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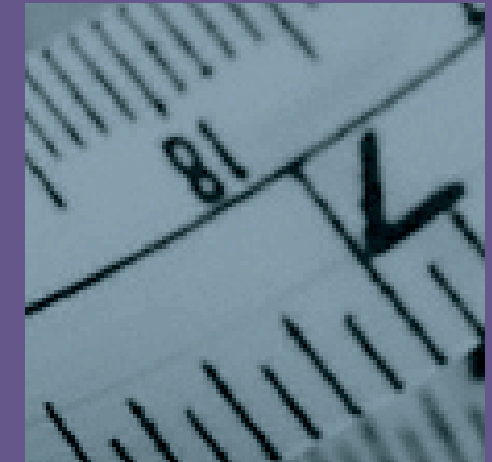
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Price: £10



Best Value

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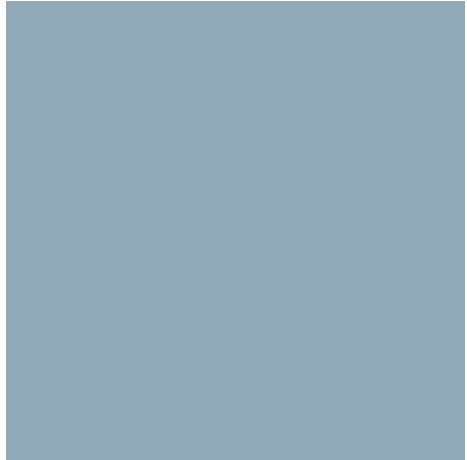
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June 2000

ISBN 1 85908 321 8

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THE PRIME MINISTER

I am pleased to welcome the publication of the Association of Chartered

# Introduction

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For a party that had little to say about local government in its election manifesto, in power Labour has moved swiftly to reform councils. It is completely overhauling local authorities – their structure, their functions and how they relate to central government – to achieve Tony Blair's aim of reinventing local government to make it more effective and relevant to the public and businesses it serves.

Best Value, which was implemented in full in England and Wales from April 2000, is Labour's big idea that encompasses all these themes. Through this initiative, the government hopes to make council services, whether they be rubbish collection or housing, more cost-effective. Most of all, the preoccupation is now with

providing services that consumers, council taxpayers and communities want, where they want them, how they want them and when they want them. In line with other government policies, this shifts the emphasis of council services onto the consumer where traditionally the provider has taken the pivotal position.

Best Value confers on councils the statutory duty to deliver services to clear standards of cost and quality by the most efficient, effective and economic means. Council taxpayers will be able to hold local authorities to account because they will have a clear statement of the standard of service they can expect.

It is a huge upheaval for local government and the other public authorities, such as police and fire services, to which it applies. It will require new thinking and the development of new partnerships and models of service delivery. In short, it is probably the most radical change in local government in the last 20 years.

# What is Best Value?

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Best Value is a fundamental change in the way many public services are delivered. It will require a huge cultural shift in our local authorities, who will have to forge new partnerships – with other departments within their own council, with other local authorities, local NHS bodies, businesses, voluntary organisations and, most of all, the public.

Yet Best Value is not an end in itself. The government sees it as the means through which councils and other public bodies can pull themselves up by their boot-straps; the ethos they must adopt if they are to provide meaningful, relevant, quality services to their publics.

At its heart it is a way of measuring council performance. But unlike

Compulsory Competitive Tendering (CCT), the initiative that it replaces which was introduced by the Conservatives in the 1980s to improve local authority efficiency, Best Value embraces everything local government does. While CCT placed a greater emphasis on the cost of services, Best Value looks at both cost and quality. In CCT there was a presumption towards outsourcing of services traditionally provided in-house. Best Value should lead to mixed provision and more collaborative ventures between the public, private and voluntary sectors.

This holistic approach is new and councils will have to become used to being judged as corporate entities delivering a range of services (through in-house teams, in partnership with

other organisations or by buying it in from outside) rather than being assessed on the quality of a list of individual services specified by national government.

Before looking in depth at Best Value it is probably helpful to look at the history of Compulsory Competitive Tendering.

## THE HISTORY OF CCT

CCT was introduced under the 1980 Local Government Planning and Land Act and initially applied only to the building and civil engineering work carried out by English councils. If a local authority wanted its own staff to continue to carry out any of this work it was required to hold a competitive bidding process with its in-house team

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## What is Best Value? (continued)

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pitted against bidders from the private sector. If the in-house bid won, the department had to be transformed into an arm's length Direct Service Organisation (DSO) or Direct Labour Organisation (DLO), which had to keep separate accounts for every activity they undertook. These organisations had a statutory requirement to break even after having made a 6% return on the capital they employed.

By law, price was the major factor in awarding a tender, though a limited number of other factors could be taken into account.

The scope of CCT was extended to include refuse collection, catering, ground maintenance and other blue collar work in 1988. A year later,

the first white collar area was added – the management of sports and leisure services – but it was the 1990s before white collar CCT became widespread with the addition of financial, legal, construction and property and personnel services in London and Metropolitan authorities.

During this time, CCT was introduced on a more limited basis in Scotland, Wales and Northern Ireland but its effects were restricted by delays in implementation and moratoria to allow for council reorganisation. A number of sanctions were available to the Secretary of State for the Environment should a local authority fall foul of the CCT regulations. He or she could serve a notice asking the authority to explain why a DSO or DLO had failed

to meet their financial targets or had allegedly unfairly awarded work to their in-house teams. If this explanation was deemed unsatisfactory, the minister could issue a direction, prohibiting the authority from carrying out the activity in-house or imposing conditions on their delivery of the service. Directions often asked for work to be re-tendered.

CCT was not liked by Labour's grassroots – councillors, activists and trade unions. To them CCT meant privatisation, redundancies and lower quality services, as businesses deliberately undercut in-house bids and had to cut jobs in order to make a profit.

Compulsory tendering was also disliked because it fostered an adversarial atmosphere between local

## What is Best Value? (continued)

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government and the private sector as they went head to head in the bidding process. This led each side to be deeply suspicious of the other; a long-term hangover from CCT that will have to be overcome if Best Value is to be successful.

### A NEW ERA OF COLLABORATION

The government, local authorities and contractors hope Best Value will usher in an era of co-operation. The emphasis is now on partnership and collaboration, not only between public and private sectors but also between local authorities and between departments in each council. Birmingham City Council, for example, plans a Best Value partnership that will mean its internal audit will be carried out by

its own auditors and those from the private sector. Neighbouring councils could link up to create a common payroll service. A private sector firm could be brought into the venture if it could provide better quality or help save money.

To the government, it matters little who delivers the service as long as improvements are made that meet the rising expectations of the public. In order to make Best Value work, local authorities must respond 'quickly and imaginatively' to these demands and to advances in technology.

But this is not *carte blanche* for councils to bring all their services back in-house. The Department of the Environment, Transport and the Regions (DETR)

believes it is unlikely that one body can guarantee Best Value on its own. Local authorities must rely on a range of providers, which will in turn produce greater choice and flexibility for the user.

# 2

## The legislation

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Best Value for England and Wales is enshrined in the Local Government Act 1999 and one of the most startling aspects of the Act is the lack of prescription. Local government legislation normally spells out in minute detail what councils can and cannot do but they have been given much more flexibility with Best Value.

In this, and in guidance that followed the Act, local government is portrayed as an equal partner with central government. Whitehall has realised that in all honesty it cannot call for more partnership working at local level if it is unwilling to mirror this on the national stage. Representatives of local government and other public bodies to which the Act applies, businesses, voluntary organisations

and community groups have played a major role in framing legislation and guidance on Best Value. It is hoped this joint ownership will make the initiative a success.

### THE LOCAL GOVERNMENT ACT 1999

Under the Act Best Value applies to:

- local authorities – county, district, London borough and parish councils as well as the new Greater London Authority, the Council of the Isles of Scilly and the Common Council of the City of London
- National Park authorities
- the Broads Authority
- police authorities
- fire authorities constituted by a combination scheme and

metropolitan county fire and civil defence authorities

- the London Fire and Emergency Planning Authority
- waste disposal authorities
- metropolitan county passenger transport authorities; and two new bodies to be set up under the new Greater London Authority – Transport for London and the London Development Agency.

These Best Value authorities must secure continuous improvements in the way their functions are carried out through better economy, efficiency and effectiveness. When deciding how best to do this, councils must consult with anyone who pays them a tax or a levy, including businesses, representatives of service users and

representatives of anyone who has an interest in the service. The Secretary of State for the Environment, Transport and the Regions can stipulate performance indicators against which authorities will be assessed and performance standards that must be met. Best Value authorities will be required to carry out reviews and the content of these exercises may be specified by the Secretary of State. They will also have to publish a Best Value performance plan at the beginning of each financial year, which will include an action plan and an assessment of its performance over the previous year. The performance plan will be scrutinised by the authority's external auditor who will issue a report certifying that the plan accords with the Act and

recommending, if appropriate, how it should be amended to comply.

### SANCTIONS

If an authority is failing to meet its Best Value duties, there are a number of routes open to the external auditor. They can advocate an Audit Commission Best Value inspection, a more in-depth examination of an authority's ability to produce continuous improvements. The inspector's report will then be passed on to the Secretary of State, who will have sweeping powers to deal with a 'failing' service.

The external auditor can also recommend that the Secretary of State issue a direction to the authority to amend the plan. In this case,

## The legislation (continued)

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or following an inspector's report, he or she can also take a failing service from the control of the authority and exercise the function through the DETR or a nominated person. There is no time limit on this transfer of responsibilities.

The Secretary of State can also direct an authority to carry out changes to a function, though generally authorities will be able to argue against such an order.

### WALES

The Local Government Act 1999 applies to both England and Wales, though in the latter a local authority means a county council, a county borough council or a community council. As in England, CCT was abolished on 2 January 2000.

## The legislation (continued)

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In general, the National Assembly for Wales will carry out the functions of the Secretary of State for Environment, Transport and the Regions, such as setting Best Value Performance Indicators and intervening in failing authorities, though the UK government retains responsibility for social security, police, and fire authorities in Wales.

In some ways, Wales is ahead of the English councils, as every Welsh authority conducted pilot reviews and produced pilot performance plans for 1998/99 and 1999/2000.

### SCOTLAND

Scotland's 32 local authorities are ahead of their peers in England, Wales and Northern Ireland. They have been

piloting Best Value since just after the 1997 general election, submitting their first Best Value plans that year which set in train a programme of reviews of the services they provide. This 'big bang' approach was deemed unsuitable for England because there are so many authorities and, unlike Scotland where all the councils are unitary authorities, much of England still has the two-tier district council/county council system.

A moratorium on CCT has been in place for Scottish councils since March 1995 which has allowed them to provide services without being required to first put them out to tender. It was originally introduced to give the local authorities time while they conducted a major reorganisation into new, unitary authorities.

The moratorium was extended in June 1997, following the general election. The theory is that this will give the authorities breathing space to achieve Best Value. However, existing DLOs and DSOs must continue to apply the CCT accounting framework and the Scottish Executive retains powers to intervene in the case of a serious breakdown in service quality.

Since the general election, the 32 local authorities as well as police forces and fire brigades have been working with the Scottish Office to introduce Best Value on a voluntary, non-legislative basis. All have produced detailed implementation plans that include reviews of the services they provide. The Scottish Executive claims councils have

## The legislation (continued)

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already managed to redeploy well over £15m into improved services.

A Best Value Task Force, made up of Scottish Office officials, the Convention of Scottish Local Authorities and the Accounts Commission, has produced three reports on implementing the scheme. In its first report it set out four principles of Best Value:

- accountability
- transparency
- continuous improvement: a planning framework
- ownership.

It also published what it believes to be the four essential elements of Best Value:

- sound governance, including a strong focus on client/citizen focus

and robust strategic, financial and operational management

- performance measurement and monitoring
- continuous improvement: competition and other tools
- three-year budgeting.

Best Value in Scotland will differ from that laid out in the Local Government Act 1999 in its approach to performance information. This should be made more relevant and meaningful to service users and the general public, it insists. To ensure this happens cost indicators will be determined by activity-based costing, which the Task Force believes will focus on the public's 'needs, the links between services, and outputs and outcomes'.

Authorities will publish annual Public Performance Reports (PPRs) demonstrating current levels of performance (on both cost and quality), comparisons, targets for improvements, and performance against previous improvement targets. These are similar to the Best Value Performance Plans published each year by authorities in England and Wales. However, while in many English councils these will be single documents covering all areas, the Scottish PPRs will consist of several documents covering a number of areas and aspects of their services. There will be one summary report for the public but additional reports could focus on particular user or interest groups. Businesses could have their own report, for example.

Though the PPRs will be published annually, they should appear at an appropriate time. For example, a PPR on education may be best published at the time parents are choosing schools for their children. According to the Task Force: 'The objective of PPRs is to give the right people the right information at the right time and in the right way, thereby allowing stakeholders an opportunity to influence councils' priorities, resource allocation and performance.'

In its final report the Task Force recommended that the Scottish Executive bring forward legislation to formalise Best Value. This could include a clear framework for intervention where an authority is consistently failing to meet Best Value,

though it insists new bureaucracy should not be added for the sake of it and the Executive should avoid prescription.

Best Value authorities should be allowed greater flexibility to pursue joint ventures, though these should be based on an explicit business case, at minimal risk to public funds and with no restriction on competition. Limits on local authorities' trading powers should be reviewed. At the moment they can only trade with bodies put on a specified list but the Task Force believes the Executive should replace this with generic descriptions of the characteristics of suitable partners.

It also suggests that Best Value should be extended throughout the public sector in Scotland.

**NORTHERN IRELAND**

Best Value is due to be introduced into Northern Ireland's local authorities during 2001/02. It is expected that it will take a similar format to that in England and Wales. Each council will put in place a programme to review all their services over four years. They will publish service improvement plans together with annual performance statistics.

In the meantime Compulsory Competitive Tendering for councils' leisure management and construction and maintenance has been postponed

to allow councils to focus on Best Value. However, the initiative does not have a legislative base so councils are voluntarily implementing Best Value – those that fail to do so or who are judged to be failing to raise standards will become subject to CCT.

There are some differences in the way Best Value is being implemented across the UK, especially in Scotland. In the following chapters we shall focus on England and Wales, but the general principles of Best Value are the same wherever it is being carried out.

# 3

## What does the government hope to achieve?

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Through Best Value the government hopes to make local services more efficient, more effective and more relevant to service users and taxpayers. But unlike CCT and other local government initiatives before it, Best Value is a highly flexible means of achieving this aim. New Labour believes that it matters little who provides the service – what matters is quality and cost.

Best Value's lack of prescription is an acknowledgement that each authority is different and even those of similar size may adopt different models to make service improvements. These solutions could be influenced by many local factors, such as the level of skills in the local job market making recruitment difficult or a lack of

private sector care homes reducing competition. An area could have a well-developed voluntary sector, which is well-equipped to take over the delivery of, say, meals on wheels. Or an authority could be having difficulty recruiting and retaining specialist staff, such as computer auditors, so it forms a partnership with a large firm of accountants.

### THE FOUR Cs

Authorities are required to carry out Best Value reviews of their functions so that every service should be scrutinised over a five-year period. The reviews should include an examination of new ways of delivering the service in question and set demanding performance targets

that should result in continuous improvements. This programme of assessment can be summarised as the four Cs. These are:

- **challenging** why, how and who provides the service
- **comparing** performance with others on a range of indicators, taking account of the views of service users and potential suppliers
- **consulting** local council tax and ratepayers, service users, partner organisations and the wider business community when setting new performance targets
- **competition** wherever practical. This should be fair and open and used to boost efficiency and effectiveness.

## What does the government hope to achieve? (continued)

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This hardly adds up to the strictly-defined regime that was CCT. This is a deliberate move by the government. Best Value's freedoms are a vital part of its drive to reform local government.

### THE WIDER LOCAL GOVERNMENT AGENDA

New Labour's message to local government is simple: shape up, modernise and greater powers and more money may be yours. Fail and it could be the end for local democracy as we know it. This was hammered home by Tony Blair shortly after the 1997 general election when Downing Street published *Modernising Local Government*, a pamphlet containing the prime minister's thoughts on the future of local councils. Local

democracy had to be 'renewed', he said, startling councillors and local government officers who are unused to prime ministers taking such a close interest in their fiefdoms.

Blair and his Cabinet colleagues feel, not unjustly if the turnout at local government elections is used as a yardstick, that councils have lost the confidence of the populations they serve. Average turnout for council elections is 40% so Labour proposes moving polling booths to shopping malls and libraries.

It is also investigating the use of information technology, which the government sees as a major tool in its plan to reinvigorate interest in local democracy and a way of increasing

access to government information while cutting bureaucracy.

E-government, as it is called, may mean the electorate will not need to leave their homes to vote – how about voting over the internet or in the comfort of your living room via your digital TV connection? E-government could enable benefits claimants to make their claims over a computer terminal in their local supermarket. While they are there, they could check on the latest job vacancies, book an aerobics session at the local sports centre and compare local schools on the latest league tables.

Such measures will be backed up by structural change in councils, leading

## What does the government hope to achieve? (continued)

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to elected mayors and the replacement of the current committee structure of council decision-making with a cabinet-style system.

So how will Best Value, which on the surface appears to be no more than a new management tool aimed at boosting efficiency, encourage the renewal of local democracy? The key word is used in both the second and third of the four Cs – consultation.

When they carry out their Best Value reviews, not only should authorities ask service users and potential partners how well services are delivered, they must also consult widely within their community about how high performance standards should be set.

It will be a shot in the arm for local government if this does not prove to be an empty exercise and local people and businesses can see they are influencing the services provided for them. Not only will voters and businesses become more involved with their local authorities but the local authorities will become more accountable to the people they serve.

### TOWARDS PARTNERSHIP

The government obviously sees Best Value as an ideal way to break down the barriers between local authorities, local people and businesses. It has stressed that the process of forming Best Value is a partnership between local and central government, the private and voluntary sectors, auditors

and trades unions. But this new era of collaboration should not end there. Local authorities should co-operate with each other, by helping spread best practice, for example, or sharing benchmarking information.

Partnership is an important element of Best Value because without it you cannot have diversity and without diversity, the government believes, you cannot deliver Best Value. No one organisation can be the best provider of all services and councils should see themselves as one of a number of service providers in their area.

The DETR set up six pilots, known as Partnership Pilot Networks (PPNs), to gain a better understanding of how collaboration can contribute to Best

## What does the government hope to achieve? (continued)

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Value. Partnerships can be fragile. Brighton and Hove council along with three other local authorities had been trying to set up a combined revenue service but this collapsed in July 1999. It may be that partnerships work better in smaller services, such as internal audit, rather than potentially huge areas such as council tax collection.

The consultants Newchurch and Co have identified three types of PPN:

- cross border service delivery, primarily involving and led by local authorities
- private sector led partnerships that involve a number of businesses hoping to work with individual local authorities
- mixed networks of local authorities and private or voluntary organisations.

In a study of the PPNs' early stages, published early this year, Newchurch found that every one reported difficulties when they were preparing for their partnership. These were usually due to legal, cultural or technological difficulties.

EU procurement legislation is a major problem, where restrictions on negotiated procurement and anti-competitive behaviour present formidable barriers. Newchurch say this could be a problem particularly if a private sector company with a novel idea wants to discuss an exclusive contract with a local authority. There is also concern over the structure, scope and responsibilities of partnership bodies, as well as their legality. The PPNs have found it difficult to

gather data so they can plot a baseline position for the services in question, often because the partners use different technology.

There are cultural obstacles to be overcome. Councillors, officers, service users and partner organisations have had to adapt to the new arrangements. The PPNs have found it difficult to attract and sustain councillors' attention. As we shall see, elected members will play a key role in ensuring the success of Best Value but this could cause difficulties. For example, changes in the political makeup of a council could affect its commitment to the initiative.

## What does the government hope to achieve? (continued)

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### PERFORMANCE MANAGEMENT

While the concepts of partnership, the four Cs and 'what matters is what works' give Best Value its flexibility, it has also led to accusations in some quarters that it is too ill-defined, too 'woolly'. But the government insists that it is no easy option – a view endorsed by the pilot schemes around the country. To reinforce this message, the government has instituted a tough regime of performance management to ensure authorities come up to scratch.

Labour is keen to stress there is a 'family' of performance indicators (PIs), of which Best Value is but one. The others include those laid out by the Audit Commission, the DETR and other government departments

(the Home Office for police performance, for example).

In Best Value it refers to the five 'dimensions' of performance that should be applied. These are:

- strategic objectives: why the service exists and what it seeks to achieve
- cost/efficiency: the resources committed to a service; the efficiency with which they are turned into outputs
- service delivery outcomes: how well the service is being operated in order to achieve the strategic objectives
- quality: these indicators will explicitly reflect users' experience of services
- fair access: ease and equality of access to services.

The public and local businesses will be able to see how well their local authority is doing against these performance indicators in its annual Best Value Performance Plan. This will include summaries of the authority's objectives (including nationally-set targets, service priorities and any medium-term financial plan) and its current performance. Performance should be assessed against national and local indicators and come with a comparison with past years.

## What does the government hope to achieve? (continued)

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Authorities should document their review programme in the plans, along with the results of these inquiries, together with performance targets for future years and how the council proposes to achieve them. Over time, authorities must achieve efficiency gains of 2% a year.

The Performance Plan should also include a response to audit and inspection reports, an outline of how the authority met its statutory requirement to consult and budget information.

The first Performance Plans in England were due to be published by 31 March 2000 this year, with subsequent years' plans to be published no later than 31 March.

# 4

## Implementation

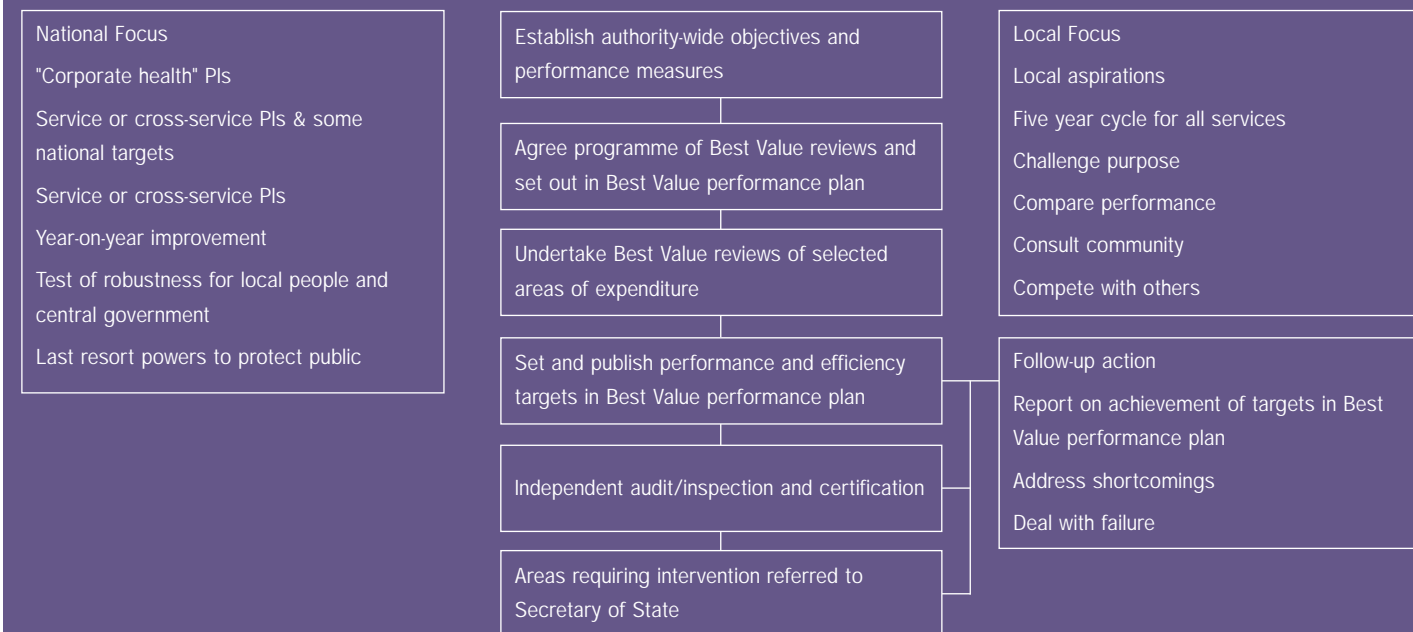
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## Implementation (continued)

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FIG 1: THE BEST VALUE PERFORMANCE MANAGEMENT FRAMEWORK

The implementation process can probably be best illustrated in the government's own performance management framework.



By April 2000, authorities should have at least reached the second box down in the cycle. They will have established a long-term vision for their community, which will automatically prioritise their aims and performance measures, and published a Best Value Performance Plan.

Over the next five years they will conduct a series of reviews of their functions. The reviews will be guided by the four Cs – challenge, compare, consult and compete.

The DETR insists that effective Best Value reviews have a number of key characteristics. These include:

- a long-term perspective. Performance targets should look sufficiently far ahead to anticipate

fluctuations in demand and changes in service delivery. Delivery agreements of longer than three years should include a degree of flexibility to allow for such changes but contracts should be long enough to afford some certainty to the partner organisation

- involving elected members, who have a key role in the implementation of Best Value. More of this later
- seeking advice from outside the authority. Authorities are encouraged to speak to other public sector bodies, as well as private and voluntary organisations in the belief that they can often offer a new perspective, either as sources of advice or as sounding boards for new ideas
- involving those currently delivering

the service. This particularly applies to frontline staff who will have first-hand experience of how the service is perceived by the public. The support of these staff is crucial to the success of any changes that result from Best Value reviews

- questioning existing commitments. Even if an authority is tied into a long-term contract there should still be provision in that agreement for service improvements to be negotiated. If such provisions are not in place, the authority should still consider the scope for changes by complementing the existing contract, for example, and costing this against other options for service delivery
- talking to clients and potential service users. This is an essential

element of the reviews. The government believes that reviews that fail to consult users adequately, especially those who have been traditionally under-represented in consultation exercises, will have little weight when explaining why service targets and providers were selected, and will miss a real opportunity to implement lasting change

- addressing issues of equity. Together with talking to clients and potential service users, reaching out to under-represented and minority sections of communities is seen by the government as a major tool in its fight against social exclusion. A service cannot deliver Best Value if it does not confront these considerations. Reviews should examine how services impact on all

sections of their local community, including minorities, and set targets to reduce gaps in services to those who are disadvantaged socially, economically or geographically. They should also consider whether they comply with equality laws, such as the Disability Discrimination Act 1995, the Sex Discrimination Act 1975 and the Race Relations Act 1976. Under section 71 of the last Act, local authorities are obliged to ensure their functions are carried out with due regard to eliminating racial discrimination, promoting equal opportunities and good relations between the different racial groups

- promoting sustainable development. Performance targets generated by the reviews should reflect the principles of sustainable development.

### WHAT SERVICES WILL AUTHORITIES REVIEW FIRST?

Authorities will review all their functions within a five-year period and this process will be repeated every five years subsequently. The government is unlikely to set a timetable for specific reviews, though in the first five-year cycle fire authorities will be asked to prioritise reviews of communication and control, and training and procurement, with a view to promoting joint working on these activities.

In general, authorities should create a programme of reviews that is mindful of the resources it has available, the opportunities for tackling cross-cutting issues (such as the interface between social services and the NHS) and the demands

placed on it by other statutory, financial and contractual requirements.

A clear audit trail demonstrating how the review programme was established is required. Authorities will have to demonstrate how the programme arose from any community strategy they have, from their corporate vision and from an analysis of their current performance. Normally, the poorest performing services should be reviewed in the early years of the five-year cycle, though authorities have been given some freedom here to postpone such reviews, particularly if improvements in one area depended on changes in another function that is already being reviewed. However, they will be expected to be able to justify such a decision.

Services that are performing well can be reviewed early on, especially if this may provide some pointers on how to improve other activities. And authorities have been asked to consider reviewing functions that have been slated for inspection before the inspectors arrive.

The government has not asked authorities to produce a firm five-year review programme – priorities may alter with changes in an authority's political makeup, for example – but it insists on firm proposals for the first two to three years to enable auditors and inspectors to plan their activities.

One authority has developed a scoring matrix for deciding its review priorities. It gives a score of between one and five to a number of criteria,

such as cost, importance to the public, potential for market delivery, importance to the council's strategic plans and user satisfaction. Thus, functions that were important to the public, high cost, performing poorly, central to the council's plans and open to market delivery were selected for review in the first year. Review programmes should be a mix of service specific analyses and cross-cutting scrutinies. The former, if they are sufficiently ambitious, should ensure there are early improvements in efficiency and service quality. Cross-cutting reviews that incorporate strategic planning with partners could have a more lasting effect and authorities that do not have at least one of these reviews in their programme will be asked for an explanation.

The scope for the focus of reviews is wide. Authorities could look at the delivery of services to the elderly or its rural population, for example. Or changes in legislation could prompt a review of a particular function or group of functions.

**IMPLEMENTING THE FOUR Cs**

Probably every manager in Best Value authorities can now reel off "challenge, compare, consult and compete" to the question, "What are the four Cs?" but they may not be so sure how to apply these criteria.

According to the government, the four Cs should not be seen as a linear, progressive process starting at challenge and ending with competition. Rather,

they are interactive elements that should be considered in conjunction with each other when carrying out reviews. Authorities can use them in different ways – some have used them to review services, others to plan them.

Without **challenge** reviews would be ineffectual. This should be a 'ground up' process – with authorities asking why they provide a service and why they deliver it in the way they do. This process should prompt authorities to move on to comparison, consultation and competition but challenging assumptions along the way.

When examining different delivery models, authorities should look at ways of using new technology (which neatly ties in with the government's

modernisation philosophy). They should also develop their abilities to assess the impact of demographic, economic and social change on local service needs. There is a word of caution here. Historical data can demonstrate what works and what does not but it may not be enough to produce the step-change in improved services sought by the government. Such information often points to the need for greater capacity rather than fundamental change and may throw councils off the scent of more efficient methods of service delivery.

Authorities would be unable to benchmark the efficiency of their services without **comparison**. In the first instance, this will be achieved through setting targets within a

specified range against performance indicators. In England, there are 168 nationally-set Best Value Performance Indicators (BVPIs). This includes 18 measuring 'Corporate Health', 32 police indicators and 75 Audit Commission Performance Indicators (ACPIs), which include seven police indicators. The distribution of nationally-set performance indicators is shown in Figure 2 (page 26). Authorities have been encouraged to develop their own local PIs.

Using these targets, authorities will be able to compare their performance with similar types of authority, as well as with those in the private and voluntary sectors. The government concedes that this will rarely take the form of an exact comparison but an

'intelligent exploration of how analogous services or elements of such services perform'.

Comparison with other authorities will be crucial to the Best Value regime. The government wants to set quality targets consistent with the performance of the top 25% of authorities. It wants cost and quality in all authorities to match the best 25% of their peers over a five-year period. This should also deliver the 2% efficiency gains the government has set for local government as a whole.

Comparisons should generally be made on outcomes, though input and output will be important when assessing the scope for efficiencies.

Quality initiatives can help in comparison and in securing continuous improvements in services. There are four main quality schemes. These are the EFQM Excellence Model®, Investors in People, Charter Mark and ISO 9000. All could be employed in Best Value reviews.

The importance of **consultation** cannot be repeated often enough. Not only is it a statutory duty for authorities in England and Wales, it is at the very heart of the partnership approach that the government wants Best Value authorities to adopt. Yet it is up to authorities to decide whom to consult and how.

Despite this lack of prescription, the government is keen that authorities

FIG 2: DISTRIBUTION OF PERFORMANCE INDICATORS (SOURCE: DETR)

AUTHORITY TYPE	BVPIS	ACPIS	TOTAL
London Boroughs	124	68	192
Unitaries	124	68	192
Metropolitan	124	68	192
County	105	46	151
Districts	64	37	101
Waste Disposal Authorities	18	0	18
National Parks Authorities	17	2	19
National Broads Authority	17	2	19
Police	32	9	41
Fire	21	0	21

take a strategic approach to consultation, in particular to prevent duplication of effort. This should mean where there is a two-tier system of government, in London for example following the establishment of the Greater London Authority, the number of public consultation exercises should be kept to a minimum. Apart from keeping costs down, lack of co-ordination risks alienating those whose views are sought.

Authorities should ensure that difficult to reach communities, such as those where written English is not the usual or favoured method of communication, are involved in the consultation exercise. And before consultation commences, local people and potential partners should be aware

how the information will be used, when decisions will be made and that they will receive feedback on the consultation and how decisions have been reached.

**Competition** is the final element in the quartet. However, the competition will not be similar to that carried out as part of the CCT regime. Out is the presumption towards outsourcing, in is the belief that partnerships will produce better services. Authorities have been told to approach the process positively in order to make the best of opportunities to form new, innovative partnerships with other organisations from the public, voluntary and private sectors. This pluralist view dominates government thinking on service delivery.

But such a mixed provider system must first be created. Public, private and voluntary sectors, as well as trades unions, are taking steps to develop the market. Authorities must assess the capacity of the local market in consultation with current and potential suppliers. This could lead to the entrance of a new supplier into the local market or the restructuring of services to provide greater variety and choice.

Of course, some markets may already be well developed, some nascent. The supply of residential care could be included in both these categories depending on which area of the country you live, for example. This presents authorities with different problems – how to make entrenched suppliers

become more competitive in a saturated market and how to encourage new suppliers into an under-developed market.

The answer to both is the same, the DETR insists – encourage greater diversity, competition and innovation. It suggests a number of ways to do this, including basing requirements on outcomes to allow for greater innovation in provision and packaging work according to what the market offers.

**WHAT ARE THE POSSIBLE OUTCOMES?**

Four Cs reviews should lead to a continuous cycle of performance targets, action plans and eventually service improvements. But they may also affect how a service is delivered.

These decisions could range from the cessation of the service, in whole or in part, delivery by a public-private partnership, contracting out to a private or voluntary provider, the re-negotiation of an existing contract and joint commissioning and delivery.

Whatever the decision external auditors will demand to see a clear audit trail and justification of the choices made.

**THE ROLE OF THE ELECTED MEMBER**

Before we leave the implementation stage of Best Value and move on to audit and inspection, it is timely to note how councillors fit into the initiative.

As already stated, they must be engaged and consulted in the processes of Best Value. The statutory duty of consultation does not rest merely with individual authorities but also with individual councillors. Both must consult local people on the standards of services they want and how much they are prepared to pay for it.

The government believes this will enhance the representative role of councillors, at a stroke making them more accountable to voters and raising their profile among local people. In turn, this could increase voter turnout at local elections. Hence Best Value's central role in the government's wider local government agenda.

There is an inherent danger in public consultation exercises that their purpose will be misunderstood. Are councils gathering information or distributing it? People will want to know whether their views will directly affect the services they use. Councillors will play a key role explaining not just what the consultation is for but also which services (or parts of services) are being reviewed.

Councillors should both facilitate the consultation process and act as a conduit for the opinions of local people, businesses and voluntary organisations. Members should use the performance plan to stimulate debate about the delivery and quality of services. Decision-making should be easier because councillors have learned first-hand what people want.

The government also expects councillors to provide leadership within their local authority. It believes that elected members 'set the tone' for an authority's actions – if they are opposed to partnerships then council officers are less likely to explore new methods of joint delivery, for example. In such a scenario Best Value could not be achieved.

# 5

## Audit and inspection

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Best Value authorities have been given a great deal of freedom in their interpretation of the initiative but this does not come without a series of checks and balances to ensure they are not paying lip service to its requirements. Authorities will, of course, be carrying out internal assessments of their own performance but they will be subject to scrutiny by their external auditors and a further tier of Best Value inspectors.

### CURRENT EXTERNAL AUDIT ARRANGEMENTS IN LOCAL AUTHORITIES

External auditors are appointed by the Audit Commission for England and Wales (Audit Scotland north of the border).

There are two elements to their audit – regularity and value for money. The former refers to the auditor's review of an authority's accounts, financial systems, legality of transactions and anti-fraud arrangements. The latter is the auditor's work to ensure a council is economic and efficient. Recommendations stemming from all audit work are brought together in a single management letter at the end of the financial year.

### HOW AUDIT WILL CHANGE UNDER BEST VALUE

Appointed auditors will still carry out regularity and value for money work. However, because the value for money audits focus on economy and efficiency there is a danger of duplicating

effort. The Commission says these audit programmes will be altered to reflect Best Value's focus on economy and efficiency and though there will be a full programme of value for money audits in 2000/01, it believes there will be less and less local follow-up work in subsequent years.

Appointed auditors will examine and report on the Best Value Performance Plans (Public Performance Plans in Scotland). The Audit Commission says this should take place in three stages (see Figure 3). In the first, auditors will examine the extent to which the plans have been produced in accordance with the relevant legislation or guidance. They will also look at the systems for collecting performance data. Auditors will not

## Audit and inspection (continued)

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be required to give an opinion on the accurateness or completeness of the performance information, nor will they have to decide whether the authority's action plan is achievable. The corporate management framework will also be examined in the first phase of external audit. Auditors will look at the authority's approach to the four Cs, for example, when they will expect to see an audit

trail for the consultation process and an explanation of how and why decisions have been made. They will ask whether authorities have adopted a recognised performance management system that aims to deliver continuous improvement. In later years, there will be more emphasis on assessing performance information.

In the second stage, the auditor will examine the plans to ensure all the information required by statute is included and the deadline for publication has been met. They will also form their recommendations.

These will be included in a report (the third stage), which must be published by 30 June each year.

Recommendations could apply to an authority's performance information collection, whether the Audit Commission should carry out a Best Value inspection or whether a direction should be issued by the Secretary of State or National Assembly for Wales. The report will also include a certification that the audit has been completed and an opinion on whether the authority has complied with the relevant legislation. Authorities must respond to any recommendation within 30 days with an action plan.

**INSPECTION**

A number of inspectorates already exist in England and Wales and these will continue to carry out their inspections. In England these are:

- The Office for Standards in Education (Ofsted)
- The Social Services Inspectorate (SSI)
- The Benefit Fraud Inspectorate
- Her Majesty's Fire Service Inspectorate
- Her Majesty's Inspectorate of Constabulary.

The Benefit Fraud Inspectorate, Her Majesty's Fire Service Inspectorate and Her Majesty's Inspectorate of Constabulary also operate in Wales. Other existing inspectorates in the principality are:

- the Social Services Inspectorate in Wales (SSIW)
- Estyn (education).

Some council functions are not covered by these bodies, such as

housing, environmental services, libraries and refuse collection, and the Audit Commission has been given responsibility for covering these gaps.

The Commission will continue its joint inspections of local education authorities with Ofsted and Estyn in Wales, and social services departments with the SSI and the SSIW. It has brought these and its new inspectorate functions into one organisation, the Inspection Service.

The government wants inspections to deliver a number of objectives, including identifying failing services and helping to spread best practice. Inspections should occur at least once every five years, though the Secretary of State may launch an

inspection if there is concern about an authority's performance.

The Commission's inspection methodology is based on eight principles of public inspection. According to these, inspections should:

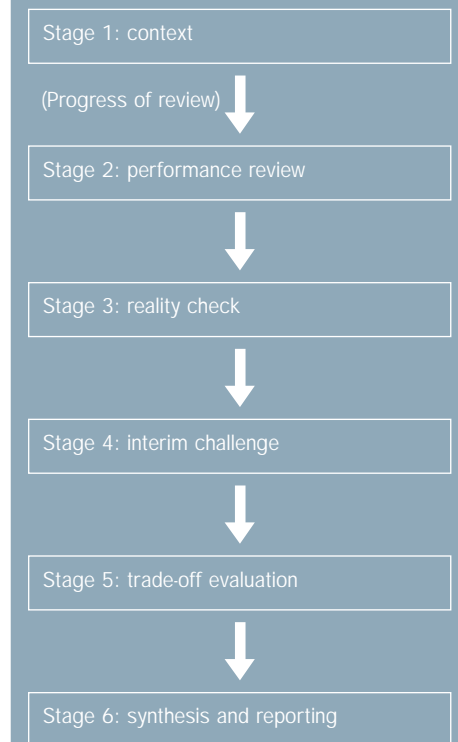
- be based on what works
- speak without fear or favour
- be proportionate to risk
- inform national policy and local practice
- be a catalyst for improvement
- have a user focus
- take account of the use of money, people and assets
- inform the public.

Inspectors will use authorities' Best Value reviews and performance plans as a starting point. They will then

assess the validity of authorities' review processes, the quality of their services and the likelihood that services will improve.

The Commission has proposed that inspections should progress in six stages (see Figure 4). First, inspectors will gain an understanding of the authority and its community, then they will examine the authority's performance review process, focusing on the four Cs and comparing performance. The third stage will look at how services are delivered and, having talked to users and frontline staff and tried out the services, they will issue a private challenge to the authority. This will give the authority a chance to evaluate its position before the final stage of the inspection, a report, is issued.

**FIG 4: THE KEY STAGES OF AN AUDIT COMMISSION BEST VALUE INSPECTION**



# 6

## Finance

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There are two major financial issues raised by Best Value – the cost of audit and inspection and the need for a new accounting framework.

### **COST OF AUDIT AND INSPECTION**

External scrutiny is obviously a key element of the new regime but many authorities fear there is a danger of over-auditing. On top of the annual Best Value audits, regularity audits and value for money work by appointed auditors, there will also be inspections. There is a lot of room for duplication of effort.

The Audit Commission and the DETR expect audit fees for English councils to top £40m in 2000/01 and £50m in subsequent years. Only £22.25m

was included in the local government settlement for 2000/01 to cover the cost of Best Value audit and inspection but the DETR has insisted that councils will be fully funded for the costs associated with Best Value audit and inspection.

Some councils remain sceptical about this but only time will tell whether they will lose out because of the new regime.

### **ACCOUNTING FRAMEWORK**

Financial data will be used in local performance plans, performance reviews and performance indicators so accounting for Best Value will play a key role in helping local authorities, auditors and the government compare financial information.

The current local authority accounting code of practice has been revised to reflect the new priorities in Best Value and was published in April 2000.

Changes may include the need for more financial detail, for example, in residential care of the elderly. The new accounting framework will also need to reflect the fact that councils will be involved in many more partnerships, including local authority companies and joint ventures with the private sector.

Perhaps the most controversial issue is whether trading accounts should continue to be used. Under CCT, authorities had to produce trading accounts for a defined list of activities and many believe this

method of tracking income and expenditure does not fully reflect a service's competitiveness.

The income in these accounts represents recharges to other parts of the authority so a surplus does not necessarily represent a gain for the council. A deficit on a trading account may not necessarily be a sign that a service is being provided at an uncompetitive cost – what matters is how it measures up when benchmarked against the market, some argue.

Trading accounts also contain commercially sensitive information that some believe should not be divulged because it could be used by private sector companies to compete against the in-house team.

However, others believe trading accounts are the only way to transparently reflect costs.

Though CCT has been abolished it is unlikely trading accounts will be completely abandoned in Best Value, though the new accounting framework will not prescribe the services for which trading accounts should be produced.

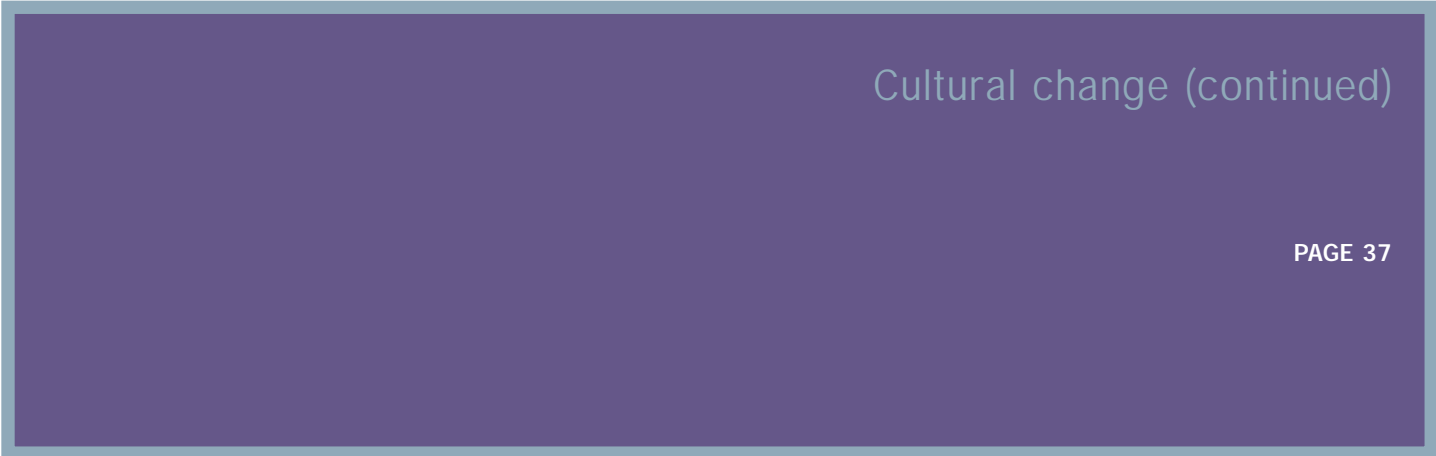
## Finance (continued)

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# Cultural change

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# Cultural change (continued)

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Best Value represents a huge upheaval in the way councils operate. Collaboration will replace outright competition, there will be much more local discretion and a range of public bodies will be expected to achieve continuous improvements in all their services, not just the narrow range of functions that was covered by CCT.

This will require a great deal of new thinking in our town halls and other public bodies but it will be difficult to shake off the old ways.

The biggest threat to the success of Best Value is the culture of risk avoidance which is rife in local government, according to the biggest review of the initiative so far. Of course, there are sound reasons why public

servants are keen to spend taxpayers' money wisely and Best Value is not about spending money recklessly but if the initiative is to succeed some moulds will have to be broken.

Best Value is about new partnerships, what works best, but Warwick Business School, in its review of 40 Best Value pilots, found that local government officers are ill-equipped to create new models of service delivery. It also does not help that councils' departments have traditionally been isolated from each other – a barrier to the joined-up thinking and delivery that should be one of the consequences of this key government policy.

Authorities will also have to develop new skills, either on their own or in

partnership with others. They will have to be able to analyse supply markets, including what they can provide. Selecting the best suppliers and managing new relationships will be important.

Of course, local authorities in particular are no strangers to partnership working, having been involved in schemes such as the City Challenge and the Private Finance Initiative. CCT, of course, encouraged partnerships for the delivery of services but it also fostered divisiveness between local government and business.

A study of the Pilot Partnership Networks by consultants Newchurch and Company found that cultural differences were causing concern.

Attitudes of council staff and members to partnerships with the private sector tended to be shaped by their experiences under the CCT regime in particular. The private sector also had to adjust to working with public bodies.

However, despite the cultural difficulties that remain to be overcome, it appears that parties on all sides see that collaboration can lead to better services being delivered to local people. If this is not translated into solid partnerships the government's vision will not be achieved.

# 8

## Future issues

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Probably the most contentious issue over the early years of the Best Value regime will be the cost of audit and inspection. Though the government has pledged to cover these expenses in full it seems likely that some of the cost will fall on councils. The Audit Commission is putting together its new inspection service and the debate is likely to gather pace as this new body comes on line.

Of course Best Value is about the efficient delivery of top-rate services to the public and councils will be keen to plough any savings released as a result of the process into even better services. They will not want to spend it on increased inspection fees, especially since cost pressures and demand for their services are increasing.

The government argues that if standards are raised the cost of inspection will come down, releasing even more cash for service improvements.

The inspection bodies say they will try to keep the costs to a minimum. An Inspectorate Forum has been set up in England and Wales to co-ordinate inspections with Best Value reviews and promote joint working between inspectors.

It is likely there will be demands to reduce audit costs by refining the audit process. For example, there may be an opportunity to reduce the emphasis on external inspection and audit as authorities become better at implementing Best Value and are able to demonstrate continuous

improvements through their own internal reviews.

There is another potential danger in inspection. It is argued that inspections could stifle progress and novel ways of working if they rely too heavily on national standards.

Councils have had a steep learning curve and there are doubts about their readiness to implement the initiative in 2000/01. There will be pressure for quick gains but many observers predict a slow start. Local authorities may feel obliged to carry out service-specific reviews, which the DETR itself points out is more likely to produce large savings. However, they must carry out at least one cross-service review, which is more likely to

produce fundamental changes in the quality and appropriateness of services.

Looking outside the area of local government and the other Best Value authorities it is likely the initiative will be extended to other public sector areas, such as the NHS. In Scotland, the Best Value Task Force has already suggested this and the NHS Executive in England is known to be working on applying Best Value in the health service. In reality, the NHS is already well-acquainted with Best Value-style measures and performance management but it is unlikely health authorities and hospital trusts will formally use the term 'Best Value'.

However, extending Best Value will reinforce the message that the

## Future issues (continued)

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government wants to change the way public services are delivered. It is a new way of thinking that will mean that services funded by the Exchequer are not provided exclusively by the public sector nor by the private sector. But though public bodies will continue to keep services in-house, it is likely that their main function will be as strategic commissioning bodies that regulate the quality of services and ensure they are delivered efficiently and in the way the public want.

