isn’t it?’
(Male, C2DE, Essex)

79 Our survey of local authorities showed that more councils offer a choice of where to access services (for example, the number of one-stop-shops or customer contact centres) than of when (for example, extended opening hours). Most councils’ main enquiry point for personal callers opened at 8.30am or 9am, and very few ever stayed open even as late as 6pm.
The survey also found that:

- Around a third of councils operated a conventional switchboard within office hours, where they put most or all calls through to another extension.
- Three in ten councils operated call centres for specific types of services, for example environmental services (refuse collection, recycling, highways enquiries).
- A third operated a single call centre capable of dealing with most enquiries without needing to transfer the call.
- Only 4 councils out of the 78 who responded to the survey offered real 24/7 call centres.

Councils told us that they are improving access by setting up dedicated customer contact centres; introducing customer relationship management systems; offering interactive websites; video-conferencing; and new ways of transacting business, such as e-billing; and e-payment.

**Choice and information**

Making choices clearly requires individuals to find and assess information and evaluate options in order to make effective decisions. This is widely acknowledged to be a cost to individuals and some argue that too much choice can be debilitating.

‘Choice is essential to autonomy, which is absolutely fundamental to well-being. Healthy people want and need to direct their own lives. On the other hand, the fact that some choice is good doesn’t necessarily mean that more choice is better...there is a cost to having an overload of choice.’


Our focus groups recognised that one of the biggest problems with choice in public services is making sure that people have access to all the information they need to make a well-informed choice.

‘If you don’t have enough information about something, it’s hard to make a choice. When you get all the facts, it’s different.’

*(Male, ABC1, Leeds)*
84 But we also found some scepticism about the information provided by councils, particularly when it might lead to someone making a choice that requires the council to spend more money, or where it would mean extra work for the council. For example, information on how the housing officers prioritise people’s requests for repairs, and how they allocate the repairs budget, was not readily obtainable.

‘If you want information about the parks or you want information about the sports centre it’s easy to get. But if you want information about housing disrepair...it costs money to get the houses fixed whereas parks and sports centres are free.’

(Male, C2DE, Leeds)

85 The public expects choice, although they do not always get it and may not understand why. But in general, our research suggested that local authorities did understand the benefits of providing the public with choice where possible. What seemed to be the main obstacle was the perception that both they and the public would incur additional costs that made introducing choice less desirable, or practical.

86 To understand the costs and benefits of providing choice in more detail, we commissioned research by Frontier Economics Ltd to help local authorities (and other local public bodies) make more informed judgements about the potential winners and losers of introducing choice, including the potential impact on equity. Chapter 4 describes the findings of this research and their implications.
The costs and benefits of providing choice

Choice-based lettings, direct payments, and customer access centres are important in that each illustrates a different aspect of the debate on choice and competition:

- Customer access centres provide choice of offering. There is no choice of service or of provider, only of access or route to services and providers. They are of critical importance in the provision of information that users need in order to exercise choice.

- Choice-based lettings involve choice without (or with very limited) competition, since it is very hard for new entrants to enter a market and there is a very long lead time required to build new properties. But increasingly, quasi-markets are developing, involving competition between housing associations in some areas, and also cooperation between local authorities, which results in a larger pool of properties from which bidders can choose.

- Direct payments in social care are an example of choice with at least the potential for competition, because new providers can and do enter the social care market in response to demand from users who are free to choose the providers they think will best meet their needs and preferences.

Using these services and functions, the aims of the research were to assess:

- how choice affects the costs of providing local government services and the benefits it brings;
- whether and how local authorities can optimise the amount of choice they offer and still achieve sound value for money; and
- the economic and organisational barriers to expanding choice, including considerations of affordability.

Choice-based lettings

As reported by our case study authorities, choice-based lettings offer both costs and benefits over the traditional lettings approach.

For full details of the research conducted by Frontier Economics Ltd, please see their report.
Costs

Choice without competition: Choice-based lettings

Higher financial costs to public bodies

There were additional ICT costs for software to manage and allocate applicants’ bids. Costs varied widely, however, as local housing authorities used different approaches:

- buying in ICT through another choice-based lettings system in a cross-authority scheme. This reduced set-up costs, but incurred higher annual running costs, through fees;
- developing a cross-authority scheme. This is the most expensive option, but it offers the opportunity to bring in fee income;
- incremental add-ons to existing ICT provision. This option is likely to be feasible only when systems have recently been upgraded;
- developing a bespoke ICT system; and
- not using ICT at all. One small rural district council retained a paper-based system. While this worked well and was the cheapest option, it is not feasible for large housing authorities, or for those engaged in cross-authority choice-based lettings schemes.

Set-up/project management costs

These costs include recruiting project managers to oversee the introduction of choice-based lettings. Table A shows the variation in costs reported by our case study authorities. The lowest set-up costs are where the local authority pays another authority to provide ICT functions. The highest set-up costs are those where the council has established its own scheme, but it is able to recoup some of these costs by offering services to other authorities. Variation in costs does not appear to be strongly correlated with the number of lettings.

Table A – Set-up costs in choice-based lettings*

The variation in costs per letting is not driven by the volume of lettings

<table>
<thead>
<tr>
<th>Type of investment</th>
<th>Total set-up costs</th>
<th>Total lettings</th>
<th>Investment in ICT per letting</th>
<th>Project management cost per letting</th>
<th>Total set-up cost per letting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-local authority choice-based lettings ICT scheme</td>
<td>£600,000</td>
<td>1,600</td>
<td>£125</td>
<td>£250</td>
<td>£375</td>
</tr>
<tr>
<td>Cross-local authority choice-based lettings ICT scheme</td>
<td>£1,000,000</td>
<td>1,000</td>
<td>£900</td>
<td>£100</td>
<td>£1,000</td>
</tr>
<tr>
<td>Contracted to another choice-based lettings ICT scheme</td>
<td>£40,000</td>
<td>1,071</td>
<td>£28</td>
<td>£9</td>
<td>£37</td>
</tr>
</tbody>
</table>

*Note: Based on data provided by local authorities.

Source: Frontier Economics Ltd
Choosing well | The costs and benefits of providing choice

Costs (continued)

Choice without competition: Choice-based lettings

Advertising costs
These are typically the most expensive recurring costs of choice-based lettings. All seven of the choice-based lettings authorities in our case studies used the internet to advertise properties and other methods used by some include specific choice-based lettings magazines (four authorities), placing advertisements in newspapers (two), while one authority produces a newsletter. Figure A shows the unit advertising costs for choice-based lettings. As with ICT, the volume of lettings does not explain the variation in costs per letting of between just under £30 to just under £70.

Figure A – Advertising spend in choice-based lettings
The variation in advertising spend is not driven by the volume of lettings.

![Advertising spend per letting](image)

The explanation appears to be in the mix and extent of advertising methods used. The more an authority relies on the internet, the lower its costs will be, but some use a variety of methods to ensure the maximum possible reach, for example, to disadvantaged groups. There is thus an additional cost to promote equality of access.

But there is no evidence from our case studies that local authorities assess the cost-effectiveness of advertising methods used.

Additional staff costs
The three authorities with established choice-based lettings schemes mentioned that they had incurred additional staff costs because they were needed to cope with an increase in the numbers of people on the housing register. For example, one authority required new registrants to be visited to verify their circumstances. But they could not provide quantitative data to support these contentions.

Source: Frontier Economics Ltd
Benefits

Choice without competition: Choice-based lettings

Improved occupancy rates (reduced void times)
A void property is an empty home, which is a cost to housing authorities, because it produces no rent income. Empty or void properties create inefficiencies due to unused capacity to deal with homelessness. If local authorities reduce the number of days properties are void (called void times), therefore, they are making efficiency gains. Several case study authorities reported reduced void times due to lower turnover and faster allocations through choice-based lettings. Only three choice-based lettings authorities were able to provide quantitative evidence on the effect of choice-based lettings on void times. Figure B shows that these fell by 8, 6 and 19 days respectively.

Figure B – Re-letting void properties
In three local authorities, introducing choice-based lettings reduced void times.

Sharing costs
Two case study local authorities have collaborated with other authorities offering choice-based lettings to share ICT set-up costs. In one case, a joint venture company established by a number of local authorities was now offering services to other authorities, thus bringing in revenue.
Choosing well | The costs and benefits of providing choice

Costs

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<th>Choice without competition: Choice-based lettings</th>
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### More information costs to users

*Increased dissatisfaction*

Some local authorities, including those that do and do not provide choice-based lettings, referred to increased customer dissatisfaction from choice-based lettings. This is possibly resulting from the additional demand noted above and thus the higher expectations that their choices would be provided.

### Benefits

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<th>Choice without competition: Choice-based lettings</th>
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#### Better matching of services to users

A number of authorities have found that previously hard-to-let properties were selected by prospective tenants under choice-based lettings, because its greater transparency encourages them to make more realistic appraisals of their chances of getting what they want. Some authorities have also found that turnover rates are lower (measured by the number of lets per year divided by the total number of properties in the housing stock).

In the five housing authorities that did not run choice-based lettings, on average, over a quarter of first offers are turned down. This might be due to speculation that a better offer will be forthcoming. If this does not materialise, some applicants may then accept an offer that is a worse match to their preference, simply because they are worried they will not get another offer.

#### Better planning information

A small number of case study authorities reported that users’ bids through choice-based lettings generated better signals on users’ preferences than in non-choice systems. This gave the authorities enhanced information to use in planning decisions on type and location of future housing stock.

#### More responsive services

Although of limited scope, where local housing authorities had collected evidence on customer satisfaction, this showed that choice was preferred because its greater transparency was linked in people’s minds to greater fairness. By placing more control in the hands of prospective tenants, choice systems generate a sense of ownership of the property and independence and achievement.
## Costs

### Choice without competition: Choice-based lettings

<table>
<thead>
<tr>
<th>More administrative burdens for public bodies: Additional support costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nine of the housing authorities cited the need to provide support to vulnerable groups to bid for properties. This might include translating leaflets, or providing personal support.</td>
</tr>
</tbody>
</table>

## Benefits

### Choice without competition: Choice-based lettings

<table>
<thead>
<tr>
<th>Reduced administrative burdens for public bodies: Administration cost savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>In theory, choice-based lettings should require fewer staff for administrative purposes, since the user takes on at least some of the responsibility for identifying and receiving a service previously assumed by professionals. But in fact, only two of the case study authorities in our sample could point to any benefits in this sense. For most, any such savings were more than offset by additional expenditure on staff and infrastructure to provide ICT and other support for choice-based lettings. But there is another point, which we return to in more detail later. The research found that local authorities are reluctant to consider staff savings and in some cases had explicitly reassured staff that choice-based lettings would not entail any redundancies.</td>
</tr>
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</table>

## Costs

### Choice without competition: Choice-based lettings

<table>
<thead>
<tr>
<th>Lower equity</th>
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<tbody>
<tr>
<td>The concern here is partly about disadvantaged groups not being able to use choice-based lettings effectively. This leads local authorities and registered social landlords (RSLs) to provide additional support to such groups and to monitor the impact of choice on them. Our case study authorities did not produce data that showed that minority groups were being disadvantaged through providing choice.</td>
</tr>
</tbody>
</table>

## Benefits

### Choice without competition: Choice-based lettings

<table>
<thead>
<tr>
<th>Higher equity</th>
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<tbody>
<tr>
<td>Equality of treatment</td>
</tr>
<tr>
<td>Five of the case study authorities reported that choice improved the balance of treatment between new applicants and tenants wishing to transfer. For example, it was no longer such an incentive to become homeless in order to obtain a property. Community ownership</td>
</tr>
<tr>
<td>Where case study authorities reported a greater sense of individual ownership, they also felt this led to wider community ownership. They hoped (but could not yet evidence) that this might then lead to lower repair and maintenance costs as tenants took more responsibility for their properties, and less expenditure on countering graffiti and vandalism.</td>
</tr>
</tbody>
</table>
Choosing well | The costs and benefits of providing choice

Costs

Choice without competition: Choice-based lettings

Lower social capital
There is also a concern that the exercise of choice by black and minority ethnic groups in particular might lead to greater segregation and loss of community cohesion. But while this is closely monitored by local authorities, our case studies produced no conclusive evidence that this was happening.

Benefits

Choice without competition: Choice-based lettings

Higher social capital
The traditional approach to lettings is poorly understood by applicants, which causes frustration and dissatisfaction. Choice-based lettings make much clearer the total number of available properties and what is required in order to obtain them. Information is therefore more readily available and the number of appeals is consequently greatly reduced.

‘Under the old system, I remember one applicant saying “I put my life on hold for five years waiting for a council house”. By the time an offer was made, her needs had completely changed. That could never happen under choice-based lettings and as a result we get a lot fewer appeals.’

(Assistant Director, Housing)

Source: Frontier Economics Ltd

Achieving savings for local authorities through choice-based lettings

To calculate the effect that choice-based lettings have on costs, local authorities must consider a range of variables. Without quantitative information on turnover and appeals (either volume or costs), which our case study authorities could not provide, the only variables that are available are the rents they set, the volume of lets each year, and the number of days properties are empty (known as void times).

The key variable is the number of days properties are empty. If the local authority can reduce this through providing choice, as some of our case study authorities indicated, then there is the potential to provide significant cost savings. The greater the reduction in the number of empty property days, the greater the savings.

To illustrate this, Figure 5, overleaf contains a very simple model that shows the effect of choice-based lettings on costs and efficiencies. It includes a number of assumptions for illustrative purposes, for which local authorities should be able to substitute their own data. These include: advertising costs of £45 per let and an average rent level of £60 per week. These assumptions are also true for the other figures in this part of the report dealing with choice-based lettings. Other assumptions are as stated in the figures below.
It shows that, with no fall in the number of days properties are empty (that is, because the authority is already efficient at re-letting them), introducing choice-based lettings can only ever cost more money than retaining a non-choice system. However, the extent of the additional costs incurred will vary according to the number of lettings per year and the total set-up costs involved.

**Figure 5**
The effect of choice-based lettings on costs and efficiencies (A)
Efficient local authorities may not achieve savings through choice-based lettings.

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But when a fall in the number of empty property days of 20 days is assumed, then the picture changes dramatically. **Figure 6** shows that this now brings real potential savings. The amount of savings will vary as before according to the number of lettings and the level of initial set-up costs.
As well as reducing the number of days properties are empty, another way councils can achieve efficiency gains by reducing costs is to remove the back office duplication in running choice-based lettings by not running a stand-alone scheme. Some councils are now buying into another local authority’s own or joint scheme, such as Locata in London. Smaller local authorities do not need to invest large amounts in their own ICT solutions.

Choice-based lettings therefore bring a range of benefits that would not accrue under a traditional lettings system. There is better matching of supply to preferences, including a greater likelihood of letting previously hard-to-let properties. The greater transparency of the system means that it is seen as fairer. There are higher costs to be incurred, but also ways of reducing them through collaboration.

Efficiency gains, particularly for currently less efficient councils, are possible, through the reduced void times that choice-based lettings generates. But if a local authority is already efficient in re-letting empty properties, introducing choice could cost them money. Also, smaller local authorities, because they have a lower volume of lettings and cannot benefit from economies of scale, may find it more difficult to reach the financial break-even point. They could, however, achieve efficiency gains by using another authority’s ICT scheme, or by using a paper-based system, as noted earlier.
The views of housing associations

98 To test these findings with registered social landlords, further research among housing associations was carried out by Frontier Economics and by the Commission. The 13 housing associations selected included those that operated on a local, regional and national basis.

99 Housing associations have to deal with a range of lettings policies operated by local authorities, some of which involve choice-based lettings, and others not. Most associations participating in this research agreed that choice-based lettings produced benefits such as greater transparency and control for tenants and prospective tenants, and wanted to see the scheme extended.

100 Choice-based lettings appear not to require major changes in the way housing associations operate. Most still receive nominations from different councils, as before. Few said they incurred significant additional costs other than a fee for participating, although this can affect the ability or willingness of some smaller housing associations to engage with several schemes in different local authorities. Most could see the potential negative impact on equity, but felt that their existing support and guidance processes for clients would address the needs of disadvantaged groups.

101 But larger associations, in particular those that operated on a national, regional or sub-regional basis, did mention the benefits that would accrue both to them and to tenants and prospective tenants were choice-based lettings schemes to operate on a larger geographical basis. This would provide efficiency savings in advertising and administration costs (for example, in providing information about properties once, rather than on several occasions to different councils), and increase the total number of properties available to choose from.

Direct payments

102 The costs and benefits of direct payments are similar to those reported by the case study authorities for choice-based lettings, as the table below shows.
Choosing well | The costs and benefits of providing choice

Costs

Choice with competition: Direct payments

Higher regulatory costs
Although the responsibility for the administration of direct payments lies with the clients, local authorities retain a duty to ensure that these funds are properly accounted for. They also retain the responsibility for ensuring that clients’ assessed needs are being met. There are clear risks for local authorities in both areas and we discuss this later.

Advice and guidance
Case study local authorities identified risks that vulnerable clients might be likely to make inappropriate decisions. 10 of the 11 social care authorities reported the need for substantial additional advice and guidance both to actual and to potential users of direct payments. Advice is given about whether direct payments are the right option, and guidance on which providers to use is given to those who have opted to take them. Such support is occasionally provided not by the local authority, but by a specialist agency contracted for this purpose.

Training
Linked with the above, 9 of the 11 authorities reported the need to train their staff in what direct payments involved and what advice and guidance to provide. A number of these councils had recruited additional staff for this purpose, thus offsetting or more than offsetting any savings from lower prices for direct payments. Others had contracted with independent agencies for this purpose. These different approaches can lead to marked variation in per-user costs (between under £200 per user and £1,800 per user), which do not appear to be driven by the volume of users.

Figure C – Costs per user of implementing direct payments
Variation in per-user implementation costs is not driven by the volume of direct payments users.

Source: Frontier Economics Ltd
Benefits

Choice with competition: Direct payments

Greater urgency to meet users’ needs.
Direct payments users can obtain more flexibility in when care is provided, and can choose from a wider range of providers, including friends and family.

More empowered users
As might be expected, given that clients had chosen them, case study local authorities report that direct payments users are much more satisfied than other clients because they are more independent and have more control, even though they may require support to exercise choice. One council had surveyed direct payments users and reported high satisfaction with the quality of support and with the overall service received.

More flexibility in type of care
Direct payments users can choose from a much wider range of provision, for example, bed and breakfast accommodation for respite care, rather than local authority care homes.

More appropriate care for minority groups
Because direct payments give control of provider to clients, some local authorities said that this could mean more appropriate care for black and minority ethnic groups, for example, because they could choose a friend or family member as a provider who was more compatible with their cultural needs.

One local authority said that direct payments had allowed clients with HIV/AIDS to receive specialist care:

> ‘The council only contracts with a small number of large care providers. Direct payments have allowed clients with HIV/AIDS to source care from a specialist agency which would not have been available through the council.’

Costs

Choice with competition: Direct payments

Less efficiency
Though not a widespread concern (because of the level of support local authorities provide), local authorities report additional burdens on clients in finding suitable carers (where they are not using friends or family), including respite care, and in administration of the scheme.

Greater efficiency
Better use of care managers’ time
As the client takes on responsibility for finding and administering care, a proportion of care managers’ time is freed for other purposes such as assessment. But the effect is small, given the relatively low take-up of direct payments. And according to the case study local authorities, any such freed time is used in providing the additional support that direct payments clients need to exercise choice.
Choosing well | The costs and benefits of providing choice

Benefits (continued)
Choice with competition: Direct payments

*Lower administration costs*
These are savings generated by the transfer of administration costs to the service user, although Figure D shows that, for local authorities that could provide information on costs, these varied substantially.

**Figure D – costs of implementing direct payments**
There is marked variation in the costs of administering direct payments.

![Bar chart](chart.png)
*Source: Frontier Economics Ltd*

But because the number of direct payments users is small, relative to the total number of social care clients, they can appear more expensive. For example, management information collected by the Chartered Institute of Public Finance and Accountancy shows that the cost of administering direct payments per client per week is higher than for other users of domiciliary social care. This is because direct payments users bear a higher proportion of fixed and overhead costs compared with the much larger number of domiciliary social care clients.

It must also be remembered that, because users do not have a say in the price they can pay for direct payments, there is therefore no incentive in the system to drive prices down. In a market, consumers’ reaction to price levels sends signals to providers about quality. In direct payments, no such signals are sent, as users cannot gain any financial benefit, such as additional hours of care.
## Costs

### Choice with competition: Direct payments

#### Reduced economies of scale

This appears not to apply in the case of direct payments, since the additional suppliers are likely to be new providers, such as friends and families, who would not be in the market to provide similar services to others. But there was some evidence that in rural areas, direct payments could add to the total provision in the area, since contract agencies often found it uneconomic to operate in remoter areas.

## Benefits

### Choice with competition: Direct payments

#### More efficient

*The lower cost of direct payments*

Where local authorities set a lower price for direct payments than for contracted (agency) care, they reported cash savings despite discounts for bulk purchasing because friends and families are used. But Table B shows that local authorities take different options on comparative pricing: five authorities have set a lower rate than for home care, three have set the same price, and two a higher price.

### Table B – the different approaches to setting prices for direct payments, in relation to their domiciliary home care

<table>
<thead>
<tr>
<th></th>
<th>Local authority organised care</th>
<th>Direct payment</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>London borough 1</td>
<td>£14</td>
<td>£9</td>
<td>£4.5</td>
</tr>
<tr>
<td>Met district 1</td>
<td>£11</td>
<td>£7</td>
<td>£4.0</td>
</tr>
<tr>
<td>Met district 3</td>
<td>£11</td>
<td>£8</td>
<td>£3.8</td>
</tr>
<tr>
<td>Rural county 2</td>
<td>£12</td>
<td>£8</td>
<td>£3.5</td>
</tr>
<tr>
<td>Unitary</td>
<td>£12</td>
<td>£11</td>
<td>£1.8</td>
</tr>
<tr>
<td>Rural county 1</td>
<td>£9</td>
<td>£9</td>
<td>£0.0</td>
</tr>
<tr>
<td>London borough 2</td>
<td>£12</td>
<td>£12</td>
<td>£0.0</td>
</tr>
<tr>
<td>Met district 2</td>
<td>£10</td>
<td>£10</td>
<td>£0.0</td>
</tr>
<tr>
<td>London borough 3</td>
<td>£10</td>
<td>£11</td>
<td>£1.2</td>
</tr>
<tr>
<td>County</td>
<td>£7</td>
<td>£11</td>
<td>£4.6</td>
</tr>
</tbody>
</table>

*Source:* Frontier Economics Ltd
Achieving savings for local authorities through direct payments

103 The key determinant of any potential savings is the trade-off between the price set by local authorities for direct payments and the additional costs of providing them. The critical variables are the number of clients using direct payments and the average number of hours in direct payment care packages.

104 To illustrate this, Frontier Economics have constructed the following scenarios, based on different assumptions about costs of providing direct payments, and price set for them. The costs of administering direct payments and the average number of hours of care per week are assumed to be the same in each scenario.

105 Figure 7 overleaf shows that, when there are no accompanying savings from a lower price for direct payments compared with in-house provision, there can never be savings for a local authority. Direct payments will always add to the costs of providing social care, although the cost per user will reduce as more clients opt to use them.

106 But as the price for direct payments compared with in-house provision is progressively reduced, this creates different break-even points at different volumes of usage. The lower the price for direct payments, the fewer users are needed to achieve below-the-line savings.

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**Benefits**

**Choice with competition: Direct payments (continued)**

Where the price is set lower than for home care, there are clear cost savings. The greater the difference, the greater the savings, even when there are few users of direct payments. For example, Table C shows that where the cost of direct payments is set at £4.50 less than for home care, then for the given number of hours and clients, substantial savings can be achieved.

Table C – the savings that can be achieved when the price of direct payments is less than for domiciliary home care

<table>
<thead>
<tr>
<th>Information</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual hours per person for direct payments</td>
<td>624 hours</td>
</tr>
<tr>
<td>Number of people in receipt of direct payments</td>
<td>212 people</td>
</tr>
<tr>
<td>Total hours of direct payments</td>
<td>132,288 hours</td>
</tr>
<tr>
<td>Cost difference between direct payments and local authority organised care</td>
<td>£4.50</td>
</tr>
<tr>
<td>Implied annual cost saving</td>
<td>£595,296</td>
</tr>
</tbody>
</table>

Source: Frontier Economics Ltd

But the capacity of local authorities to set a realistic price for direct payments is not clear and we return to this issue later.
Direct payments have the potential to bring significant benefits to users, including higher-quality, more customized services and greater control over who provides their care. There is the potential for greater equity, since users are more likely to choose the care that best meets any requirements arising from cultural, dietary, religious or medical preferences.

**Figure 7**

**Direct payment cost scenarios**
The lower the price for direct payments, the fewer users are needed to achieve savings.

![Graph showing the relationship between additional yearly cost per user and number of direct payment users.](image)

**Source:** Frontier Economics Ltd

There will be additional costs to local authorities through providing advice and support, particularly for more vulnerable or disadvantaged clients. But there should also be reduced administrative burdens, and therefore costs, for local authorities, since much of this task falls to the user of direct payments. Despite this, the small number of direct payments users can lead to disproportionally high allocation of overheads compared with other service users, making them appear to be more expensive per client, per week. It is not clear why direct payments users appear to shoulder a disproportionately high proportion of local authority overhead costs, compared with clients who receive traditional council-run care in the home.

**Customer access centres**

These are not a service as such, more a route to services. They are important for choice because they are the main means by which individual service users learn what is
available. Our intention was to apply the same cost-benefit model to this local government function as to the two services already described. In the event this has not proved possible because the local authorities we spoke to could not provide the detailed quantitative data necessary.

110 The framework for looking at costs and benefits for customer access centres is the same as for other services, however, and local authorities asserted a range of benefits and costs of establishing them. The range of types of benefits included:

- Higher quality through faster service and better outcomes. These could plausibly include reduced user costs because people no longer have to make multiple calls or visits to different departments.
- Increased efficiency through greater use of lower cost access channels, the creation of improved management information on customers and performance, and greater back office efficiency.
- Improved equity of outcome due to increased demand for access and the ability to provide more tailored services for minority language customers. It is possible that customer access centres enhance equity because callers whose first language is not English are more likely to get through quickly to someone who can provide advice and information, while poorer members of the community will incur less expense through not having to hang on to unproductive telephone calls.

111 The costs were seen in two areas:

**Investment and operating costs in ICT and accommodation**

- Investment costs ranged widely across the case study authorities, from between £5.00 and £80.00 per head of population. The principal variable affecting these costs is the number of access channels the authority chooses to provide. In particular, where it involves adding one-stop-shop facilities, then costs rise significantly. Likewise the operating costs also vary widely, from 50p to £5 per enquiry. What drives this variability is the number of services covered by the customer access centre.

**Staff costs**

- These fell into three areas: the additional training costs, particularly in the set-up stages as new processes and procedures bedded in; the need to reflect the additional skills needed to operate new procedures in higher pay levels for staff; and the need to employ more staff in operating the new system.
• Where data were provided by case study local authorities, then both the average monthly volume of enquiries and the average cost per enquiry showed marked variation, as shown in Figure 8 below. What drives this variation appears to be the number of processes the council has introduced to improve customer access. Costs are also higher when more council services are covered.

Figure 8
Staff costs of dealing with enquiries
There is marked variation in the volume of enquiries and the cost per enquiry in local authorities.

Source: Frontier Economics Ltd
Potential for savings

112 In a cost-benefit analysis, these asserted costs and benefits would be compared. There would be good before-and-after management information that modelled how volume of business and planned efficiency gains would vary according to the volume of business and other factors.

113 But it is of some concern that local authorities in our case studies were unable to provide data to support the significant sums of money that had been spent in establishing the access centre, or the often impressive assertions about how much cheaper electronic access was compared with other options. One local authority said that the difference in cost units between face-to-face contact, telephone contact and web-based contact was 40:15:1, but was unable to produce data to support the claim.

114 The overall conclusion from the evidence of these three services is that costs and benefits are always present if greater choice is to be introduced, and these should be thoroughly assessed, but that local authorities lack the means of quantifying them. Greater choice can bring benefits to users in the form of higher-quality service. Local authorities will incur costs when providing more choice, although there is scope to reduce these, particularly through collaboration.

115 Local authorities must determine that the benefits obtained through choice outweigh or justify the additional costs. The final chapter forms some interim conclusions on the impact of increasing choice in local services, and sets out what local public bodies need to do to implement greater choice.
The lessons for policymakers and managers

116 This chapter summarises the findings from the Commission’s research and deals with their implications. First, it addresses the four questions we posed in paragraphs 15 and 16:

- Does the public want more choice in local public services?
- Does greater choice improve local public services?
- Does greater choice lead to greater value for money for users and taxpayers?
- Does greater choice create greater inequity?

117 These conclusions should be read in conjunction with the case studies in Appendix 2. These illustrate both good practice in local authorities and cases where local authorities are struggling to overcome the challenges caused by extending choice.

Does the public want more choice in local public services?

118 Although the evidence is mixed, the Commission’s view, based on our own and others’ research, is that the public does want more choice. Members of the public have a reasonably sophisticated view of choice – they appreciate the link between cost, quality and choices. They are not willing to pay more for choice – they feel that choice should be a part of receiving value for money.

119 Local public bodies should therefore assume that providing more choice can in many circumstances secure major benefits and modest additional cost. There may be good reasons not to provide greater choice, or not to provide certain forms of choice. But care needs to be taken that a decision not to offer choice, or to restrict access to it, is not being taken in order to protect professional provider interests or because it is easier to retain the status quo.
Some care managers have seen encouraging direct payments as a bit like turkeys voting for Christmas.’
(Assistant Director, Adults’ Social Care)
Source: Frontier Economics Ltd

Does greater choice improve local public services?

On balance, and in the areas we examined, our findings suggest that choice can lead to higher-quality public services. Choice brings with it the potential, if managed properly, to provide better matching of limited supply to preferences and needs. It can lead to small, but very important, changes in how and when services are offered that users greatly value. It gives users more control and therefore increases their satisfaction with local services.

Quality is difficult to judge and often requires good user satisfaction data to support judgements. In particular, local authorities and other public bodies should consider pre- and post-test measures of satisfaction to know by how much, and in what ways, the quality of services received by users is affected by providing more choice.

The Commission is not suggesting that choice always improves the quality of services in all circumstances. We would need a much larger evidence base to draw this conclusion. Much depends on local circumstances, including the service under consideration and the capacity of the local authority to implement choice effectively. Nonetheless, on the evidence we have collected in the areas of choice-based letting and direct payments, we consider that local bodies should actively consider the possibility that choice improves services by making them more responsive and more flexible.

Does choice in public services lead to greater value for money for users and taxpayers?

For some local authorities, there is potential for greater choice to increase value for money, if they adopt a cost-effective approach. There is always the potential for choice to increase costs initially, however, even if there are savings to be made later. There is a trade-off between the investments needed for set-up and maintenance, and any efficiency gains received. It is likely that a certain volume of business is needed before
savings or efficiency gains can be made. But there is some unexplained variation in the costs identified in our case studies, and some evidence of lack of willingness to reduce costs, for example, staff savings. This suggests that not all local authorities are taking full advantage of cost savings that greater choice brings, and therefore are not always adopting a cost-effective approach.

124 The model scenarios developed by Frontier Economics are useful on two counts: they allow local authorities both to model the likely savings based on stated assumptions, and to monitor real data against the original assumptions. They are therefore both a predictive or modelling tool, and a monitoring tool. The more data a local authority is able to put into the model and the better is its understanding of its real costs, the more accurate the tool will be. The Commission will work with stakeholders to refine and develop the tool developed by Frontier Economics.

125 Where there is scope for sharing set-up costs, as with some choice-based lettings schemes, then set-up and maintenance costs can be reduced. Individual local authorities can recoup some high set-up and maintenance costs by selling services to others, which themselves may benefit financially from not incurring these costs. Collaboration like this would generate overall efficiencies in the system. Smaller local authorities should certainly consider this option, since they are unlikely to achieve the high volume of lettings of a larger authority, although they can make savings in other ways, for example, using a paper-based system.

126 It is very important, however, to acknowledge that these scenarios do not assess value for money as such, but more the scope for efficiency and economy gains. Local authorities should balance predicted or actual costs, and any accompanying savings, against the benefits derived from increased customer satisfaction, transparency and better matching. The more a local authority measures all these factors, the more it will understand how much value for money will accrue from providing more choice.

127 The scope for efficiency gains through choice will clearly depend on the level of inefficiency before choice is introduced. Already efficient councils will probably not achieve substantial gains through choice, but these authorities could still reach a valid conclusion that extending choice was worthwhile, if they can demonstrate that the additional costs produced benefits that justified the additional resources.
A number of local authorities appear to be reluctant to consider making savings by employing fewer staff as a result of introducing greater choice. Indeed, many suggested that no such savings could be made because bringing in choice required more staff, although it was not clear that this belief was based on a thorough evaluation or business case. In some, specific undertakings had been given to staff that bringing in choice-based lettings or direct payments would not lead to staff redundancies.

Neither costs nor benefits are easily quantifiable, but it is very notable that local authorities were generally not able to back up their assertions on either front with data. In part, this is simply because they do not have to. There are well established accounting rules and local authorities’ financial systems are geared up to servicing them. But choice, and particularly choice with competition, will require local authorities to have better management and financial information for planning and monitoring purposes. They will need to develop ways of constructing measurements of costs and benefits in order to manage successfully the provision of more choice.

Does greater choice create greater inequity?

Evidence of the effect of choice on equity is at best patchy. There has been concern, for example, that choice-based lettings will lead to greater self-segregation of minority groups, with implications for social cohesion. But the effect of this self-segregation, if real, would take a long time to take effect, given the relatively small number of properties let through choice schemes. And a counterfactual can be posed: that allowing people from different groups to choose to live with others of their ethnic origin will enhance their sense of safety and well-being. Nor should it be forgotten that some people will choose to live in diverse areas.

Constraining people’s choices about where to live would not be acceptable for the majority of the population that are owner-occupiers. They would find such restrictions on their choice of where to live completely unacceptable and there has to be a very good reason for the public sector to deny tenants the same freedom.

Following concerns expressed by the Office of the Deputy Prime Minister (ODPM) Select Committee’s inquiry on Social Cohesion, the ODPM launched a Race Impact Assessment process for choice-based lettings in July 2005 and has commissioned Heriot-Watt University to investigate the longer-term impacts of choice-based lettings.
Local authorities are monitoring the take-up of choice-based lettings and direct payments to see if some groups are marginalised, but no clear picture has yet emerged. Anecdotal evidence suggests that choice in direct payments and housing is more popular among black and minority ethnic groups, but further research is needed.

None of the three services explored here involve cream-skimming – the competition by providers for the best customers. But this does illustrate that the introduction of greater choice will not result in losers in all service sectors. In choice-based lettings, for example, the benefits come not from increased supply or that more people are housed, although cross-border schemes have the potential to do that, but from the better matching of available supply to users’ preferences.

Neither choice-based lettings nor direct payments (and certainly not customer access centres) involves a net change in the numbers of winners and losers. Choice-based lettings provide a better match of existing volume of properties to users’ preferences. Where it involves cross-border cooperation, then users can experience an increase in the stock of properties from which they can choose greater than they would in traditional allocation systems (although cross-border cooperation has existed prior to choice systems). Similarly, the proportion of social care clients that opts for direct payments in no sense disadvantages others who opt for traditional domiciliary social care. In both these services, therefore, choice is a win-win outcome for users and taxpayers.

The implications of choice for local public bodies

Tensions with other policies

But choice is not always a win-win option for local authorities. There can be a tension between offering what people prefer and would like to choose, and other policy objectives. Local authorities have to meet central government targets, for example in recycling, that might mean that individual choice or preferences cannot be provided. For example, some councils actively denied individuals a choice of waste disposal method in order to achieve their policy objectives for increasing the amount of waste recycled.

‘…this is contrary to council policy since it is deemed to undermine our waste minimisation and budget strategies. Each request is given a detailed response along these lines…’
Likewise, our focus group findings suggested that users are more likely to pay their council tax promptly if there were a range of options, such as instalment plans, or providing flexibility on the day of the month for direct debits. Offering these choices may therefore translate into lowered costs and increased value for money overall.

Our research suggests that a good range of council tax payment options is available, but again there can be tensions between offering the public a wide range of choices and other policies. In this case, the tension lies with the need to obtain greater efficiency savings.

'(We) have withdrawn payment vouchers, a declining service, to keep costs down and encourage payment by electronic means.'

Barriers to providing more choice

Local authorities perceive a number of barriers, or potential barriers, to introducing more choice. For example, in choice-based lettings, some felt that:

- not having enough properties was a disincentive to providing choice (although one smaller case study authority had managed this successfully). The danger is that expectations are raised, and some local authorities noted there had been an increase in demand following the introduction of choice-based lettings. But providing these expectations can be managed, there are other benefits to be gained from providing more choice of the available supply;

- the set-up costs were too high. This can be an important argument, although the variation found in case study authorities is not easy to explain. This report sets out a better basis for this calculation. There may also be savings for councils in joint schemes, or buying-in choice-based lettings provision; and

- joint schemes were not feasible because local authorities had different criteria for assessing housing needs. In fact, it is perfectly possible for any joint scheme to take account of these differences, as long as they are built into the design of the system at the outset.

In direct payments, the perceived barriers centre mainly on the ability of users to understand and cope with choice. Local authorities may not promote direct payments to older people or other vulnerable groups because they fear they are not appropriate. The judgement of social care professionals on this matter is vitally important, although they
must take care not to make presumptions that unduly disadvantage some users who could benefit from having more control.

There is some staff resistance to the idea of choice, on the grounds that it threatens their professional judgement and possibly their jobs. This has led the local authorities in our sample to reassure staff that no redundancies will follow the introduction of choice. Some councils redeploy staff to new duties, including providing support to users to make choices.

Councils may also be thinking here of the risks they run, as well as those run by users, for example, for appropriate care and financial accountability for direct payments users. With direct payments in particular, there is an additional risk from vulnerable people electing care services that are outside the usual monitoring arrangements. Local authorities may need to monitor carefully the progress of care.

Skills and capacity to manage choice and competition

Our research has produced a strong message that local authorities need a better understanding of their cost base. Without it, there can be no real cost-benefit analysis to see if choice is feasible and what contribution it may or may not make to efficiency savings or value for money.

This was true throughout the case study research and services, but was particularly marked for customer access centres. It is likely that the motivation for providing these new forms of access was not an interest in choice per se, or perhaps not even with the primary aim of improving efficiency. Rather, the evidence from our research is that there was a strong desire to improve the public’s experience of contacting councils, to reduce complaints and to improve outcomes for residents and users.

This may be driven by the numerous residents’ satisfaction surveys that repeatedly show the importance of customer care and contact in affecting levels of satisfaction with the council. It may also be driven by a recognition of service failure.

Skills and capacity are particularly important when it comes to understanding markets and managing competition. Not all choice involves competition: direct payments are the best example in local public services and the price that a local authority sets for direct payments will be critical in determining whether, and at what point, any given number of direct payments users is needed to begin making efficiency gains. There is no evidence
from our research that local authorities are approaching this important issue with an understanding of how prices affect this, or how they affect the capacity of private individuals or agencies to maintain a presence in the market.

‘Local authorities appear to lack the expertise to manage the introduction of competition, and to understand how competitive markets develop, what implications competition has for their own service provision and how the levels of prices they set affect both.’

(Choice in the Delivery of Local Government Services, Frontier Economics Ltd, 2006)

146 This requires local authorities to understand the critical distinction between competition for the market and competition in the market. They have a lot of experience of the former through the usual procurement and tendering processes, as in, for example, refuse collection contracts. But the latter is relatively new to the public sector, although its importance will grow as local authorities fulfil a role as commissioner rather than provider of services.

147 For competition in the market to be effective, local authorities will need to assess whether the following conditions exist and if they do not, how they can foster them:

- there are sufficient providers competing for customers;
- the amount being supplied can potentially outstrip demand, for example, there is excess capacity;
- the local authority has the capability to understand the market, particularly when it is setting prices in the market;
- inefficient providers are allowed to go to the wall; and
- there is cooperation and coordination between public bodies to create markets large enough for competition to be introduced.

148 The Audit Commission will play its part in helping local authorities and other public bodies develop a better understanding of these issues. Its current study *Competition and Contestability in Local Services* is scheduled for publication in Spring 2007 and will, among other things, address the levers for and barriers against the successful exploitation of competition and contestability. It will also address the key risks associated with competition and contestability, for local public bodies, for users and taxpayers, and for providers, and how these might be mitigated.
The implications for other services

149 The Commission believes that the framework and tests outlined in this report for choice in housing, direct payments and customer access can be applied in other public services. The questions in Appendix 3 are a starting point for local public service providers to begin to assess whether the principles and processes of providing more choice can be applied cost effectively.

150 The answers, however, may well be different for individual services, reflecting the varied policy and market conditions of public services. But the use of these questions and the associated diagnostic tool being developed by the Audit Commission using Frontier Economics Ltd’s methodology will help turn the rhetoric about choice into reality. The Commission is working to develop this tool in partnership with some local authorities and housing associations. In conjunction with stakeholders it will consider, in due course, whether and how the tool can be applied to other services.

151 The Commission will, in conjunction with its stakeholders, continue to develop its thinking about choice in local public services. It will continue to consider this often contentious topic using a dispassionate, evidence-based approach, and with a clear focus on the costs and benefits to local public bodies, to users, and to taxpayers.
Appendix 1: Methodology for this study

This study proceeded in three phases, all using a combination of qualitative and quantitative methods.

Phase 1 was carried out in 2004. The Commission contracted Market & Opinion Research International Ltd (MORI) to carry out an omnibus general public survey of 1,063 British adults aged 15+ between 22-27 July 2004. The survey questions addressed two broad areas: attitudes to choice in specific local public services, and willingness to pay more for greater choice in these services.

In addition, MORI conducted two focus groups with the general public in Leicester in August 2004: one with people in social class group C1 aged 55 and over; the other with people in social classes C2DE aged 25-40. These group discussions addressed similar themes of attitudes to choice.

Phase 2 was carried out between January and July 2005. It comprised an in-house, web-based survey of local authorities, analysed using SNAP survey analysis software. The survey addressed local authorities’ experience of providing choice in local public services. A total of 71 local authorities participated in the study, representing a response rate of 18 per cent. The profile of types of responding council broadly matched the population profile:

<table>
<thead>
<tr>
<th>Type of Authority</th>
<th>All (N)</th>
<th>All (%)</th>
<th>Sample (N)</th>
<th>Sample (%)</th>
</tr>
</thead>
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<tr>
<td>District council</td>
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</tr>
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<td>Unitary authority</td>
<td>47</td>
<td>12</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>ALL</td>
<td>388</td>
<td>100</td>
<td>71</td>
<td>100</td>
</tr>
</tbody>
</table>
The qualitative work for phase 2 was carried out by MORI in January 2005. This comprised 3 workshops (each of 18-20 participants), 2 focus groups (of 5-10 participants) and 4 depth interviews with disabled people. Workshops were held in Leeds, North Essex (rural) and London. Each was split into two groups, as follows:

**Leeds**
- Group 1
  - 35-54
  - Mixed sex
  - C2DE
  - Social housing tenants
  - Mix of ethnicity
- Group 2
  - 55+
  - Mixed sex
  - ABC1
  - Retired/working
  - Mix of ethnicity

**Essex**
- 20-34
- Mixed sex
- ABC1
- Users of social services

**London**
- 35-54
- Mixed sex
- ABC1
- Mix of ethnicity
- Parents
- 20-34
- Mixed sex
- C2DE
- Mix of ethnicity

Each workshop group included at least one person with a physical disability.

The two focus groups were held in London and recruited from a range of boroughs. One was with younger adults aged 28-44 from different minority ethnic groups and from social classes BC1C2. The other was a mixed age and ethnicity group of participants who had hearing impairments.
The depth interviews were with blind and partially sighted participants with visual impairments.

Phase 3 was commissioned in 2005 and completed in 2006. The fieldwork and analysis was carried out by Frontier Economics Ltd on behalf of the Commission. It comprised 15 detailed case studies in local authorities selected to illustrate councils at different stages in providing choice in the 3 service areas of interest: direct payments; choice-based lettings; and customer access centres. In addition, local authorities were selected to reflect a spread of rural and urban locations, geographical spread and Comprehensive Performance Assessment performance category. Full details of the selection of case study authorities is in the Frontier Economics Ltd report, which can be found at www.audit-commission.gov.uk.
Appendix 2: Illustrative good practice from our case study sites

Full case studies can be found on our website at audit-commission.gov.uk

Choice-based lettings

A successful council

This council has nomination rights over around 20,000 social housing units, of which around 15,000 are owned by the authority. Around 10 per cent of this stock comes vacant every year meaning that, on average, the council re-lets about 40 properties each week. Despite an increasing number of families on the housing register, the council has struggled against poor void turnaround times and a large number of hard-to-let properties. A survey of housing applicants confirmed the widely held belief that the points system was too complex and that the allocations process was opaque.

The council faced the challenge of improving the efficiency and effectiveness of its housing allocations system. Choice-based lettings was seen as the vehicle to deliver a system that was both more efficient and more transparent.

Share and save

The set-up costs for an efficient and effective choice-based lettings scheme can be considerable. A sophisticated web-based tool was required to keep a weekly system turning over. This one-off investment in improving housing allocations was reduced substantially when the council found other authorities with which to jointly procure the system.

When installing the necessary technology, the council decided to operate a choice-based lettings system with the following characteristics:

- available properties are advertised on the web and in a newsletter each week;
- bids on those properties are accepted over the web, in person, by telephone or by post;
• shortlists of applicants are drawn up on the basis of their points, with viewings taking place towards the end of the week; and

• properties are offered to the applicants in order of their priority, with each property being allocated to the first person on the shortlist to accept.

Because advertising and allocation take place on a weekly cycle, void times have fallen dramatically. The shortlist represents all high-priority applicants who have expressed an interest in a particular property, so the problem of refusals and appeals was largely eliminated. Void turnaround times have also fallen because fewer properties are now considered hard-to-let: exposing the allocation system to choice revealed that there was an unrealised demand for these units.

A crucial part of maintaining the transparency and efficiency of the system has been publishing the results of every letting – informing applicants how many points are usually needed to bid successfully for each type of property. Applicants have realistic expectations about their prospects for social housing and, as a result, the allocations system operates more effectively.

Low cost, high impact

The main ongoing cost of running choice-based lettings is the weekly cost of advertising all the available properties. Initially the council used a full-page spread in the local newspaper to list the 40 or so available units, but this was proving an expensive way of reaching a relatively small audience. This commercial advertising was replaced by a printed newsletter which is available for collection at council buildings. This proved to be just as effective because:

• as in the private market, applicants were active in looking for housing and were prepared to collect the newsletter;

• the majority of bids were received over the web, indicating that most applicants were able to review online property listings; and

• the IT system made it possible to identify any patterns of non-bidding.

With the resources saved from commercial advertising, the council was able to target vulnerable groups and any other high-priority applicants who were identified as not bidding, by direct mail and phone calls.
Direct payments

A successful council

This council administers about 3,000 domiciliary care packages, the majority of which are contracted through block contracts at rates ranging from £12 to £15 per hour of care. The council itself only runs a small care service which specialises in intensive six-week re-enablement packages. When direct payments became a legislative requirement a small number of physical disability clients were pro-active in switching away from traditional care packages but otherwise take-up was relatively low.

The council’s challenge was to promote and support the use of direct payments more effectively and, as result, to improve its performance against the government’s best value indicator for direct payments.

Winning hearts and minds

Experience taught the council that the greatest obstacle to direct payments take-up was the misgivings of care managers rather than the recipients of care. Social workers typically felt that a direct payment would be difficult for their clients to manage and that the standards of care would drop.

The council began an intensive program of direct payments training, dispelling several myths about how the scheme operated. Once care managers understood the potential benefits, they were much more effective in presenting direct payments as a realistic option during an assessment.

It was felt that improving take-up required a coordinated approach that would improve the offer to direct payments users. The council opted to set up an arm’s length direct payments unit which brought together staff from social services, and independent disability support agencies to offer a variety of services:

- support to care managers either through information or jointly attending care assessments;
- advice and information to users considering direct payments; and
- help in advertising for and recruiting personal assistants, and a payroll service for users who decide to become employers.
Educating both care managers and clients about the potential benefits of direct payments proved to be the key factor in driving take-up. Many individuals had ruled out a direct payment simply because they did not understand what was involved in setting one up. Offering users ongoing support services such as payroll made the pool of potential direct payments users wider by including some groups who would not otherwise feel able to manage the administrative burden.

**Fair care**

Transferring the control of care to users not only gives them the freedom to customise their package, but also has potential to reduce the cost to the council of arranging that care. The council found it was able to set an hourly rate for direct payments of £10, a few pounds cheaper than the average cost of contracted care.

This saving could then be used to fund the advice and support services which were crucial to the success of direct payments. Overall, the council was still spending around the same per head on direct payments as on contracted care.

**Customer access centres**

**A successful council**

Two years ago the council carried out a best value review of all its customer service functions. The review looked in detail at the cost of each department’s front office and at the number of enquiries it dealt with every month. The review revealed that time and accommodation resources were spread inefficiently across multiple departmental receptions.

The authority faced the problem of simultaneously improving the quality and consistency of its front office while also lowering the average cost of serving a customer.

**Best practice**

The council drew on the evidence collected during the review to come up with a business plan for investing in customer access. This plan contained:

- a clear set of priorities for improving customer access;
- a set of performance indicators to benchmark progress against those priorities; and
- projections of expected efficiency savings from the centre.
The business plan was reviewed by an external auditor to confirm the accuracy of the proposed costs and benefits of a customer access centre.

Quantifying the benefits of corporate customer access in a business plan made it clear that telephone contact was a first priority: 80 per cent of the council’s enquiries were dealt with over the telephone and a large number of those related to a few simple processes. Addressing the council’s priorities meant:

- establishing a corporate call centre to act as the first point of telephone contact;

- training customer service advisors to handle all the most common simple enquiries; and

- a customer relationship management (CRM) system to track performance.

By dealing collectively with the simple enquiries from each department, the call centre achieved economies of scale which meant it could handle the same front office functions faster, better and cheaper. Meanwhile, telephones rang far less often in the back office, freeing up the time of professional staff.

**Promoting efficiency**

The operating costs of the call centre are divided up and charged to the council’s departments, encouraging department heads to make use of the centre to reduce their own costs.

Individual departments are responsible for balancing their budgets, and so they are required to fund their contribution to customer access from efficiency savings. This way, the efficiency benefits of the centre are not lost in the ether.
Appendix 3: Key questions for local public bodies

a) Do you have a policy on providing more choice?

b) What research have you undertaken to understand the choices that local people want in the different services you provide?

c) How do you communicate what choices are available – internally to staff and externally to the public?

d) How well do you understand the costs and benefits of providing more choice to individual service users and the wider public?

e) Do you have a clear understanding of the different costs and benefits associated with choice that involves competition, and choice that does not?

f) Is your management and financial information of sufficient quality to enable you to plan for the changes involved in choice and competition, and to enable you to monitor and review progress against your assumptions about costs and benefits?

g) What support and assistance do you provide to disadvantaged groups to enable them to make good choices and exploit the benefits choice provides?

h) What measures have you considered to reduce the costs involved in extending choice, including sharing set-up and management costs?

i) Do you have the in-house skills and capacity to manage and foster market-based competition, including setting price levels that reflect the cost of provision and sustain contestability?
References


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