Local authorities are moving towards a contractual environment...

- responsibilities are being devolved to front-line services such as schools and housing estates
- central departments provide services to each other, as well as to front-line services
- white collar compulsory competitive tendering (CCT) starts in 1996

...and the role of central staff is therefore changing.

- finance, information technology, legal and personnel departments employ over 50,000 staff and cost about £2 billion per year
- front-line services are enjoying more freedom to manage
- service managers are demanding the right to specify the central support they want and to control costs

New corporate arrangements are required...

- only 23 per cent of authorities were judged by auditors to have an adequate framework
- the role of central policy and regulation must be clearly distinguished from central support tasks
- the new environment requires ground rules that specify user freedoms and standards
- authorities need to determine accurately the recharges required for the statutory Statements of Support Service Costs

...to support service level agreements between providers and users...

- recharges should directly depend on the service provided
- less than half of authorities have service level agreements (SLAs) in place
- only ten per cent of users substantially control the service they receive

...if users are to be more satisfied.

- white-collar direct service organisations (DSOs) wishing to win CCT contracts must be more responsive to their users’ needs
- auditors found that 40 per cent of users are highly satisfied with the service they receive
- users with an SLA in place are more satisfied
Introduction

1. In 1994 the Commission published *Behind Closed Doors: The Revolution in Central Support Services* (Ref. 1), which drew attention to the challenges facing central departments in moving from a controlling role to supporting the work of the front-line services. This bulletin reports the outcome of 387 local audits of the operation of central support services (CSS) in a wide range of local authorities. The findings confirm a need for service providers to take action to strengthen the arrangements for the delivery of these services ahead of CCT and, where applicable, local government reorganisation.

2. The Commission’s initial study covered the work of the four main support services: finance; information technology (IT); legal; and personnel (Box A).

3. Between them these services employ almost 52,000 staff (7.5 per cent of all non-manual local government employees excluding teachers, the police and fire fighters). They cost about £2 billion a year including staff costs and overheads such as IT equipment. While finance accounts for nearly half the staff numbers, IT, with just a quarter of the staff, accounts for nearly half the cost (Exhibit 1). A particular feature of central support services is the extent to which these services support each other (notably, IT support to finance, e.g. computer processing of the payroll) and the corporate core.

4. In addition to these centrally-managed staff, a further 20,000 - 30,000 support staff are located within service departments, including more than half of all personnel staff. All of these staff – provided that they spend more than 50 per cent of their time in the support role – are eligible for exposure to CCT where their contribution would be tested, directly or indirectly, against competitive suppliers.

5. The support role should be differentiated from the core strategic management of the authority. Although small when measured by staff numbers, the core has a vital role. It has responsibility

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**Box A**

**Central support services**

<table>
<thead>
<tr>
<th>Finance:</th>
<th>Financial planning/advice, internal audit, exchequer services, cost collection, payroll administration, accountancy services.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT:</td>
<td>IT strategy, systems procurement, software development, systems operation, telecommunications.</td>
</tr>
<tr>
<td>Legal:</td>
<td>Advocacy and litigation, commercial contracts, conveyancing.</td>
</tr>
<tr>
<td>Personnel:</td>
<td>Staff planning, employee relations, welfare, training and recruitment, equal opportunities.</td>
</tr>
</tbody>
</table>

The definition of finance support services excludes benefits administration and local taxation (council tax, NNDR). These are classed as front-line services. Activities such as pension fund administration and treasury fund management, which do not directly support front-line service departments, are also excluded.
Introduction

Exhibit 1
Central support services in England and Wales

While finance accounts for nearly half the staff numbers, IT, with just a quarter of the staff, accounts for nearly half the cost.


for statutory and strategic advice to members and should ensure that a corporate framework is in place governing the relationship between support services and their users.

Corporate framework

6. In the past, central committees and their associated departments controlled the detail of resource deployment. No post could be created, job description changed or staff upgraded without the approval of the personnel committee. Similarly, no budget could be changed without the approval of finance; all IT budgets were centralised and front-line services queued as supplicants for a share of the central pot. Such centralism has been undermined by the devolution of service provision – notably, local management of schools (LMS); by the creation of ‘internal markets’ for the provision of support services; and by the impact of CCT for ‘blue-collar’ services. It will now be further challenged by the Government’s requirement to identify support costs explicitly; by white-collar CCT and then by the extension of CCT to housing management. The new and unfamiliar contract-based environment requires new ground rules to be in place before these internal support service providers can effectively respond to CCT.

7. Behind Closed Doors highlighted the importance of an effective corporate framework. The support role of central departments must be distinguished from that of the corporate core. The latter is responsible for advice on corporate policy and for the preparation and monitoring of the overall budget. The corporate core is itself a user of CSS and has the key role of defining an appropriate framework for the operation of the internal market. Authorities will need to define their own frameworks in the light of local
circumstances but they should consist of **ground rules** and **standards:**

**Ground rules:**

A pattern of rules is required to govern the introduction and development of the internal market and control the inevitable tensions between service providers and their users. The rules must define:

- the degree of user control of budgets and service volumes;
- conditions for freedom to use other providers;
- how to deal with fixed costs of redundant assets;
- how to handle provider unit surpluses and deficits; and
- methods of financial planning and control and the consequent monitoring arrangements.

**Standards:**

Corporate standards are essential to the integrity of an authority's management:

- policy standards in legal, professional and financial areas, health and safety, equal opportunities, data protection etc.; and
- operational standards, for example, in IT and finance, to enable the authority's aggregate accounts to be consolidated, and other information to be shared.

8. The immediate requirement, ahead of CCT itself, is to publish the Statements of Support Service Costs (SSSCs) which describe the costs of each support service. For the metropolitan districts and London boroughs these will have to be published for 1995/96 in the autumn of 1996. For English shire authorities not subject to reorganisation the first year to be covered will be 1996/97. For Welsh authorities it will be 1997/98 and for other English authorities it will be the year following reorganisation. The published SSSC will provide the starting point for checking the proportion of white-collar services exposed to CCT. The results of the local audits suggest that many authorities have much to do before they can adequately identify their support service costs.

**CCT**

9. The SSSCs are intended to lay the foundation for the introduction of white-collar CCT. Implementation starts in the London boroughs and metropolitan districts. Elsewhere implementation is delayed by the local government review (Box B). But, even so, the time available for implementation of CCT for these services is quite short, given the complexities involved in specifying professional services, the length of the tendering process and the need to comply with EU requirements.

10. Given the many tasks facing incoming councils following reorganisation (Ref. 2), CCT will be difficult to introduce if the ground has not been prepared in advance by the predecessor authorities. Shire districts in particular need to be preparing their staff even if they are to be reorganised. They have often not introduced devolution and a contract culture because of their size and because the devolution of education and social services does not affect them. However, white-collar CCT, especially housing management CCT, will oblige them to introduce a contract culture.

11. There are two other reasons for pressing ahead with the development of a contractual framework and an effective internal market for support services:

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1 Unless they are so small as to be de minimis.
Many blue-collar DSOs were successful in obtaining contracts for the first rounds of ground maintenance, building cleaning and other services to front-line units such as schools. Now some schools and other devolved units are no longer satisfied with authority-wide specifications and may no longer tolerate expensive or poor standard services. This pressure on blue-collar DSOs is being passed on to the central support services: blue-collar services are increasingly demanding detailed justification of their central establishment charges (CEC); they need sound information and support to operate in a businesslike way; and they fear losing contracts to external competition if CSS are too expensive. Some DSOs have won the freedom to look elsewhere for payroll and other services if they are not satisfied with the central service.

Secondly, authorities need accurate information on the cost structure of their support services as a benchmark for the white-collar tendering process. Behind Closed Doors emphasised the importance of preparation for white-collar CCT by both users and providers of CSS. Users need experience of a quasi-contractual environment – identifying their volume and quality requirements, negotiating with providers, and monitoring output. Providers need experience of operating with trading accounts and matching resources to customer needs.

12. Auditors examined the extent of local preparations for these changes and the potential for central support services to provide efficient and effective support. In many cases auditors found that authorities were ill-prepared. They had not established the necessary corporate and financial frameworks, nor had they instituted service agreements between users and providers of central support.

Box B
The timetable for the start of white-collar CCT contracts
The Audit Findings

13. The Commission asked auditors to focus on two particular issues of organisational structure as well as on the level of charges for these services:
   ♦ the extent to which authorities had established effective ‘corporate frameworks’ setting common ground rules and standards for the provision of support services; and
   ♦ the relationships between the providers of support services and their users; i.e. the extent to which they were governed by ‘service level agreements’, the degree of user control and the level of satisfaction felt by users.

14. The messages emerging from the audit reports suggest that many authorities and many providers of support services have a good deal more to do before they can face the future and their customers with confidence.

Corporate frameworks

15. Only 23 per cent of authorities were judged by auditors to have an adequate corporate framework for support services (Table 1), although a further 35 per cent had at least a common understanding of implied ground rules and standards. Few shire districts have devoted the time and effort needed to put these frameworks in place. Even larger authorities have some way to go.
The Audit Findings

Table 1
Prevalence of corporate frameworks

<table>
<thead>
<tr>
<th></th>
<th>% with adequate framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shire districts</td>
<td>16</td>
</tr>
<tr>
<td>County councils</td>
<td>50</td>
</tr>
<tr>
<td>London boroughs</td>
<td>57</td>
</tr>
<tr>
<td>Metropolitan districts</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23</strong></td>
</tr>
</tbody>
</table>

Source: Audit returns.

16. In some cases questions were raised about the impact of certain frameworks rated 'adequate' where the authority had established ground rules and standards but these were not widely known or accessible to users. Auditors found only a quarter of shire districts had frameworks which were known and easily accessible. By contrast, nearly all of the counties, London boroughs and the metropolitan districts passed this test.

Financial frameworks

Surpluses/deficits

17. Clear financial rules are important, both for revenue and for capital. Key questions need answering:

- Should the provider, the user or the corporate core reap the benefit of the surplus or meet the cost of any loss arising from a white-collar DSO's activities?
- Should surpluses or deficits be shared between two or three of these parties and, if so, on what terms?
- Can a DSO plough surpluses back into service development or should users receive a rebate?

Authorities should think in advance about what approach might be adopted if, say, substantial savings could be achieved by closing down and selling off under-utilised offices. As far as possible, all parties should have an incentive to improve their use of resources. But the auditors found that many important elements were missing from the frameworks that were in place. The weakest area was provision for dealing with surpluses arising from the disposal of capital assets. Only one in six of the frameworks dealt with this.

Cross-charging

18. To avoid double counting, and to help establish a full picture of the costs of service provision, it is essential to identify flows of support (and costs) between the different providers of support services (Exhibit 2, overleaf). For example, IT accounts for 30 per cent of the cost of financial support services such as accountancy. In Behind Closed Doors an illustrative example showed 20 per cent of IT costs were incurred while supporting other CSS activities. At present few authorities have the information necessary to calculate such charges; a third of the frameworks did not cover charging arrangements between CSS providers; and most relied on estimates of service volumes and costs.
It is essential to identify the flows of support and costs between the different providers of support services.

Charging end-users

19. As a part of the audit, authorities were asked to provide information on the level of CSS recharges to users. Some authorities were able to provide accurate information; others relied on estimates which were not an accurate reflection of the actual level of central support services provided to individual users but rather a simple apportionment of central establishment charges. Very few attempted to identify costs accurately by taking account of internal flows between providers and relating charges to the specific support service that was provided. As a result, many authorities are likely to encounter problems when faced with the need for the accurate costing of CCT bids and the requirements of the SSSC.

20. The preparation of accurate charges is only the first step towards the creation of a contract environment. Such charges must also be monitored. Yet only half of the frameworks made provision for monitoring the services provided, although such feedback is clearly vital to both parties for effective planning and control. Some councils have, however, succeeded in establishing the necessary framework (Case Study 1).

**Exhibit 2**

**Services between CSS providers (examples)**

<table>
<thead>
<tr>
<th>From:</th>
<th>To:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>IT</td>
</tr>
<tr>
<td>IT</td>
<td>Legal services</td>
</tr>
<tr>
<td>Legal services</td>
<td>Personnel services</td>
</tr>
<tr>
<td>Personnel services</td>
<td></td>
</tr>
</tbody>
</table>

- Financial services
  - Payroll administration, accounting services, payments, invoices
- IT
  - Payroll system, invoice payments, etc.
- Legal services
  - Debt management
  - Contracts for procurement of services
- Personnel services
  - Recruitment, training, staff welfare, employee relations
  - Employment law, contracts

**Source:** Audit Commission.
The Audit Findings

Exhibit 3
Recharges for central support services

Recharges vary from three per cent to 30 per cent of turnover.

Key:  
- upper quartile
- median
- lower quartile

The level of recharges

21. There is a need to focus on the specific costs of services provided rather than on a general allocation of overheads. The wide variation in the reported level of recharges suggests that many charges are calculated in an arbitrary manner. They ranged from less than three per cent to 30 per cent of turnover (Exhibit 3). There are five main reasons for such variations:

i the degree to which the support function has been devolved to the front-line service delivery unit;

ii poor charging systems either based simply on estimates or on inadequate records – the recharges may not reflect the costs incurred;

iii variations in the efficiency of the support operations;

iv variation in the quality and volume provided to the user; and

v economies of scale and the lower level of recharges to be found in education authorities.

Until i and ii are clarified, neither the client nor the internal provider can judge the impact of iii, iv and v. For these reasons, the results reported below should be used to indicate areas for further exploration and not be taken as benchmarks.

Source: Audit returns.
22. Table 2 shows the typical level of recharges for all the four services examined by the auditors, as a percentage of turnover. Turnover is defined as net revenue expenditure. For housing authorities, housing revenue account (HRA) rental income is included. Net rather than gross expenditure was taken as the basis for comparison because:

- gross expenditure includes transfer payments which are not closely related to the level of support services (e.g. student awards and rent allowances); and

- net revenue expenditure figures are most easily and unambiguously available to authorities.

23. Rental income was used because it is a reasonable indicator of the underlying cost-driver, the size of the housing stock. Expenditure was not used as it is affected by transfer payments such as rent rebates and by subsidies and would therefore distort comparisons.

### Table 2
Recharges for support services (as a percentage of total revenue and HRA rental income)

<table>
<thead>
<tr>
<th></th>
<th>County councils</th>
<th>Metropolitan districts</th>
<th>London boroughs</th>
<th>Shire districts with HRA</th>
<th>Shire districts without HRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>1.0</td>
<td>1.5</td>
<td>2.0</td>
<td>4.6</td>
<td>5.7</td>
</tr>
<tr>
<td>IT</td>
<td>0.9</td>
<td>1.4</td>
<td>1.8</td>
<td>3.4</td>
<td>7.4</td>
</tr>
<tr>
<td>Legal</td>
<td>0.3</td>
<td>0.5</td>
<td>0.8</td>
<td>1.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Personnel</td>
<td>0.3</td>
<td>0.5</td>
<td>0.4</td>
<td>0.9</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.5</strong></td>
<td><strong>3.9</strong></td>
<td><strong>5.0</strong></td>
<td><strong>10.3</strong></td>
<td><strong>18.3</strong></td>
</tr>
</tbody>
</table>

Source: Audit returns.
24. Recharges show a consistent ranking across support services. County councils have the lowest percentage recharges for all services, followed by metropolitan districts, London boroughs, shire districts with housing and, finally, those shire districts which have divested themselves of their housing stock through large-scale voluntary transfers (LSVTs). This ranking is suggestive of economies of scale but also reflects the extent of devolution to service departments that occurs in larger authorities.

25. Authorities which had undertaken an LSVT had the highest level of recharges. In the case of recent transfers this may suggest that an authority has not yet reduced its overheads in line with its reduced activity. However, there is little apparent relationship between the level of charges and the time since transfer. Some authorities which made early transfers still show high support costs.

26. There remains a surprisingly wide range of charges, particularly in the shire districts. Even allowing for differences in devolution of the support functions, some users may be substantially overcharged while other central service providers are underestimating their costs or apportioning too much to the centre. Significantly, users were often unaware of the recharges being made. Clearly, authorities and users need a thorough examination of the level of central service recharges and the rationale on which they are based. The Commission’s financial support services handbook *Counting Down to Competition* (Ref. 3) is designed to help in this process.

27. The proportions of recharges attributable to individual support services are similar in the different types of authority. The charges for finance and IT are higher than those for legal and personnel, reflecting service volumes.

**Service level agreements**

28. Not only must recharges reflect the costs incurred, they must also be clearly linked to the service provided. Authorities have adopted a number of approaches to this task but the most common is to introduce service level agreements whereby providers and users agree the service that is to be provided. But the extent of such SLAs found by the auditors (Table 3) is variable.

<table>
<thead>
<tr>
<th></th>
<th>Finance</th>
<th>IT</th>
<th>Legal</th>
<th>Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shire districts</td>
<td>19</td>
<td>15</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>County councils</td>
<td>26</td>
<td>26</td>
<td>26</td>
<td>16</td>
</tr>
<tr>
<td>Metropolitan districts</td>
<td>33</td>
<td>27</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>London boroughs</td>
<td>31</td>
<td>23</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>22</strong></td>
<td><strong>18</strong></td>
<td><strong>18</strong></td>
<td><strong>18</strong></td>
</tr>
</tbody>
</table>

*Source: Audit returns.*
29. These findings appear to be in conflict with other surveys (Ref. 4). Earlier surveys reported that SLAs had been adopted by about 40 per cent of authorities. The January 1995 review by the Association of Direct Labour Organisations (ADLO) (Ref. 5) reports that 54 per cent of authorities are using SLAs for central support services and concludes that ‘authorities are moving down this path’.

30. This apparent discrepancy may be partly the result of auditors focusing on authorities with weaknesses in this area (identified from the overview studies) and also because auditors used a stricter definition of a genuine SLA than did the national surveys, which were largely completed by central service managers themselves. In the Quality Exchange surveys, where it was possible to combine the simple question ‘is there an SLA?’ with additional questions that probed the criteria for SLAs set out in Behind Closed Doors, the results were consistent with auditors’ findings.

31. Certainly, auditors reported that some agreements were hardly more than paper exercises with little real impact on service provision. The Commission’s survey of ADLO managers, reported in Behind Closed Doors, found that about 80 per cent of their agreements were priced on a lump sum basis and thus did not really satisfy the requirement of a proper SLA.

32. The discrepancy may also reflect improvements through time. Auditors did their work early in 1994 when the rules for white-collar CCT were still unclear. The later ADLO survey may reflect recent preparations. The survey reports meaningful negotiations on costs (75 per cent), service level (69 per cent) and quality (43 per cent). Such SLAs generally gave higher levels of satisfaction than just using CECs.

33. Whatever the present use of SLAs, there are clear benefits from their introduction as a number of authorities have realised (Case Study 2). Auditors were asked to examine whether the existence or otherwise of an SLA had any impact on the level of satisfaction with the service. In nearly every case, the level of satisfaction was higher when an SLA was in place (Exhibit 4, overleaf), particularly in the case of legal services. In that case, almost twice as many users were highly satisfied and only about half the number expressed low satisfaction when agreements were in place.
The problem
Salford recognised that previous service level agreements formalised arrangements but involved little discussion between providers and customers. The SLA system needed overhauling.

The approach
Corporate arrangements included establishing a small SLA team comprising the deputy personnel manager, deputy city treasurer, city housing manager and catering DSO manager. The team developed frameworks for negotiating service quantity and quality, monitoring service standards, and establishing a service costing mechanism. For 1994/95, SLAs were drawn up in accordance with the following six guiding principles approved by members:

- a clean-sheet approach: work to be provided must be determined by the user; not what the provider has done historically;
- added value: central services provided must add value to the user’s own service delivery;
- a common approach: there should be a common approach to charges and to cost recovery methods;
- fairness of treatment: providers to respond to each user in a consistent manner;
- recovery of costs: all relevant costs incurred in CSS delivery must be included and shown in proposed charges;
- SLA development: arrangements must be made for consultation, feedback and resolution of complaints to feed into the development of future years’ SLAs.

The team developed a standard approach to costing which involved:

- identifying direct costs;
- identifying and allocating indirect costs;
- developing an appropriate charging mechanism;
- accounting for non fee-earning cost centres in provider units (e.g. senior management); and
- absorbing administrative costs in fee-earning sections.

The outcome
The resulting unit costs were applied to agreed service levels and formalised in 84 service level agreements. Relationships have improved as users welcome the transparency and the greater involvement and control the SLA process affords them. The authority used evaluation and feedback from the 1994/95 experience to fine-tune SLAs for 1995/96.
The level of satisfaction was higher when an SLA was in place.

**Exhibit 4**

**Satisfaction with support services (all users)**

The level of satisfaction was higher when an SLA was in place.

**Source:** Audit returns.

34. The audit results accord with the findings of the Commission's ADLO survey of DSO/DLO managers which showed greater satisfaction when agreements were in place (Exhibit 5). These findings are further confirmed by the most recent ADLO publication which shows 72 per cent satisfaction with SLAs and a dissatisfaction rating of only nine per cent compared with 20 per cent for central recharges. It may be that these managers, concerned with competitive tendering for manual services, are in a position to demand more meaningful agreements from the central service providers and that this improves the quality and utility to the benefit of both sides. Other CSS users will find themselves in a similar position as white-collar and housing management CCT are introduced.

35. The positive link between SLAs and user satisfaction may also be a symptom of a deeper reason. Well-managed authorities are more likely both to generate user satisfaction with CSS and to have SLAs in place. Thus, SLAs may not be the direct cause of satisfaction.

**Exhibit 5**

**Satisfaction with support services (DSO/DLO managers)**

There is greater satisfaction when SLAs are in place.

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

Exhibit 6
Satisfaction with support services (by user)

Less than 40 per cent of users were highly satisfied.

Source: Audit returns.

Satisfaction with individual services

36. The levels of satisfaction also vary by type of user. Auditors found that less than 40 per cent of users were highly satisfied while about 20 per cent expressed low satisfaction (Exhibit 6).

37. The level of satisfaction can be analysed by individual CSS providers. Finance (29 per cent), legal (32 per cent) and personnel (29 per cent) all scored similarly in terms of users expressing high satisfaction but the proportion of users who were highly satisfied with IT services was significantly lower, at only 21 per cent (Exhibit 7). The proportion expressing low satisfaction was about the same for IT and personnel (25 per cent and 24 per cent, respectively) but fell to 14 per cent for finance and 11 per cent for legal.

Exhibit 7
Satisfaction with support services (by provider)

The proportion highly satisfied was lower for IT than other services.

Source: Audit returns.
In all services few users felt themselves to have a high degree of control.

Source: Audit returns.

The results appear even poorer when broken down by CSS provider. The highest level of control was enjoyed by users of legal services (Exhibit 9), but this only amounted to 13 per cent. Clearly, most users felt that the level and nature of the service which they received was very much determined by the providers. Further analysis confirmed that users were more satisfied when they believed they had some control over their support services and that this was associated with having an SLA in place. Auditors found a number of cases where leading authorities had increased user satisfaction by introducing an SLA (Case studies 3 and 4, overleaf).

Source: Audit returns.
The Audit Findings

Case Study 3  
Knowsley MBC: use of service level agreements

**The aim**

The finance department of Knowsley MBC introduced SLAs with its service users as part of the Council's overall corporate policy. This had to be done in such a way as to guarantee users a standard of service and stability of charges over a period.

**The approach**

The finance department introduced SLAs with effect from the 1991/92 financial year. They covered financial services (accountancy and audit) and exchequer and revenues, the latter covering:

- invoice payments;
- payroll;
- cashiers;
- debtors; and
- mortgages.

The SLAs are based on measurable standards, objectives and outputs. Charges reflect the initial 1991/92 unit costs uplifted each year using a predetermined RPI formula. The certainty of the charge-setting process was a key factor in winning the confidence of users.

Recently, accountancy and internal audit staff have been amalgamated to form a new financial services division. This initiative has lead to a pool of information being obtained from accountancy and audit functions which provides highly trained staff with a more comprehensive picture of their clients. It also ensures a consistent and readily identifiable focus for financial advice and support. This development has made a significant contribution to improving efficiency and service quality.

The department conducts annual surveys of users which play a major part in assessing service quality. In response to requests in 1993 for more client involvement in the development of services and the SLA process, the department has established a series of user groups. These comprise internal or external clients, as appropriate, and provide the department with feedback through group discussions and suggestions for further improvement.

**The outcome**

Users have confidence in the system and express high levels of satisfaction with the services provided. They know what they are getting and how much it will cost. Twice a year they receive a report comparing actual activity with the provisions of the SLA. The lessons learned in introducing and developing SLAs for the finance department are now being applied elsewhere in the authority.

40. Authorities must not take an over-bureaucratic approach. There are thousands of individual services which flow from CSS to front-line services. Authorities would drown in paper if there were an SLA for every flow. Instead, authorities should concentrate on the major items and ensure that the ensuing agreements are embedded in the management processes.
Obtaining users’ views

The finance and IT departments have actively sought the views of users through questionnaires, road shows and on-site visits. An initial questionnaire was distributed to all service departments asking them to state their overall level of satisfaction with the current support services they were receiving. This was followed up with a more detailed questionnaire to obtain users’ views on specific aspects of each support service. Presentations have been given to groups of service users, including head teachers, setting out the role of the finance and IT departments, with introductions by the director of finance. A booklet has been widely distributed which provides details of key staff within the departments including photographs, responsibilities and contact numbers.

Introducing SLAs

For IT, SLAs have subsequently been developed which take the form of an umbrella document with separate appendices specific to each user department. Charges to users are made on a quarterly basis and are split between the three main IT functions (mainframe support, applications support and distributed systems) with additional charges made for ad hoc work. Visits to user departments take place to discuss the services and charges being received and to inform users of developments within the IT department.

The business environment

Both the finance and IT departments have business plans for each business unit within their overall operation. These are updated at least annually. Recognising that they can be developed further, a group of senior officers has recently reviewed the action plans of each business unit to identify improvements and to promote consistency within the department.

In response to fears that the creation of separate business units would weaken the department’s overall corporate identity, the finance department has produced a document *Departmental Business Units - Rules, Specifications and Performance Measures*. This document sets out ground rules in relation to charging and accounting arrangements, dealing, for example, with the operation of trading accounts, recovery of costs and utilisation of surpluses. The costs of each business unit are identified and monitored monthly. A summary of each business unit’s trading position is produced each month and distributed to section heads.

41. If providers fail to satisfy the needs of users or if they use resources inefficiently and ineffectively, they are likely to find themselves at a disadvantage when white-collar CCT is introduced. If in-house providers are to compete on quality as well as price, they need to be able to demonstrate a record of meeting customer requirements, since this is the central component of service quality. The challenges already facing the manual DSOs as a result of the move to local management in schools are illustrated by the results of other audit work in 29 local education authorities (LEAs) and questionnaire returns from over 1,600 schools nationwide (Ref. 6). Whilst 80-90 per cent of schools were using services provided by their own LEAs, the proportion which would wish to continue doing so when existing agreements expire drops to 50-60 per cent (Table 4).

42. Of direct relevance to the central services was the finding that, whilst 43 per cent of schools were highly satisfied with LEA services on payment of salaries and wages, only 11 per cent of them expressed a similar level of satisfaction with payment
### Table 4
Schools’ satisfaction with LEA services

<table>
<thead>
<tr>
<th>Service</th>
<th>Schools currently using LEA service (%)</th>
<th>Schools wishing to continue (%)</th>
<th>Difference (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ground maintenance</td>
<td>92</td>
<td>60</td>
<td>−32</td>
</tr>
<tr>
<td>Building cleaning</td>
<td>83</td>
<td>50</td>
<td>−33</td>
</tr>
<tr>
<td>Building maintenance</td>
<td>81</td>
<td>61</td>
<td>−20</td>
</tr>
<tr>
<td>Catering services</td>
<td>90</td>
<td>67</td>
<td>−23</td>
</tr>
</tbody>
</table>

*Source: Audit returns.*

of accounts and invoices. It was also reported that only just over half of the LEAs concerned had evaluated the likely impact of the schools’ choices on the service providers. Schools may choose other contractors if they are not satisfied with their current service standard.
Lessons for the Future

43. The messages emerging from these findings suggest that many authorities and many providers of central support services have a long way to go if they are to establish satisfactory relationships between providers and users and put themselves in a position to meet the challenge of white-collar CCT.

Corporate frameworks
44. At authority level there is a need to think carefully about the establishment of an overall corporate framework. The framework should provide all concerned with the incentive to deliver better value for money to the public and bring the in-house operation up to competitive standards.

Service level agreements
45. Such a framework will need to be backed by a network of effective service level agreements (Box C) between the providers and users of the different support services. Without such agreements the users have no confidence that the services they receive will match their real needs, and – above all – have no way of knowing the future cost of those services. Similarly, the providers will have no real means of knowing how their resources are deployed, or how far, if at all, the service they provide satisfies their clients.

46. There have been suggestions that, whatever the theoretical arguments for service level agreements, the time and costs involved in preparing them are too great. This is a short-sighted view because CSS providers will, in any case, have to carry out nearly all the tasks necessary to set up these agreements – identifying the nature and cost of the services they deliver and discussing present and future needs with service users – for SSSCs and CCT. The additional effort involved in codifying the outcome of this work will be small when set against the advantages to be derived from a clear framework of agreements setting out precisely what support the providers of central services are able to offer to their colleagues in the authority and at what cost.
An effective service level agreement should specify:

- the type of service to be provided, including (if necessary) processes and inputs;
- the volume of service needed, including specific output measures;
- the standards to be observed;
- the timescale over which services would be delivered; and
- the cost of the service and the charging arrangements.

The charging arrangements should specify:

- how prices are to be set, e.g. by time recording;
- the form which they will take, e.g. lump sum, unit costs, fixed and variable elements;
- the billing system, either through the finance department or direct to the user;
- the treatment of inflation; and
- the treatment of cross-subsidy within trading accounts.

The agreements should also:

- be flexible in order to anticipate likely change in circumstances; and
- build in continuous improvement goals over the period covered by the agreement.

The client role

47. The client role for manual services is now established, but CCT for white-collar services poses additional challenges. It is less clear who should be the client for professional services. Many users of CSS will be ‘intelligent customers’ capable of carrying out many elements of the client role. Nonetheless, central staff are probably best placed to look after authority-wide contracts, e.g. payroll. In this case, client staff in central departments are probably best seen as ‘user-agents’ assisting users, where they need help, in ensuring that contracts are user-led, helping users define their needs while ensuring that corporate requirements are also met (Exhibit 10, overleaf).

The impact of reorganisation

48. White-collar CCT is not the only challenge facing local government over the next two to three years. Local authorities in Wales, and many authorities in the shire areas of England, will be directly involved in the formation of reorganised authorities. Shire authorities which are not so involved will also need to bear in mind any commitments they have given to undertake a fundamental reappraisal of their existing structures and ways of working if they are not to be left behind.
49. Reorganisation is likely to involve a change in the scale of operations. Some reorganised authorities will be faced with a wider range of responsibilities than their predecessors, while some existing authorities will have to operate on a reduced scale. Authorities facing such changes should bear in mind the apparent economies of scale operating in these services. The objective should be to reap the benefits to be derived from a wider spread of activities, to which the central support departments will relate or ensure that any contraction in such responsibilities is matched by savings in support services. Above all, authorities should aim to avoid the spiral of decline as overheads are spread over a reduced service volume at increasingly uncompetitive rates.

50. The Commission's auditors will continue to monitor progress in this area, particularly through the build-up to reorganisation. It is hoped that rapid progress can be achieved so that local government can face the future challenges of white-collar CCT and reorganisation with confidence. Authorities will wish to check their score against the good practice diagnostic included in the Commission's original report (Box D).
**Box D**

Good practice diagnostic

### THE CORPORATE AUTHORITY

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

### USERS OF SUPPORT SERVICES

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>ACTION (IF 'NO')</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Do you have enough control over your central support service providers, their costs and the service they provide?</td>
<td>Involve providers in dialogue to increase mutual understanding</td>
</tr>
<tr>
<td>3. Are there any key areas where you would like to see improvements in the central support service?</td>
<td>Make views known to provider and discuss implementation</td>
</tr>
<tr>
<td>4. Are you in discussion with providers about how to ensure continuity of service to the public after reorganisation?</td>
<td>Start discussions well before reorganisation date</td>
</tr>
</tbody>
</table>

### PROVIDERS OF SUPPORT SERVICES

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>ACTION (IF 'NO')</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Have you asked users what they think of your service and what they want?</td>
<td>Carry out satisfaction surveys and rectify shortcomings</td>
</tr>
<tr>
<td>2. Are you planning to provide users with different/cheaper services?</td>
<td>Provide a more responsive service as far as possible</td>
</tr>
<tr>
<td>3. Are your users fulfilling their side of the relationship?</td>
<td>Enter dialogue to encourage communication and cooperation</td>
</tr>
<tr>
<td>4. Are you planning to improve your service in readiness for CCT?</td>
<td>Start to prepare business plans</td>
</tr>
</tbody>
</table>
References


