

The impact of external inspection on local government

External inspection is central to the current drive to improve public services. New inspectorates have been created in the health service and local government. However, relatively little is known about the impact of external inspection and there have been growing concerns about the costs of running the inspectorates and fears that they may skew local priorities and distract key staff from the task of front-line service delivery. This study by Howard Davis, Steve Martin and James Downe outlines the key findings of the first stage of research on the impact of external inspection of local government. The researchers found:

f While there are some similarities in their aims and methods, inspectorates display important differences in origins, remits, budgets and reporting lines. Local authority managers identified two contrasting approaches to style of inspection and service improvement, broadly defined as 'supportive' or 'punitive'.

f The estimated annual cost of the inspectorates currently covering local government is around £600 million. In addition, there are indirect costs to local authorities, such as staff time. However, the potential costs and the link between inspection and improvement are difficult to quantify, as the full impact of an inspection may not be felt for several years.

f Senior local and national policy-makers interviewed agreed that inspection has a key role to play in improving public services. However, there was widespread agreement that the current processes could be made more effective if inspectorates:

- become more 'joined up', co-ordinating their activities and using common inspection frameworks and criteria;
- reflect local as well as national priorities;
- encourage innovation and appropriate risk-taking;
- provide real incentives and rewards for improvement;
- combine inspection with measures to increase the capacity of poor performers;
- use reliable and relevant measures of performance;
- focus on outcomes rather than processes; and
- engage with service users and front-line staff.

f The researchers conclude that we need to develop a more sophisticated understanding of how inspection promotes improvement.

The rise of inspection

External inspection of public services is not a new phenomenon. It dates back at least as far as Victorian times. However, the last twenty years have witnessed an audit and inspection explosion. This has been sparked by:

- The 'crisis' of public spending and increasing pressure to ensure that public services offer 'value-for-money'.
- The erosion of public trust in professionals.
- The rise of managerialism and associated performance monitoring and management systems.

By virtue of their 'independence' inspectors are seen as bringing pressure to bear on public service providers. Meanwhile, encouraged to think of themselves as 'consumers' of services, the public has begun to display an increased appetite for some (though not all) performance data – most notably school 'league tables'.

The arrival of the 'Best Value' regime accelerates this process. It introduces, for the first time, comprehensive inspection of all local authority services. However, in so doing, it presents a series of new challenges for both the inspectors and the inspected bodies.

This study aimed to identify the key issues that need to be addressed as part of the on-going policy debate about the effectiveness of inspection as a catalyst for improving public services.

The inspectorates

There is a risk of role confusion between external auditors and inspectors. Interviews are also picking up concerns about the burden of inspection and a lack of 'joined up' working between the six inspectorates that now cover different aspects of local authority services – the Best Value Inspection Service, Her Majesty's Fire Services Inspectorate, Her Majesty's Inspectorate of Constabulary, the Office for Standards in Education (Ofsted), the Social Services Inspectorate and the Benefit Fraud Inspectorate.

There are some similarities between these inspectorates. They all define their roles in similar terms and have a focus on promoting improvement. Most use similar inspection methods – typically a combination of desk-based analysis and site visits. They all employ professionals with experience of

running the services they are inspecting and claim to use some form of 'risk assessment' to target key issues and services.

The study's interviews and analysis of these agencies' annual reports and mission statements, however, reveal important differences between them. They have quite different origins and different remits. Their budgets vary enormously and they report to different central government departments. Not surprisingly, local authority managers perceive them as bringing contrasting approaches to service improvement and different styles of inspection. Ofsted is, for example, regarded as having a very different ethos from the Best Value Inspection Service which is, in turn, contrasted with inspection regimes in the 'uniformed' services (police and fire).

Many local authorities point to contrasts between what they see as relatively 'punitive' and relatively 'supportive' regimes. The latter emphasise capacity building. They give advice and seek to disseminate 'good practice'. Their approach to inspection tends to be non-confrontational and corrective action is often taken 'behind the scenes'. By contrast, 'punitive' regimes are seen as being more directive. Criteria for success are determined by central government and imposed 'top down'. There is a strong emphasis on 'naming and shaming' with 'failing authorities' put on public display as a warning to others.

Impacts of inspection

There are strong *a priori* arguments in favour of external inspection. It can help to ensure that standards are checked and that statutory obligations are adhered to. In the right contexts it may deter fraud, highlight poor administration, increase public accountability and improve service delivery. Set against this, however, is the cost of inspection. There is no reliable empirical evidence of the overall costs and benefits of inspection but the estimated annual cost of the inspectorates currently covering local government is around £600 million. In addition there are indirect costs including:

- Compliance costs – staff time and other resources devoted to preparing and managing inspections (writing strategies and performance plans, establishing audit trails and compiling performance data and so forth).

- Opportunity costs – beneficial activities that are foregone because staff are preparing for and managing inspection processes.
- Avoidance costs – the costs of circumventing inspection or mitigating its effects.
- Displacement effects – the danger that authorities' activities may become skewed inappropriately towards activities and outcomes that are inspected.
- The stifling of experimentation and innovation – the fear of failure may deter authorities from developing new approaches.
- Damage to staff morale – the sense of being checked up on and the workload involved in preparing for inspection can depress morale regardless of the outcome of the inspection; being judged as a failing service may make it difficult to attract the calibre of new staff needed to turn a 'failing' organisation around.

Both these potential costs and the link between inspection and improvement are, however, difficult to quantify – not least because the full impact of an inspection will often only become apparent several years later. The current dominance of inspection as the preferred mode of regulating local government appears therefore to derive from a lack of trust in the alternatives rather than compelling evidence of its capacity to promote improvement. As the Select Committee on the Environment, Transport and Regional Affairs recommended (March 2000), there is then an urgent need for research to ascertain whether the benefits of the inspection regimes justify their costs. This will require a concerted attempt to develop our understanding of:

- How improvement is achieved in practice.
- The ways in which inspection regimes contribute to improvement.
- How inspection regimes interact with each other and with other local and national policy instruments.
- Which approaches work best and in what circumstances.

Improving inspection

In the meantime there are a number of improvements that can be made to current inspection regimes. The study found universal acceptance among senior local and national policy-

makers that inspection has a role to play in public service improvement. Many though highlighted improvements that they believe need to be implemented.

Clearly it is still early days. The Best Value Inspection Service is less than two years old. However, there was a widespread view that:

- Inspection needs to take more account of the importance of local priorities and to reflect a balance between national prescription and local flexibility.
- Inspection regimes need to do more to recognise and reward appropriate risk-taking whilst also dealing decisively with serious or persistent underachievers. The Government has promised new flexibilities and freedoms for some authorities. Many interviewees believed that these needed to be brought forward as a matter of urgency in order to allow authorities to experiment with new forms of service delivery.
- Policy-makers need to achieve a balance between the demands for 'early wins' and the pressure for long-term, 'transformational' change (which may well take several years to achieve).
- There needs to be a balance between spending on external inspection and the need to invest in new infrastructure, skills training and capacity building that many authorities will need in order to achieve improvement.
- Inspectors need to co-ordinate their activities in order to avoid over-burdening authorities. There is now a formal mechanism for co-ordinating the timing of inspections. Many authorities would like to see greater efforts to use the same kinds of evidence and the adoption of similar success criteria by the six inspectorates.
- Inspectorates should focus their efforts on those services and authorities that are most in need of improvement. The intensity and frequency of inspection should be proportionate to perceived risks and there is a need to extend the principle of 'lighter touch' inspection for services that are performing well.
- There is a danger that external inspections will focus upon style rather than substance. Processes are often easier to measure and certify than outcomes. However, it is vital that inspection regimes focus on the service outcomes. If they fail

to do so inspectors and the authorities whose activities they are scrutinising will become bogged down in procedural details. Form-filling and the preparation of plans and a multitude of other strategy documents will be used to paper over the cracks in poor services. Inspection will cultivate a culture of compliance rather than of improvement.

- In order to promote an outcomes focus there is a need to develop more rigorous performance measures at both local and national level. Many authorities accept the need to overhaul both their corporate and service-based performance management systems and there is increasing talk about the importance of using 'quality of life' measures. It is not yet clear though how widely these will be adopted.
- The inspection process needs to be 'owned' more widely. At present it is often seen as 'managerial and process-driven' - the preserve of inspectors and senior managers and largely irrelevant to politicians, the public and front-line staff. If it is to deliver improvements in key service outcomes - the cost effectiveness, quality and responsiveness of public services - inspection must engage with the concerns of service users and the staff who have responsibility for day-to-day service delivery.

About the study

The report draws upon the first phase of an investigation into the impacts of external inspection on local government. It is based on three main sources of evidence - a review of existing research on the impact of inspection regimes in the UK, interviews with senior policy-makers in inspectorates and the Local Government Association and interviews with senior local authority managers. The second stage of the research will explore these issues in more detail through in-depth interviews and case studies involving local and national policy-makers.

How to get further information

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The full report, **External inspection of local government: Driving improvement or drowning in detail?** by Howard Davis, James Downe and Steve Martin, is published for the Foundation by YPS (ISBN 1 84263 026 1, price £10.95).