

HM Inspectorate of Probation



## **Assessing the Costs and Benefits of Inspection: a Case Study**

March 2005

## **ASSESSING THE COSTS AND BENEFITS OF INSPECTION: A CASE STUDY**

### **Executive Summary:**

1. In this paper we use a case study to illustrate how the costs and the benefits of an inspection can be assessed. There are four elements to this exercise: two on costs and two on benefits:
  - A) Costs to the Inspectorate
  - B) Costs to the inspected body
  - C) Benefits – the measurably improved performance by the inspected body
  - D) Benefits – the extent to which the measured improvement can be attributed to inspection
2. The costs are calculated, using an 'absorption' method, in terms of pounds sterling. The benefits are measured in terms of improvements in scores achieved under our inspection methodology between an 'original' inspection and a 'follow-up' inspection. The reader (as taxpayer) is invited to form a view as to whether or not the expenditure on inspection was worth the benefit achieved in terms of public assurance and improved service. The concluding discussion also challenges the fashionable assertion that inspection activity generally is currently 'disproportionate'.
3. Figures:
  - A) Costs to the Inspectorate: c£78,000
  - B) Costs to the inspected body: c£50,000
  - C) Benefits – improvements in the follow-up inspection of:
    - Four gradings in Quality of Management
    - 41 percentage points in Quality of Assessment, and
    - 21 percentage points in Quality of Interventions
4. The total costs of this inspection exercise, which takes place once every three years, comes to about **one half of one percent** of the revenue budget of the inspected body over the relevant three-year period.

### **Why a Case Study?**

5. Within the current policy climate, all of the public service Inspectorates have come under the scrutiny of the Office of Public Service Reform (OPSR) following Ministerial concern about the costs and benefits of inspection. A great deal of debate of the principles has taken place, plus some attempt to examine data historically. Both have inevitably been inconclusive, because such data that are available are inevitably open to a wide range of interpretation.
6. We therefore use this paper to offer a case study because it throws a different light on the subject, and offers the policy-maker a range of choices and options which he/she may choose to pursue or not.

### **Nature of the Case Study:**

7. In June 2003 HM Inspectorate of Probation embarked on a round of inspecting the 42 Probation Areas of England and Wales under the new Effective Supervision Inspection (ESI) programme. We scored each Area on the quality of Assessment, Interventions and initial Outcomes achieved with a representative sample of offenders under their supervision that we examined. In December 2003 we inspected Hertfordshire Probation Area (HPA), we relayed the initial findings in January 2004, and published the report in March 2004. The results were disappointing, and we advised HPA that there would need to be a full follow-up inspection. This would take the form of (broadly) a re-inspection following a period of time during which the Area would have been able to improve its practice.
8. This circumstance presented the ideal opportunity for undertaking the present case study. Within a 'normal' three year cycle, there would not be the opportunity to re-measure a Probation Area's performance against the ESI criteria any more often than three years. During such a long period an enormous number of factors could be interpreted as contributing to any change in results. In this case, however, the timescale was much shorter – less than one year – and would be connected explicitly with action by the Area, acting under the guidance of the Inspectorate, to improve its performance.

### **Key Elements in this Case Study:**

9. This is a cost-benefit analysis, in which the costs are totalled on one side of a notional balance sheet, and represented in terms of money. On the other side of the balance sheet, the benefit is represented in terms of a *quantified improvement in performance*. It is then for the reader to make a judgement as to whether or not the quantified improvement in performance was worth the financial cost.

10. Both the costs and the benefits are divided into two elements each, so that there are four elements to this exercise in all:
- A) Costs to the Inspectorate
  - B) Costs to the inspected body
  - C) Benefits – the measurably improved performance by the inspected body
  - D) Benefits – the extent to which the measured improvement can be attributed to Inspection

**Structure of this Case Study:**

11. Following a brief description of the methodology of the inspection exercise, this paper will then address each of the elements in turn, avoiding excessive detail. However, the detail will be available by separate enquiry with HMI Probation.

**Methodology of the Inspection:**

12. The Effective Supervision Inspection (ESI) programme started in June 2003. All 42 probation areas comprising the National Probation Service (NPS) for England and Wales are being inspected over a three year cycle, with areas of similar characteristics (in terms of size and population density) visited in the same year to facilitate comparisons in performance. This enables the Inspectorate to identify and promote effective work with offenders and disseminate information about good practice.
13. Probation areas are being assessed on how well they have met defined inspection criteria focusing on the:
- Overall management of the area
  - Quality of the assessments carried out on offenders
  - Quality of the interventions carried out with offenders
  - Initial outcomes of the interventions, both in relation to criminogenic factors such as employment, accommodation and substance misuse, and also whether there has been any reduction in the risk of harm and the likelihood of reoffending
14. The inspection takes account of the regular NPS performance data. These are produced by the National Probation Directorate (NPD) who are responsible for their collection and quality assurance.
15. Each inspection takes place over two weeks, about three or four weeks apart. The area is asked to identify a random sample of 100 offenders (more in the largest areas) who have been under supervision for approximately nine/ten months, 20 of whom are registered as high risk of harm. The cases come from most categories of orders and licences.

16. During the first week of the inspection we examine the file, carry out an in-depth interview with the case manager and, where possible, interview the offender and any other people significantly involved in the supervision (eg accredited programme tutors, hostel key-workers, police in high risk of harm cases, CP supervisors, and staff of other organisations involved in providing a service to offenders in relation to drugs, alcohol, employment, etc).
17. Inspection of about a third of the cases in the sample is carried out by experienced staff of the probation area being inspected. We think this provides a positive experience both for the area and the staff directly involved and that it increases ownership of the findings.
18. The second week of the inspection involves meetings with senior and middle managers and Probation Board members to cover issues around the management of the probation area concerned, and to provide some feedback from the first week of the inspection. We also talk with the police in relation to the area's supervision of high risk of harm cases and with representatives of other organisations that are assisting the area with the supervision of offenders.

**Scoring approach:**

19. **Quality of Management Criteria:** A qualitative score is derived from assessment of performance on each of the individual evidence items within the criterion (excluding those relating to the NPD). Scores are defined as:
  - **Very well met:** very strong performance on each item
  - **Well met:** strong performance on each item
  - **Satisfactorily met:** strong performance on the majority of items and at least satisfactory performance on the others
  - **Partly met:** good performance on some of the items and at least satisfactory performance on the others
  - **Not met:** at best only satisfactory performance on some of the items
  - **Poor:** otherwise.
20. **Quality of Assessment, Interventions and Initial Outcomes criteria:** A quantitative score (out of 100) is calculated for each criterion based on the reading of case files, interviews with case managers and other evidence gathering
21. More information about our scoring methodology is available on the HMI Probation website.

**Inspection of Hertfordshire Probation Area (HPA):**

22. HPA has over 1,500 offenders under its supervision at any one time, supervising them either on a range of community sentences imposed by Courts, or in licence following release from custody. The aim is to ensure that the offender complies with their supervision requirements, becomes less likely to reoffend in future, and that any risk of harm that the offender might pose to the public is kept to a minimum. Within the terms of our ESI criteria, there needs to be evidence that each offender under supervision undergoes initial and subsequently regular Assessments, experiences good quality Interventions, and achieves relevant Outcomes – ie there should be evidence that their offending behaviour has reduced.
23. Hence, in keeping with the ESI programme schedule, we visited HPA in December 2003 and examined the work undertaken by HPA staff with a representative sample of 100 offenders who had at that point just completed their first eight months or so of supervision.
24. We chose this period of eight months as a 'happy medium' because a shorter period of supervision would mean that there would be less supervision to inspect, while a longer period would mean that the case would be getting 'too old'. This does mean, however, that at the 8-month point it is not reasonable to expect all the Outcomes of supervision to be achieved - but nevertheless it is reasonable to expect to find evidence of 'initial Outcomes'.
25. Using our detailed inspection forms, we assessed each of the 100 cases to determine whether or not certain criteria had been 'sufficiently met'. An aggregated 'score for HPA' for each of the criteria was produced by adding together the number of cases where the criterion was met.
26. These were in turn clustered to produce quantified measures for the three key Sections, which in the case of HPA were:
- |                             |     |
|-----------------------------|-----|
| Quality of Assessment       | 49% |
| Quality of Interventions    | 66% |
| Quality of initial Outcomes | 62% |
27. These results were sufficiently disappointing for the Inspectorate to decide that there would need to be a full follow-up inspection.

**Follow-up methodology:**

28. Under the ESI programme, full follow-ups were planned to be an exception, and indeed HPA's was the first one. The idea in principle is that a follow-up should be a re-measurement, so that performance at one later point in time can be directly compared with another at an earlier point in time.

29. In practice there are some limitations to the extent to which this is possible, as there is intrinsically a time lag involved in inspecting work undertaken with a sample of offenders over a period of up to ten months prior to the inspection visit.
30. Hence for this follow-up we took two samples of cases – one was of cases starting supervision in February 2004, and the other in September 2004. With the February sample it was possible to examine a full eight-to-nine-month period of supervision, but since these cases started barely a month after the original inspection findings had become known there was minimal opportunity for staff to learn and change. With the September sample the opportunity to learn and change was clearly by then in place, but only a much shorter period of supervision was available to be examined. Hence only a more limited range of data could be compared.
31. What this meant in practice was that with the two samples we were able to make sensible and fair (though not perfect) comparisons between the original and follow-up scores on Quality of Assessment and Quality of Interventions, but not on Quality of Initial Outcomes. We could also fairly compare our assessment of the Quality of Management over the two inspections, using the non-numerical gradings described earlier.

#### **A. Cost to Inspectorate:**

32. HMI Probation employs an 'absorption' approach to costings, as is outlined in the 2004/2005 Plan for the Inspectorate. This means that resources are allocated to inspections and other activities in the form of 'deployable hours' for Inspection staff. Thus, during 2004/2005 there was a total of 37,500 hours to distribute among the programme of planned inspections, and the projected allocations to each inspection programme were set out in the Plan.
33. The cost of each of the deployable hours carries the full weight of all the overheads of running the Inspectorate. Thus, in 2004/2005 the total projected expenditure of HMI Probation is £3,352,324; dividing this total cost by 37,500 deployable hours shows that each hour, with all on-costs and overheads included, costs £89.40.
34. For the purpose of this exercise the same costing per hour - £89.40 - will be used throughout for HMI Probation, even though the total exercise took place over two financial years. The hours of the Inspection staff are identified, plus the principal expenses incurred, enabling headline costings to be given for:
- a) The original inspection (December 2003 – March 2004)
  - b) Activities between original and follow-up inspection
  - c) The follow-up inspection (November – December 2004)
35. For the original inspection 527 hours were allocated. Table 1 shows how this was distributed and the consequent total cost:

**Table 1: Hours allocation and cost to HMI Probation of original inspection:**

| Activity   | Hours          |
|--|----------------|
| Preparation by the lead Inspector                              | 70             |
| Preparation, + training of local Assessors by other Inspectors | 44             |
| Fieldwork  | 358            |
| Writing up & presentation by the lead Inspector                | 55             |
| <b>TOTAL</b>   | <b>527</b>     |
| <b>COST at £89.40 per hour:</b>                                | <b>£47,114</b> |

36. Using the 'Absorption' method, we include the costs of both managers and support service staff as an overhead within the cost per hour. This enables us to calculate the cost to us of the original inspection as above.
37. Between the original and the follow-up inspections the lead Inspector undertook, as a consequence of dialogue with HPA, in addition to simple preparation for the follow-up, some briefing sessions for HPA staff to help disseminate understanding of the inspection criteria. This represented an additional 28 hours work for her, at a cost to the Inspectorate of **£2,503**.
38. For the follow-up inspection 318 hours were allocated.

**Table 2: Hours allocation and cost to HMI Probation of follow-up inspection:**

| Activity  | Hours          |
|---|----------------|
| Preparation by the lead Inspector               | 24             |
| Preparation by other Inspectors                 | 12             |
| Fieldwork                                       | 250            |
| Writing up & presentation by the lead Inspector | 32             |
| <b>TOTAL</b>                                    | <b>318</b>     |
| <b>COST at £89.40 per hour:</b>                 | <b>£28,429</b> |

39. Hence, on the basis outlined above, the costs for all of the relevant inspection activities to HMI Probation were as shown in Table 3:

**Table 3: Total costs to HMI Probation for all the relevant inspection activities:**

|   |                |
|---|----------------|
| Cost of original inspection                 | <b>£47,114</b> |
| Cost of follow-up inspection                | <b>£28,429</b> |
| Cost of additional work between inspections | <b>£2,503</b>  |
| <b>TOTAL</b>                                | <b>£78,046</b> |

40. But of course many objections can be posed to this approach to costing, which I discuss briefly in the Annex. Depending on what one wants to 'count' and how, it is possible to devise hugely complicated and time-consuming methods for identifying different combinations of variable and fixed costs. This gives rise to a spurious 'exactness' that is both extremely expensive to achieve and also has no practical advantage over a figure that is 'near enough'.



41. Instead, if broadly the right number of 'Inspector hours' have been identified these different methods will only produce figures within a relatively narrow range of say £70-90k in this instance. Given that in cashflow terms the great majority of costs (salaries) are in practice fixed it is sensible to be content with a 'good enough' figure for costs for the purpose of this exercise i.e. **£75-80,000** in total.

**B. Cost to inspected body:**

42. Dialogue with the managers of HPA led to an agreed cost-per-hour figure for each of the groups of staff involved in responding to the inspection. The figures included a significant element of overhead as calculated by HPA but were lower for that of the Inspectorate for a combination of reasons. The Chief Officer/Directors group averaged £60 per hour; Senior Probation Officers, equivalent managers and senior practitioners including local area assessors averaged £42 per hour; Probation Officers were £35 per hour, and Probation Service Officers and equivalents were £27 per hour.
43. We costed activities under the headings Preparation for Visits, Direct work on behalf of the Inspectorate (the work done by the Area Assessors), Direct contact with the Inspectorate as respondents to the inspection (face-to-face interviews during the fieldwork visits), and Receiving the report (commenting on draft etc). It was important that work should only 'count' where it was work that had been made necessary by there being an inspection – work that was necessary simply in order to achieve the required quality of supervision should not 'count' for this exercise.
44. As Table 4 below shows, by conscientiously estimating how many of which groups of staff were involved for how many hours, a figure that is 'good enough' for our purpose can be identified. The original inspection can be said to have cost Hertfordshire Probation Area in the region of £30-35,000 to comply with.

**Table 4: Cost to HPA (Hertfordshire Probation Area) of the original inspection:**

| HPA staff                                | CO / Directors | Seniors / PDAs | POs            | PSOs / Support | Area Assessors | Total hours    |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Cost per hr                              | £60            | £42            | £35            | £27            | £42            |                |
| Activity                                 | Hours          | Hours          | Hours          | Hours          | Hours          |                |
| <u>Prep fr visits</u>                    |                |                |                |                |                |                |
| Prep (at half rate of Lead Inspector)    | 35             |                |                |                |                | 35             |
| Senior Management Team mtg 1hrx5         | 5              |                |                |                |                | 5              |
| Preparation by 62 Practitioners x1hr     |                |                | 50             | 12             |                | 62             |
| Training for Area Assessors              |                |                |                |                | 84             | 84             |
| 1 hr briefing for staff                  |                | 11             | 50             | 12             |                | 73             |
| Prep of 100 case files @ 0.5 hr          |                |                | 50             | 50             |                | 100            |
| <u>Direct work for HMI Probation</u>     |                |                |                |                |                |                |
| 30casesx3hrs                             |                |                |                |                | 90             | 90             |
| <u>Direct contact during Insp visits</u> |                |                |                |                |                |                |
| 100 cases x 3.5 hrs inc travel etc       |                |                | 350            |                |                | 350            |
| 50 other staff interviews x 1 hr         |                |                | 10             | 40             |                | 50             |
| 5 Sen Managers: 1 meeting x 2.5hrs       | 12.5           |                |                |                |                | 12.5           |
| 11 other managers: 1 meeting x 2 hrs     |                | 22             |                |                |                | 22             |
| <u>Receivg/ respondg to report</u>       |                |                |                |                |                |                |
|  | 12.5           |                |                |                |                | 12.5           |
| <b>Total hours</b>                       | <b>65</b>      | <b>33</b>      | <b>510</b>     | <b>114</b>     | <b>174</b>     | <b>896</b>     |
| <b>TOTAL COST</b>                        | <b>£3,900</b>  | <b>£1,386</b>  | <b>£17,850</b> | <b>£3,078</b>  | <b>£7,308</b>  | <b>£33,522</b> |

45. Having established a figure for the original inspection as being in the range of £30-35,000, it is then necessary to identify the costs of the follow-up inspection and any relevant related activities.

46. A table to cover the follow-up inspection itself, including the preparation for the Inspectorate visit itself, using a similar format to the one above, appears further below as Table 5. Although the cost in terms of management time is given as broadly the same, there are significant differences elsewhere. The smaller case sample meant a direct cost saving in terms of staff time preparing the files and being interviewed. Even more significantly, for this inspection the Inspectorate did not use local Area Assessors – hence this column shows a nil cost.

47. As for the period in between the inspections, I decided that attendance by HPA staff at the lead Inspector's briefings were about learning to improve performance, not about servicing the Inspection exercise. Accordingly, in accordance with the principle outlined earlier, this work has not been counted as a 'cost of the Inspection'.

**Table 5: Cost to HPA (Hertfordshire Probation Area) of the follow-up inspection:**

| HPA staff   | CO / Directors | Seniors / PDAs | POs            | PSOs / Support | Area Assessors | Total hours    |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Cost per hr   | £60            | £42            | £35            | £27            | £42            |                |
| Activity  | Hours          | Hours          | Hours          | Hours          | Hours          |                |
| <u>Prep for visits</u><br>Prep (at half rate of Lead Inspector)               | 12             |                |                |                |                | 12             |
| Senior Management Team mtg 1hrx5  | 5              |                |                |                |                | 5              |
| Preparation by 40 Practitioners x1hr  |                |                | 33             | 7              |                | 40             |
| Training for Area Assessors   |                |                |                |                |                | 0              |
| 1 hr briefing for staff   |                | 11             | 33             | 7              |                | 51             |
| Prep of 60 case files @ 0.5 hr  |                |                | 30             | 30             |                | 60             |
| <u>Direct work for HMI Probation</u><br>30casesx3hrs                          |                |                |                |                |                | 0              |
| <u>Direct contact during Insp visits</u><br>60 cases x 3.5 hrs inc travel etc |                |                | 210            |                |                | 210            |
| 30 other staff interviews x 1 hr  |                |                | 6              | 24             |                | 30             |
| 5 Sen Managers: 1 meeting x 2.5hrs  | 12.5           |                |                |                |                | 12.5           |
| 11 other managers: 1 meeting x 2 hrs  |                | 22             |                |                |                | 22             |
| <u>Receiving/ responding to report</u>  | 12.5           |                |                |                |                | 12.5           |
| <b>Total hours</b>  | <b>42</b>      | <b>33</b>      | <b>312</b>     | <b>68</b>      | <b>0</b>       | <b>455</b>     |
| <b>TOTAL COST</b>   | <b>£2,520</b>  | <b>£1,386</b>  | <b>£10,920</b> | <b>£1,836</b>  | <b>£0</b>      | <b>£16,662</b> |

48. As we continue to avoid the error of 'spurious exactness', the figure emerges as being in the range of £15-20,000. When added to the cost of the original inspection, the total figure for the two inspections formally comes to £50,184, or within the range of **£48-53,000**.

49. If we now add the total cost to HMI Probation to the total cost to HPA, the formal Grand Total is reached by adding £50,184 to £78,046, giving a figure of £128,230. Hence the Grand Total figure is in the range of **£125-135,000**. As will be seen further below, for discussion and calculation purposes the Grand Total figure will be described as being **£130,000**.

**C. Benefits – measurably improved performance by HPA:**

50. As explained earlier, the inherent time lag involved when examining periods of supervision meant that within the available timescale a hard choice had to be made. This choice was between taking evidence from work where HPA had barely had time to make any changes, and taking evidence from work where HPA had had time to improve, but was so recent that not a full set of directly comparable data could be collected. In our published report we showed both options i.e. the results from both the 'February sample' and the 'September sample'.
51. The results of the February sample were almost identical to the original inspection, highlighting the point that there had been very little time in practice for change to be effected. The September sample, however, while less complete, showed some markedly improved quality of work. Hence for the purpose of this report our choice is to select the September sample as evidence of improved performance. The practical effect of this is that the scores for Sections A, B and C can usefully be compared between the original and follow-up, although there are some minor areas where it should be recognised that the comparison cannot be perfectly complete.
52. **Section A – Quality of Management:** These were again scored using the non-numerical descriptors. For the five Criteria making up this Section, HPA had originally scored one Poor, two Not Mets and two Partly Mets. In the follow-up they scored all five Criteria as Partly Met. As one Criterion had improved by two grades, and two more Criteria had improved by one each, Table 6 shows how it could be said that **HPA's score for Section A had improved by an aggregate of four grades.**

**Table 6: Improved Quality of Management by HPA:**

| <b>Section A:<br/>Quality of Management</b>          | <b>Original<br/>inspection</b> | <b>Follow-up<br/>inspection</b> |
|--|--------------------------------|---------------------------------|
| A1 Leadership and planning                           | Poor                           | Partly Met (+2)                 |
| A2 Resource allocation                               | Partly Met                     | Partly Met                      |
| A3 Management & supervision of staff                 | Not Met                        | Partly Met (+1)                 |
| A4 Partnership / contracting out                     | Not Met                        | Partly Met (+1)                 |
| A5 Effective communication with sentencers           | Partly Met                     | Partly Met                      |
| <b>Overall improvement in Quality of Management:</b> |                                | <b>( + 4 )</b>                  |

53. **Section B – Quality of Assessment:** Here the numerical scores for the 30 September sample cases could be compared with the scores for the 100 cases in the original inspection, and a very significant improvement could be identified. The score for the whole Section in the original inspection had been 49%, while the September sample was assessed at 87%, although the caveats mentioned earlier have to be acknowledged. The four separate Criteria were scored as shown in Table 7 below:

**Table 7: Improved Quality of Assessment by HPA:**

| <b>Section B:<br/>Quality of Assessment</b> | <b>Original<br/>inspection</b> | <b>Follow-up:<br/>September sample</b> |
|---|--------------------------------|--|
| B1 Assessment of Risk of Harm               | 30%                            | 79%                                    |
| B2 Assessment of Likelihood of Reoffending  | 56%                            | 99%                                    |
| B3 Case management                          | 46%                            | 79%                                    |
| B4 Documentation                            | 60%                            | 100%                                   |
| <b>Overall score for Section B</b>          | <b>46%</b>                     | <b>87%</b>                             |

54. **Section C – Quality of Interventions:** Again the numerical scores for the 30 September sample cases could be compared with the scores for the 100 cases in the original inspection, and a very significant improvement could be identified. The score for the whole Section in the original inspection had been 66%, while the September sample was assessed at 86%. The five separate Criteria were scored as shown in Table 8:

**Table 8: Improved Quality of Interventions by HPA:**

| <b>Section C:<br/>Quality of Interventions</b> | <b>Original<br/>inspection</b> | <b>Follow-up:<br/>September sample</b> |
|--|--------------------------------|--|
| C1 Managing attendance and enforcement         | 84%                            | 89%                                    |
| C2 Delivering appropriate supervision          | 63%                            | 81%                                    |
| C3 Diversity needs                             | 75%                            | 92%                                    |
| C4 Responsivity                                | 66%                            | 100%                                   |
| C5 Management of Risk of Harm                  | 38%                            | 73%                                    |
| <b>Overall score for Section C</b>             | <b>65%</b>                     | <b>86%</b>                             |

55. We have acknowledged that, owing to the nature of Probation work, and the inevitable time lags involved when examining periods of supervision, together with the 'seen' nature of the September sample, the 'before-and-after' comparison between the original and the follow-up inspection cannot be regarded as perfect. Nevertheless, in assessing benefits from the inspection process, a very significant improvement can still be identified between HPA's performance in the two inspections:

Quality of Management improved by four gradings in total  
 Quality of Assessment improved from 49% to 87%  
 Quality of Interventions improved from 66% to 86%

56. It now remains, before attempting to weigh up the costs and benefits of this inspection process, to consider the extent to which HPA's improvement in performance should be attributed to the inspection process.

**D. Benefits – the extent to which the measured benefits can be attributed to inspection:**

57. We should say at the outset that we believe that there is no definitive way of answering this question, but some important observations can be made prior to the final 'weighing the balance sheet'.
58. First, the circumstances of every inspection will be different. This case study took as its illustration an example that was relatively extreme, although there were good reasons for this selection. HPA had shown particularly poor results in the original inspection, and therefore was the first Probation Area to be subject to a full follow-up. Accordingly this provided a particularly useful case example since it offered an inspection process with a 'before' and an 'after' set of figures to compare. This enabled an acceptable 'measurable benefit' to be identified on this occasion, even though the nature of Probation work means that 'perfect' measurement of benefits is impossible in practice.
59. The identified benefit in this instance is the measurably improved performance by HPA in the follow-up compared with the original inspection. But again, due to the nature of Probation work the new findings can at this stage only be described as 'green shoots' evidence - encouraging early indicators rather than conclusive proof of a comprehensive turnaround in performance by HPA as a whole.
60. Nevertheless the findings from the September sample were indeed very encouraging, and the position of this Inspectorate is that if an inspected body improves its performance the credit for so doing should primarily be given to that body itself - in this case it is HPA's achievement and therefore it is they who should be credited.
61. But in this case there is strong circumstantial evidence to suggest that without the original inspection taking place the employing Board in Hertfordshire would not have identified and recognised this performance problem, and responded to it, with anything like the speed with which they did during 2004. As we have said, every case will be different, and in the case of a number of inspections it will be less clear whether inspection findings shed light on the performance of an inspected body with as much impact as this one originally did early in 2004.
62. But even though some other bodies are more in touch with how they are doing than HPA was in 2003, it is unusual for a body to learn nothing new about its work. Most bodies experiencing an inspection will identify a way of improving their work following an inspection - hence a measurable benefit can be identified in most cases. Additionally there is the less easily measured benefit of 'assurance to the public', which arises from a public service organisation being scrutinised publicly by an independent inspectorate.

63. Hence our view is:

- a) It is not possible to answer this question in measurable terms
- b) Most of the available credit should be given to the inspected body itself for achieving the improved performance
- c) But whether or not one uses a term like 'catalyst for change' there is still usually good circumstantial evidence that the Inspection process has played a part in helping to bring about the two benefits of assurance to the public (not measurable) and improved performance by the inspected body (often measurable to an acceptable extent).

**Final discussion: Weighing the balance sheet:**

64. In principle, the purpose and structure of this case study has been designed to lead towards a 'balance sheet' conclusion. We first described the costs of this particular pair of inspections, then the benefits, and then 'weighed' them in a cost-benefit analysis.

65. In practice, however, the outcome is less clear cut for a combination of reasons. In addition to some of the technical issues involved in calculating both the costs and the benefits, the additional factor is that the two sides of the balance sheet are in two different 'currencies': Costs can, to an acceptable extent, be converted into pounds sterling, and we have done this here; but benefits are not meaningfully convertible into money.

66. This would be true of a number of other public services as well as Probation. The way such a balance sheet works in these circumstances is as with any other purchasing transaction: As the customer, you look at the quality and quantity of the product or service on offer, and decide whether or not you wish to pay it. With a public service, these decisions formally lie with elected Ministers, on behalf of the public they represent. In this case, any reader of this study can make up her or his own mind on the basis of the analysis set out here.

67. Summary of Benefits: In the follow-up inspection HPA achieved (with caveats noted) an improved level of performance compared with the original inspection of:

- Four gradings in Quality of Management
- 41 percentage points in Quality of Assessment, and
- 21 percentage points in Quality of Interventions.

68. Summary of Costs:

- The two Inspections together cost in the region of **£125-135,000**.

69. So: - was this a reasonable price to pay for the benefits achieved? What guidelines are available to help decide whether the price of the benefit is proportionate?

- The revenue budget (grant allocation) for Hertfordshire Probation Area in 2004-5 was **£8,960,000**
- Hence the cost of the inspection represented **1.45 percent** of the HPA annual budget.
- But why should those costs be related to 12 months' expenditure? The two inspections together occupied nearly 18 months of the life of HPA from start to finish, on which basis the inspection costs would represent **just one percent** of the HPA annual budget.
- Or alternatively, as the Effective Supervision Inspection programme is spread over three years, inspecting each Probation Area once each during that time (including any necessary follow-ups) perhaps the calculation should be related to three years' expenditure – which works out at about a **half of one percent**. (And this was an abnormally high figure, as we normally only undertake one ESI every three years.)

70. In accordance with the purchasing analogy outlined above, ultimately one key 'purchasing choice' is with the reader - the reader 'as taxpayer' (although decisions will be made in practice, either explicitly or by default, by Ministers). We return to this further below at the fundamental level.

71. But at this stage an additional 'purchasing choice' question can be posed. HPA is a body corporate, and the employing Board there might have a view as to whether or not it thinks that the benefits gained were worth the cost expended. Hypothetically, we could ask if the Board might consider that the money had been well spent if they themselves had had to bear the inspection costs:

- a) allocating £50k of its own resource (which they have borne), and
- b) spending £75-80k on purchasing the external intervention.

(Currently Boards pay for their external Audits but not their Inspections)

72. While it is difficult to make this a 'real question' after the event, HPA has nevertheless taken the opportunity to comment on their perception of the impact of this inspection experience:

" ... the costs of the inspection in terms of time and money were significant for the Area. However, we also derived very considerable benefit from them. The greater sophistication of this inspection process, compared with previous methods, gave the Area's management and the Board clear evidence of systematic shortcomings, some of long standing. The impetus provided the necessary spur to make radical changes: the fact that we were subject to a follow-up ensured that we maintained the drive necessary to see the changes through to a stage where we could demonstrate major performance improvements.

Although some measures were already in train before the 2003 inspection, the process certainly gave us a helpful wake-up call."  
[Letter from Chief Officer, HPA, February 2005]



73. Concluding discussion: Finally, at the fundamental level we ask: Does this case study reveal an Inspection regime which imposes a disproportionate burden on the public service it inspects? Is the measurable benefit (as well as the unmeasurable benefit of public assurance) achieved at too high a cost to the public purse?
74. There has been much rhetoric in recent years about the 'increasing burden' of inspection and regulation on service providers, which in turn has been linked with a political agenda to 'reduce red tape.' Figures have been produced to show the 'increased costs' incurred by some Inspectorates, but these have not been related to the parallel increases in public expenditure generally. Hence our desire to relate the cost of inspection and regulation to the *overall cost of the inspected service* in general.
75. This additional need to get things in perspective arises from the undoubted fact that it is normal for senior managers (in particular) to experience inspections as a huge intrusive nuisance when they take place. Many of us in this Inspectorate have been on the receiving end of inspections in our 'past lives', and recognise how inspections can be experienced, and we have given some attention to ensuring that our methodology is no more intrusive than is necessary to do the job effectively. We would still accept that the inspection is a significant 'additional' piece of work for the inspected body at the time, but we argue that this is all the more reason for seeing it in the perspective of the life of that organisation as a whole. This can be achieved by relating the total costs of inspection (and other regulation) to the *overall cost of that public service* itself.
76. Focusing just on inspection at this stage, as we will argue more fully elsewhere, in our view it would be hard to see that a publicly accountable inspection regime that costs less than (say) one percent of the cost of the public service it inspects could be deemed 'disproportionate.' Even after allowing for expenditure on audit and other scrutiny activities, taxpayers could be advised that they were spending £x millions on a particular public service, of which over (say) 96% was being spent on providing the service, and less than one percent on inspecting it. How many taxpayers, keen to know that their money was being well spent, would protest that this was 'too much' to spend on achieving that assurance?

Andrew Bridges  
HM Chief Inspector of Probation  
March 2005

## Annex: A discussion of some of the costing issues

### 'Actual' v Absorption:

- i. In my view, one of the reasons there is so little evidence available about the costing of public services, including inspectorates, is that when people embark on starting to make any quantitative calculations they get swamped by the endless variations in the different ways of measuring both time and money.
- ii. Accountants tell me that broadly there are two different approaches, which they call 'Actual' and 'Absorption'. 'Actual' involves going into ever-increasing detail in measuring how much time is recorded as being spent by different members of staff on different activities, calculating proportions of fixed costs that should be associated with different activities, and then trying to assemble it into a report that the external reader can understand. My observation is that this approach is only rarely successful in producing a report that can be used in practice for management purposes. When it does produce the benefit of a comprehensible report this has been achieved at a considerable cost in terms of the collecting of the data in the first place. Furthermore it leads to a mindset of spurious exactness.
- iii. It will therefore be clear that I favour the Absorption approach. This is not 'exact', and is open to numerous criticisms of detail, but it provides 'good enough' information, gained at very modest expense, to enable managers to make judgements and decisions and to plan. Under our system in HMI Probation we allocate projected hours to tasks, and in the case of repeated tasks we regard each allocation as an 'annualised average'. Hence we believe that if an Inspector has to write up six reports of a particular type in a year some will take longer than 49 hours to do, and some will take less, but on average they will take a competent Inspector 49 hours – hence we allocate 49 hours for each new similar report. We call this 'prescribing' as opposed to 'describing' time measurement.
- iv. Of each Inspector's contracted working hours in a year, we regard 1250 as being available for deployment to specific inspection activities, as the remainder are taken up with various 'overhead' activities such as meetings, supervision, training and miscellaneous support or representative duties. After a small deduction for staff turnover, but after adding in the inspection hours we purchase from outside our staff group with the Fees Budget, we had 37,500 deployable hours to spend in 2004/2005. Each deployable hour carries with it its share of all the other costs of the Inspectorate: all the non-staff costs, all the costs of the support service and management staff, and the 'overhead' hours for the inspection staff themselves. This enables a simple division to be made of total expenditure by total hours to give an hourly cost figure, as shown in the report. This provides a sufficiently sound basis for charging other organisations when they purchase inspections from us.

Budgeted v 'non-budgeted' costs:

- v. It is believed that the Treasury are very keen to ensure that public service organisations include in their costings those costs that do not necessarily appear in the annual budget of the organisation. In our case, we are not charged by our 'parent organisation' the Home Office for one of our two offices, and we are also provided with some IT, printing and HR services without a direct charge to our budget. Those costs have not been included in the calculations shown in this report because we work to our allocated budget - my approach is that I am only prepared to deal with 'real money'.
- vi. I am aware, having done some relevant calculations, that if we included non-budgeted costs in our figures, our hourly rate could go up to about £98 per hour. However, if we charged that to our external customers and kept the money we would then be notionally 'making a profit'. Accordingly, we take the line that we will be aware of, and will note, our 'non-budgeted costs', but for all practical purposes we will manage this Inspectorate with the money that is actually ours to manage.
- vii. In the context of this paper, however, it is also worth noting that a conscientious exercise in spurious exactness brings little added value to the exercise at issue. We could include the non-budgeted costs, thereby increasing the total costs incurred in this exercise by HMI Probation by ten percent, bringing it up from £78k to nearer £86k. The total costs incurred then come to a figure nearer £140k than £130k. The question remains: Was this a reasonable price to pay for the measurable benefits achieved?

AMB March 2005