



CC/NO  
✓BI

Prime Minister (4)

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

Do E have now produced  
their own, more comprehensive  
summary of the Audit Commission  
handbook

My ref:  
Your ref:

AT  
12/1

12 January 1984

Dear Leon,

At Cabinet on 22 December we discussed the Audit Commission's value for money handbook and I was asked (CC(83)17th Conclusions, Conclusion 3) to arrange for a summary to be provided for all Members of the Cabinet and other Ministers speaking on the subject of the Rates Bill.

You, and some other colleagues (including all those with a direct interest in local government services), will already have received a copy of the handbook direct from the Commission. My office are sending a copy separately to those who have not received one direct. Copies have gone also to officials in "local government" Departments.

I now enclose a note about the handbook, prepared by my officials. The first part provides general background about the Commission's value for money work, and explains how their handbook fits into this. The second provides a summary of the contents, with particular emphasis on the potential scope for efficiency savings already identified by the Commission.

I would ask that in using this material you should not give the impression that the Commissions VFM work is part of, or even related to, our own proposals for capping rates. The Commission's success in persuading authorities to look closely at their own efficiency will depend on this being seen to be independent of the Government. Of course, this work will be proceeding at the same time as our legislation is going through Parliament, and will no doubt be referred to in order to refute allegations that cutting spending must mean cutting services. But the Audit Commission was set up as a separate instrument to help authorities secure better value for money. It is of the utmost importance that it is not seen as yet another form of Government interference with local councils. You should bear in mind also that what is in the Commission's handbook so far is essentially anecdotal rather than comprehensive evidence; the real hard evidence of scope for specific savings will only emerge from the conclusion of the studies which are now under way. I suggest that it is presented simply as a reliable indicator - by an independent body - of the sort of savings that should be possible without impairing services.

More generally, I hope that you will do all that you can, in your dealings with local authorities, to emphasise the need for a greater emphasis on value for money. When we discuss our service interests with local authority representatives, or visit

individual local authorities, there is a natural tendency for them to stress standards of service. I suggest that now is the time for us, and our officials, to shift the emphasis in such discussions towards value for money, and the scope for economies. My own officials' contacts with local authorities suggest that there is plenty of scope for collecting information about what authorities are doing to find savings if we ask the right questions.

I should be grateful if colleagues would bring the handbook and the summary to the attention of any other Ministers in Departments who may have to speak in the context of the Bill. As a separate copy of the handbook has gone to your officials perhaps colleagues could also make theirs available to their political advisers.

I am copying this to the Prime Minister, all Cabinet colleagues, John Wakeham, Grey Gowrie and John Selwyn Gummer, and to Sir Robert Armstrong.

Yours ever  
Patrick

PATRICK JENKIN

AUDIT COMMISSION VALUE FOR MONEY HANDBOOK: IMPROVING ECONOMY  
EFFICIENCY AND EFFECTIVENESS IN LOCAL GOVERNMENT IN ENGLAND AND WALES

1. The Audit Commission was established on 1 April 1983 as an independent body under the provisions of the Local Government Finance Act 1982. It has taken over from the District Audit Service responsibility for local government audit in England and Wales. The Commission is now responsible for appointing auditors to all local authorities. Its main objective is to help the authorities to improve economy, efficiency and effectiveness both directly through the audit process and through comparative 'value for money' studies which the Commission is required to carry out.

Value for Money Audit

2. Under the 1982 Act, each auditor appointed by the Commission has a specific duty to satisfy himself that an authority has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. The Commission intends auditors to allocate some 40-50% of their time to reviewing these arrangements and to undertaking specific value for money (VFM) projects focussed on particular services or costs. Although the amount of time available for VFM work will vary by authority, the Commission envisages each VFM project involving, for example, some 20-35 man days in a large district with a maximum of 5 or 6 individual projects in a county or metropolitan district.

3. In order to ensure the maximum benefit from this VFM effort, the Commission have prepared a Handbook "Improving Economy, Efficiency and Effectiveness in Local Government in England and Wales" which is being distributed by auditors to the Leader, Chief Executive, and Treasurer of all principal authorities. A summary of the contents is set out below, but in brief the Handbook contains:

- a profile for each individual authority with a series of comparisons with a 'family' of broadly similar authorities based on data compiled by the Department of the Environment, the Chartered Institute of Public Finance and Accountancy, and the Local Authority Conditions of Service Advisory Board. The profile is designed to enable the auditor and the authority to focus their efforts on the costs and services where there is the greatest potential for improvement;

- a summary of the overall management arrangements that the Commission believes are consistent with the achievement of economy, efficiency and effectiveness. It includes a framework covering the characteristics of well-managed authorities, and is designed to prompt constructive questioning about whether there is any need for management change to promote VFM.
  
- details of specific opportunities for action in four areas - further education, the police, refuse collection, and purchasing - with an appendix summarising possible areas for improvement in three other services; development control, school meals, and leisure centres.

4. Auditors for each authority are currently embarking on their reviews of the four specific areas identified in the Handbook as the focus for this year's current audit emphasis. The intention is that their work will reveal a nationwide picture of the efficiency improvements already made and the potential savings which remain to be achieved. The results are to be drawn together in a series of comprehensive reports on each area. These reports will be published by the Audit Commission during the course of the year to assist authorities to identify further action to be taken to improve economy, efficiency and effectiveness.

5. At the same time the Commission is identifying the costs and services to be covered in future issues of the Handbook. Under the 1982 Act the Commission is required to undertake or promote comparative and other studies designed to enable it to make recommendations for improving economy, efficiency and effectiveness. The Commission has already drawn up its plans for special studies to be undertaken in selected authorities in the current year. These include studies of non-teaching costs in schools, services for children in care and the elderly, vehicle fleet maintenance, housing and property management, and further work on local authority purchasing. The results of the studies will be checked against a wider sample of authorities so that details of specific opportunities for action to

improve value for money in the relevant services can then be fed into further sections for the Handbook to support the next year's audit emphasis.

6. Details of the opportunities for action identified to date are set out in the summary below. Copies of the Handbook itself are available from the Audit Commission, 1 Vincent Square, London SW1P 2PN (telephone number 01 828 1212) and any comments or queries relating to it should be addressed to the Director of Management Practice, Mr. Peter Brokenshire at that address.

DOE/LG2

January 1984

## Introduction

1. Local Authority Profile - general and service costs and statistics, including comparisons with "family" authorities, notes and data sources.
2. Evaluating Overall Arrangements for Securing Economy, Efficiency and Effectiveness - Management depends on many factors including the local environment, the authority's policies and priorities, members' and officers' skills, and local custom and practice including the nature of the present arrangements. The Commission has, however, identified a number of general arrangements desirable, if not essential, for an authority to achieve overall value for money. The section includes a framework and questionnaire covering, under the following headings, the characteristics of a well managed authority:
  - Vision: what an authority is seeking to be or to achieve. Some explicit vision of the future being necessary to maintain direction and to enable an authority's intentions to be translated into action;
  - Strategy: How the vision is translated into reality. An authority must take informed decisions on the services to be provided and service standards, client groups and service priorities, funding, staffing and support functions;
  - Structure - The way the authority is organised. Characteristics conducive to economy, efficiency and effectiveness include simplicity (with few committees and organisational layers), closely aligned committee and management structures, clear assignment of responsibility and individual accountability for results.
  - Systems - The way the authority plans, decides, controls and monitors day to day and year to year matters. Effective systems are needed for reviewing, planning, and monitoring activities and performance;
  - Style - The way in which the work is approached. Authorities with a style conducive to improving value for money have often taken specific steps to create an open climate, build trust, and encourage greater commitment and responsibility.
  - Skills and Staffing - The way the authority's critical resource - people - is acquired, trained, deployed, motivated and rewarded. Improvements are most likely where individual responsibility is linked to key tasks; performance is assessed against agreed targets; individual contributions and, in particular, general management skills are recognised and rewarded with scope for career development; and significant investment in training.
3. Specific Opportunities for Improvement - areas to be investigated by the auditor in every authority.

## FURTHER EDUCATION

Local authorities in England and Wales spend £1.5 billion net on polytechnics and other colleges of further education and employ some 160,000 lecturers and other staff. Auditors will be focussing particular attention on the following points where evidence suggests scope for improving value for money:

- i) Improved marketing both to increase student numbers and to forecast demand more accurately. District Auditors have found instances of:-
  - high fall-out rates: (over 20% for full-time and 30% for part-time courses) due to ineffective marketing and student selection;
  - non-viable classes: many instances of classes with 8 students or less, and even personal tuition not unknown.
  - unexpected shortfalls - one college staffed for 300 education students enrolled only 30:

The Handbook includes guidance on possible ways of creating an effective marketing effort.

- ii) Tailoring academic staffing to demand - examples of poor value for money include:
  - lack of control of teaching hours with one senior college lecturer teaching 4 hours per week only - one third of the national average - and colleges paying £100,000 p.a. overtime when staff are not meeting anything like contract hours
  - inaccurate attendance registers - in one college significant errors found in over half the 288 registers sampled
  - inappropriate staff mix - in one college academic staff costs were 10% above average because of the higher grade staff, although the potential teaching hours were 6% below average, because such staff teach less.

The Handbook includes guidance on ensuring teachers' contract hours conform to national agreement, that the staff mix is appropriate to local needs, and that agreed establishment levels are not exceeded.

- iii) Cost recovery Evidence of poor cost recovery includes:
  - a college where bills were not sent out until 3 months before the end of the academic year incurring interest charges of £28,000 per month.
  - examples of poor stock control including a stock-take at a library with uncontrolled issue and no fines which found 58% of the books to be missing.

The Handbook also points to the potential for increasing income from college resources.

- one college earned £150,000 pa from the use of hostel facilities during the vacation;
- another earned a net income of £50,000 pa from commercial application of computer development;

iv) Non Teaching and Administrative Costs

Specific non-teaching costs worth examining include, cleaning and energy costs and rent and rates. In 1981 one polytechnic incurred unnecessary costs of £110,000 - including £20,000 overpayment of rates on buildings vacated, sold, or demolished.

The Handbook includes detailed guidance on the planning and conduct of the review of these areas and on promoting constructive action.

## II POLICE

The police service now costs over £2.5 billion a year. It employs over 150,000 officers and civilians. A typical police force outside London employs around 3,000 people and costs approximately £50m a year. The major opportunities for improving value for money to be examined are:

- (i) Increased use of civilians It costs roughly £6,000 less to employ a civilian than it does to employ a uniformed officer for the same job. A 1% shift in the ratio of civilians to police could save £5m pa nationally, or £100,000 in a typical county force outside London. In a study of several forces it was shown that 4,600 jobs could be transferred to civilians and front-line police strength increased by some 2,000 without any increase in costs.
- (ii) Greater Use of New Technology one force claims to have saved over £100,000 pa by computerising criminal records and information. The Handbook suggests other applications to be considered, which have been used by various forces, and steps to be taken to avoid duplication of effort in adapting new technology.
- (iii) Appropriate re-imbusement for special duties Special duties, for example at football matches, can absorb considerable police time, yet the rates charged and the number of special constables used for such occasions vary widely. District Auditors found forces where the calculation of such charges had remained constant for over 10 years.

The Handbook includes guidance on examining charges.

- (iv) Recovery of Fixed Penalty Tickets. The proportion of tickets on which no action is taken varies from 9 to 32% of the total issued. As an average force issues 50,000 to 60,000 tickets a year, a 10% increase in tickets paid could represent a worthwhile return to public funds.

The Handbook suggests a review of the use of court action for recovery, and of the proportion of tickets issued by policemen and traffic wardens.



inally the section covers the overall evaluation of opportunities for improving police productivity, and suggestions for constructive action.

### III REFUSE COLLECTION

Refuse collection costs over £500m in England and Wales. It is one of the most expensive services provided by the Shire districts and one of the few local authority services that affects virtually every household. It is also a service where output standards and value for money are relatively easy to measure on an objective basis. National statistics show a wide variation in unit costs even taking into account local differences. To identify opportunities for improving value for money, auditors will be using the computer-assisted diagnostic package (ROSS) developed by LAMSAC. Improvements can, in particular, be found in the following areas:-

- (i) Changing Rounds Computer-assisted analysis and planning of the workload can bring substantial reductions in the number of rounds and hence in the vehicles and labour required - where it has been used, ROSS has nearly always identified savings of 15% and normally 20-25%. Replanning rounds in one small district reduced costs by £60,000 (or 29%).
- (ii) Changing Collection Methods Adopting the right combination of collection methods for the local circumstances can produce very major economies, e.g. in densely-populated urban areas a switch from back-door to kerbside collection can reduce total costs by up to 50%.
- (iii) Tightening Time Standards Many bonus schemes were originally based on work study, but have never been adjusted to subsequent changes in routing, collection methods or vehicle capacities. As a result, auditors' reports have shown numerous examples where most employees are earning a bonus, whilst still finishing work by 2 p.m. or even earlier, or being paid for hours that are no longer needed or even worked.
- (iv) Changing Vehicles and Crew Sizes Substantial savings can often be obtained by adopting the most economic vehicle capacity and the most economic vehicle crew for local circumstances.
- (v) Increasing Vehicle Utilisation Each vehicle typically costs £5,000 p.a. in depreciation alone, but on average is used for only 30 hours per week. Increasing the use of vehicles by replanning shifts could save a district £25,000 in depreciation costs alone.
- (vi) Improving Vehicle Maintenance Maintenance is expensive in itself, and adds considerably to the total number of vehicles needed. There are striking variations among authorities in both these respects, and in the actual operating costs per vehicle.

- (vii) Charging Appropriate Rates The level of charges is, of course, a matter of policy, but audit reports have shown examples of major opportunities to increase income, for example by more prompt billing and by charging where there is no policy or legal reason not to - in one district new charges earned £30,000 reducing the net cost of the whole service by 15%.

Defining the best arrangements for refuse collection an individual authority requires a close understanding of local geography, detailed analysis of the various options, and considerable time to negotiate and implement changes. The Handbook therefore proposes that once the "ROSS AUDIT" is complete, in those areas where the authority is satisfied that the potential is worthwhile, it will be invited to apply the full LAMSAC model, or take such other steps as it thinks appropriate to realise the improvement opportunities.

#### IV PURCHASING

Local authorities' external purchases of goods and services amount to at least £2 billion annually. Even quite small cost reductions can therefore generate savings of the order of £40-50,000 in a typical district. Drawing on the experiences of the District Audit Service, the Handbook identifies four main initiatives:-

- (i) Changing Specifications in particular to eliminate unnecessary variety. One education authority made major savings by reducing the types of exercise books purchased from 100 to 7. Other small councils claim savings of £10,000 pa by changing the specification of refuse collection sacks to cheaper ones with the same durability. Almost £20m a year is spent by local authorities on such sacks.
- (ii) Obtaining competitive bids and ensuring compliance with standing orders. In one district 8 suppliers received over £320,000 in small orders although no contract had been arranged centrally. In another authority a supplier increased unchecked invoice prices by 14.5% when the agreed figure was 6.5%.

the Handbook also contains guidance on adding new bidders to tender lists and scrutinising for price variations.

- (iii) Taking advantage of scale. Particular opportunities worth examining include consolidating purchases. One borough found that purchases worth over £250,000 pa were not subject to any central arrangements. In another county over 30 establishments were buying their own meat and groceries although there were apparently more favourable contracts negotiated by the county council of which the purchasing officers were unaware. Other improvements can be made by ensuring conformance with negotiated agreements. One outer London Borough was paying between 8 and 130% more than the nominated supplier's price for a range of items from paint to sinks.

The Handbook also suggests that, although it may in certain circumstances be better for an authority to arrange supply on its own account, where purchasing consortia exist they often provide opportunities for significant price reductions. One London Borough was routinely paying between 13 and 100% more than the GLC for the same or equivalent items ranging from liquid bleach to paper towels and typists' chairs.

- (4) Central Storage and Distribution Reductions in the costs of storage and distribution can be achieved by, inter alia, checking stock levels (one authority was holding 3 months' stock when it was expecting to meet all stocks within 20 working days) checking anomalies in ordering rates (a District Auditor found 16 tyres ordered for one 6-wheel vehicle in a year and a total of 50 new tyres ordered for five 4-wheeled vehicles in 15 months). Transport costs can also reveal significant savings - one purchasing organisation was only achieving 65% vehicle utilisation and miles per vehicle were under 8,000 a year.

The Handbook suggests methods of diagnosing local opportunities for savings and includes a questionnaire to be completed by all authorities (including guide prices for a basket of some 45 items purchased by authorities) to assist authorities in identifying scope for improvement.

#### APPENDIX: ADDITIONAL VALUE FOR MONEY PROJECTS

As councils and auditors may wish to examine services other than those covered above, the appendix summarises the kind of steps that often merit consideration to improve value for money in three further services:-

- A Development Control
- B School Meals
- C Leisure Centres

Each of these has recently been the subject of a report published by the former Audit Inspectorate, and the sections cover performance and cost standards, which, together with the figures in the authority profiles, should indicate where further investigation might be particularly worthwhile.