

# **The changing role of Audit Commission inspection of local government**



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**Howard Davis, James Downe and Steve Martin**



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# Contents

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<b>Acknowledgements</b>	vi
<b>1 Introduction</b>	1
<b>2 Key issues from previous research</b>	2
<b>3 The evolution of Audit Commission inspection</b>	4
Introduction	4
Best Value inspection	4
Comprehensive Performance Assessment	9
Strategic regulation	10
The research	12
<b>4 Inspection reports</b>	13
Introduction	13
Inspection scores by type of authority	13
Inspection scores by region	13
Inspection scores by year	13
Inspection scores by service	14
Conclusions	16
<b>5 Inspection in practice</b>	18
Introduction	18
The inspections	18
Programming inspections	20
Inspection teams	20
Length of inspections	22
Inspection criteria	24
Corporate capacity	26
Evidence	27
Reporting and quality control	31
Joined-up inspection	33
Costs and benefits	35
<b>6 Conclusions</b>	38
Introduction	38
Recent developments	39
Continuing challenges	41
Concluding remarks	46
<b>Note</b>	48
<b>References</b>	49

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# 1 Introduction

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This report presents the findings of the second stage of a study of the impact of external inspection on local government funded by the Joseph Rowntree Foundation. It follows on from an earlier report, *External Inspection of Local Government: Driving Improvement or Drowning in Detail?*, which was published by the Foundation in 2001 (Davis *et al.*, 2001).

Chapter 2 of this report summarises the key issues identified in the earlier report.

Chapter 3 examines the evolution of the Audit Commission inspection of local government between 1999 and 2003.

Chapter 4 analyses the pattern of Best Value inspection results in the early years of the Best Value regime.

Chapter 5 analyses Best Value inspections in practice.

Chapter 6 highlights future challenges for central government, the Audit Commission and local authorities as inspection continues to evolve.

## 2 Key issues from previous research

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In our first report (Davis *et al.*, 2001), we concluded that there are strong *a priori* arguments in favour of the external inspection of local government. It can help to ensure that minimum standards are achieved and statutory obligations are fulfilled. It may also deter fraud, highlight poor administration, increase public accountability and improve service delivery. However, we found widespread concern about the:

- costs of external inspection
- fragmented approach to inspection of local government.

We suggested that the six inspection services covering local government needed to balance the following:

- 1 *Local discretion and central prescription*: we argued that inspection must allow authorities to adopt approaches that best meet local priorities while also ensuring that service users in different parts of the country do not experience wide disparities in standards. This means enabling authorities to develop internal capacity to achieve self-sustaining improvement while also learning from good practice elsewhere in those instances where it was clear 'what works'.
- 2 *Experimentation and zero tolerance of failure*: we argued that it was important that inspection regimes helped to identify and address serious and persistent under-performance without discouraging appropriate experimentation, innovation and risk taking.
- 3 *Early wins and long-term improvement*: we argued that inspection regimes had to encourage conditions in which authorities

were able to deal rapidly with under-performing services while also creating the conditions, including the provision of the necessary resources and stability, to enable them to reconfigure services in ways that lead to sustainable, long-term improvements.

- 4 *Cost savings and improvements in the quality of services*: we concluded that the Best Value regime appeared to be seeking both improvements in cost savings and improvements in services. Inspection regimes had therefore to encourage authorities both to deliver services as cost-effectively as possible while also investing in the infrastructure and training needed to sustain improvement in the long term.

We argued that inspection regimes must pay particular attention to the following:

- 1 *The credibility of inspectors*: we argued that inspection relies heavily on the credibility and expertise of inspectors. They must be seen to be objective and have the knowledge and experience to bring added value to organisations seeking to improve. Our first report highlighted concerns that different inspectorates employed different approaches and sometimes gave out contradictory messages, and that, in the early stages of the Best Value regime, the Audit Commission had found it difficult to recruit suitably qualified staff in sufficient numbers.
- 2 *Joined-up inspection*: we noted that approaches to the external inspection of local government relied heavily on service-based performance measures. As a result, although local authorities were being encouraged to undertake more 'cross-cutting' reviews,



inspectors were not well placed to assess their performance in tackling ‘cross-cutting’ issues. Many of the local authority officers to whom we spoke claimed that different inspectorates appeared to use different inspection criteria and we suggested that, unless inspection regimes became better co-ordinated, authorities would continue to receive conflicting messages. While central government had accepted the need for more ‘joined-up’ inspection, there were no immediate plans to bring all inspection under the aegis of a single agency and the ongoing attempts to ensure better co-ordination of inspection services were, we suggested, unlikely to fully resolve the problem.

3 *Capacity to improve*: we noted that the Audit Commission and the Improvement and Development Agency (IDeA) believed there to be a strong link between service failure and a lack of corporate capacity but that the evidence of this seemed to be largely anecdotal. Inspectors and local authority officers told us that many authorities sought primarily to ensure that they were seen to be complying with Best Value processes rather than focusing on improvement outcomes, and the basis on which Best Value inspectors were judging a service’s capacity for improvement seemed less well defined and understood than the basis on which they made judgements about current performance.

# 3 The evolution of Audit Commission inspection

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## Introduction

The Audit Commission's approach to the inspection of local government evolved rapidly during the period covered by our research.

- In 2000 and 2001, the Commission's inspection of local government focused on Best Value reviews.
- From 2002 onwards, the Comprehensive Performance Assessment (CPA) in England and the Wales Programme for Improvement took centre stage.
- In 2003, the Commission restructured and refocused its operations to provide what it describes as 'strategic regulation' that 'maximises the impact and minimises the burden of regulation'.

## Best Value inspection

### Legislation

*The Principles of Best Value*, published by the (then) Department of the Environment in July 1997, made it clear that local authorities would be subject to external inspection and that those deemed to be 'failing' could be liable to intervention by the Secretary of State (DoE, 1997). The details of the Best Value inspection regime were subsequently firmed up in the relevant White Papers, consultation papers, legislation and statutory guidance (see in particular DETR, 1999a, 1999b) and a series of documents written by the Audit Commission (1998, 1999, 2000a). The 1999 Local Government Act required Best Value authorities (local councils and a range of other statutory bodies)

to put in place arrangements to achieve continuous improvement, having regard to economy, efficiency and effectiveness in the exercise of their functions. In England and Wales (rather different provisions apply in Northern Ireland and Scotland), the guidance initially required authorities to review all of their functions over a five-year period and publish annual statements of current performance, future targets and plans for improvement. Reviews had to challenge how and why a service was being delivered, compare current performance against that of other providers, embrace fair competition as a means of securing efficient and effective services, and consult with service users, local taxpayers and others with an interest in the service(s) in question. At first, auditors examined BVPPs (Best Value performance plans) while inspectors focused on reviews, though the Commission's audit and inspection functions were later merged into a single operations directorate (see section on 'Strategic regulation' later in this chapter).

The Audit Commission's guide to the way in which it would carry out inspections of Best Value reviews (Audit Commission, 2000a) established a number of key principles. These included what amounted to universal inspection of local government services. Local authorities were required to review all of their functions over a five-year period and the Audit Commission explained that 'The Inspection Service will aim to include most BVRs [Best Value reviews] within the five-year inspection programme' (Audit Commission, 2000a, para. 21). In theory, authorities were able to influence

the length and cost of inspections, which the Commission stated would 'vary depending on the nature of the services being inspected and, more importantly, on the quality of the authority's own best value review' (Audit Commission, 2000a, para. 18). In practice, most of the Audit Commission's inspections tended to follow the same pattern, although the style, intensity and content of inspections has been more varied since 2002 in response to the growing acceptance of the need for what the Commission has called a 'risk-based' approach to inspection (Audit Commission, 2001).

The 2001 White Paper (DTLR, 2001) endorsed this approach, heralding significant changes in the Best Value regime. By late 2001, it had become clear that the Commission could not hold the line on universal inspections because authorities were conducting far more reviews than it had anticipated. As a result, inspectors were struggling with the volume of work and many inspection reports were not being published within the timescale the Commission had set itself. Bowing to the inevitable, the Commission therefore abandoned the aim of scrutinising all reviews and adopted a more 'strategic approach', focusing on large services and 'cross-cutting' issues. The Government also lifted the requirement for councils to review all of their functions within five years, encouraging them instead to prioritise areas where there was the greatest need for improvement.

Education, social services, the administration of benefits, and fire and police services continued to be inspected by the Office for Standards in Education (OFSTED), Social Services Inspectorate (SSI), Benefit Fraud Inspectorate (BFI), HM Fire Services

Inspectorate (HMFSI) and HM Inspectorate of Constabulary (HMIC) respectively. These inspectorates adapted their existing approaches to take account of the requirements of the Best Value regime and a Best Value Inspectorates Forum was established to promote co-ordination between inspection services. However, some local authorities complained that their activities were still not sufficiently 'joined-up'.

The wide range of other services, including leisure and cultural services, support services and environment and planning, which had not been subject to external inspection until the arrival of the Best Value regime, were inspected by the 'Best Value Inspection Service', later known as the 'Audit Commission Inspection Service' (ACIS). Additionally, a dedicated Housing Inspectorate was set up within the Audit Commission. The ACIS had an initial budget estimated at £50 million per annum funded through a combination of fees paid directly to the Commission by authorities and grants from central government. Though it attempted to recruit inspectors from a variety of backgrounds, most came from local government.

The inspectorates were charged with alerting ministers to failures of both 'substance' (poor performance) and 'process' (not complying with the requirements of the Best Value legislation – for example, publishing a Best Value performance plan late or failing to consult adequately in the course of a review). However, from the outset, the Audit Commission has set itself the more demanding task of acting as a 'catalyst for improvement'. This emphasis on improvement has been welcomed by other agencies including the Local Government

Association (LGA) (see IPPR, 2000). However, as we noted in our first report, it potentially brings the Commission into the same improvement arena as a range of other organisations whose role is to promote the capacity for improvement in authorities, in particular the IDeA, and raises questions about the compatibility of its role as an independent watchdog and as 'critical friend'. It also, of course, runs the risk that the Commission will be perceived to have failed if authorities do not improve.

### Programming inspections

The programming of the Audit Commission's Best Value inspections was usually agreed by the council's senior managers (often the chief executive) and the Commission's 'lead inspector' or, from spring 2003 onwards, the relationship manager (see Chapter 5, section headed 'Joined-up inspection'). It initially reflected an authority's Best Value review programme but, from 2002 onwards, the programming of inspections was increasingly being driven by the requirements of the CPA (see section headed 'Comprehensive Performance Assessment' below).

### Inspection criteria

Although the context of Best Value inspection changed significantly between 2000 and 2003, the basic content and conduct of inspections remained substantially the same.

The inspection methodology developed by the Commission at the outset of the Best Value regime required inspectors to answer two main questions.

- How good is the service currently?
- What are its prospects for improvement?

They based their judgements on six criteria. Three informed their judgements about current service standards.

- Are the authority's aims clear and challenging?
- Does the service meet its aims?
- How does performance compare?

The other three related to a service's prospects for improvement.

- Does the Best Value review drive improvement?
- How good is the improvement plan?
- Will the authority deliver the improvements?

These six criteria were designed to ensure that inspections were 'focused and efficient' (Audit Commission, 2000a, p. 10) and each was underpinned by a series of further questions.

According to the Commission's guidance, whether an authority's aims are 'clear and challenging' was, for example, judged by assessing the following:

- 'Has the authority challenged the need for the service?'
- 'Does the service support corporate objectives and the community plan?'

Whether its performance 'compared' was judged by asking the following:

- 'How does the service compare with the top 25 per cent?' – as measured in terms of national statutory performance measures as well as customer satisfaction.

- ‘Has the authority demonstrated that the service is cost-effective?’ – defined as ‘either by subjecting the service to external competition, or by making sound comparisons which demonstrate that the service is delivering value for money’.

At the outset of the Best Value regime, the criteria used in inspections were therefore tied very closely to the ‘4Cs’ (consult, compare, compete and challenge) of the ‘Best Value performance management framework’ set out in government guidance. But the Commission also emphasised the importance of users’ experiences of services claiming that:

*Running through all these questions is the imperative that inspectors think about these questions through the perspectives of local people and customers.*

(Audit Commission, 2000a, p. 11)

On the basis of the six key criteria outlined above, inspectors rated the current performance of the service(s) that had been reviewed and the likelihood of improvement. Current performance was graded on a four-point scale: ‘poor’ (no star), ‘fair’ (one star), ‘good’ (two stars) or ‘excellent’ (three stars). Judgements about prospects for improvement were initially presented on a four-point scale: ‘no’, ‘unlikely’, ‘probably’ and ‘yes’, which was subsequently revised: ‘poor’ prospects for improvement (no star), ‘uncertain’ (one star), ‘promising’ (two stars) and ‘excellent’ (three stars) (Figure 1).

The star system has its critics. This was particularly so in the early stages of the Best Value inspection regime. However, from the outset, the Audit Commission saw it as an important means of summarising inspection

**Figure 1 Inspection verdicts**



Source: Adapted from Audit Commission (2000a)

results in a form that would attract the attention of the public and elected members. Increasingly, as the regime evolved, authorities seemed to accept the star system and there are even (apocryphal) accounts of imaginative local authority communications officers duping local newspapers into celebrating the awarding of a ‘star’ by the inspectors by omitting to explain to them that a single star indicates a ‘fair’ service.

Inspectors may refer an authority to the Secretary of State responsible for the service(s) in question in three circumstances:

- serious service failures that are likely to be harmful or damaging to the public
- persistent failure to take account of the inspectors’ recommendations
- a series of service failures that suggest serious weaknesses in an authority’s corporate capacity such that it is unlikely to be able to improve – cases where the

inspectors judge cross-cutting services to be failing or a lack of corporate capacity in a council are referred to the Office of the Deputy Prime Minister.

Since 2003, though, intervention has been triggered by the CPA process rather than individual Best Value inspections and has increasingly focused on 'corporate capacity' rather than individual services.

### Stages in inspections

In 2000, the Audit Commission set out the key stages of its Best Value inspections as:

- 1 'understand context'
- 2 'review performance'
- 3 'brief authority'
- 4 'carry out reality checks'
- 5 'present interim challenge'
- 6 'publish final report'
- 7 'carry out follow-up inspection'.

Stages 1 to 3 preceded the inspection and were originally intended to take between one and four weeks. According to the Commission's guidance, inspectors should:

- familiarise themselves with the authority
- identify the key evidence they require
- brief the authority
- agree a programme of meetings during the site visit.

Stages 4 and 5 were originally designed to take a minimum of one week and a maximum of four weeks. Site visits typically lasted for four

to five days and involved interviews with officers and members plus analysis of documents provided by authorities, 'reality checks' and meetings with service users.

Following completion of the on-site work, the inspectors' draft findings were presented to their line manager and then to the authority in a written report and a verbal presentation at the 'interim challenge' meeting. This gave the authority an opportunity to question any of the evidence or conclusions presented by inspectors.

The Commission then aimed to publish a final report within one to two weeks. In some cases, follow-up inspection work, including reinspections, took place, usually several months after the original inspection.

An inspection was originally intended to take between six and ten weeks from initiation to completion. Revised guidance suggested that reports of all 'standard' inspections should be published within ten weeks of completion of on-site work. In the first two years of the regime, though, inspections often took much longer and a significant backlog of reports built up. The Audit Commission claims that this was in part because of the teething troubles involved in establishing the regime. Some authorities have claimed that delays were the result of the hands-on way in which senior managers in the Commission managed the process. (It has been claimed that, in the early stages, each report was signed off by the head of the [then] Best Value Inspection Service [BVIS].) More recently, as a minimum, every nil-star and three-star report has received special attention by the lead inspector for the service area in question.

The Commission has emphasised the need for inspections to be based on the consistent application of the methodology it has

developed. To this end, it put in place systematic internal review mechanisms throughout the inspection process – so-called ‘Quality Control’ (QC) meetings. A QC0 meeting usually occurred three to four weeks prior to on-site work and involved the inspection team, their internal support co-ordinator and their managing inspector (later, the relationship manager for the authority in question). At this meeting, the team discusses previous inspections and other ongoing inspections in the authority, the views of auditors and other inspectorates about the council, any important local or cross-cutting issues, the key issues to be addressed in the preparatory work and agreement on the roles of the inspectors and key delivery dates.

The QC1 meeting considers the briefing to be given to the authority, the dates and content of the on-site work, and the proposed date for publication of the final report.

QC2 meetings take place approximately ten working days after completion of the on-site work and ten working days before the interim challenge. They are usually attended by the inspection team, their managing inspector, a moderator and the authority’s relationship manager. The focus is on the interim challenge presentation and draft report, and the identification of any additional evidence that would be needed to support a revision of the inspection score in borderline cases.

A QC3 meeting is designed to ensure that learning from an inspection is analysed and incorporated into future inspection work. It also provides an opportunity to ensure that inspection records and other documentation are up to date. It usually involves the inspectors and the inspection support co-ordinator plus the

managing inspector and, if the inspection has been ‘high-risk’, the relationship manager. The inspectors and managing inspector review what they have learnt from the inspection and any implications for future inspection methodology. The inspectors also provide feedback and updated information on the authority. On completion of QC3, council documents are returned to the Audit Commission for archiving.

Reports are also subject to internal review and moderation by the inspectors’ line managers within the Commission, a process that is designed to ensure consistency between inspection teams and different regions, and that also counts towards the appraisal, career advancement and performance-related pay of inspectors.

### **Comprehensive Performance Assessment**

In 2002, the Commission introduced ‘Comprehensive Performance Assessment’ (CPA) in England. This brought together for the first time the key information held by government departments, auditors and inspectors on each council into a single framework. Judgements about the current performance of single-tier and county councils were based on audit and inspection reports, statutory performance indicators and assessments by government departments of statutory plans in seven ‘key’ service areas (benefits, education, environment, housing, libraries and leisure, social care and use of resources). Judgements about the current performance of shire district councils were based on information about benefits, culture, environment and housing services. Judgements

about a council's capacity to improve were based on a self-assessment produced by each authority and an external 'corporate assessment' usually conducted by teams comprising auditors, inspectors and officers and elected members from 'peer' councils. Each authority was given an overall score that brought together the assessments of current performance and of capacity for improvement. Councils were then graded on a five-point scale – 'excellent', 'good', 'fair', 'weak' and 'poor'. Authorities judged to be 'excellent' and 'good' were subjected to less regulation, while those judged to be 'poor' or 'weak' have come under more intensive scrutiny and been given support to increase their capacity to improve.

From 2003, authorities in Wales were required to produce in-depth self-assessments of their fitness to achieve continuous improvement of all of their functions as part of the 'Wales Programme for Improvement' (WPI). Each council's 'whole authority analysis' draws on evidence from employees, partners and other organisations as well as performance information provided by auditors and inspection services. Authorities and regulators then jointly develop an assessment of risks to improvement. In the light of this, the authority formulates an improvement plan setting out how it plans to improve and the regulators produce a Regulation Plan detailing the work planned by the inspectorates. Much of the WPI therefore mirrors the CPA process but with the important difference that authorities are not given an overall score and are not positioned on a published 'league table'.

The arrival of CPA and the WPI has had the important effect of shifting local authorities' and regulators' attention away from individual

services and focusing activities on 'corporate' capacity. This reflects the Commission's view that 'a serious and sustained service failure is also a failure of corporate leadership' (Audit Commission 2002, p. 19) and its repeated emphasis of the need for effective leadership of the authority as a whole and of good 'corporate performance management'. According to the Commission:

*Top performing councils have ... sound corporate performance management, commitment to improvement, sustained focus on top local priorities, the ability to shift resources and make difficult choices.*

(Audit Commission, 2002, p. 30)

The statutory guidance on the WPI also emphasises the importance of improving the performance of the 'whole authority, its corporate performance and capacity as well as individual functions' (NAW, 2002).

The Audit Commission's initial proposals for conducting CPA in 2005 suggest continuity with the current approach but with more attention paid to authorities' performance in addressing local priorities, providing community leadership and working in partnership (Audit Commission, 2004b).

### Strategic regulation

Policy statements issued by the Audit Commission in 2002 and 2003 signalled the third stage in the development of its approach to the inspection of local government.

Acknowledging the concerns highlighted in our earlier report and by other commentators, it stated that: 'The current system of regulation of public services is fragmented and there are



legitimate concerns about the cost, value and accountability of regulation', which presented 'a significant challenge to regulators' and they 'must be able to demonstrate that the value of their work for audited and inspected bodies and the wider public outweighs the costs' (Audit Commission, 2003a, p. 2).

In 2002, it embarked on organisational restructuring, which brought District Audit and the Inspection Service together into a single 'operations directorate' and, in 2003, 'relationship managers' were appointed to act as the first point of 'high-level' contact with each authority in England and Wales, and to seek to ensure better co-ordination of the work of the different inspectorates covering local government services.

In the autumn of 2003, the Commission laid out the guiding principles of its 2004 – 07 strategy, which sought to ensure that it embraced what it has called 'strategic regulation'. This involves an approach to regulation that:

- 'goes beyond merely providing assurance that taxpayers' money is not being misused and looks for ways of actually driving up standards in public sector organisations'
- 'focuses on the needs of all those who use public services'
- 'concentrates scarce regulatory resources where they are most needed'
- 'ensures that regulators themselves work much more closely together to avoid any unnecessary duplication of effort and that those being regulated see a significant part of regulation as being a productive

tool for improvement' (Audit Commission, 2003a, p. 2).

To this end, the Commission announced that it would be:

- adopting a 'more risk-based and proportionate approach' to the certification of grant claims and returns
- introducing a 'more improvement-focused approach to service inspections, reducing the volume of inspections to the minimum necessary to inform CPA and respond to the outcomes of local improvement planning'
- refocusing its value-for-money work on organisations' overall performance rather than individual services
- seeking repeal of the requirement for BVPPs to be audited (Audit Commission, 2003a, p. 7).

The result would be a reduction in the overall level of inspection resulting in savings of £18 million in fees to audited and inspected bodies by 2005/06 with a further £6 million of cost savings to be realised through streamlining management structures and support services, and making greater use of new technology.

The Commission's strategic plan for 2004 – 07 develops these themes. It acknowledges 'a growing clamour for a change of approach' to inspection (Audit Commission, 2004a, p. 3). The 'relationship between audit, inspection and improvement has not been clearly established. Audit and inspection have not always been focused where most impact might be achieved, nor have the needs of service users always been uppermost in the design of inspection regimes.

And many people have begun to question whether the burden of regulation is distracting public service managers from their key task of improving the experiences of service users' (Audit Commission, 2004a, p. 3). The plan lays out six main priorities for the Commission's future work. Two are traditional activities of assuring that public sector organisations provide 'value for money' and measuring their effectiveness. The other four – providing practical improvement tools for public service providers, focusing on the needs of service users and diverse communities, improving organisational governance and capacity, and minimising the burden of regulation – mark a significant shift of emphasis, which the Commission believes reflects the thrust of the Government's Efficiency Review and recent reports on inspection and regulation by the Better Regulation Task Force (2002) and OPSR (2003a, 2003b).

### The research

At the time of our first report in September 2001, it was clear that the major changes in the Audit Commission's approach to inspecting

local authorities that we have outlined earlier in this chapter were imminent. The second stage of our study therefore examined the way in which Best Value inspections were conducted in practice and tracked changes in the overall framework of Audit Commission inspection to see whether changes of approach were addressing the problems we had highlighted in the early stages of the Best Value regime. To this end we:

- analysed the pattern of inspection results as reported by the Commission up to mid-2003
- shadowed Best Value inspections in five local authorities in 2002 and 2003
- interviewed senior officers (and former officers) of the Audit Commission and the Local Government Association in 2003 to assess the extent to which recent and planned changes were resolving the problems identified in our earlier report.

The remainder of this report sets out the findings of this research and their implications for the future development of the Audit Commission's inspection of local government.

# 4 Inspection reports

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## Introduction

We analysed the results of the 2,114 reports of Best Value inspections of local authority services<sup>1</sup> published by the Audit Commission between April 2000 (when the Best Value regime came into operation in England and Wales) and June 2003 using data supplied by the Commission.

## Inspection scores by type of authority

A majority (1,233) of the inspection reports related to single-tier and county councils. The remaining 881 reports applied to shire district councils.

The overall mean score awarded for current performance by inspectors was 1.34 and the mean score for prospects for improvement was 1.62. The mean for current performance varied between 1.27 in the metropolitan districts and 1.49 in the county councils. There was a wider range in improvement scores according to council type, with a low of 1.46 in Wales and a high of 1.76 in the counties (Table 1).

## Inspection scores by region

The inspection scores varied less across the inspection regions than by local authority type (Table 2). The mean scores for current performance varied between 1.28 in the North and 1.41 in London. The prospects for improvement scores for the English regions were closely bunched between 1.58 in the North to 1.69 in London. The outlier in this analysis is the likelihood for improvement in the Welsh authorities (only 1.46). The differences in scores could reflect the performance not only of authorities in these areas but also of the different teams from the Audit Commission carrying out the inspections.

## Inspection scores by year

Our analysis of all the inspections in Table 3 suggests that, over time, inspectors have been awarding slightly lower overall scores for current performance but have become increasingly optimistic about prospects for

**Table 1 Inspection scores by authority type**

Authority type	Current performance	Improvement prospects	<i>n</i>
	Mean score	Mean score	
Metropolitan district councils	1.27	1.75	306
Shire district councils	1.31	1.53	881
English unitaries	1.36	1.71	271
Welsh unitaries	1.37	1.46	171
London boroughs	1.41	1.69	296
County councils	1.49	1.76	189

## The changing role of Audit Commission inspection of local government

**Table 2 Inspection scores by region**

Inspection region	Current performance Mean score	Improvement prospects Mean score	<i>n</i>
North	1.28	1.58	662
Central	1.34	1.66	551
Wales	1.37	1.46	171
South	1.39	1.63	434
London	1.41	1.69	296

improvement. This pattern is identified most clearly in the results for the shire district councils. Disregarding the results in 2000, where there are only a small number of cases, scores for current performance have fallen from 1.34 in 2001 to 1.31 in 2002 and 1.18 in 2003. While these scores have been falling, the prospects for improvement have been increasing at a faster rate, from 1.48 in 2001, to 1.55 in 2002 and 1.64 in 2003.

The mean score for current performance awarded in reports of Best Value inspections in 2001 was 1.35. The range in performance scores across types of local authority was relatively small with the metropolitan districts producing the lowest score of 1.31 and the counties the highest with 1.43. The mean score for prospects for improvement was 1.58.

In 2002, while the mean score for current performance remained steady compared to the previous year at 1.34, there is now a wider disparity in performance by type of authority. The 142 inspection reports produced by the Audit Commission on the metropolitan districts in 2002 produced a score of 1.2. This figure compares to the mean score of 1.53 for the 104 reports of county councils in the same year.

Excluding Wales, services in single-tier and county councils were on the whole seen as

having better prospects for improvement than those in shire district councils. This was the case in 2001 where the districts had a score of 1.48 and in 2002, when, although improving, the score was still lagging behind at 1.55. The trend seems to be continuing for the inspection reports produced in 2003. The inspectors rated current performance and prospects for improvement higher in the county councils than in any other type of local authority.

Our analysis suggests that inspectors have rated the current performance of English and Welsh authorities as being very similar. They have, however, judged that, overall, the prospects for improvement in services in English authorities are better than those in Welsh authorities. The inspection results for Wales reveal that both mean scores for current performance and prospects for improvement are, however, increasing over time.

### Inspection scores by service

There are 1,248 different titles of inspection included in the Audit Commission database. The most popular reviews by inspection title are waste management (54), development control (37), building control (25), leisure services (23) and housing services (22). The analysis of these

**Table 3 Inspection scores by type of local authority over time**

	2000		2001		2002		2003*	
	Current	Prospects	Current	Prospects	Current	Prospects	Current	Prospects
County	1.5 (n = 2)	1	1.43 (n = 77)	1.79	1.53 (n = 104)	1.75	1.5 (n = 6)	1.83
Shire districts	1.6 (n = 10)	1.3	1.34 (n = 402)	1.48	1.31 (n = 350)	1.55	1.18 (n = 119)	1.64
London	1.44 (n = 9)	2.11	1.41 (n = 126)	1.67	1.38 (n = 134)	1.66	1.52 (n = 27)	1.81
Metropolitan	2 (n = 5)	1.4	1.31 (n = 149)	1.78	1.2 (n = 142)	1.73	1.4 (n = 10)	1.8
Unitary	1 (n = 2)	2	1.39 (n = 106)	1.63	1.35 (n = 159)	1.75	1.25 (n = 4)	2
Wales	1.5 (n = 2)	2	1.32 (n = 78)	1.35	1.41 (n = 64)	1.47	1.44 (n = 27)	1.7
All	1.57 (n = 30)	1.63	1.35 (n = 938)	1.58	1.34 (n = 953)	1.64	1.28 (n = 193)	1.69

\*First quarter only

inspections shows a wide variation in mean scores based on current performance from 1.09 in housing services to 1.92 in building control. The mean score in improvement prospects varies only slightly across these inspections.

As there are more than 1,000 uniquely named reviews, we have performed the analysis of the inspections using the categories defined by the Audit Commission of housing, social services, corporate, environment, culture and leisure, education, cross-cutting and regeneration.

The results suggest that there have been variations between the mean scores awarded to different types of service by inspectors (Table 4). There is a similar range in the mean scores for current performance (1.63 [regeneration] to 1.15 [housing] = 0.48) as there is for improvement prospects (1.75 [housing] to 1.29 [education] = 0.46).

Overall, inspection reports rated current performance in regeneration the highest. Cross-cutting services, education, and culture and leisure were also seen as having relatively good current performance. However, education was rated as the lowest service in terms of prospects for scope for improvement, but there were only seven cases. Housing, social services and corporate inspections were all rated as relatively poor performing areas, but with better prospects for future improvement. The difference between the two types of inspection score was highest in housing, where the mean score for current performance was 0.6 points lower at 1.15 than the prospects for the future (1.75).

The wide-ranging scores for performance across different inspection areas may reflect a variety of factors. For example, the most likely reason to explain the results for housing are that

## The changing role of Audit Commission inspection of local government

**Table 4 Inspection scores by service area**

Inspection area	Current performance Mean score	Improvement prospects Mean score	<i>n</i>
Housing	1.15	1.75	369
Social services	1.26	1.65	31
Corporate	1.31	1.56	498
Environment	1.39	1.62	763
Culture and leisure	1.41	1.56	306
Education	1.43	1.29	7
Cross-cutting	1.46	1.71	90
Regeneration	1.63	1.54	80

the inspections are carried out by the Housing Inspectorate rather than the Audit Commission's Best Value inspection teams. Our interviews with inspectors in the case studies revealed that housing inspectors tended to score the service harder than other inspectors.

These differences between outcomes of inspections of different kinds of services have been a matter of some debate between the LGA and the inspection service. It suggests either that some services are better than others overall or that different inspectors apply rather different standards. Some interviewees argued that the latter does not matter. However, the LGA told us that it was important that judgements about different services were properly 'calibrated' because of the way in which scores for reviews relating to different services were used to produce an overall rating for an authority as a whole under the CPA process.

### Conclusions

The analysis of the differences in inspection scores across different types of authority, region and service is interesting. It may well reflect genuine differences in the performance of

different types of authority and service. The differences between types of authority certainly appear to reflect the Audit Commission's view, set out in successive annual Best Value statements, that services in shire districts in England and in Welsh authorities are currently performing almost as well as those in English single-tier and county councils but that the districts are less likely to achieve improvements in the future. This view seems to stem from concerns about districts' 'corporate capacity' and their procurement strategies, but some districts claim that this is because the Commission is applying a model of improvement that is more appropriate to larger authorities. It will therefore be important to monitor whether the approaches endorsed by the Commission are in fact the most effective in producing improvement over time or whether it is possible for smaller authorities to achieve improvement through alternative strategies.

The decline over time in the mean scores for current performance is less easy to explain. Many authorities claim that they reviewed their worst services in the first year of the regime and it might therefore be expected that, in the second and third years of the Best Value regime,

scores for current performance would improve. There is, though, some evidence to suggest that authorities are increasingly adopting the kinds of improvement strategies advocated by the Audit Commission (see, for example, Walker *et al.*, forthcoming) and it may be that this has had the effect of increasing mean scores for 'prospects for improvement'.

It is possible that differences between regions in part reflect differences of approach to

inspection in different parts of the country.

Some of the inspectors whom we interviewed told us that each region had implemented the principles set out by the Commission in 2000 (Audit Commission, 2000a) in slightly different ways. Some claimed that inspectors in one region had a different style and relationship with authorities, and that this had meant that they had taken a 'harder line'.

# 5 Inspection in practice

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## Introduction

In order to explore in more detail the ways in which Best Value inspection was operating in practice, we shadowed inspections in five local authorities. We examined three main kinds of evidence:

- documents and reports (corporate plans, Best Value review papers, etc.)
- non-participant observation of the work of inspectors (at initial set-up meetings, on-site inspection work and interim challenge meetings)
- in-depth interviews with the inspectors, local authority officers and elected members at key stages during and on completion of the inspections.

This combination of evidence proved extremely effective. The documentary evidence enabled us to analyse the background to each inspection and the kinds of evidence to which inspectors had access. Non-participant observation of inspections enabled us to gain detailed first-hand insights into how they were actually conducted, what issues were covered, the interactions between inspectors and local authorities, and how inspectors reached their

judgements. The interviews with key participants enabled us to ask both local authority officers and inspectors in detail about their perceptions of how each inspection was progressing, what their strategies and concerns were and what impact they believed the inspection would have on improvement in the future. Because interviews were conducted on an individual and non-attributable basis, participants were able to voice their perceptions and concerns without fear of influencing the outcome of the inspection.

## The inspections

We shadowed inspections in a range of different types of authority including:

- two unitary authorities
- two shire district councils
- a county council.

The inspections covered five different services including:

- three 'front-line' services
- one 'support' service
- a cross-cutting function (Table 5).

**Table 5 Case study inspections**

Case study	Authority	Service	Outcome of inspection (service: prospects)
1	Unitary	Housing repairs and maintenance	Fair: promising
2	County	Waste management	Fair: excellent
3	District	Environment	Good: promising
4	District	Revenue services	Good: promising
5	Unitary	Community safety	Good: promising



In order to allow detailed examination of the inspection processes, and inspectors and authorities to express their views fully and frankly, we agreed that the authorities in which we shadowed inspections would remain anonymous and, in return, we were granted full access to all stages of the process. Our small sample cannot be seen as ‘representative’ of local government as a whole but does reflect a range of different contexts and, without exception, we found inspectors, local authority officers and members extremely keen to talk with us – both about the particular inspections that we were shadowing and their wider perceptions of Best Value inspection.

The five authorities had mixed experiences of previous Best Value inspections (Table 6). Authorities 1 and 2 had the best track records in terms of previous Best Value inspections. All of the inspections prior to the ones that we shadowed had concluded that services had either ‘promising’ or ‘excellent’ prospects for improvement and all were judged to be ‘fair’ or ‘good’ in terms of current performance. Authorities 3 and 4 had received a slightly more mixed set of reports in the past, though here too most services had been judged to be ‘fair’ or ‘good’ and most were expected by inspectors to improve. Authority 5 had the poorest record to date – all of its previous Best Value inspections

**Table 6 Results of previous Best Value inspections**

Authority	Number of inspections prior to shadowing	Inspection results	
		Service	Prospects
1	6	Good	Promising
		Good	Promising
		Fair	Promising
		Good	Promising
		Good	Promising
		Fair	Promising
2	5	Good	Promising
		Good	Excellent
		Good	Excellent
		Good	Excellent
		Fair	Excellent
3	4	Poor	Promising
		Fair	Excellent
		Good	Promising
		Good	Promising
4	3	Fair	Uncertain
		Good	Promising
		Good	Promising
5	5	Fair	Promising
		Fair	Promising
		Fair	Promising
		Fair	Uncertain
		Fair	Promising

had considered current services to be 'fair' and one was thought to have 'uncertain' prospects for improvement. Interestingly, though, it was judged to be a 'good' authority (and only narrowly missed being rated as 'excellent') in the CPA scores that were published part-way through the inspection that we shadowed. Authorities 1, 2 and 3 were also judged by the CPA to be 'good'. Authority 4 was subsequently judged to be 'weak'.

### Programming inspections

The timing of the inspections that we shadowed was agreed between authorities and inspectors in a fairly amicable fashion. In three cases, inspections were undertaken simply because the services had recently been reviewed by the authorities. There was no evidence that they presented any particular risk or that they were of high priority, in line with the selective approach promised by the Audit Commission (2001) in *Changing Gear* and by central government in the 2001 Local Government White Paper (DTLR, 2001). In the other two cases, there were, though, strong reasons for the inspection. One service was the leader's top priority; the other was a national pathfinder.

We were told of tensions about the timing of inspections within both the local authorities and the Audit Commission. The political leadership of Authority 5, for example, wanted its community safety inspected because it was a political priority and they believed inspection would help to focus attention on the issue. Service managers, though, saw it as unhelpful, claiming that it had distracted them from the task of improving the service. Similarly, the chief executive of Authority 2 had requested an

inspection in the hope that it would highlight suggestions for improving the service, but service managers doubted that it would be useful to them.

Some of the inspectors we interviewed reported differences of view about the timing of inspections within the Commission. As one put it:

*Commissioning inspectors have a relationship with the chief executive and the chief officers and this gives them a different view to us sometimes.*

The inspectors in Authority 5 told us that they had been reluctant to undertake the inspection. There had been a serious rift between the inspection service and the authority in the aftermath of an earlier inspection report and inspectors feared that, because the service they were inspecting was so important to the leader, their work might again sour relationships with the council. Their commissioning inspector had, though, been keen to proceed with the inspection and, when it was suggested that it might be delayed:

*... they had a paddy and said it was too advanced to call it off.*

### Inspection teams

The credibility of inspectors emerged as a key issue from our previous research (see Chapter 2). In shadowing inspections, we therefore paid particular attention to their skills and expertise.

Our interviews with inspectors and, at national level, with senior officers in the Audit Commission suggested that its approach to Best Value inspection seeks first and foremost to ensure the independence and objectivity of

inspectors. The aim is that all inspection teams adhere to the same well-defined methodology. Consistency of approach is maintained through internal quality control meetings and the inspection methodology is seen as being applicable equally to all services and something that can be used by generalists with no previous experience of managing the services they are scrutinising.

The inspectors we interviewed had typically received two weeks' initial training before shadowing an inspection. They had then been assigned to work alongside a more experienced inspector and received an average of three weeks of follow-up training per year. The teams conducting the inspections that we shadowed comprised between one and four inspectors but only two of the five (the teams working in Authorities 1 and 2) included an inspector with specialist expertise in the services that were being inspected. One inspector told us that they were increasingly having to operate outside of the services in which they had expertise because authorities were undertaking greater numbers of cross-cutting reviews. The lead inspector of the four-person team that conducted the inspection of Authority 1's housing repairs and maintenance service was a housing specialist and a veteran of 23 previous housing inspections. None of his colleagues was, though, a housing specialist. One was a property management specialist (undertaking his third housing inspection), another was a tenant inspection adviser and the other a generalist inspector who was drafted into the team to undertake two days of 'reality checks'. One of the two inspectors who worked in Authority 2 had 14 years' experience of working in waste management (the service that was inspected),

but the lead inspector came from a community safety background and explained:

*I have a dustbin at home but no real knowledge of waste management.*

A managing inspector told us that this was not a problem because service specialists were often brought in to review draft reports produced by teams that did not have a background in the service they were inspecting. However, the local authority officers that we interviewed were unaware of this internal safeguard and most expressed concern about inspectors' lack of specialist knowledge of the services they were scrutinising. As one put it:

*The big issue is the calibre of the inspectors. What you get now are regional specialists who come in, give you a fairly standard report and clear off again without having any understanding of the authority and context and never having run anything in their lives. They don't have that bedded in experience that they used to have.*

Unlike district auditors who tended to work in the same council(s) over a period of time, inspectors were rotated so that they rarely revisited an authority. The advantages of this arrangement are that it reduces the risk of 'capture'. However, it has a number of drawbacks. It means that each inspection team has to start from a position of relative ignorance about the council and this information asymmetry can make it easier for authorities to conceal problems. Equally, because they have only a limited understanding of the council, their judgements may not take sufficient account of local context and the improvement tools they offer are inevitably seen as being 'off the shelf' rather than tailored to the particular

needs of each authority. Several authorities complained of what they see as the inspectors' lack of awareness of the political context and constraints under which they operate. This too is in part deliberate. As one of the inspectors told us:

*We don't ask direct political questions. We would only press on the politics if we felt there was some question about implementation or the extent of backing for a major change ... or where the politics are unpredictable, for example in a hung authority.*

The rotation system also meant that inspectors do not work regularly with the same colleagues. As a result, inspectors are trying rapidly to familiarise themselves with the authority while also having to gel as a team.

While inspectors may lack detailed knowledge of the services and the councils that they are inspecting, they are nevertheless seen by local authority officers as being in a very powerful position. As one chief executive put it:

*There is a real question of power imbalance between inspectors and ourselves. So we have to play the game by their rules. It's not worth fighting them. It may be that the Emperor has no clothes on but he has a big stick, which is very frightening for us.*

The inspectors' behaviour, though, often belied this perception of them. Many adopted defensive strategies, for example gathering very large quantities of documentary materials, in order to guard against being 'caught out' by authorities. Some felt that they were inadequately briefed in advance of inspections by commissioning inspectors:

*... which makes us look like idiots when we ask questions in interviews that we should know about already.*

Inspections were often arranged at short notice and one inspector told us that the volume of work made mistakes almost inevitable:

*If you do similar reviews in different authorities week after week, it's easy to get mixed up. I've said to an authority, 'You don't have a procurement plan do you?', when they've clearly put it in the files because I've confused them with the authority I was in the day before.*

The volume of work was also seen as making it difficult to maintain a healthy life – work balance. As one inspector put it:

*I wouldn't do this job if I had a child under ten. It's OK if you like staying in hotels but it's not conducive to a normal home life.*

Short-term contracts, a requirement to complete detailed timesheets, regular scoring of their performance by line managers tied to performance-related pay (with bonuses of between 5 and 12.5 per cent of basic pay) all added to a sense of inspectors who felt themselves to be under constant pressure.

### Length of inspections

As explained in Chapter 3, there has been concern that inspections have taken much longer to complete than the Audit Commission's original target of six to ten weeks. This was not the case with the inspections that we shadowed (Table 7). Two were completed within the ten-week target and two more were completed within 12 weeks of the initial briefing

**Table 7 Duration of inspections**

Authority	QC1/initial briefing	On-site visit – week no.	Interim challenge – week no.	Final report published – week no.
1	July 2002	1	3	11
2	April 2003	1	4	34
3	June 2002	1	4	9
4	June 2002	1	4	10
5	November 2003	1 – 2	9	12

or QC1 meeting. The inspection of Authority 2 took much longer than this but this was because publication of a draft report, which was sent to the authority just three weeks after the site visit, was delayed by agreement with the authority, so that the inspectors could make a follow-up visit to check on progress.

Our previous research also highlighted widespread concern about the burden that inspection was seen as placing on authorities. Councils complained in particular of the time they needed to devote to preparing for and managing on-site visits. Despite the Audit Commission’s claim in 2001 that it was adopting a more ‘proportionate’ approach to inspection, all of the inspection teams whose work we shadowed spent five to six days working on site. Inspectors told us that in their experience there was rarely any variation from this pattern. As one put it:

*We have a one size fits all model ... there are expectations from both councils and the ACIS that we’re on site for a week. Councils do complain ‘why haven’t you seen X?’ It can cause us problems when we make a judgement. I did once suggest at a briefing meeting that we could be off site on Thursday. It was considered an inappropriate suggestion and I’ve never dared make it again.*

It was not clear to us why the inspection in Authority 4, which was focused on a narrowly defined service in a small council, needed as many days as the inspection of a much more complex, cross-cutting review in Authority 5, and one inspector told us that for most inspections:

*... there are diminishing returns after the second day.*

Another agreed that:

*You usually know the likely outcome of the inspection after two to three days. After that you’re just confirming what you know and filling in the details.*

Even in Authority 5, the inspectors told us at the end of the second day that they had reached a decision about the current performance of the service and were close to reaching a view about its prospects for improvement, which in their view were:

*... at the top end of ‘uncertain’ or bottom end of ‘promising’.*

Several inspectors told us that they would therefore welcome a more flexible approach, but they feared that shorter on-site visits would leave them open to accusations from authorities

that they had failed to consider all of the available evidence, and there was some evidence to support this view. Officers in one of the authorities complained to the inspectors that a similar inspection in a neighbouring council had taken more than a week and that they were therefore not spending enough time in the council. As one officer put it:

*They need two weeks here to do the job properly.*

### Inspection criteria

All of the inspections we shadowed followed the methodology described in Chapter 3 in the section on 'Best Value inspection'. However, inspectors expressed concerns that this framework was not always appropriate. It was seen as working well for services such as finance, human resource management, information and communications technology, environmental and waste management that have fairly narrowly defined objectives and clear performance measures. However, they were more difficult to apply to cross-cutting reviews. As one inspector told us:

*It's hard to see how to apply all of the 4Cs to some cross-cutting reviews. How, for example, do we apply the 'compete' part of the Best Value and the inspection framework to the community safety review?*

Another explained:

*In some reviews you have to make up the criteria and they are sometimes a bit loose.*

Inspectors sometimes needed to balance poor performance by one part of an authority against good performance in another. One of the

inspection teams whose work we shadowed was, for example, unsure how to rate a review that had included parts of three services one of which they believed to be 'poor', another 'fair' and the third 'good'. After some debate, they decided to award a one star ('fair') for current performance but they admitted that they were uncomfortable about this, fearing that one part of the authority 'had got away with it' while staff working in the part that they believed deserved a two-star rating might be demoralised by the outcome.

Inspectors also pointed out that, in some cases, performance and improvement depended on the actions of other local agencies and this made it difficult for inspectors to apply the standard inspection criteria. As one of the inspectors examining community safety in Authority 5 commented:

*... there is no 'service' as such for us to rate. It is about the effectiveness of a wide range of activities. And the prospects for improvement will depend on issues that are more difficult to judge including corporate capacity and characteristics like capacity for inter-agency working.*

For all of these reasons one inspector believed:

*We need to develop a new approach for inspecting cross-cutting reviews. It needs to be redesigned.*

Authorities too recognised that cross-cutting reviews placed particular demands on inspectors. One senior officer argued that the Audit Commission needed to recruit:

*... more people who are able to handle cross-cutting issues as opposed to service specialists.*

*People who can see the whole picture ... I worry about the very professional 'anoraks and technicians' we sometimes get, especially because they are working in such a short timeframe that they don't really get time to understand the issues.*

Another reported that, for inspections of cross-cutting reviews:

*You need an inspector who really understands the community and regeneration issues we face and the links we're trying to make. They need to understand the multiple initiatives, diverse funding sources and the area-based focus we're adopting.*

Not surprisingly given their backgrounds, the inspectors whose work we shadowed sometimes lacked this broader understanding and this was sometimes important. Authority 5 was, for example, planning to resource the expansion of its community safety service from European structural fund programmes but inspectors did not understand these funds and were not therefore well placed to judge whether the authority's expectations of drawing down EU assistance were realistic. This was important because their judgement about the service's prospects for improvement hinged on whether they believed it to be sufficiently well resourced.

Another difficulty highlighted by several inspectors was that they were often fairly confident that authorities that had not undertaken good Best Value reviews, or developed comprehensive improvement plans, would nevertheless improve. The inspectors in one authority told us:

*Quite honestly, the Best Value review is pretty crap but there's a lot going on and it's a high priority for the council. So, for us, the issue is to work out whether, in spite of the lack of documents, the service will improve. If we took them on the basis of the Best Value review we would have to say it's a poor service with uncertain prospects for improvement. Eighteen months ago we would have stuck to the methodology giving them poor with uncertain prospects [for improvement]. Now we look at the broader policies as well as just the Best Value review.*

Another explained:

*We're really inspecting the service now rather than the Best Value processes because we recognise that you can be very poor at doing Best Value but still good at managing and achieving improvement.*

In another case, though, the authority felt that the inspectors had penalised it for failing to comply with the Best Value review methodology. In this case, inspectors repeatedly asked about whether they had explored the scope for 'competition' (using external providers to deliver the service) and their final report criticised the council for being 'cautious in how it tested the competitiveness of the responsive repairs service and, as a result, it did not fully challenge alternative ways of delivering the service or demonstrate the value for money for tenants'. Officers and members whom we interviewed, though, argued that this criticism was misplaced and that the inspectors had failed to understand that the in-house route offered good prospects for improvement.

### Corporate capacity

In line with the approach set by the Commission in 2000, the inspections we shadowed rated the current performance of the services being inspected and their capacity for improvement. The arrival of the CPA has increasingly influenced not only the selection and timing of inspections, but also the content and outcomes. In particular, assessments of an authority's strategic or corporate performance have become important to subsequent service inspections. This has a number of advantages. The Audit Commission argues that poorly performing services are a manifestation of failings at a corporate level and that, as a former senior officer of the Commission told us:

*Authorities must therefore be directed from the top. Corporate failure is often a cause of service failure – cross-departmental issues can screw up services. And if a department is hopeless it is a corporate failure that the director did not feel accountable to the chief executive, the leader and the senior management team to sort it out.*

However, the increasing emphasis on corporate capacity has also caused some problems for Best Value inspectors. We shadowed two Best Value inspections that took place after the CPA result for the authorities in question had been published. The inspectors undertaking these inspections told us that they inevitably took account of the judgements about corporate capacity that had been made in the CPA. They felt that, following the CPA, they went into an authority with more of a preconceived view about how effective it was than they did in the past. As one inspector put it:

*From now on everything we do will be coloured by CPA. The CPA will have already answered many of the questions we have to ask. How can we conclude that this service has poor prospects for improvement if the authority gets an 'excellent' rating in the CPA?*

Because we shadowed only two inspections after the CPA, we are not able to judge how often the CPA is having this effect. However, it is clear that it does play an important role in shaping internal and external perceptions, and it is not inconceivable that services in authorities that have already been rated as 'poor' in the CPA may face more of a struggle to convince inspectors that they are performing well than services in 'good' or 'excellent' authorities.

Inspectors believed that CPA scores would be most likely to affect their judgements about prospects for improvement, which they also felt to be the more difficult judgement of the two because of the lack of firm evidence to base it on. As one inspector put it:

*You can't really check prospects for improvement, except by waiting to see if it actually occurs.*

One inspector told us that, prior to the CPA, they therefore tended to rely on 'gut instinct'. A former commissioning inspector confirmed this, telling us:

*You're usually making a judgement about the senior managers. I used to tell my staff to ask themselves 'Is this a corporate management team who I can trust and can do business with?'*

In the wake of CPA, though, judgements of prospects for improvement are likely to be strongly influenced by the overall judgements



that have already been made about a council's corporate capacity.

Both inspectors and local authorities welcomed this. One inspector told us:

*CPA has led to a focus on positive trended outcomes but the Best Value inspection still allows very subjective judgements about whether improvement will take place.*

The head of policy in one authority reported:

*CPA was positive, marking a step in a holistic direction. The self-assessment has provided a good map of the journey we've been on. It helped the authority to be honest with itself and then you've naturally got an improvement plan.*

Another told us that in his view:

*The corporate element of the CPA is a most brilliant way forward because it is focused on corporate priorities and joint working not the traditional silos.*

## Evidence

In line with the Audit Commission's emphasis on the need for inspection judgements to be rigorous and rooted in evidence, the inspectors whose work we shadowed:

- amassed a large number of documents from each authority
- interviewed a large number of individuals (typically service managers, the relevant cabinet and scrutiny committee members, corporate policy officers, the chief executive and / or other members of the senior management team, the Best Value review team plus relevant partners and other external stakeholders)

- conducted 'reality checks' involving visits to relevant facilities and meetings with users, which are designed to ensure that information provided by an authority is accurate.

The timetable of meetings that they undertook in Authority 5 (Table 8) was fairly typical.

### Documentary evidence

Most of the inspectors apparently had little time for preparation prior to on-site visits and typically had only five working days on site. They were therefore very dependent on documentary evidence provided by authorities and requested large amounts of written material – both before and during on-site visits.

However, it was not always clear what use they made of the material they were given. Some told us that they did not have time to read it all and two authorities complained that the inspectors asked questions in interviews with officers that had already been answered in the documents they had provided. Another reported that the inspectors asked for documents that they had already been given. This contributed to an impression that the collection of documents was not sufficiently well thought out in advance. As the head of policy in one of the authorities told us:

*They take away rainforests of documents and they can't possibly read them all.*

The inspectors accepted that they did not look at every document but explained that they collected a lot of the material as a precaution:

*We have to take a lot of documents away with us because, although we won't read it all, we never know what we might need to back up a detailed point when we come to write the report.*

## The changing role of Audit Commission inspection of local government

**Table 8 Interviews in Authority 5**

Time	Day 1	Day 2	Day 3	Day 4	Day 5	Day 6
9 – 10	Initial briefing	Feedback to authority	Feedback to authority	Feedback to authority	Feedback to authority	Final briefing
10 – 11	Head, Community		Community safety officer	Crime and disorder steering group	Manager, Youth and Community Service	Final briefing
11 – 12	Chair, Scrutiny	Head, Corporate Strategy	Leader	Head of Housing	Head, Best Value	
2 – 3	Local police commander	Executive member	Corporate director	Service managers' focus group	Staff focus group	
3 – 4	Best Value review team	Street wardens				
4 – 5	Best Value review team	Town Centre Manager				
Evening	Residents' focus group		Reality checks			

They also told us that they wanted to make sure that they could not be accused of having failed to take account of all of the available evidence.

Inspectors believe that it is important to leave a few months between completion of a Best Value review and an inspection so that authorities have time to address issues arising from reviews, but this built-in delay meant that things had often moved on by the time of the inspection. Understandably, inspectors placed particular emphasis on audited performance data. However, these often reflected a service's performance more than a year before the inspection and authorities complained that inspections were therefore based on information that was no longer relevant.

As one chief executive put it:

*The reinspection of our housing department was based on performance data that were 15 months out of date and did not therefore reflect the real improvements that we have achieved. If you're poor or weak, 15 months is a long time to be left bumping along the bottom.*

Several officers believed that authorities needed to improve their capacity to provide credible, 'real-time' data so that inspectors had current information. However, they pointed out that, for this to happen, inspectors needed to be more willing to take account of data that were not fully audited.

## Interviews

Inspectors usually conducted interviews in pairs and they typically met with the team that had undertaken the Best Value review, the chief officer responsible for the service, service managers, the cabinet member who oversaw the service and/or the leader and the chair of the relevant scrutiny committee.

The way in which interviews were conducted was very important to an authority's perception of the fairness of the inspection process. Most officers reported that the interviews had been conducted in a professional manner and that they were generally satisfied with this part of the inspection process. A typical remark was that, as one officer put it, interviews were:

*... testing but not unpleasant.*

An officer in Authority 1 reported that he had been:

*... pleasantly surprised by the inspectors ... they were all pretty sharp, although they were not so good at putting the council (and staff) at ease and did not appreciate the amount of effort required to produce documents.*

His counterpart in Authority 2 told us that they believed it had been:

*... a very open process that was handled professionally by the Audit Commission.*

But, in some cases, authorities were surprised and irritated by what they saw as ignorance on the part of inspectors and some exchanges became very heated. Understandably, perhaps, it was usually service managers who seemed to take the inspections most seriously and with whom interviews were often most

difficult. Two service managers told us that they had found interviews stressful:

*It was the worst week of my life.*

*It was like taking the 11+ all over again.*

Another became anxious that inspectors were going to give his service a 'zero' for current performance and 'poor' for prospects for improvement and that he would be the 'fall guy'. He complained:

*Who is going to employ me after this?*

The inspectors tended to focus interviews on one or more of the six key issues identified in the Commission's inspection methodology and authorities felt that their questions were, for the most part, relevant and appropriate. As one officer put it:

*They picked up all the things we'd identified as weaknesses. We felt that they hadn't identified anything different. They focused on that and agreed with it – nothing new.*

However, as noted above, in some cases, authorities believed that inspectors gave too much emphasis to the process of the Best Value review, in particular whether they had 'challenged' existing approaches to service delivery and examined alternative approaches to procurement. One authority believed that inspectors had decided in advance that the Best Value review had not been sufficiently challenging:

*Whatever we said throughout the week we felt we were unable to shift them ... we felt we'd included challenge across the review ... We spent some time with them on Wednesday discussing it but could see we weren't getting anywhere so we gave up.*

## The changing role of Audit Commission inspection of local government

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Inspectors told us that interviews with elected members often yielded very little useful information, though as one put it:

*... you sometimes get nuggets of information from members that make it worthwhile.*

Some authorities took considerable care to 'stage manage' on-site visits. One officer told us that he believed that it was very important that the inspectors were given a friendly reception on arrival, and provided with good office space to work in, tea and coffee on tap and prompt access to anyone they wanted to interview.

*All of our managers have cleared their diaries for the whole week in case they are needed.*

A chief executive told us:

*One of the things we did by way of preparation was to go round the week before they visited and take down all of the four-year-old notices on our notice boards.*

Another reported:

*We are all completely paranoid when the inspectors are in.*

Another authority, though, gave very little attention to these niceties, giving the inspection team an office in an empty wing of the building and telling us:

*We're happy just to let them get on with it.*

### Reality checks

The inspectors we shadowed set great store by the 'reality checks' (visits to leisure centres, neighbourhood offices and other facilities to see the service in operation). They saw these as fulfilling a number of functions. Some asked for a guided tour on the first afternoon of the on-

site visit as a way of getting to know the area and the service.

Inspectors told us of instances where reality checks had 'caught out' authorities. One reported that a council had claimed it had spent £200,000 on playground maintenance but could not then suggest any playgrounds that had been improved, which he could visit to verify this. For the most part, though, they seemed to see reality checks as a means of gathering evidence to support judgements that they felt might be contested by the authority. One inspector told us:

*It's sometimes useful to have photos so that when conclusions are disputed in the interim challenge we have the evidence to back up what we're saying.*

In Authority 1, inspectors undertook a wide range of checks including:

- visits to all of the council's area housing offices and one-stop shops
- a telephone survey of tenants who had recently used the housing repairs services
- ten test calls to the out-of-hours emergency service
- visits to void properties
- observations of repair orders being logged onto the authority's computer system
- 'mystery shopper' style visits to housing offices
- examination of the council website
- focus group discussions with front-line staff and council tenants.

In Authority 2, the inspectors visited two sites on the first day of the on-site work and spoke with staff there. In Authority 3, they toured the borough for half a day, visited a facility and made test calls to the council's 'hotline'. In Authority 5, one of the inspectors devoted three days to visits to sites where he shadowed street wardens, spoke to other front-line staff and assembled photographic evidence of the way in which the service operated 'on the ground'.

Reality checks were, though, viewed with scepticism by authorities. They regarded them as superficial, giving only a partial view and often having too much weight in the inspectors' reports.

### **Users' and citizens' views**

As noted in Chapter 3 in the section headed 'Inspection criteria', the Audit Commission has emphasised the importance of considering issues through the perspectives of service users. Several inspectors echoed this, telling us that users' views were paramount. However, in the inspections we shadowed, they rarely had any systematic evidence on which to base a judgement about this. Authorities were not able to offer systematic evidence of user views (for example, from customer satisfaction surveys and/or analysis of complaints). Inspectors therefore had to rely on their own meetings with small groups of users and 'reality checks'.

One inspector explained that meetings with users and staff:

*... provide pithy quotes that sum up the pattern which emerges from other evidence as well and then we will use them in the report.*

In some cases, though, the meetings with users that we shadowed were poorly attended. In Authority 5, just four people came to the only meeting inspectors had with service users and those who turned up had clearly been hand-picked by the authority, so it was unclear whether their views were representative of other service users. Moreover, their discussion with inspectors was conducted at a rather superficial level, reflecting their limited knowledge and understanding of the service. The inspectors told us that they accepted that the views of these users had therefore to be treated with great caution. However, they quoted them twice in the interim feedback they gave to the authority.

### **Reporting and quality control**

In the inspections we shadowed, the initial briefing meetings and the interim challenges were uneventful affairs. The inspectors followed a standard template involving PowerPoint presentations that they had prepared in advance. Although some authorities contested some minor issues, they did not dispute the inspectors' overall judgements. The exception was Authority 3 where an officer complained after the interim challenge:

*The capacity judgement was ill-informed and ill-judged. The two inspectors were not qualified to make these judgements. They didn't have the knowledge and experience. They took all the things we'd freely given to them and chucked it back at us as negatives. Arguably, we could have got the top judgement. Their only hang-up seemed to be about funding. But we live in the*

## The changing role of Audit Commission inspection of local government

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*real world and ample evidence was provided of our track record in getting the funding and of getting member support. We've said that and they've ignored it.*

The inspectors told us:

*It is impossible to do an inspection where the evidence would stand up in court. The interim challenge, though, enables us to be 95 per cent sure we've got it right.*

Inspectors told us, however, of other instances where their judgements had been contested vigorously by authorities. In one case, a council and the inspection service had been unable to reach agreement at interim challenge stage leading to a six-month delay in the publication of the report until a reinspection could be arranged.

The second quality control stage (QC2) in Authority 1 consisted of two inspectors (plus the tenants' inspection adviser) giving a presentation to two assistant lead housing inspectors (one from the Southern region who had read the report and one from the Northern region who hadn't). It is usual Audit Commission practice to have inspectors from a different region to moderate. This was the third such meeting for the assistant lead housing inspectors (ALHI) that day and this led to a couple of instances of confusing the reviews.

The ALHI went through the presentation page by page offering suggestions on areas needing changes and where further explanation/ documentation was necessary – for example, newer data on a graph, as they had been criticised for this in the past. There was an emphasis on adding in information from their experiences in other reviews and national best practice:

*This is what we are saying in other reviews and we need to be consistent on this issue.*

One inspector was particularly questioning of the consistency of this report compared to reports in his region. He had 'hammered' an authority in his region for a particular approach to competition and he argued that this authority should be treated in the same way.

The Audit Commission no longer uses two or more inspectors to peer review the inspectors' work at the QC2 stage. The usual practice is for a single inspector to moderate the reports. In the Waste Management review in Authority 2, the QC2 took place with a newly appointed managing inspector with an environmental background. The QC1 had taken place previously with a managing inspector who had emphasised a focus for the inspection on what the public thought of the service.

The managing inspector had clearly read the report in great detail and used their expert knowledge of the service and the area (the inspector lived in the county and was involved in the authority's CPA review) to ask detailed questions. The inspectors told us that they believed there was likely to be a disagreement between them and the managing inspector about the prospects for improvement. They were 'leaning towards' judging the prospects for improvement as 'excellent' while the managing inspector was not so optimistic. The managing inspector had never given excellent prospects to any review and seemed reluctant to do so in this instance, but eventually agreed.

Another inspection team faced the opposite problem. They believed that the service probably had 'uncertain' prospects for improvement but they knew that the managing

inspector believed them to be 'excellent'. They told us:

*If we come to a different view we are going to be pushed very hard for the evidence by our managing inspector because of the political sensitivity of this inspection.*

Inspectors told us that these sorts of discussions within the Audit Commission were not unusual:

*Commissioning inspectors often think they know in advance what the outcome of an inspection should be and they tell us. Of course we resist this but it goes on. They have relationships at the very highest levels in the authority. They talk to chief officers and chief executives and they sometimes have a remote view of what is actually happening in an authority.*

### Joined-up inspection

Both inspectors and local authorities reported continuing problems in achieving more 'joined-up' inspection. They reported two main sets of problems – a lack of co-ordination of inspection activities and differences in the approaches of different inspectorates.

Some authorities reported differences of emphasis and approach between auditors and inspectors. The inspectors we interviewed agreed with this perception, acknowledging that (what was then) District Audit had a very different culture from the inspection service. One told us:

*District Audit is 'tighter' about expenses. Auditors don't stay away overnight whereas I virtually live in Marriott hotels. They work on their own, not in*

*teams like us, they have local patches and they see authorities as clients. They use a far more 'tick box' approach, I can't work like that. The timing of our work is highly structured but the content is much more flexible.*

Inspectors believed that authorities' complaints about a 'tick box' approach to the Best Value regime was the fault of the auditors. Two of those whom we interviewed also suggested that their colleagues working in the housing inspectorate adopted a more confrontational approach than the (then) Best Value Inspection Service and that this too had caused much of the resentment towards inspection. One remarked:

*Perhaps it's because they do the same kinds of inspection all of the time and so they get close to the operational issues.*

The audit and inspection functions have since been integrated into a new operations directorate within the Audit Commission. As explained in Chapter 3 in the section on 'Strategic regulation', the Commission has also introduced relationship managers to act as a single first point of contact with authorities. There were 67 in England as at July 2004 and 11 in Wales, and they spend an average of around 30 days per annum in each authority. Up to 15 local authorities may share a particular relationship manager. The Commission sees their appointment as an important step. One interviewee from the Commission described their role as being akin to that of 'brand manager' in the private sector, overseeing all inspection and audit work undertaken by the Audit Commission and trying to ensure that their activities are properly co-ordinated:

## The changing role of Audit Commission inspection of local government

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*The relationship manager role is quite important to the whole process. It is a strategic role and enables us to take a more holistic approach. Relationship managers can take an overall view of what an authority needs to do to change rather than being focused on the nitty gritty of individual services.*

In Wales they are, for example, responsible for making overall assessments of what each authority aims to do and how the Audit Commission can assist.

We are not in a position to evaluate the impact of these changes but, looking ahead to the changes, inspectors whose work we shadowed felt that it would be difficult to bring together what they saw as the very different cultures that existed in the two parts of the Commission and there is evidence that some of the difficulties have persisted. One officer reported that:

*... there is no evidence of integrated working ... the auditor turns up demonstrating that he doesn't know what the inspectors are doing and the relationship manager demonstrates that he doesn't know much more about what the auditors are doing.*

The inspectors whom we interviewed said that they would welcome more joint work with other inspectorates. One commissioning inspector told us:

*Even as a regulator I get worried that there are too many of us now. The whole thing seems to be mushrooming.*

Another reported:

*We would like to do community safety reviews jointly with the police but it's difficult because of*

*territories. SSI and BFI are proving easier for us to work with but OFSTED and HMIC are more difficult.*

Four of the five inspections that we shadowed were undertaken prior to the introduction of relationship managers. However, our interviews at national level and the fifth inspection that we shadowed suggested that relationship managers have not yet been able to ensure that the programmes of different inspectorates are completely co-ordinated. One chief executive told us very recently that in their view: 'The jury is still out on relationship managers'. And several interviewees doubted that they would ever be able to ensure complete co-ordination because, they said, other inspectorates – particularly the Commission for Social Care Inspection (CSCI) and OFSTED – would not accept that the Audit Commission should have the leading role in programming inspections. As one chief executive put it:

*Relationship managers are just a sticking plaster. Roy, Denise and the others [Heads of Inspectorates] are still running service-based inspection services and are mainly concerned to see improvement in 'their' service.*

It was also clear that the risk of 'inspection overload' went beyond the inspectorates. In the one inspection that we shadowed after the introduction of relationship managers, the service faced a second visit not from inspectors but from the Office of the Deputy Prime Minister (ODPM) – as part of an investigation of its role as a pathfinder for waste management – within weeks of the Best Value inspection. The Audit Commission reported that it had tried but failed to persuade the ODPM to visit at



the same time as the inspectors in order to reduce the burden on the authority.

However, one of the senior officers whom we interviewed reported that, because the role of relationship manager had been put on a statutory basis in Wales, they have been able to exert considerable influence over the activities of other inspection services and to a greater degree than their English counterparts who do not have a statutory basis for their work.

### Costs and benefits

We are not in a position to undertake a rigorous cost-benefit analysis of the impacts of the inspections that we shadowed. However, we did discuss in detail authorities' and inspectors' perceptions of the role of inspection in encouraging service improvement and the costs imposed by inspection.

Many of the local authority officers whom we interviewed believed that inspection had assisted them in improving. One senior officer told us:

*We use these external levers to garner support for the changes we want.*

For this reason:

*Even if we get an 'excellent' in the CPA we will invite inspections of some services – especially in risky areas and services like leisure because they need an external driver for change and they are changes that we couldn't make happen from within.*

A chief executive told us that it was possible to gain a lot of learning from inspection but that this required the authority to manage the inspection process:

*At the moment we get value out of inspection by managing the process on their terms. We flex, they don't.*

The chief executive added:

*If you're smart about it you can turn obligatory inspections into something more akin to an asked for inspection. It's all about the way the organisation receives the feedback from the inspection. It's about how you listen.*

Some of the inspections that we shadowed were not, though, seen by authorities as having been of any value. One of the inspectors told us:

*I don't think we have told them anything they didn't already know.*

And an officer in Authority 3 claimed that:

*There's nothing that they're recommending that we hadn't said we were going to do anyway ... In terms of adding actions, we haven't added anything.*

Another told us:

*We haven't been scarred for life by the inspection but I don't think we got much out of it either. Perhaps an independent assessment at least confirms whether you're doing as well as you think or not.*

One of the inspectors echoed these doubts:

*We're not sure if or how our activities act as a catalyst for improvement. I'm very doubtful that they do.*

Most, however, believed that inspections had assisted authorities to improve. They highlighted four main ways in which they believed their activities helped authorities to improve.

## The changing role of Audit Commission inspection of local government

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First, they provided what one inspector called:

*... shock therapy for poor authorities that are in denial or not aware of how poor they are and have their heads in the sand.*

As another put it:

*The most difficult interim challenge meetings for us are always those where the authority is genuinely unaware of how poor it is.*

Second, inspectors believed that they assisted authorities by reporting findings that were not news to an authority but which it would be difficult for those inside the organisation to own up to without an external stimulus. They believed that their activities therefore empowered internal 'change agents'. As one put it:

*We can give ammunition to elected members to make changes.*

Third, they argued that inspection reports sometimes bring to wider attention in the authority issues that some staff already know about but of which others are unaware.

Fourth, they believed that they acted as a 'fresh pair of eyes' and were sometimes able to see things that managers who were much closer to the service and/or had limited experience of alternative ways of doing things did not realise.

Authorities and inspectors named only two specific changes resulting from the inspections we shadowed – in one case, inspectors found that a member of staff at a waste tip was taking money to allow people without permits to dump their waste, and they also informed the council of a health and safety issue at another site. In both cases, the authority took immediate action to deal with the problems.

It was clear that authorities would appreciate more practical support and advice from inspectors. Some officers compared inspections unfavourably to peer review of the kind that was provided by the Local Government Improvement Programme and several welcomed promises of a more supportive approach by the Audit Commission, though one officer doubted that this would materialise, complaining that:

*... they claim to help on the reviews, but we have asked three times for help scoping the exercise and no help has been forthcoming.*

For their part, some inspectors suggested that they would appreciate an opportunity to return to authorities to 'close the loop' by examining what had changed following inspections. Some were, though, concerned about the increased possibility of 'capture' if they became closely involved in advising authorities, and about a potential conflict between the role of 'critical friend' and independent inspector. They also worried that their reputation might be tarnished if authorities that they had advised subsequently failed to improve. As one put it:

*There is obviously a danger in being seen too often at the scene of the crime.*

Many local authority officers believed that CPA had done more to promote improvement than one-off Best Value inspection and a number of inspectors echoed this view. Some reported that the steady accumulation of Best Value reviews since 2000 combined with the CPA in 2002 was leading to a clearer focus on authority-wide issues that needed to be addressed to facilitate improvement. As one commissioning inspector told us:

*There are some corporate issues in the authority that were identified in the streetscene inspection that we will be returning to in the context of CPA improvement planning including a lack of embeddedness of performance management and lack of focus on measurable targets.*

The evidence from our case studies suggested that Best Value inspection was widely accepted as legitimate but that there was

considerable disquiet about the costs of the process. One officer told us:

*The true cost is enormous. My gut feeling is that the benefits are falling way short of the costs.*

However, only Authority 4 was able to quantify these costs. They estimated that the direct costs (staff time and photocopying, etc.) of the inspection we shadowed were £17,500.

# 6 Conclusions

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## Introduction

During the current Government's first two terms in office, inspection has been one of the key features of its attempts to improve the quality and experience of public services – particularly those services that have most effect on communities, families and individuals. Increased spending on public services has been accompanied by increased scrutiny of service delivery. As the Prime Minister put it in a speech in June 2003, 'That's part of our bargain with the public. They have paid the money. They want to see the results.' The policy agenda is, though, a fast moving one.

There are some signs of increasing acceptance by local authorities of inspection. Some of the teething troubles associated with the Best Value regime have been resolved and CPA is widely seen as a more 'rounded' form of assessment and a better tool for improvement.

The Government's approach has also been evolving with two important documents published in the summer of 2003 heralding a similar significant shift of emphasis. *Inspecting for Improvement: Developing a Customer Focused Approach*, produced by the Prime Minister's Office of Public Services Reform (OPSR, 2003a), concluded that inspection and external review have a key role to play in the reform and improvement of public services, but that, as we pointed out in our earlier report, the costs of inspection have been spiralling. OPSR estimated that the costs of external regulation of public services in the UK more than doubled from around £250 million in 1997 to over £550 million in 2002 – 03, and the number of inspectorates increased, with nine new inspection services having been created, two others having been expanded and six having been substantially

reconfigured. OPSR concluded that the effort put into inspection and external review (both by inspectorates and those inspected) must be focused in a way that will have the maximum impact on service improvement and deliver real value for money.

A second document set out afresh the Government's 'principles of inspection' (OPSR, 2003b). These place expectations on inspection services and on the government departments sponsoring them. What is of particular note is the emphasis now placed by Government on inspection clearly contributing to the improvement of the service being inspected. This is important because, until now, the closure of the 'inspection – improvement loop' has not always been obvious.

In line with the general tone of the OPSR report, the Audit Commission, now restructured and under new management, has been redefining its mission and refocusing its internal operations. Aiming to become a 'strategic regulator', it promises to 'minimise the burden and bureaucracy' of inspection and 'maximise the impact on public services' by reducing the number of inspections and supporting authorities in improving services (Audit Commission, 2003a). Its strategy for 2004 – 07 promises a significant reduction in the costs of inspection and a more even balance between inspection and capacity-building activities.

Our analysis of how Best Value inspections have operated in the past suggests that these developments are a sensible response to many of the concerns that we have highlighted. However, there are some underlying issues that we believe need to be kept in mind, and under review, as inspection regimes continue to develop – in particular, the following:

- Will central government and the inspection services actually be able to deliver the kinds of changes in inspection regimes that they have promised?
- To what extent will these changes address the concerns about inspection overload and the lack of a joined-up approach among the different inspectorates?
- How will inspectors and local authorities deal with the new challenges presented by the changes that are now being implemented?

In this final chapter, we outline what we see as the most important recent developments in the inspection of local government and the main issues that we believe policy makers will need to continue to grapple with as inspection evolves.

### Recent developments

#### A more comprehensive framework

Two years ago, the Best Value regime was the centrepiece of the Government's attempts to promote improvement. This is no longer the case. Instead, the Government is now deploying a far more comprehensive set of drivers for change. There has been a shift away from an emphasis on individual services and Best Value reviews, which were treated almost in isolation, towards a much greater focus on the improvement of the authority as a whole.

This is reflected in particular in the CPA and the much greater emphasis placed on 'corporate capacity', leadership and authority-wide arrangements for performance management and procurement. Inspections of Best Value

reviews are an important input to CPA assessments but other key factors, including corporate governance and 'gap-filling' inspections, have been added. This shift from a focus on individual service reviews is reflected both in the policy discourse and details of inspection procedures. It was also seen in the renaming of the former Best Value Inspection Service, which became the Audit Commission Inspection Service and has now been subsumed into the Audit Commission's operations directorate. Similarly, the former Best Value Inspectorates Forum is now known as the Local Services Inspectorates Forum.

A second key development has been the increasing attention focused on 'capacity building'. Two years ago, the infrastructure of support for authorities was still embryonic. It has now become a major activity to which central government is committing significant funding, particularly to assist authorities whose overall performance has been judged to be 'poor' or 'weak'. This has gone some way to redressing the perceived imbalance, noted in our previous report, between the effort devoted to regulating authorities and that being given to attempts to enable them to improve.

#### 'Proportionate' inspection

There are also clear signs that some of the concerns about the costs and the cost-effectiveness of external inspection, noted in our earlier report as well as by other reports at the time (for example, Byatt and Lyons, 2001), are being addressed. The concept of 'proportionate' or 'risk-based' inspection was at the heart of the changes signalled by the 2001 Local Government White Paper and has been reflected in inspection practice by the reduction

in the level of external regulation of those authorities whose performance is judged to be 'excellent'. The Commission has restated its intention to move to a more risk-based approach to inspection as part of its strategy for 2004 – 07. It is clearly important that it does so but it will bring new challenges. In particular, the following:

- What are the risks of less inspection?
- How will the level of risk be determined?
- How great a level of risk is to be tolerated and in what circumstances?

### **Co-ordinated inspection**

There have also been continuing efforts to co-ordinate the activities of the different inspection services more effectively. OFSTED, the former SSI and the Audit Commission have all embraced a model of inspection that is strongly focused on improving 'efficiency', 'effectiveness' and service standards. The appointment by the Audit Commission of relationship managers, with a specific remit to ensure effective co-ordination, is perceived by authorities as a step in the right direction and may also help, though some in local government have questioned their ability to achieve effective co-ordination in the absence of any formal control over the work programmes of many of the key inspectorates. Perhaps most significant of all, though, is the way in which the CPA has, in the words of one of our interviewees, 'raised inspection up to the strategic level', focusing the attention of all the inspection services on authority-wide improvement and inspection plans, as opposed to a 'silo' focus on individual services and departments. There are, however, significant

cultural and structural barriers to a more joined-up approach and it is not clear how these can be overcome, an issue which we explore further in the section headed 'Joined-up inspection' later in this chapter.

### **Increasing acceptance of the 'inspection for improvement' paradigm**

We continue to find it surprising that there has been almost no debate in public about alternatives to the improvement through inspection paradigm pursued by the Audit Commission and the other major inspectorates. Even the very public 'naming and shaming' of authorities under the CPA process has met with surprisingly little opposition from councils. As one of our interviewees suggested, this may be in part because more than half of single-tier and county councils were judged to be 'excellent' or 'good'. However, even the handful of individual authorities that questioned the statutory basis for the CPA, and/or threatened legal action in respect of the verdicts reached about their own performance, rapidly toned down their complaints and, as far as we are aware, none has actually pursued the issue through the courts. Attention has rapidly switched to the criteria to be used in future CPAs and the implications for authorities' prospects of 'promotion' to a higher category.

The Audit Commission's promises of fewer inspection and more improvement tools have also helped. Indeed, it has been feeding back lessons from inspections to local government for some time. Its 'learning from audit and/or inspection reports' now covers issues ranging from equalities to streets, and its 2002 housing review devoted an entire volume to *Promoting Positive Practice* drawing on good practice from

its inspection programme (Audit Commission, 2003b).

## Continuing challenges

### Introduction

Policy developments continue to occur so rapidly that, as with all recent research on public service inspection, our analysis of inspection results, our shadowing of individual inspections and even our recent interviews with national policy makers will all date quite rapidly. However, there are important conclusions that we are confident will stand the test of time and are therefore worth highlighting.

First, the recent changes we have outlined above are to be welcomed and they will, in our view, help to alleviate many of the problems that we have previously highlighted.

Second, having tracked the development of inspection of local government over the last five years, we cannot escape the conclusion that, despite the pace of change, there are some underlying tensions that will not be resolved entirely by recent policy shifts and should not therefore be swept aside. These issues represent challenges for which there are no easy solutions and with which policy makers, inspectors and local authorities will need to continue to grapple and which researchers should keep under review.

### Cost-effectiveness

The first issue that we believe must be kept in the spotlight is the cost-effectiveness of inspection. It is undoubtedly expensive. The OPSR (2003a) report, which is very supportive of public service inspection, acknowledges that

spending more than doubled between 1997 and 2002 – 03. (These figures include some central government inspectorates / review bodies, such as HM Inspectorate of Prisons, and are drawn from HM Treasury expenditure figures but do not take account of some of the other costs that we have highlighted in our first report – including opportunity costs, displacement effects and the creation of a compliance culture that may inhibit innovation.) Many local authority officers on the receiving end of inspection also continue to claim that the current scale of inspection activity is unnecessarily large and out of kilter with what is needed to act as a catalyst for improvement. One of the senior policy makers we interviewed predicted that:

*All of the major parties will be falling over each other in the next two years to promise a reduction in government bureaucracy including inspection.*

And the main opposition parties have since become increasingly vocal in their criticism of what they portray as ‘bureaucracy’. The current Leader of the Opposition, for example, recently expressed his view that:

*... red tape, bureaucracy, regulations, inspectorates, commissions, quangos, ‘czars’, ‘units’ and ‘targets’ came to help protect us, but now we need protection from them. Armies of interferers don’t contribute to human happiness. (Michael Howard, 2 January 2004)*

This is not just political rhetoric. One of our interviewees, who is right at the heart of current debates about the future of public services, predicted that:

*Inspection should be seen as a historic phase that we went through that became the most prominent lever for a while and was then scaled back to become one of the many ways of improving public services ... We only need about 20 per cent of the current level of inspection and audit.*

Too little is really known about how improvement is actually achieved and sustained, and how drivers of improvement vary in different circumstances. This has important implications. In particular, there are dangers in relying on a 'one size fits all' model of improvement that is not sufficiently attuned to local conditions or the different circumstances and capacities of different types of authorities.

Some of our interviewees reported that inspection has encouraged authorities to focus on improvement to a greater degree than in the past. Inspections had, we were told, been used by elected members and/or officers to promote the case for change from within their authorities. Some argued that the main impacts have been on the poorest performing authorities. As one interviewee put it:

*The bottom decile has been transformed ... inspections have really galvanised the poor authorities and ... had a big impact on the weak councils suspended just above the crocodile pit and desperate to avoid falling into it.*

It was suggested, though, that current arrangements were less likely to have a major effect on 'fair', 'good' and 'excellent' authorities:

*Although inspection in local government has made a very big impact on the floor it has not had much of an effect on the ceiling.*

These councils might, we were told, require a very different style of regulation, which combined highly selective, light-touch inspections with the occasional 'prophylactic' exercise, and which placed a much greater emphasis on learning from good practice in local government and elsewhere.

The contrasts between inspections in different parts of the UK may offer some important lessons about the way forward. The Wales Programme for Improvement, though, like CPA undertaken entirely within the Best Value provisions of the 1999 Local Government Act, has some significant differences from the CPA regime that may be instructive. The obvious contrast is the lack of a published CPA 'league table' of councils. Perhaps more important, though, the WPI is 'rolled forward' year by year, which its advocates believe allows regulators and authorities a continuity of relationships, which one of our interviewees described as 'conspicuously lacking from Best Value inspection'. This, it is argued, enables inspectors to build up a knowledge bank of information, which paves the way for what the same interviewee described as 'a qualitatively different kind of inspection', focused on a council's 'improvement journey' and how regulators can best contribute to this. As noted earlier in this report, the statutory basis of the work of the relationship managers in Wales is seen as important, increasing their contact with authorities and enhancing their ability to exert 'leverage' over other inspection agencies. Scotland, too, has eschewed the public labelling of councils. Audit Scotland, which operates under different base legislation from the Audit Commission, has committed itself to a 'partnership approach' to Best Value audits,



which began in November 2003, promising that it 'will not apply a single label to councils at the end of the process' (Audit Scotland, 2003, p. 5). Some English local authorities argue that the time has come for a less confrontational approach to inspection in England. As one chief executive suggested to us:

*We needed a power imbalance between authorities and inspectors at the outset because we were too recalcitrant to respond to anything other than the big stick. But we're approaching a crossroads where you have to rebalance the power between regulators and authorities and to accept that inspection is about more than highlighting flaws and weaknesses. This will require a change in the Audit Commission's inspectors' mindset and behaviour.*

An approach based on a higher level of trust and greater emphasis on peer review and support might, they argued, be a more efficient and effective way of promoting improvement among authorities in the middle and towards the upper end of the CPA rankings.

### Consistency

The Audit Commission has consistently rebutted any suggestion that inspectors' judgements are not based on the consistent application of its inspection criteria across services, regions and different types of authority, and over time. Our analysis of inspection scores highlights some interesting variations in inspection scores, which, although they do not necessarily point to inconsistencies of approach, do raise some questions about how verdicts were arrived at. The inspections that we shadowed build on this. They showed that, while some of the inspectors had considerable

expertise in the services they were inspecting, others had little or no prior expertise in the area, and the standard criteria were not easily applied to some kinds of inspection. Most inspectors were confident of the validity of their judgements about current performance but less sure of their assessments of an authority's capacity to improve, and it was clear that these were based in part on 'softer', more impressionistic, criteria than the Commission seems to imply. However, once reports have been published, they seem to acquire an air of quasi-scientific 'objectivity' that belies the often less than totally clear-cut basis on which judgements may have been based. The Audit Commission's published accounts of its CPA methodology continue the tradition of implying that there is an objective, fully rational basis to inspection, which seems to us to belie the importance of some of the 'softer' considerations that come into play.

Clearly, there are some practical and political risks associated with this representation of the inspection process as a precise and objective exercise. It stifles debate about the drivers of improvement and runs the risk that a high-profile service failure in one (or more) of the authorities that has been ranked as 'excellent' might discredit the process. This was regarded by some interviewees as being a real constraint on the scope for 'lighter-touch' inspection.

Moreover, while the Commission has a range of procedures designed to ensure consistency between its own teams, it is not clear that there are similar methods to ensure consistency between inspections of different types of services. A 'one-star' housing service may not therefore be the same as a 'one star' in social services. This might not matter and

indeed some of our respondents have argued that it does not since one should not even attempt to compare 'chalk with cheese'. However, because the CPA is based on aggregate scores across services and some services are weighted more heavily than others, it is important.

Whether benchmarks change over time will depend on whether authorities improve and whether inspection scores are based on relative or absolute standards. If the standards that an authority needs to reach in order to be judged as 'excellent' remain the same over time, one might expect increasing numbers of councils to be shifted up the performance league table. If this is the case, there are important questions about how compliance with a duty to pursue *continuous* improvement will be monitored as increasing numbers of authorities reach the higher echelons.

Our analysis suggests that inspectors have become more confident of services' capacity to improve as the Best Value regime developed. Nevertheless, it is unclear, to us at least, whether this represents a change in the inspectors' ways of judging capacity, the fact that authorities have become more attuned to the actions that they need to promise to take in order to secure a favourable judgement or a genuine improvement in prospects for improvement. (Between 2002 and 2003, 26 single-tier and county councils moved up at least one CPA category – two have moved up two categories – with an overall increase in the number of authorities in the higher categories. Nine authorities have moved down one category.)

### **Customer-focused inspection**

Recent government and Audit Commission statements have emphasised the need for more citizen- and customer-focused inspection. There are two facets to this concept. First, the notion that inspection services should be more focused on the needs of their immediate 'clients' (inspected bodies), i.e. that inspection is proportionate, co-ordinated and helps them to improve. This is very different from the second element of 'customer' focus – greater public interest and/or involvement in inspection – which is more difficult to achieve and is, thus far, much less well developed. The Audit Commission acknowledges that citizen engagement in the regulatory process is at present weak but seems uncertain how this can be improved.

### **Guard dogs or guide dogs?**

This reformulation of the Commission's role and the resulting reorientation of its activities towards contributing directly to the 'improvement agenda' have attractions for all parties. This takes some of the heat out of the debate between inspected bodies and inspectors; everyone can now be seen as on the same 'side', working towards a common goal. It also makes a lot of sense to ministers who want to see tangible improvements in public services. However, this shift of emphasis raises questions about whether an improvement role can be reconciled with a regulator's other functions, notably that of independent 'watchdog' and how regulators are to work alongside improvement agencies such as the IDeA and the new Improvement Service in Scotland.

It is not clear to us that all inspectors will be able easily to make the transition from independent 'watchdog' to helpful 'guide dogs'. The skills needed are different and our observations of inspections in practice suggest that, though the inspectors conducted them in a competent and professional manner, many of them would not be comfortable in the role of adviser and many authorities doubt that they would be able to add value in this capacity. The Audit Commission has acknowledged this concern and is developing a protocol with the ODPM, LGA and IDeA that will set out what kinds of improvement work it is appropriate for it to take on. It will be important to monitor how well the Commission is able to fulfil its new task of providing improvement tools for local government and whether it can in fact ensure that this activity does not jeopardise its traditional role.

### **Joined-up inspection**

As noted above, it is important that the Audit Commission is seen to apply inspection criteria in a consistent fashion across services. It is also important that authorities are not faced with conflicting demands from different inspection services. Inspection visits by different inspection services are now better co-ordinated (see the section on 'Co-ordinated inspection' earlier in this chapter) but authorities continue to complain that different inspectorates often ask for the same information (albeit in slightly different formats) and that this imposes extra burdens on them. More importantly, inspection services tend to focus on the services that they oversee without regard for the implications for other parts of an authority. Thus OFSTED may insist on the need for greater investment in

education at the same time as the Audit Commission is emphasising the need for additional resources for leisure or highways maintenance. Meanwhile the inspectorates covering social care, health, crime and disorder may all be demanding that more attention be given to 'their' services. Authorities can therefore experience strong pulls in a number of different directions and find themselves unable to reconcile the multiple demands being placed on them.

The continuing lack of 'joined-up' regulation is, in our view, a serious weakness and probably the most difficult to resolve of all of the issues we have highlighted. As is widely recognised, the outcomes that matter most to the public often depend on the actions of several departments and/or agencies working together. This is reflected in proposals for CPA from 2005 onwards (Audit Commission, 2004b), which suggest that the process will need 'to assess and drive improvements in the way that local authorities work with partners to deliver their shared ambitions for the area' and that the Commission will 'work with government and other major stakeholders to identify cost effective delivery arrangements that offer clear lines of accountability and responsibility over the life of complex initiatives'. However, as several interviewees from inspectorates acknowledged, the different inspection services still employ quite different inspection methods, have different approaches to reporting, are linked to different Whitehall departments and deal with different professional networks. Perhaps most importantly, it was clear from our interviews with senior policy makers that the inspectorates covering education and social care do not share the Audit Commission's vision of

‘strategic regulation’ and seem unlikely to adopt the more ‘risk-based’ approach that it is pursuing.

### Concluding remarks

Policy makers, inspection services and local authorities continue to wrestle with many of the key challenges that we highlighted in our earlier report. Recent changes to inspection regimes signal important attempts to mediate some of the difficulties that we, and others, have highlighted.

In our earlier report, we asked whether inspection in local government was ‘driving improvement or drowning in detail?’. In the second phase of our work, we have been disappointed to find little evidence of service improvements resulting directly from inspection in the authorities where we have shadowed inspections. However, the feverish inspection activity of the last five years has undoubtedly produced some benefits. Public reporting of inspection scores has largely failed to grab public attention but ‘naming and shaming’, backed by the threat of strong intervention, has undoubtedly focused the minds of senior elected members and local authority management. Despite their flaws, Best Value inspection and Comprehensive Performance Assessments have increased self-awareness and encouraged a more corporately focused and outward-looking approach. There is evidence that the ‘shock effect’ of inspection, particularly of the first round of CPA, has focused authorities’ attention on problems that, for whatever reason, they may have previously been unable or unwilling to confront.

There are, though, important questions about whether and how such a focus can be sustained. It seems likely that the impact of Best Value inspections and CPA will diminish over time as authorities absorb the initial ‘shock’ to the system and become better at ‘playing the game’. As one of our interviewees put it:

*Almost by definition inspection has the most impact first time round because you lift the historic stones and look under them. You pick all the low hanging fruit ... After that the marginal returns are smaller and the effort involved is greater.*

The current response from both central government and inspection services is clear. The aim is that inspectors will work much more closely with local authorities, offering them management advice and support, in partnership with other improvement agencies. As we have suggested above, this is not, however, a risk-free or unproblematic strategy. It may be that some inspectors and auditors are not well equipped for this new role, and there is a danger that it might compromise the Audit Commission’s role of independent and impartial inspection and audit of local authorities. Similarly, it seems unlikely that it will be possible to achieve a more ‘joined-up’ approach to inspection. Authorities will therefore continue to be confronted with criss-crossing lines of accountabilities and multiple, sometimes irreconcilable, demands from different inspectorates and different parts of central government. Translating the promises of more proportionate and joined-up inspection into a framework that can deliver is going to be a tall order, which can be assisted by a continuing

dialogue about the strengths and weaknesses of inspection and independent analysis of what inspection is actually achieving, what it is failing to do and what other approaches might

need to be employed alongside it in pursuit of the common goal of public service improvement.

# Note

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## Chapter 4

- 1 Our analysis excluded inspections of housing associations, transport and waste disposal authorities, national parks, town and parish councils, the GLA and reinspections.

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## The changing role of Audit Commission inspection of local government

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