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HALLMARKS FOR DELIVERING EFFECTIVE LOCAL PUBLIC SERVICES: DISCUSSION PAPER

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CIPFA wishes to thank members of the Local Government Policy Panel for their contribution to this paper. The views expressed within it, however, should be taken as being those of CIPFA and not necessarily of the other bodies and organisations represented on the Panel.

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1. INTRODUCTION

1.1 This paper has been prepared by CIPFA as a contribution to developments in public services in local communities, particularly as they apply in local government.

1.2 There is currently a huge political agenda around the public services – their quality, whether they are improving, whether additional money is having the impact that it should, new localism, the Gershon review. CIPFA's Local Government Policy Panel has determined, rather than necessarily responding to individual consultation papers, to develop a more general contribution to input to this agenda. The purpose of this discussion paper is to take that contribution forward and it is hoped that the paper will influence future policy making.

1.3 In seeking to move the policy agenda for the public services forward, a key problem is tying down precisely what the 'agenda' is. For example, the term 'new localism' is widely used by policy makers but can be used to cover a range of scenarios: from the renewal of existing local democratic arrangements,

at one extreme; to the development of many single-purpose organisations for individual service delivery at the other.

1.4 Also, different parts of the 'agenda' often seem to be pulling in different directions. For example, the desire for increased efficiency can conflict with demands for greater choice.

1.5 This paper reflects the role that the financial profession can take in the public policy agenda. This is a positive but policy-neutral role. It seeks to inform, spell out consequences, and influence the reforms, but not in any way to dictate them. The fluid and incomplete nature of the current policy debate in itself serves to provide a chance to influence outcomes.

1.6 This paper concentrates on three hallmarks that CIPFA considers that any way forward for public services ought to deliver:

- efficiency
- subsidiarity
- appropriate governance arrangements.

The good practice principles that it is recommended be taken forward in connection with these hallmarks are identified within the paper.

- 1.7 This document is specifically geared towards local government. However, elements could have a read-over to other parts of the public sector.

2. EFFICIENCY

2.1 It is confidently expected that it will be universally accepted that the hallmark of efficiency is one that should apply to proposals for the public services.

THE GERSHON REVIEW

2.2 Efficiency has been given additional impetus and quantification recently by the Gershon review.¹ The Gershon review identifies a total agreed target for public sector efficiency gains of £21,480 million by 2007/08.² The Spending Review 2004 translated this into an efficiency target of at least 2.5 per cent per annum over the next three financial years across the public sector. All local authorities are expected by central government to achieve this, and across local government in England, the target for efficiency gains within the Gershon review is £6,450 million by 2007/08.

1. *Releasing Resources to the Front Line – Independent Review of Public Sector Efficiency*, Sir Peter Gershon, CBE, July 2004.

2. The Gershon review covers all UK Government, but not the devolved administrations. However, Gershon notes that the Scottish Executive and Welsh Assembly Government have announced that they are engaged in making annual efficiency gains as ambitious as those in England.

2.3 It is important to stress that efficiency gains are not the same as ‘cuts’. Rather, within Gershon, efficiency gains are defined as reforms that achieve:

- “
 - *reduced numbers of inputs (eg people or assets), whilst maintaining the same level of service provision; or*
 - *lower prices for the resources needed to provide public services; or*
 - *additional outputs, such as enhanced quality or quantity of service, for the same level of inputs; or*
 - *improved ratios of output per unit cost of input; or*
 - *changing the balance between different outputs aimed at delivering a similar overall objective in a way which achieves a greater overall output for the same inputs (“allocative efficiency”).”³*

2.4 At least half of the efficiency gains should be ‘cashable’. This term is used within Gershon to indicate efficiency gains where there is a direct financial saving or benefit, with cash released that can be spent elsewhere or recycled within a service to deliver better results. The Government has indicated⁴ that cashable efficiency gains made

3. The Gershon review, paragraph 1.7.

4. *Delivering Efficiency in Local Services – Information for Leaders and Chief Executives*, ODPM, November 2004.

by a local authority “can be retained and recycled within local services”. The remainder of efficiency gains will be ‘non-cashable’, a term used within Gershon to indicate improved performance for the same resources.

- 2.5 The Gershon review identifies six main potential areas for efficiency gains:
- back office functions
 - procurement
 - transactional services
 - policy, funding and regulation for the public sector
 - policy, funding and regulation for the private sector
 - increasing the productive time of front line staff.
- 2.6 Of local government, the Gershon review says:

“Local government will be responsible for delivering over £6.45 billion of total efficiency gains by 2007/08, building on existing best practice. At least half of these savings will be cashable, releasing resources to front line services. ODPM and other government departments will work in partnership with the Local Government Association, local authorities and other stakeholders to help secure these efficiencies. Efficiencies are

anticipated in the following areas, with approximately:

- *40 per cent of the savings expected to be delivered through schools;*
- *10 per cent through policing; and*
- *35 per cent delivered through procurement in other services (for example adult social care, social housing, children’s services, highway maintenance and waste).*

Further savings are also expected to be delivered through increased rationalisation of local authority back office functions and transactional services and improvements in productive time of staff.”⁵

ACHIEVING EFFICIENCY GAINS IN LOCAL GOVERNMENT WITHIN THE CURRENT PUBLIC SERVICE ARRANGEMENTS

- 2.7 In our initial response⁶ to the information from HM Government concerning the Gershon review, CIPFA strongly recommended a self-assessment route for efficiency gains in local government, which we believe supports and incentivises local

5. The Gershon review, paragraphs C20 and C21.

6. *Delivering Efficiency in Local Services (England)*, CIPFA comments, 1 December 2004 – full copy available at www.cipfa.org.uk/panels/lgpp/responses_lgpp.cfm

ownership of the efficiency challenge. We further believe that the efficiency statement should explain the authority's self-determined strategy for securing and measuring efficiency savings, its plan of action for doing so, and its results. In contrast, a predetermined framework assessment approach would run the risk of creating an industry of standard form filling that would collect a lot of detail but would not necessarily capture the substance of an authority's efficiency strategies. It would also give the impression that action requires local compliance rather than local determination and would run counter to each individual authority's ability to plan and prioritise.

2.8 The efficiency technical note (ETN) for local government in England published by the Office of the Deputy Prime Minister (ODPM) in January 2005 adopts the self-assessment route for efficiency gains in local government. This ETN, however, specifically excludes arrangements for the following services:

- fire, which is covered by the ODPM ETN
- police, which are covered by the Home Office VfM technical note

- schools, which are covered by the DfES ETN.

2.9 For schools, we accept that separate arrangements will be necessary in England, in order to be consistent with the passporting that the Department for Education and Skills requires with respect to schools budgets. We would, however, be concerned if in practice this leads to separate processes that would run counter to the joined-up thinking that is at the heart of the Children Act 2004 and/or would make it more difficult overall to achieve efficiency gains.

2.10 We further recommend that whenever the cost of services is used within the measurement of efficiency, the definition of cost used for that measurement should be that required in accordance with proper accounting practice for local government.⁷ It is important both that there is consistency of measurement and that full costs are measured.

7. That is, the measurement of total cost within the CIPFA *Best Value Accounting Code of Practice*.

2.11 This is particularly important in respect of the need to integrate revenue and capital planning, in order to maximise service effectiveness and efficiency.

2.12 In addition, for efficiency improvements to be intelligently gauged, a prerequisite is that output and productivity can be accurately measured against appropriate government and other funding streams. CIPFA has contributed to Sir Tony Atkinson’s review of the measurement of government output and productivity for the National Accounts with the aim of simplifying some of the existing and complex reporting requirements in order to improve both transparency and accountability.

2.13 It should be recognised that there is a wide body of knowledge, expertise and practice within local government in achieving efficiency gains. Indeed, Nick Raynsford, Minister for Local and Regional Government, said in his introduction to *Delivering Efficiency in Local Services*:

“I know that there is already a great deal of experience within local authorities of successfully looking for and achieving efficiencies. Indeed, this is part of the Best Value duty to have regard to economy, efficiency and effectiveness

to secure continuous improvements in performance.”

2.14 Local authorities can also draw on existing guidance from CIPFA on financial stewardship and financial management that will be of relevance in making efficiency savings.⁸

EFFICIENCY GAINS IN LOCAL GOVERNMENT AND THE POLICY CHANGE AGENDA

2.15 The policy change agenda for public services has the potential to have a significant impact on efficiency. In our response to the earlier Cabinet Office Efficiency Review, CIPFA said:

-
8. Attention is drawn particularly but not exclusively to:
- *The CIPFA FM Model: Improving Financial Management and Effectiveness in the Public Service* (financial management)
 - CIPFA’s *Best Value Accounting Code of Practice* (measurement of cost of services)
 - CIPFA’s *Making the Right Choices – A Practical Guide to Project Appraisal* (option appraisal)
 - the work of the Commissioning Joint Committee, which is published by CIPFA, on public sector procurement
 - the advisory, statistical, networking and consultancy services provided by the CIPFA Group through IPF.

“If significant efficiency gains are to be achieved in the UK’s public services, they will probably not be found by continually targeting the local service delivery organisations. As has been pointed out in this paper, the overall regulatory and policy framework within which such organisations operate is often the determining factor as to the relative priorities between ‘service delivery’ and service policy, planning and monitoring activities. This points to the need for a radical shift in the regulation and policy framework, underpinned by rigorous regulatory impact assessments, to ensure that the concept of control proportionate to risk becomes the governing principle across public services.”

2.16 The need for a radical shift in the regulation and policy framework does seem now to be more widely accepted. However, the direction of travel is not yet fixed and it is CIPFA’s view that some directions are more likely to be compatible with greater efficiency than others. Of course, there may be other policy objectives that override, in some cases, the maximisation of efficiency, but where this is the case it is considered that the policy choice should be explicitly made having regard to this effect.

2.17 One important aspect of the policy framework as it impacts on efficiency in local government is the manner in which funding streams operate.

2.18 Others have made reference to this. Within Gershon, there is a summary of comments made during the review. The main points⁹ reported on public policy, funding and regulation include the following:

“front line service delivery bodies often had to deal with a plethora of bodies as funders and regulators leading to significant additional delivery costs”

“the costs of applying for ring fenced grants were very high and could be significantly out of proportion with the size of the grant itself; nevertheless bodies felt bound to make applications”

and

“public sector organisations and voluntary and community organisations spent considerable time repackaging statistics to service the different formats required by funders; scope existed to rationalise systems and requirements”.

9. The Gershon review, paragraph B.25.

2.19 The 2004 Audit Commission report *People, Places and Prosperity*¹⁰ tackles this issue head on. The following are extracts from the summary section of the report:

“The current institutional arrangements, the complex interaction of national programmes, initiatives and targets, and complicated partnership arrangements confuse lines of responsibility and accountability and hamper successful delivery at local level.”

“Complex funding arrangements from a bewildering variety of sources result in excessive administrative costs and uncertainty as to the long-term sustainability of projects.”

and

“These suggestions [a local area agreement and a re-focusing of the local public service agreements] would enable a more efficient approach to the administration of the many funds that come down from central government to the local level. They are intended to contribute to the debate rather than

provide a detailed and prescriptive model: any model that moves towards enabling government funding as a whole to be related to an area as a whole would be a significant step forward.”

2.20 CIPFA supports the views of the Audit Commission expressed above. Additionally, we have made comment (for example, within our submission on the original 2000 green paper from the then DETR on modernising local government) on the limited number of circumstances where we consider specific grants (or passporting or hypothecation) can play a valuable role. These are when:

- the local authority is effectively acting as ‘postman’ for central government – for example in administering housing benefit
- a new function is introduced – during the period of transition
- spending is ‘lumpy’ – for example in the case of homelessness or asylum seekers
- there is a desire to encourage experimentation
- paving the way for a new source of income.

10. *People, Places and Prosperity – Delivering Government Programmes at the Local Level*, Audit Commission, 2004.

2.21 Further, CIPFA has been instrumental in enabling the introduction of a new framework for capital finance in local government, through the development of the Prudential Code.¹¹ Key characteristics of the new prudential framework are that it encourages longer-term strategic capital and asset management planning, facilitates the integration of capital and revenue plans, and enables 'spend to save' activities. However, the benefits of the prudential framework, which all contribute to greater efficiency, will only be maximised if the funding for local authority capital investment is, firstly, no longer linked to particular financing options and, secondly, is focused on the revenue account, to support future depreciation and interest costs. There have been recent positive movements in this direction and we look forward to working further with local and central government in this regard.

2.22 So far, we have considered the type of funding received by local government. The balance of funding is also relevant and will be considered in the section

of this document that deals with subsidiarity.

2.23 The regulatory (audit and inspection) framework is also important and will be considered in the section of this document that deals with appropriate governance arrangements.

2.24 However, the feature of the current policy debates that could arguably have the greatest impact on efficiency is a structural one. Some variations of 'new localism' envisage the creation of a large number of single-purpose bodies for the provision of public services. Amongst the things that ought to be considered with this type of initiative is the impact that it would have on efficiency. This is multi-faceted and some of the ways in which this would impact negatively on efficiency are listed below:

- procurement – small bodies can be disadvantaged
- there is an overhead in having separate bodies in terms of needing separate statements of account, audit of the same and, very possibly, separate legislative and/or regulatory frameworks for these, which in turn have their own overheads

11. *The Prudential Code for Capital Finance in Local Authorities*, CIPFA, 2003.

- treasury management expertise is likely to be lacking and/or expensive to buy in, and efficiencies from the pooling of funds lost
- increased inflexibility in the ability to redirect resources – now between organisations – to reflect priorities at a local level
- separate boards/governing bodies also have an overhead.

2.25 Efficiency is not, of course, the only consideration when it comes to making structural decisions, but structural inefficiency can be costly and ought to be an important consideration.

services could either help or hinder efficiency gains. This is particularly true of:

- the manner in which local government funding streams operate
- the balance of local government funding that is raised locally
- the regulatory (audit and inspection) framework
- structural efficiency.

SUMMARY

2.26 In summary, we believe that the principles of self-determination and self-assessment, and of full cost measurement in accordance with proper practice, are all important for the achievement of efficiency gains. Further, we consider that there is a wealth of relevant existing experience and guidance within local government.

2.27 However, in addition, the framework within which local authorities operate is important for efficiency, and we believe that future developments in the public

3. SUBSIDIARITY

3.1 Subsidiarity, or the devolvement of power down to the most appropriate level of government for the type of decision in question, is the second hallmark by which CIPFA recommends any way forward for the public services ought to be considered. What does this mean for local government?

THE EUROPEAN CHARTER OF LOCAL SELF-GOVERNMENT

3.2 The UK is a signatory to the European Charter of Local Self-Government¹² and this should be taken as an enunciation of what is meant by subsidiarity in the context of local government for the purpose of this discussion paper.

THE BALANCE OF FUNDING

3.3 The balance of local government funding that is raised locally is an important aspect of subsidiarity. CIPFA has actively contributed to the current

debate on the balance of funding and hopes that the Lyons review will find a way forward on this.

3.4 The following summarises our previously expressed views and submissions on the balance of funding issue:¹³

- In CIPFA's view, if local democratic renewal and greater community involvement are to be achieved, it is essential that local authorities enjoy financial autonomy and accountability.
- In our view, what is needed is a fundamental shift in the balance between local and central tax raising towards a situation where more than half of local authority spending is financed locally.

12. This can be seen at www.conventions.coe.int/Treaty/EN/Treaties/Html/122.htm

13. See also:

- *Local Government Balance of Funding Review* – CIPFA response to invitation to comment, September 2003
- CIPFA submission to the Committee on the ODPM's inquiry into local government revenue, March 2004
- *A Taxing Issue – A Local Government Income Tax Exemplified*, CIPFA, 2004
- *The Relocalisation of the Non-Domestic Rate – A Discussion Paper*, CIPFA/Rita Hale & Associates Ltd, 2004
- Papers on the balance of funding review on the ODPM's website.

- In CIPFA's view, it is right that a proportion of the local tax-raising capacity nationally is based on a property tax or taxes. We consider, however, that the council tax is currently in danger of being asked to bear too high a proportion of the total tax burden. We support proposals for the reform of the council tax and council tax benefit put forward through research carried out by the New Policy Institute for the Balance of Funding Review.
 - We support the re-localisation of the business rate and, whether or not this is done, recommend a re-examination of the current legislative link between rises in business rate and inflation.
 - We support further consideration of other options, notably local income tax, and have undertaken research on practical ways forward in this regard.
- 3.5** The balance of funding is pertinent to the hallmark of efficiency as well as to the hallmark of subsidiarity, in the same manner as discussed above in paragraphs 2.17-2.21 for the type of funding received by local government.

POSTCODE LOTTERY

- 3.6** In our submission to the Committee on the Office of the Deputy Prime Minister's Inquiry into local government revenue, we said:

"In CIPFA's view, a robust and effective approach to financing local authorities must be underpinned by a clear understanding of the relationship between central and local government. Whilst CIPFA recognises that local government needs to act in partnership with central government to deliver a range of desirable policy objectives, a balance needs to be struck to ensure that local democracy is not undermined and local authorities do not become mere agents of central government. In many areas local authorities clearly are in the best position to judge the needs and priorities of the area and communities they serve and the appropriate basket of taxation and expenditure proposals. However well intentioned, central government intervention in these essentially local matters will inevitably cause confusion about accountability."

- 3.7** This issue butts up against the dilemma of the 'postcode lottery' There is a clear dichotomy between the desires – as articulated by the public – firstly for

diversity and innovation in public service delivery, and secondly for equality in service provision, whether it be access to prescription drugs, long-term residential care, or any other service.

3.8 Within local government, this tension has been addressed through funding mechanisms and via the improvement agenda in audit and inspection (Comprehensive Performance Assessment in England, the Wales Programme for Improvement, the audit of Best Value in Scotland and Best Value in Northern Ireland). CIPFA's views on funding are summarised above (paragraphs 2.17-2.21 and 3.4) and we have previously signalled our view of the need for a radical shift in the regulation and policy framework to ensure that the concept of control proportionate to risk becomes the governing principle (paragraph 2.15).

3.9 We recommend that the dilemma of the postcode lottery should be addressed through the application of minimum standards rather than detailed prescription. Goodhart's Law (when a measure becomes a target it ceases to be a good measure) and the perverse effects of centralised detailed targets are well known. Minimum standards with local discretion beyond them could

offer a more fruitful way forward and combine subsidiarity with the fact that society will not accept standards of provision falling below certain norms in any area. Further, such a framework would encourage local innovation, and successful local innovation can lead to increases in minimum national standards over time.

3.10 One possible way forward on this is the further development of the local area agreements that are to be piloted in England in 2005/06. We would support the Audit Commission's comments in this regard in their recent report *People, Places and Prosperity*.

SUMMARY

3.11 In summary, we would recommend that a radical shift is made, in both funding and regulatory issues, towards a situation where more than half of local authority spending is financed locally and to a focus on guaranteed minimum standards rather than detailed prescription.

4. APPROPRIATE GOVERNANCE ARRANGEMENTS

CORPORATE GOVERNANCE

4.1 The Audit Commission, in their 2003 publication on the subject,¹⁴ define corporate governance as:

“The framework of accountability to users, stakeholders and the wider community, within which organisations take decisions, and lead and control their functions, to achieve their objectives.”

4.2 The CIPFA/SOLACE work on corporate governance in local government¹⁵ uses the following similar definition:

“Corporate governance is the system by which local authorities direct and control their functions and relate to their communities.”

14. *Corporate Governance: Improvement and Trust in Local Public Services*, Audit Commission, 2003.

15. *Corporate Governance in Local Government – A Keystone for Community Governance: The Framework*, CIPFA/SOLACE, 2001.

4.3 Very recently, the Independent Commission on Good Governance in Public Services published a standard for governance in the public services.¹⁶ This identifies six core principles of good governance. These state that good governance means:

- focusing on the organisation’s purpose and on outcomes for citizens and service users
- performing effectively in clearly defined functions and roles
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour
- taking informed, transparent decisions and managing risk
- developing the capacity and capability of the governing body to be effective
- engaging stakeholders and making accountability real.

16. *The Good Governance Standard for Public Services*, The Independent Commission on Good Governance in Public Services, 2005. The Independent Commission on Good Governance in Public Services was established by the Office for Public Management and CIPFA, in partnership with the Joseph Rowntree Foundation, and chaired by Sir Alan Langlands. Its role was to develop a common code and set of principles for good governance across public services.

THE IMPORTANCE OF APPROPRIATE GOVERNANCE ARRANGEMENTS

4.4 It is considered that everyone would agree that good governance is 'a good thing', but that sometimes its importance is not fully recognised until or unless something goes wrong, when the risks of not having appropriate governance arrangements become most decidedly apparent.

4.5 This issue was considered in the 2003 Audit Commission publication on corporate governance, which says:

"Organisations with good corporate governance have the capacity to maintain high-quality services and to deliver improvement. Poor corporate governance has contributed to serious service and financial failures. The growing debate about corporate social responsibility and corporate manslaughter bring this issue into stark perspective."

Corporate failures in the private sector can have a catastrophic effect on public trust, leading to falls in share values, investor confidence and in the general public's trust in the stewardship and state of the economy. MORI's research for this study shows that public sector corporate failures also undermine trust."

4.6 Failures of corporate governance in the public service sector lead to poor quality services and/or poor use of public money. For the elected representatives perceived as being responsible for such failures, it leads to bad publicity, lack of trust and, ultimately, loss of power through the democratic process.

HALLMARK OF APPROPRIATE GOVERNANCE ARRANGEMENTS

4.7 Failures of corporate governance in the public services can stem from failures within the provider organisation itself, for example due to lack of leadership. However, failures of corporate governance can be facilitated systemically through lack of appropriate, or muddled, arrangements. It is these aspects on which this discussion paper concentrates in seeking to establish hallmarks for the change agenda in local public services.

ACCOUNTABILITY

4.8 One vitally important issue in respect of appropriate governance arrangements that will facilitate good governance is that of accountability. Basic questions are:

- who is accountable for what?
- to whom?
- is the final structure for the commissioning, leadership and provision of public services coherent?

If, for any proposed changes, these questions cannot be answered simply, precisely and affirmatively, then this does not auger well for good governance.

STEWARDSHIP OF PUBLIC MONEY

- 4.9** The proper and effective stewardship of public money is also vital for good governance in the public services. Necessary preconditions for this are proper accounting arrangements and good treasury management. To achieve these, reliance must be placed on the individuals within the organisation concerned. However, even the most professional, skilled and experienced people will not be able to operate well unless there is a clear framework both legislatively and of professional standards within which they act.
- 4.10** Central government departments and local authorities have clear frameworks for accounting and treasury

management. For local government, there is an established body of law and professional codes of practice. The latter are often CIPFA codes.

- 4.11** Where special vehicles are created for service provision, or new types of single-purpose organisations are developed, or where more responsibility is devolved or transferred to existing bodies, then care must be taken to ensure that appropriate arrangements exist, or are created where they do not exist, in order to ensure the stewardship of public money. It must be remembered that such things cost, in terms of both money and time, and carry their own overheads. There is thus a link back to the Gershon agenda.

AUDIT, INSPECTION AND REGULATORY ARRANGEMENTS

- 4.12** Similar issues arise in audit, inspection and regulatory arrangements. Are the arrangements for audit and inspection clear? Proportionate to risk? Part of existing arrangements or requiring new ones? What are the sanctions and who will apply them?
- 4.13** Again, reliance has to be placed on individuals to undertake audit and inspection, but arrangements will

not work unless there is a clear and appropriate framework. Again, there is a link in to the Gershon agenda, in having a regime that is proportionate to the risks, and, if there is a need, establishing new arrangements or, indeed, audit bodies.

issue of subsidiarity. Questions of efficiency can also arise; for example, the Educational and Skills Select Committee has raised the issue of whether a new quango will be required to adjudicate on schools budgets following the decision to centralise funding.

POLITICAL CHOICE

4.14 The provision of public services involves political choice. This can raise difficult issues. Examples:

- how to provide infrastructure for growing communities
- resolving arguments of the distribution of resources, eg **between** schools as well as **to** schools
- where to site new homes.

4.15 Whilst many issues can be resolved through the application of technical or professional standards, others are a matter of political choice that cannot be taken at the level of a single-purpose organisation. The question is, therefore, to what extent these choices will lie within which tier of government: neighbourhood, local, national or supra national? This must be clear for good governance, and also links with the

SUMMARY

4.16 Good governance depends on the individual organisation concerned but also on the framework within which it operates. Appropriate governance arrangements should be a hallmark of change agendas.

5. CONCLUSION

5.1 This discussion paper has sought to identify basic but fundamentally important issues with respect to

- efficiency
- subsidiarity
- appropriate governance arrangements

that CIPFA recommends be considered when taking forward the change agenda for local public services.

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