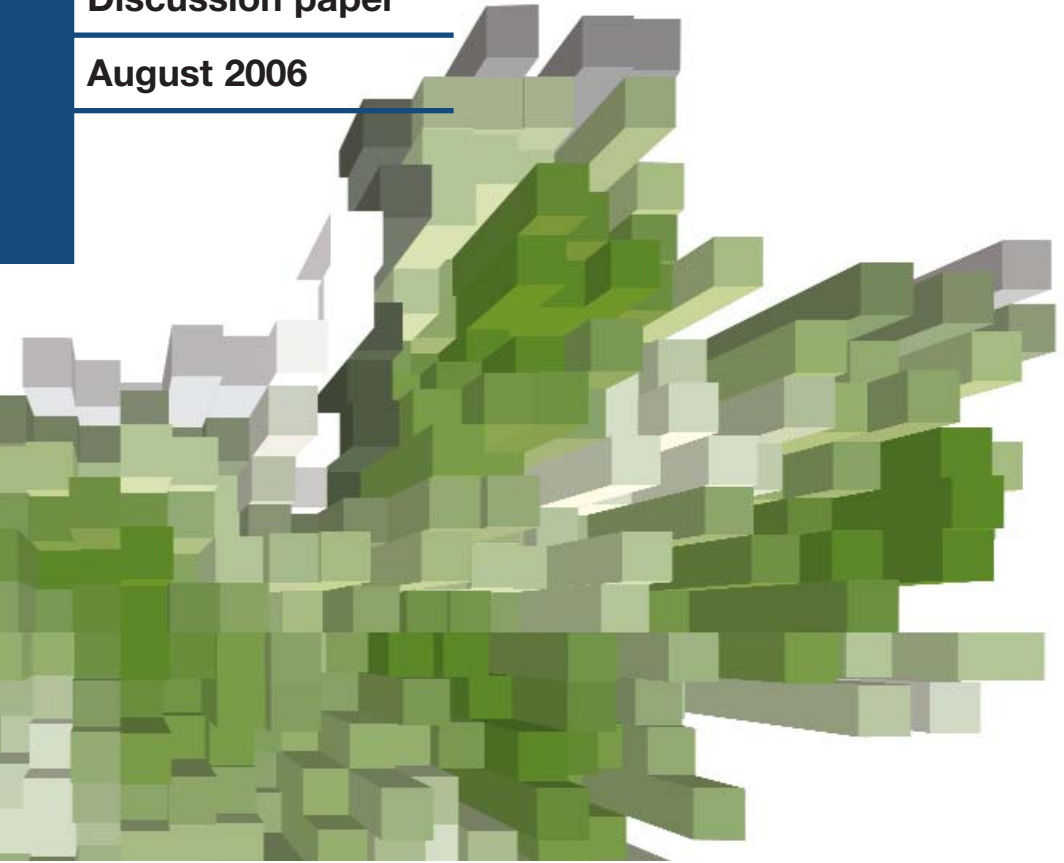


Corporate

Discussion paper

August 2006



Assessment of **local services** beyond 2008

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

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

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Introduction

1 Local services are changing. Public expectations are rising. Local partners are increasingly working together to meet complex needs. Those responsible for local services, councils and their partners, recognise a need to take even more responsibility for managing their performance and driving improvement. A new performance framework is needed to reflect these changes, to focus more on local priorities, citizens', service users' and taxpayers' interests and to increase accountability.

2 Comprehensive Performance Assessment (CPA) has shone a spotlight on how well councils manage themselves – their corporate capacity to manage and improve performance and set and achieve challenging ambitions for their communities. It has been acknowledged to be an effective catalyst for improvement in local services. Strategic regulation has resulted in a more proportionate and risk-based approach but there is a need to go further to ensure the resources of inspectorates are directed towards weak performers and the efforts and energy of higher-performing councils are focused on improving local services. CPA still has a valuable job to do but, from 2008 when a number of key changes will take effect, a new approach is needed. The challenge will be to improve public services to reflect

local differences and needs and to improve public perceptions of individual and collective performance. In doing so we should build on the most valuable aspects that have contributed to CPA and the improvements it has secured, and dispense with those aspects which have made a useful contribution but are less likely to continue to add value in the longer term.

3 In the recent Audit Commission publication, *The Future of Regulation in the Public Sector*,^I we identified the core purpose of public sector regulation as providing assurance, with promoting accountability and driving improvement as complementary but discrete and subsidiary elements of this role.

4 We also emphasised that the approach to regulation should meet the needs of both service users and taxpayers; be targeted where it is most needed and enhance value for money.

5 There has already been much discussion about performance assessment, assurance and accountability for local services beyond 2008.^{II} For the Audit Commission it will be important that a new framework meets the challenges of the changing world, reflects the principles of public sector regulation and supports our own strategic objectives, which are:

- to raise standards of financial management and financial reporting;
- to challenge public bodies to deliver better value for money;
- to encourage continual improvement in public services so that they meet the changing needs of diverse communities and provide fair access for all;

I *The Future of Regulation in the Public Sector*, Audit Commission, March 2006.

II Local services includes council, health, housing and community safety related services.

- to promote high standards of governance and accountability; and
- to stimulate significant improvement in the quality of data and the use of information by decision makers.

6 Any new framework needs to consider individual bodies and partnerships as well as the areas they serve. It should also take account of the increased emphasis on neighbourhoods and city regions, as appropriate. Assessment should be proportionate, taking account of risk, with additional activity only where there is a clear requirement.

7 This paper sets out some key questions about how the performance assessment framework should work. The government has published its proposals for the future performance framework for local services as part of its ten-year vision for local government (Local:Vision) and in greater detail within *Securing Better Outcomes: Developing a New Performance Framework*.¹ These proposals for a new performance framework for local government place more reliance on councils having their own robust performance management arrangements and a clear shift towards area-based assessment, with less emphasis on separate, institution-based assessment. The final outcome will depend on the statutory framework and require much work with government, local service bodies, and other regulators to develop. Engagement with citizens, taxpayers and service users must also play a significant role. We hope this paper will provide a useful and constructive contribution to the current debate about how to achieve a flexible, intelligent assessment framework for assuring better places.

¹ *Securing Better Outcomes: Developing a New Performance Framework*, Office of the Deputy Prime Minister (ODPM), March 2005.

The context for a new assessment framework

8 The way in which the performance of local services is assessed has changed significantly in recent years and continues to change.

9 In local government, CPA has promoted substantial improvement in just four years since it was introduced. In 2005 the Commission introduced *CPA – the Harder Test* for single tier and county councils, placing more emphasis on community leadership, outcomes for local people and value for money. Councils are rising to the challenge. The pressures faced by councils are anticipated to intensify in future years as public expectations continue to rise and demands on resources increase. Councils' crucial role in shaping places is increasingly being acknowledged. The government is now developing a new performance framework for beyond 2008. CPA will provide a baseline from which to develop the new framework.

10 CPA has been applied to fire and rescue services and significant improvement is taking place. Performance assessment of the police service and the wider criminal justice system has also been developing with a focus on both service delivery and corporate

leadership. The Commission, in partnership with the Housing Corporation, has helped to create a sustained focus on service delivery by housing associations. Other inspectorates have been developing their approaches with, for example, the Office for Standards in Education (Ofsted) leading on an area-based assessment of children's and young people's services.

11 In the health sector, the pace of change has been rapid. 2006 has seen the first annual health check from the Healthcare Commission, replacing the previous star ratings system, while the White Paper, *Our Health, Our Care, Our Say*, looks towards joint performance assessment of health and social care. At the same time, the NHS has introduced both structural reform (at all strategic health authorities and most primary care trusts) and a range of key initiatives to drive modernisation and improvement, notably Payment by Results, patient choice, practice based commissioning, and plurality of providers.

12 Developments in performance assessment have taken place largely on a sectoral basis. But in the post 2008 world there will be an expectation that not only local service commissioners and providers but also regulators will work in partnership to secure better outcomes for local people. The proposed establishment in 2008 of just four inspectorates for local services, health and social care, children and young people and justice, community safety and custody reflects this clear intention.

13 The context for a new approach to performance assessment¹ in the future might well be the development of an agreement that better balances national, regional and local interests and priorities. The government intends that the new framework should continue to

¹ Set out in *Securing Better Outcomes: Developing a New Performance Framework*, ODPM, 2004.

provide the proper level of assurance for central government that national priorities are being addressed. Local people will require assurance that locally defined priorities are being identified and met. However, independent external challenge is also vital in stimulating improvement, promoting best practice, and providing assurance to the public.

14 Ministers are discussing with local government the need for a more devolved approach, where local people have more powers and resources to influence the key decisions which affect their community. This in turn is anticipated to encourage greater participation by local people, develop stronger accountability to the users of public services, and support better prioritisation of resources.

15 Within this overall framework and the developing community leadership role of a council within its local strategic partnership (LSP), there may be an increasing separation between the roles of commissioner and provider of services. A greater contribution by the voluntary and community sector, often working in partnership with other bodies is also anticipated.

A future assessment framework: the key questions

16 The future of local services may see greater variety in organisational structures, and area of focus. The outcome of the current wide-ranging debate about the potential focus on neighbourhoods, city regions and regions is not yet clear but will have a significant impact on any future assessment framework. Levels of performance will, inevitably, continue to vary from place to place, institution to institution and over time. There are no guarantees that those achieving high levels of performance today will do so forever or that improvement will be continuous.

17 As a result of the discussion and debate so far about a future performance framework, a consensus has developed around the key questions, if not the answers to those questions. This chapter therefore focuses on those questions and identifies the key issues to be resolved.

18 The key questions are:

- How can a future approach reinforce the core responsibility of councils and their partners to manage their own performance?
- How can a future framework promise assurance about the delivery of both national and local high-priority outcomes for citizens and communities?
- How will a future framework ensure that assessment activity is directly related to risk?
- How can a greater focus on the citizen's and service user's perspective be achieved, in the context of our increasingly diverse communities?
- How can the local government sector as a whole contribute to the success of a future performance assessment framework?
- How should the results of future assessment be publicly reported?
- How can inspection ensure that effective joint working and elimination of duplication is a key characteristic of future arrangements?
- How will the framework ensure an emphasis on value for money and the interests of taxpayers?

How can a future approach reinforce the core responsibility of councils and their partners to manage their own performance?

19 The primary responsibility for managing performance and improvement and for accountability to communities lies with those responsible for local services. Regulators should support and complement this. Where such responsibility and accountability is real and working, regulators can rely on the minimum activity necessary to provide independent assurance. Some aspects of local services may

require more external assurance than others, particularly those affecting the vulnerable and disadvantaged and those groups whose voices are not easily heard. But there is general agreement that there should be no need for extensive programmes of inspection covering all services. The stronger the local arrangements for accountability, the less will be the need for independent inspection.

20 The achievement of high standards of performance management at council and partnership level is therefore crucial to a new performance assessment framework. This is a key issue rehearsed in the Local Government Association's (LGA) recent publication: *Driving Improvement: A New Performance Framework for Localities* (LGA, March 2006).

How can a future framework promise assurance about the delivery of both national and local high-priority outcomes for citizens and communities?

21 The development of local area agreements (LAAs), which incorporate both national and local priority outcomes for an area, represents a major development in the relationship between central and local government. If the role of the LSP is developed further, potentially including a duty to cooperate on public service bodies in an area, this raises a key issue about the level at which the future performance assessment framework should focus. Should this be at council level, as now, or at area (LSP) level thus taking fuller account of a council's key role as community leader and accountable body?

22 With an area focus there is the potential to more effectively reflect local citizens' perspectives on service delivery, their neighbourhood, and improvement, irrespective of boundaries of responsibility which are of little concern to residents. An area-based approach would need to be carefully considered, developed and refined. It should be flexible

enough to provide assurance and accountability to service users, taxpayers and to government. It will also need to reflect the relationships between partnerships and their component bodies, which have a range of different accountabilities.

23 There has been much discussion of the need for a new contract between central and local government about a limited number of nationally determined priorities which local government and its partners are expected to deliver, in addition to priorities determined at local level. The provision of assurance should be relevant to all stakeholders. This should include assurance to national government on legitimate national priorities and local people on local priorities.

24 Any new assessment framework in this context would depend on the availability of coherent, high-quality information which demonstrates the outcomes being achieved in relation to national targets and local priorities. This would require a significantly streamlined approach to the national data requirements defined by government, complemented by the information required by local services to manage their own and partnership performance. The development of any such data framework would be able to draw on the Commission's experience in developing and collecting both performance information and the Area Profile database on a nationally consistent basis.

How will a future framework ensure that assessment activity is directly related to risk?

25 There is general agreement that a new framework must be more flexible than the current regime allows and must ensure that the better performers are less regulated. However, the framework needs to accommodate those at all levels, including those that are stuck at a particular level and those whose performance slips over time. It

should ensure that signs of impending failure or decline are identified early and dealt with promptly and effectively.

26 The key question here is how can evidence and information already available be used to maximum effect to identify areas of risk in relation to performance? If risk can be assessed in this way, councils and their partners that are performing well and continuing to improve would require no additional work or attention.

27 There is a range of sources of information about councils and their partners in relation to the delivery of services and improvement in their area (**Figure 1, overleaf**).

28 There are important issues at stake here. Can a risk assessment process using existing information provide an acceptable level of assurance to the public, to partners and to government?

29 While universal inspection programmes are not popular with local government, there remains a concern within the sector that phasing out inspections in favour of performance indicators (PIs) has some drawbacks. Inspection is recognised as providing a much deeper perspective on performance than PIs.

30 The challenge is to develop an approach that delivers an appropriate level of assurance about performance without the need for rolling programmes of inspection.

31 What remains clear, however, is that there will always be a need for the truly independent, objective evaluation of how well local people are served that only independent regulators can provide. Opinion surveys have demonstrated that the public supports the need for independent assurance about performance.

Figure 1

Potential sources of information for assessing risk at area level



***Note:** Including government departments/offices, non-departmental public bodies, local stakeholders and voluntary and community sector.

Source: Audit Commission

How can a greater focus on the citizen's and service user's perspective be achieved, in the context of our increasingly diverse communities?

32 The experience of users of local services, including user satisfaction and resident perception data, and engagement with local citizens and taxpayers, should be central to any new performance assessment framework and risk assessment. It will be important to recognise the different contributions each element would bring. There should also be a particular focus on those who are most deprived, vulnerable or socially excluded.

33 A key issue in relation to service user and resident satisfaction is how to interpret the data in assessing performance. Councils and their partners are increasingly obtaining robust data about satisfaction levels and the views of customers and residents. However, there remains a reluctance to draw definite or scored conclusions about overall performance based upon performance information in isolation of local qualitative information. There are major issues in relation to the impact on satisfaction levels of factors such as deprivation, geography and diversity which need careful consideration.

34 This area requires significant development work between government, local government and its partners and regulators before a future approach can be rolled out.

How can the local government sector as a whole contribute to the success of a future performance assessment framework?

35 One of the most important ways in which the sector could contribute to a new performance assessment framework would be to provide support at the point where key issues have been identified through an independent assessment of risk. A peer review, or peer

challenge process may be an appropriate intervention, or the sector could provide improvement support, or key personnel in risk areas.

36 These contributions could sit alongside targeted inspection or audit as part of a menu of potential responses which would be discussed with a council/partnership when significant risks are identified. They could also contribute to the information base to assess the level of risk in an area. Individual organisations and local partnerships will continue to need effective performance management arrangements and information that is informative, robust, timely and comparable to ensure priorities are delivered. Local customer intelligence also has an important role to play in any well developed information framework.

How should the results of future assessment be publicly reported?

37 The introduction in recent years of national performance frameworks has tended to rely on large-scale national programmes which, by their nature, may be less flexible than we would like. There is general desire for a more differentiated approach that would allow an increased focus on local priorities and needs.

38 CPA has shown that public comparison is a powerful driver for improvement for local government. The legal requirement for national comparison resulted in CPA and inspection arrangements which rank councils alongside all others of the same type in England. A more sophisticated approach could allow improvement to be more effectively targeted. Further debate about what are the most appropriate comparators is needed. Should we compare core cities, inner London boroughs, unitaries, district councils or nearest demographic neighbour groups? Performance data comparison will remain a powerful tool, with data quality becoming a crucial

requirement of a future system. Whatever the level or nature of comparison considered useful to focus attention on improvement, public reporting of the results would sustain the pressure to improve. The challenge will be to ensure that information is brought together in a timely, succinct and understandable way so that it has real impact on citizens, service users and other stakeholders.

39 There are a variety of options available for reporting performance or risk. These options need to be explored to find the most effective way of providing assurance to stakeholders and impetus for continuous improvement locally. For example, an annual report card setting out the assessed risks in relation to all local services in an area could be published. This risk assessment might include some or all of the following:

- delivery of national and local priorities and improvement in the area;¹
- standards of governance and performance management;
- value for money;
- service user and community engagement and the extent of involvement/devolution at neighbourhood level; and
- direction and pace of improvement.

40 This information for local people and taxpayers could supplement existing published assessments (for example, audit and/or inspection reports in relation to councils, schools, health bodies and police) and could be published alongside the council/partnership action plan in response.

1 This element might also potentially provide assurance to government offices that have responsibility for oversight of delivery in relation to LAAs.

41 Consideration of how different information sources can be brought together is required. Up-to-date information about individual bodies, partnerships and the areas they serve will help to ensure a risk assessment process has a real impact. If a risk assessment process that was not dependent on a particular inspection event or programme was developed, this could enable the more timely publication of a revised risk assessment should there be significant deterioration in performance or governance. This might offer an opportunity to provide assurance to local communities that significant problems would have to be publicly addressed by the council and its partners.

How can inspection ensure that effective joint working and elimination of duplication is a key characteristic of future arrangements?

42 A major concern about the current performance assessment arrangements for public service bodies relates to the number of inspectorates and the potential for overlap, duplication and different approaches to assessment.

43 By 2008 the inspectorate landscape will have changed dramatically, following the government's decision to legislate for just four inspectorates in relation to local services, children and young people, health and social care and justice, community safety and custody. It is proposed that inspectorates would undertake a gatekeeping role to ensure coherence and coordination of inspection in their sphere of responsibility.

44 The introduction of such a framework represents a significant challenge, but also a great opportunity to ensure, through joint working, that the reasonable expectations of public service bodies for coherence of approach is achieved.

45 Any future performance assessment framework which focuses on an independent assessment of risk will need to be delivered by the four inspectorates working jointly.

46 Where inspection is the appropriate response to an identified risk in an area, this suggests an agreed approach across all inspectorates. Inspection arrangements after 2008 may often involve joint inspectorate teams, involving peer and service user/taxpayer representatives.

47 If rolling programmes of inspection are not to feature in a future approach, a shared view needs to be developed as to the appropriate inspection programme in relation to vulnerable groups and communities. This will represent a particular challenge and there is a wealth of knowledge across local services, their partners, government, inspectorates and users that should contribute to the debate. This will help ensure that truly independent challenge is appropriate, proportionate and focused where significant risk exists.

48 In some areas it may be that a combination of issues is creating significant risks, such as poor governance or performance management. In these circumstances a form of area-based partnership performance assessment might be the best tool. This could involve greater use of peers and participants from a range of local services and inspectorates. However, the framework for assessment will require significant involvement of independent regulators if it is to be both robust and credible.

How will the framework ensure an emphasis on value for money and the interests of taxpayers?

49 Investment in local services is at an all-time high. The demand for value for money has never been greater and is likely to intensify as resources level off or even reduce in future years. Local government will need to champion value for money more boldly, through councils

individually and through their representative bodies, to ensure it is making the most of available resources. Accelerating the existing ability to learn from and share good practice effectively has an important role to play in realising this goal. As partnership working becomes more and more established as the dominant means of securing local outcomes, an emphasis on value for money remains crucial. Assurance is needed that money is well spent and making a difference and services are improving. Accountability to local people, to partners and to government that value for money is being achieved is essential.

50 Audit is the primary means of providing assurance that public service organisations have proper arrangements for securing good financial management and value for money. The delivery of annual use of resources assessments in councils, health bodies, police and fire and rescue authorities will make a key contribution to providing that assurance. As the challenges to achieving value for money change for local services and partnerships, the Commission will need to ensure that the skills to provide assurance are in place.

51 Whatever the form of a future performance assessment, the assessment of value for money should be a non-negotiable element, which must feature, through the audit process, irrespective of sector.

52 There is a pressing need for improvement in the data available to assess value for money in service delivery. This represents a major challenge for public services and is a high priority for the Commission in conjunction with government and other stakeholders.

Conclusion

53 The development of a new performance assessment framework beyond 2008 offers the opportunity to secure a significant shift in focus, which will enable greater accountability to local communities. It has the potential to build on the success of partnerships and LAAs and deliver a further reduction in regulation for those local bodies and partnerships that are performing well.

54 However, there are many key issues, identified in the previous chapter, to be addressed before a framework can be adopted. A successful outcome to this work depends on developing the new framework in close consultation with all the key stakeholders – all government departments, the other inspectorates, the local public service bodies themselves, their representative groups and the public. Close cooperation between inspectorates (the Audit Commission, Ofsted, the Healthcare Commission and the Justice, Community Safety and Custody Inspectorate) in the context of government proposals for the future of inspection will be particularly necessary to ensure a joined-up approach.

55 There is also a need to find ways to engage meaningfully with communities as well as the voluntary and private sector. Improved

customer intelligence, building on and bringing together work underway such as that by the LGA, National Consumer Council, DCLG and the Cabinet Office, will be an important requirement. Local areas and their partnerships will need to ensure they have robust and effective arrangements for governance and managing performance. And a new framework will require an appropriate statutory framework to underpin it and ensure the necessary powers and duties are in place.

56 During the development of a new approach, CPA will continue to measure councils' achievement and improvement, providing a secure baseline assessment and helping to prepare for the introduction of a new performance assessment framework after 2008.

57 We look forward to working with government, other inspectorates and organisations representing local service commissioners/providers to develop a new framework with the interests of the citizen, the service user and the taxpayer at its centre.

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