

Edited by
**EAMONN BUTLER
& MADSEN PIRIE**

**Economy
and
Local
Government**

THE ADAM SMITH INSTITUTE

Purpose of the Institute

The Adam Smith Institute is an independent, nonpartisan, educational foundation, operating in both Britain and the United States. Supporting and disseminating scholarly research into policy choice, the institute is especially concerned with the introduction of innovative proposals and creative thought into the area of public policy debate. The institute's programme of research studies, publications, seminars and information services enables it to promote the study of ideas which have been successfully applied in other countries, and to develop original policy options. The institute is able, through its programme, to study and communicate ideas to people at every level of public policy debate.

Academic Advisory Board

The work of the institute is assisted by an academic advisory board of the following members:

Chairman:

Professor F.A. Hayek (Nobel Laureate in Economics)

Members:

Professor Stanislaw Andreski

Dr. Eamonn Butler

Dr. Stuart Butler

Professor Brian Cox

Professor Antony Flew

Professor Cyril Grunfeld

Dr. Madsen Pirie

Mr. Victor Serebriakoff

Mr. T.E. Utley

Professor Ernest van den Haag

Professor Esmond Wright

ECONOMY AND LOCAL GOVERNMENT

ECONOMY AND LOCAL GOVERNMENT

**Edited by Dr. Eamonn Butler
and Dr. Madsen Pirie**

With papers by:

**DR. MADSEN PIRIE
RT. HON. LORD BELLWIN
MICHAEL FORSYTH
PATRICK GARDNER
ROBERT JONES
SIR JOHN GRUGEON
CYRIL TAYLOR**

Published by:
The Adam Smith Institute
1981

CONTENTS

	Page
INTRODUCTION <i>Dr. Eamonn Butler, Director, Adam Smith Institute</i>	7
ECONOMY AND LOCAL GOVERNMENT <i>Dr. Madsen Pirie, President, Adam Smith Institute</i>	9
COST-SAVING IN LOCAL GOVERNMENT <i>Rt. Hon. Lord Bellwin, Parliamentary Under-Secretary, Department of the Environment</i>	17
INTERNATIONAL EXAMPLES OF THE PRIVATE PROVISION OF ESSENTIAL SERVICES <i>Councillor Michael Forsyth, Westminster City Council</i>	33
THE RELATIONSHIP BETWEEN THE COUNCIL AND THE PRIVATE CONTRACTOR <i>Patrick Gardner, Managing Director, Consultimate Marketing Services Ltd.</i>	47
SHORTCOMINGS IN THE USE OF DIRECT LABOUR <i>Councillor Robert Jones, Parliamentary Adviser, Federation of Civil Engineering Contractors</i>	55
BETTER WELFARE SERVICES AT LOWER COST <i>Sir John Grugeon, Kent County Council</i>	63
THE PRACTICALITIES OF TRIMMING COSTS <i>Councillor Cyril Taylor, Greater London Council</i>	75

First published in 1981 by
THE ADAM SMITH INSTITUTE
© The Adam Smith Institute 1981
All rights reserved

ISBN 0-906517-10-9

Published by The Adam Smith Institute, 50 Westminster Mansions,
London SW1P 3DQ.
Printed by Bi-print Limited, London SE1 0EH

Introduction

DR. EAMONN BUTLER

Director, Adam Smith Institute

*Dr. Eamonn Butler is a former research associate to the Republican Study Committee in Washington, and is now director of the Adam Smith Institute. His publications include **Forty Centuries of Wage and Price Controls**, and articles on international economic problems.*

The Adam Smith Institute is an independent, nonprofit, educational foundation, operating in Britain and the United States. Its main purpose is the study of the institutions, both social and economic, which are necessary for the functioning of a free society.

This book is offered as a contribution to the debate on what services should be provided by local government, how they should be provided, and who should pay for them. Followers of the Institute's work will already be familiar with its short monograph by Michael Forsyth, *Re-servicing Britain*, which outlines the potential for local services to be contracted out to private companies. Such was the interest generated by that publication that the Institute recognised that more research on this subject was of vital importance to everyone affected by the debate, from councillors, through chief executives, to ratepayers.

Economy and Local Government is based on a seminar which the Institute held in London in December 1980. Those attending included the elected members of many councils, and paid officers such as chief executives, architects, parks controllers and manpower administrators. A small number of firms with experience in private contracting for council services were also represented.

The purpose of the seminar was not just to ask individuals with expertise in local government to draw up a working list of places where improvements could be made, inefficiencies eradicated, and procedures tightened. The aim was the cross-fertilisation of ideas,

and to suggest to the local authorities present a number of new modes of operation which they might not have considered hitherto.

The seminar was made particularly timely by the announcement that day, that Southend had decided to turn its refuse collection and cleaning functions over to a private contractor, with an estimated saving of £400,000. Although a number of smaller authorities already have privately-run refuse collection, Southend is the first major authority to attempt it, and the results will be interesting.

Those at the seminar recognised, of course, that not every authority is able to save £400,000 on its refuse collection or on other services; but there was a common feeling that there was now no excuse for local councils simply to shut their eyes to the possibility of competition. The least that could be done is for each one to invite tenders — and accept or reject them on their merits.

There are so many suggestions outlined in these papers, so many fertile ideas — and useful practical examples — to consider, that it is difficult to avoid this feeling: if authorities made a determined attempt to implement even a few of the suggestions made, the savings to ratepayers would be millions.

Suggested further reading:

- Private Provision of Public Services: An Overview*, by Donald Fisk, Herbert Kiesling, and Thomas Muller. The Urban Institute, Washington D.C., May 1978.
- Evaluating the Organisation of Service Delivery: Solid Waste Collection and Disposal*, by E.S. Savas and Barbara J. Stevens. Columbia University Graduate School of Business, New York, 1977.
- Cut Local Taxes Without Reducing Essential Services*, by Robert W. Poole, Jr. Reason Press, Santa Barbara, California, 1976.
- Cutting Back City Hall*, by Robert W. Poole, Jr. Universe Books, New York, April 1980.
- Re-servicing Britain* by Michael Forsyth. Adam Smith Institute, 1980.
- The Elected Members' Guide to Reducing Public Expenditure*, by Cyril Taylor. The Bow Group and the Conservative Political Centre, 1980.

Economy and Local Government

DR. MADSEN PIRIE

President, Adam Smith Institute

Dr. Madsen Pirie is president of the Adam Smith Institute. Formerly distinguished visiting professor of philosophy at Hillsdale, he has written and lectured widely on the role of competition in central and local government. He is author of Trial and Error and the Idea of Progress, and is international general secretary of MENSAs.

Local government and its services in Britain play a substantial part in the economy of the nation. The local authorities spend between them a sum in excess of £20,000,000 each year, and employ more than three million persons.

Local government thus constitutes an important part of the public sector of the economy. Along with the giant nationalised industries such as Leyland and British Steel; with the state monopolies such as British Rail and the electricity boards; with the civil service and the direct employees of the state; with nationally administered programmes such as the national health service; local government in Britain forms a major element in the public economy.

No less than its other public sector counterparts, local government is administered and financed collectively. Its revenues derive principally from taxes and rates, and it provides services both to the public at large and to groups which meet special qualifications on a basis which is neither sensitive nor vulnerable to effective demand.

In making its claims on both taxpayer and ratepayer, local government draws revenues which would otherwise be available for investment or demand in the private sector. It pre-empt's private enterprise, with the loss of economic activity, job creation and satisfaction of demand which this implies. While local government itself has created jobs in a spectacular way, these are

not necessarily jobs involved in the production of goods or services which people would willingly pay for if they had the choice.

THE PROBLEM OF CONTROLLING COSTS

Because it consumes so large a portion of public resources and diverts finance away from business activity, local government expenditure quite properly comes under scrutiny when economies are required in public spending. When government seeks to reduce its borrowing, and therefore its expenditure, local government is expected to bear a proportion of the reductions which are sought. It is at such times that attention focuses on local government operations and services, and that questions are asked concerning their efficiency, their quality, and even their necessity.

It is often wrongly supposed by governments that local government spending can be reduced by across the board cuts in the exchequer contribution to their finances. Equally wrongly, critics of government often charge that failure to cut local government spending by the required amount is due to 'lack of will' by the prime minister or the cabinet. Both of these suppositions ignore the in-built bureaucratic and political impediments to direct cutting of expenditure.

In the first place, the assumption is that the overmanning and inefficiencies which have crept in during the years of plenty will be the first casualties of cost saving when the lean years come. This is not the case. While there could undoubtedly be savings in personnel, especially in administration, it is quite unrealistic to expect the administrators themselves to volunteer this alternative. The bureaucratic structure militates against it.

The Virginia studies of manpower behaviour

Professor Gordon Tulloch and his team at the Virginia Polytechnic Institute have blazed a trail in the investigation of bureaucratic behaviour. Their findings point to the fact that bureaucrats behave like any other group in economic activity, and act rationally to maximise their own economic positions. Several detailed studies have developed what is now a familiar model of official behaviour.

Faced with the requirement to cut expenditure, the administrators will in general produce options which involve reductions at the point of service rather than in the desk jobs or the

manning levels which support those services. This has the effect of preserving jobs on the one hand, and of generating popular resentment to the cost-cutting campaign on the other. Time and again, the Tulloch studies show the imposition of cuts in the most popular areas of service, with the inevitable result of a backlash against the economy campaign.

The most extreme case cited by Tulloch is one in which the U.S. Customs responded to the order for a budget saving by immediately laying off all of the officers whose job it was to search for incoming drugs at airports. Not one desk job was threatened. Anyone who doubts whether this extreme case is still typical of the bureaucratic syndrome need only look at the official response to the cuts required in the first year of the Thatcher administration. In town halls up and down the country, plans were offered to elected councils by their officials which involved closing down schools for the handicapped, old peoples' homes etc., rather than economies in the jobs of the officials themselves.

The disproportionate influence of pressure groups

There is a political factor which militates against direct cutting. It is that each service provided creates its class of beneficiaries which sees itself as a distinct interest group and will campaign for its privileges. The taxpayer and ratepayer, by contrast, are a more amorphous mass, not acting as a self-conscious interest group. This means that any threatened cut in a local service will instantly produce an angry campaign from those whose benefit is to be withdrawn. They form an identifiable group whose potential sufferings can be graphically depicted by the media, and who can be paraded through the council chamber in protest against the proposal. If municipal tennis courts are threatened with closure or shorter opening hours, for example, the users will immediately give evidence of the hardship this will cause, the juvenile delinquency it will stimulate, the ill-health it will be responsible for, and a great deal more besides.

The taxpayer and ratepayer, on the other hand, are less visible. They do not form a protest group on each issue, and their suffering does not make good copy for the media. This dichotomy means in practice that the organised group of beneficiaries tends to be victorious at the expense of the citizen who pays the bills. Issue by issue, the elected members concede to what they regard as

'popular pressure', and the cutting accomplished is small indeed compared with that which was intended at the onset of the campaign.

THE PARADOX OF PROFIT

These obstacles to economy campaigns would be less serious if local government and its services were subject to pressures tending to promote efficiency and cost-effectiveness. Alas, the reverse is true. The very system of organisation generates its own tendency towards inefficiency and unnecessary costs.

In their inception, local government services were viewed as a means of getting a required job performed well and cheaply. Instead of merely providing what was profitable, they could provide what was *required*. With no money spent on advertising, no duplication of effort in wasteful competition, and no profit to provide, it was thought that the public service would be superior to any provided by private business.

This was the theory. The reality has been that with no need to attract custom or to make profits, the public services have had none of the beneficial disciplines which might have made them efficient. A businessman with an eye to profit keeps costs to a minimum. With a wary eye on the competition he keeps up to date with new technology and practices. With the knowledge that all fails without customers, he keeps his services as attractive as possible in both quality and price.

The current position

Without any of these disciplines, the public services have seen costs escalate, antiquated working methods retained, capital run down without replacement, and services grow out of touch with what the public both want and are prepared to pay for. The consumer, the sovereign of the private market, scarcely appears in local government services. When services are discussed, wage levels determined, or quality fixed upon, the consumer is an absent party. Monopoly prevents him turning elsewhere: the hold on his rates and taxes gives him no alternative but to pay whatever price is set: he is voiceless and powerless even in the decision as to whether he wants the service at all.

Without consumers and their preferences to account for, it is

scarcely surprising that the services become producer-oriented, serving the interests of those engaged in providing them rather than those of the intended recipients. Bureaucrat and labourer, administrator and union negotiator, co-operate in satisfying each other's needs and requirements instead of those of the public which they nominally serve.

The result of many decades of these effects has been to equip Britain with public services which are widely perceived as being of low quality, unresponsive to any need or demand, and yet far more expensive than their private sector equivalents. People now expect to have to wait lengthy periods, to be plagued by strikes and go-slows, and to be received with an attitude (both from management and labour) which makes it quite plain that the public has nowhere else to go and ought to be glad for what it is getting.

Many dedicated local councillors are now seriously concerned that they seem powerless to exert any real impact on the quality of local government or its cost. They, together with many hardworking officials, see no end to an apparent future of declining quality and rising cost, squeezed between the unions on the one side and central government cuts on the other.

A PROPOSAL FOR IMPROVED SERVICES

Fortunately, the analysis of the problem exposes the prospect of a solution. If inefficiency and costs have sped upward in the absence of the normal disciplines which operate on business, then the introduction of some of those disciplines might produce better service, greater efficiency, and lower cost.

Self-analysis

In the first place, real savings can be achieved by councils which avail themselves of businesslike self-analysis. Cost and efficiency studies, performed objectively by outside consultants, can point to areas of economy taken for granted in the world of private industry, but still relatively unexplored in local government. In cases where councils have employed business efficiency experts — and in one case where a reluctant council finally accepted a survey foisted upon it and paid for by local industrialists — reforms of administration and techniques, with elimination of duplication, have produced immediate savings. The status of the outside

consultants, and their detachment from council politics, makes it easier for their recommendation to be accepted.

The Greater London Council has set a strong lead in its application of businesslike methods to administrative manning levels. Again, this is a case where the employment of outside consultants will show many authorities how to make cuts which are not apparent to themselves, since they are locked into traditional procedures.

Tighter control, particularly of costs and staff levels, might be augmented in some cases by the sort of incentive schemes not uncommon in private industry, where the originating individual or group receives part of the saving by way of bonus procedures.

Charging and advertising

Making a charge for services is a way of bringing the consumer's preferences into the picture, together with the constraints which these impose. By giving consumers the chance to decline the service and avoid the charge, assessment can be made of effective demand. With captive customers forced to pay in rates and taxes, there is a tendency for overproduction of some services, for providing more than customers would willingly pay for if given the choice. Where a charge is made, the public has more chance to express a say in how much service is wanted. It also enables a more accurate estimate to be made of the value for money inherent in any particular service.

Some councils already make a modest contribution to their finances by bringing in advertising revenue, as private business often does. Use of council mailings, litter bins and bus shelters is only the start. Public libraries head the list of a relatively unexplored field waiting to be developed; and once more, it is the outside professionals who can point to the most effective ways of tapping the potential.

Outside contractors

Having local authority services provided by outside contractors instead of by the council itself is undoubtedly an area in which gigantic savings can be made, even while the services are improved. Examples from all over the world point the same way: the private business, ever conscious of its profit (and therefore of its costs), and ever wary of possible competition, provides a cheaper and

better service than can the council's own department and workforce. Its employees enjoy high wages, better perquisites and higher morale than their local authority counterparts; while the customers pay less and complain less.

The contract with a private business leaves the council free to put its attention into maintaining standards and monitoring the performance with an objectivity denied to it when it attempts to judge the performance of an in-house service. The council can maintain, by penalty clauses, a standard higher than its own service could reach. The difference is vast between providing a service and *ensuring that a service is provided*.

Even welfare, surprisingly enough, can see an improved yet lower cost service by the recourse to private contract. Having old people or problem children stay with private families under council contract is much cheaper than the maintenance of official homes. More importantly, it is more human, more appreciated by the beneficiaries, and more successful by every objective measure which can be taken.

CONCLUSION

Conditions vary, of course, from service to service and from one area to another; but these proposals, representing the attempt to introduce some business disciplines to local services, are capable of application to a wide variety of cases and conditions. Taken together, they represent an alternative philosophy to that which motivates simple cuts in budget. Recognising the impediments to direct cutting, they provide an alternative strategy by which the advantages of the private sector can be brought to bear upon public problems. Instead of cutting services, they point the way to improvements which can be gained simultaneously with a reduction in cost.

Britain is reaching a crisis in public service. Quality declines, interruptions grow more frequent, and inflated costs are instantly passed on to the suffering public as inflated prices or inflated rates and taxes. The British now *expect* their public services to be shoddy, second class and overpriced. The strategy of incorporating into them the disciplines of private business has already been applied in some places with imagination and enthusiasm; and it has an excellent record of success. It is

necessity, rather than imagination or enthusiasm, which will make its application widespread. In the present state of the economy of local government, there is no other choice.

Cost-Saving in Local Government

LORD BELLWIN

Parliamentary Under-Secretary, Department of the Environment

Lord Bellwin is the Department of the Environment's spokesman in the House of Lords. Formerly Councillor Irwin Bellow, he was elected to the Leeds County Borough Council in 1965, becoming an alderman in 1968. He has wide experience in all features of local government work, and in this paper he suggests several ways in which local authorities can and should watch their costs.

At a time when public expenditure reductions are essential, not least in the long-term interest of local government as such, I want to put forward a few thoughts about what local authorities can do to get more for the money they spend, to become more efficient and to operate more economically. I want to talk about changing the assumptions on which the provision of local government services have increasingly been based in recent years. It is clear nowadays that the public sector, central government as well as local government, has been eating up more than the economy will bear, with the consequent, inevitable national economic decline, as we have staggered from crisis to crisis. It is the objective of the present government, in co-operation with all other public sector bodies, to reverse this trend and to redress the balance of the economy.

And we must also be clear in our minds that once the balance has been redressed, it must be maintained. Public expenditure will have to be held at the lower levels to which we are now working. The basic assumption for managers in both central and local government in deciding upon the provision of services, must be to keep expenditure within the limits set.

TERMS OF THE DEBATE

But is the *only* choice between severely reducing services and massively increasing rates? I think not. I want to say something about the system itself and then to suggest some thoughts on where I see areas of opportunity for local government to do things better. I do not claim to have a universal blueprint for success; there is no magic wand.

There are no instant solutions to the problems which local authorities face now and in the future. Indeed, I expect that much of what I say, to some extent at least, is being practised by many of those in local government. However, this is surely a time for all the issues to be re-examined and, most important of all, for ideas to be brought out into public discussion. It is a time for a far greater openness than in the past; a willingness to look at and to appraise these ideas; and a commitment to discuss them openly.

If, as many of us feel, cuts in services should be the last, and not the first, resort, it is imperative to get down to some fundamental questions about the *why* and the *how* of local service provision. Despite encouraging progress in some authorities, real economies are being achieved far too slowly — if at all — in too many areas because of a reluctance to face basic issues and make the difficult decisions which have to be made. With my own background in local government, you will not be surprised if I address my remarks particularly to elected members. The government strongly believes that their role is crucial, in taking a greater part than ever before in managing local authorities. It is their task to ensure that the maximum benefit is obtained from the available resources. It is they, I suggest, who must stamp their own personalities on the local scenes and must take an active lead in a more open, objective and fundamental review of the way local services are provided. This is not in any way to denigrate, or to diminish the key role and part played by the full-time professional officers — that goes without saying. But the scenario is changing — the debate is coming out into the open and, at the end of the day, it is the elected members who have to explain and to answer.

The relationship between central and local government

It is perhaps appropriate at this point to say a word about central/local government relationships. There are many pressures

on central government to involve itself more in local government financial matters than hitherto, and let no-one doubt that those pressures are growing. Small businesses; chambers of commerce and trade; industry as a whole; individual hard-pressed ratepayers; ratepayers' associations; all are becoming increasingly disenchant-ed at local authorities who raise their rates to levels which are increasingly punitive in their effect. And yet, despite what many in local government have said to the contrary, central government is resisting the pressure to increase central bureaucratic interference in the affairs of individual authorities. I believe the majority of authorities do rate responsibly, but there are also too many who flatly refuse to 'cut the suit according to the cloth', who spend not what they can afford, but what they think they ought to be able to afford. Fine, in an ideal world, but increasingly removed from reality. They opt to maintain high spending levels, supported by unacceptably high rate levels, and I maintain that that kind of action, or inaction, is a serious threat to the very future of local government, because of the growing resentment to which it is leading, with its increasing pressure on central government to step in more and more.

The future of the rating system and the relationship between local government autonomy — embodied in its ability to raise its own revenue through the rates — and local and central governments' need to control total overall local authority expenditure, are crucial questions. We are still examining the question of rates, looking at the alternatives. Meanwhile we have made a major change — giving great opportunity for local government — to the central/local relationship, in the system of capital expenditure controls provided for in the Local Government Act, 1980. This is of great importance, in that from now on, within overall ceilings laid down, local authorities will be able to determine their own priorities for capital expenditure, and will be able to supplement their allocations by the use of capital receipts. Not only will an individual authority be able to vire between blocks of its own capital expenditure, but national viring will be possible between one authority and another, and there will be percentage opportunities for tolerance. This is in striking contrast to the system which is being replaced, within which every individual project had to be crawled over and justified to the centre, a system which embodied only an illusion of freedom. On

the revenue side, which the government mainly supports through the rate support grant, authorities already enjoy, and will continue to enjoy, freedom to determine their own expenditure and rating decisions, within the framework of the statutory services which they have to provide. But the present rate support grant system, by providing a virtually open-ended support to expenditure, is hardly an encouragement to be efficient or economical. So, in the Local Government Act, 1980, we have replaced it by the new block grant system, which, while still leaving authorities free to determine their expenditure plans and priorities, will provide a fair and consistent incentive for authorities to economise, to get maximum value for money.

THE BASICS OF LOCAL AUTHORITY BUDGETING

However, let me turn now to the 'nuts and bolts', the everyday working of the authorities. After salaries and wages, the biggest outgoing on local government's cost sheet is *debt charges*. Annual interest charges on outstanding capital debt of £20-£50m and more are not uncommon — an enormous and seemingly ever-increasing burden. A priority, therefore, must surely be for local authorities to tackle the redeployment of their resources, in the same way as would a commercial enterprise. They should always be looking at the possibility of *selling freehold land* to the private sector; at opportunities to *dispose of buildings that are no longer needed*; and possibly at the *sale and leaseback of office accommodation*. The receipts generated by such sales can then be applied to reduce capital debt, although they can also be used to provide money for new projects without additional borrowing. This will be of particular importance from now onwards, as local authorities see the results of their sale of council homes. Of course, many will wish to use the receipts from these sales to supplement their HIP allocations; but others will surely find an opportunity to use some of these receipts to reduce their capital debt. Redeployment of assets in this way can have a material effect on an authority's finances and is worthy of the closest study. A survey could be revealing, and could lead to a planned programme of converting fixed into liquid assets, with all the flexibility that can bring.

MANPOWER MANAGEMENT

And so we come to the largest single cost in every authority's budget. Some seventy per cent of gross current expenditure in local government goes on wages and salaries. Clearly, if expenditure reductions are to be achieved, significant savings have to be made in the size of the workforce and the way it is managed. I do not particularly want to discuss pay as such, but with cash limits the order of the day, it is self-evident that the higher the level of pay settlements, the greater will be the need to make offsetting savings by reducing the numbers employed, and the pressure to make cuts in services increased.

I am the first to recognise that it helps nobody to make sweeping generalisations about manning levels, and that discussion becomes meaningful only when we deal in detail. But I would repeat my plea for all concerned to approach this question with an open mind.

I well recall that when local government was reorganised in 1973/4, nobody really knew what levels of manpower the new structures would require. I myself was involved in working parties concerned with manning levels, and it was no secret that everyone played safe. And now, 6 or 7 years later, who is looking to see whether those manpower structures are still right? Few would claim that the two-tier system has worked to improve efficiency. It is estimated that a net total of some 90,000 employees were transferred to regional water authorities, the national health service and passenger transport executives at 1st April 1974. Yet within a year, manpower levels in government were restored to pre-reorganisation levels, and indeed, between 1973 and 1979 the total numbers employed in local government *increased* by some 150,000 — and this in the wake of legislation that was intended to achieve economies of scale by concentrating authorities in larger units!

There were many reasons for this growth, including the additional burden of increased statutory responsibilities, but can anyone honestly say that all those extra people were needed, or that the services provided are so much better? We have seen a reduction over the last year and this must continue, and of course it is for the local authorities themselves to decide where reductions should be made. But the figures do tend to show that most

reductions so far have been in numbers of part-time staff and, in particular, in the manual category. It is obvious that not enough attention is being directed toward reviewing central, largely administrative, departments; too much attention is being paid to the margin, and the sort of fundamental reappraisal I am suggesting is not being made. The outstanding examples, and there are some, where the problem really has been tackled, only serve to highlight the failure so far to face up to it everywhere.

There is a need for a thorough review of manning levels in local government, for a close look at those 1973/4 structures. But you may also have seen that the secretary of state has recently made public the reports of our own review of establishments within the DOE — the MINIS exercise. We are practising what we preach. This provides everyone with the opportunity to see how far we are going in looking at the objectives we are seeking to achieve, and the means by which we are achieving them, thus enabling us to review whether resources are deployed to their optimum effect. Partly with the aid of this system, we have managed to reduce the department manpower by some 10% to date.

An objective and radical review is needed

Any review of manning levels must be totally objective; it is vital to have the co-operation and advice of chief officers and of personnel and service directors. And one must discuss overall policy with the trades unions, although their vested interest in maintaining (or expanding) existing staffing levels must be recognised and taken into account. In particular, close attention should be given to the inter-action between the two tiers of local government, in areas of concurrent functions. In the 1980 Act, we have dealt with one of the most obvious examples of duplication in the planning field. During the debate on the bill, I was told of the increase in numbers of shire district council planning staff from 3,000 in 1973, to 12,000 now — a fourfold increase. There was apparently no commensurate reduction in the size of county planning departments. This is one example, but I am sure that many opportunities exist for country and district councils to get together and better co-ordinate their activities, to see each other less as rivals and more as providing an integrated efficient service to the public.

There is a need for a growing willingness to consider, and to

carry out, the redeployment of staff within a service, and even within an authority, when posts become vacant through the departure of other staff. Demarcation lines, formally recognised or merely accepted in practice, must become far more flexible. There must be more willingness for employees in the public service to step in to help out when others are away, or have left and have not been replaced; as there is in the private sector. There are real benefits in this, and these include reducing the risks of compulsory redundancy across an authority. But it does require a new willingness to do more, and to work harder, as part of a team that may be smaller, but more tightly and efficiently run.

Any debate about the ability of local government to achieve economies in this way must focus on the problems which will be encountered, among which must be the extent and the importance of restrictive practices. It is only proper to bring into open debate conditions which are known to exist within a local authority, but which are not generally highlighted for the general public. It cannot help to hide one's head in the sand. Wherever a service is provided as a monopoly, self-interest dictates that restrictive practices will grow up. There can be no doubt that this is true in many spheres of local government; and, without going into detail today, I would suggest that it is particularly true of areas such as highway maintenance, municipal transport, cleansing services and DLOs. We cannot turn a blind eye to the question of restrictive practices any longer; and over the next few months, we shall be taking a long cool look at the question, and we shall encourage people to talk about it sensibly, constructively and openly.

Incentive Bonus Schemes

Attention has been drawn by the chief inspector of audit, the advisory committee on local government audit and the Clegg commission, to the high proportion of ineffective bonus schemes which still exist in local government. I know that this problem is recognised by many authorities, and that attempts are being made to rectify it. But more needs to be done, and, again I say, to be discussed openly. I was pleased to hear that following the recommendation of the Clegg commission on local authority craftsmen, the unions are co-operating with the national employers in carrying out a joint review of bonus schemes. I would like to think that this may lead to union co-operation in studying

the manual group also.

WHAT SERVICES TO PROVIDE — AND HOW?

I want to turn now from questions of manpower management, to decisions on services themselves. It is self-evident that the current economic climate imposes an obligation on local government, as on all other sectors, to ensure that the services it provides are not only essential, but that they are provided at a level and standard which the authority can reasonably afford and which the community it serves really needs. There is an understandable built-in reluctance to change where a service does not appear to be unsatisfactory; but we should never exclude the possibility that this happy state of affairs may arise directly from over-provision. I believe there are many examples of 'Rolls-Royce thinking', where perhaps a 'Mini-Metro approach' would be more appropriate. I would refer only to the many schemes for new council offices which have been produced since the 1973/4 re-organisation.

I am not calling for a reduction in the fundamental quality of essential services. But an objective assessment of the mode and level of provision of these services could lead to considerable savings and what is more, to more efficient services. Techniques are now available, as LAMSAC examples can show, where alternative forms of service provision can be related to the particular circumstances of individual authorities and the most cost-effective approach determined. I commend LAMSAC's recently published compendium of value for money projects carried out by a range of authorities, often with startling results in terms of improvements in efficiency, or in cost and manpower savings. Likewise I commend a look at LGORU's annual review 1980, which lists many papers and case studies that should be compulsory reading for leaders in local government.

There are too many examples of insufficient reappraisal of the standards which apply in the administration and operation of the services provided to the public, for them to be ignored. I know of authorities where schools are being cleaned and maintained on a daily basis, to standards that were laid down 20 and more years ago. But many of the schools have been built since those standards were set and have different classroom sizes, or incorporate new materials and new finishes, which are far less demanding of

maintenance. Cleaning methods and equipment have also changed. Is there no hope of reaching new agreements to fit new circumstances?

This sort of scrutiny can usefully start in the town hall itself. How frequently are council offices (and, for that matter, all buildings occupied by an authority) — how often are they cleaned? Does it have to be done every day? And to what extent? There is a need to question standards of basic maintenance which we tend to take for granted. Why not compare with standards in the private sector? This whole area of standards is wide open for query and debate.

Contracting out essential services

I know that other papers will examine the ways in which the private sector can become more closely involved in the provision of municipal services. I do not intend to go over the ground which they will be covering, but I must emphasise that the search for greater efficiency in local government has to include consideration of the scope for contracting out services. The efficiency of in-house provision must be tested in fair competition with private firms. Under the provisions of the 1980 Act, local authorities will, for the first time, have all the information they need to weigh the costs and benefits of carrying out work in direct labour organisations, against those of using contractors. There is no reason why individual local authorities should not apply similar arrangements to other functions.

There is now too much evidence available from other countries of the considerable dividends which contracting out can bring in reducing costs, improving services, and creating flexibility, for us to ignore the potential in this country. However, relatively little information seems to be freely available about the savings which can be made and the practicalities which are involved in organising contract services. Yet some authorities have either adopted or investigated alternative modes of service provision. To me, the most significant aspect of the Southend proposals for contracting-out their cleaning operations, is that *six firms tendered*. We will see this growing and spreading and everyone will benefit. We continue to watch the growing practice overseas, but we have also decided to carry out an investigation into the whole subject and to look at the experiences of local authorities in this country, from which,

hopefully, some useful conclusions may be drawn. I would welcome interesting examples which are worthy of wider dissemination. We hope also to support a series of case studies of the potential for contracting out particular services.

I am aware that a great deal of useful work has been done by individual authorities or their consultants in looking at these issues, and I hope that the more open debate for which I am calling will extend to a greater sharing of information.

Charging for services

Let me say a word about charging. Whether services are provided by local authorities using their own staff, or buying-in services from the private sector, the costs need not necessarily be met from the rate fund. Some local functions — notably housing — have for many years been financed largely or wholly by specific charges.

It is not surprising if those concerned with a particular local service are unenthusiastic about raising income in this way. The practical arrangements for handling cash or sending out bills are a nuisance, and can themselves be expensive. And a professional man whose career is devoted to developing a local government service can be excused for showing a natural reluctance to put people off using it by making them pay. But the fact remains that *there is no such thing as a free local service; the only question is whether the costs are borne by the community at large, or by the users of the service.*

In discussions with the local authority associations, we have tended to focus on removing legal obstacles to raising revenue from fees and charges. For some purposes, local authorities have no power to make charges, and in other areas their discretion is limited (for instance, by the setting of fees at national rates). We propose to extend the powers of authorities for fees on planning applications, and a number of other proposals are in the pipeline, notably discretion to charge reasonable fees for the issue of various licences, and for various consents given by highway authorities.

It is easy to forget, however, what wide scope already exists for authorities to raise revenue direct from the consumers of services. I need only mention leisure services, council houses, and municipal bus undertakings. These are substantial business enterprises. I acknowledge that there are sometimes arguments which can be put

forward to justify some measure of subsidy from the rate fund, but it seems to me that the council should take as its starting point the presumption that such services should be self-financing, unless good reasons are advanced to the contrary. And it should look at those reasons long and hard.

Purchasing arrangements

That there are opportunities for local authorities through better central purchasing, is not in doubt. I am not in principle opposed to purchasing consortia; indeed, it is necessary for every authority which does not currently do so to look at such opportunities. But I do urge the need for caution. It is an illusion that bigger means better. There is the real danger that consortia become so big, and the geographical area which they serve so large, that they end up top-heavy with overheads. Smaller units, which are in close proximity to the areas which they serve, may well be more efficient. I have no doubt that joint purchasing of fuel and other utilities provides a great opportunity for savings, but it equally provides a real challenge, which can be met only by bringing onto the team people of calibre, experienced in the field of buying and of computerised stock recording.

BUDGETARY CONTROL

A brief word here, if I may, on a topic which is worthy of a seminar of its own, namely budgetary control. The need to ensure that resources are not wasted makes it essential that there should exist in every local authority, machinery to provide for tight realistic budgeting, related to clearly defined objectives. Elected members, as well as officers, must concern themselves with the close, regular and effective monitoring of expenditure in relation to the budget and objectives; and with the assessment of performance.

I recognise that the possibility of standing back and taking an objective view is more difficult in local than central government, since all members are to a greater or lesser extent involved in the formulation of policy. However, this quest for neutrality should not reduce the role of a review body to that of a neutered nonentity. Performance reviews at the elected member level must be a positive, regular continual mechanism of appraisal.

The key issue is to develop elected members' understanding of estimating and budgetary control. I mean no disrespect when I say that special training should be provided to leaders and those elected members who are involved with finance committees and performance review. Municipal accounting, for example, does not follow the same pattern as industrial and commercial accounting, and members can be lulled into a false sense of satisfaction, if their analyses of performance are not based on relevant information. How balances are accumulated and dispersed; the elements that make up the finance-miscellaneous vote head; the manoeuvrability that exists within the contingency fund; any special funds which are tucked away: these are but a few of the headings about which members must know enough to query for themselves, if they are to be on top of financial affairs within their authority. Unless elected members are knowledgeable in this area, they can never be in real control.

CONCLUSION

I have ranged fairly widely in this paper, and am the first to say that I have only skimmed the surface. I have made no reference to the need for basic appraisals of all overhead spending — the less recognised, as well as the obvious areas like use of telephones, heating, lighting, use of stationery, photocopying, etc. I am sure that most authorities now watch this, hopefully on a regular basis, and that they call for regular reports to the policy committee of the council. I hope that they will also talk about the perhaps less widely discussed items of expenditure, like the use of temporary staff, overtime, staff advertising, the use of internal transport, the considerable savings that can be made if everyone were paid by cheque and so on. The list is long indeed and always it must be the members who involve themselves. But that is for another time.

I hope that a number of the issues I have raised will be pursued in greater detail by others here. I would not pretend that the areas which I have suggested for consideration are the only areas at which we should be looking in our efforts to improve local government efficiency. The subject is wide and the opportunities are many. But I do base my observations upon my experience both of being responsible for the running of a large local authority, and of forming a view of local government from the centre. If we do

not now return to these areas, if we do not bring them into an open objective debate, and, above all, if we do not apply the lessons of that debate, then the public reaction to local government as a whole will be one of growing disappointment and impatience, and I say again, the pressure on central government to move in and step into local government's shoes, will relentlessly increase. We can forestall that disappointment, that impatience, that pressure; but only if we consider the future of local government with candour and with care.

Questions and Discussion

ROBIN W. GARSON (*Director, Leisure Services, London Borough of Hillingdon*): Lord Bellwin, I agree wholeheartedly with all the targets you have set, and in many areas these challenges are being tackled, some successfully, and others less so. However, if I may go back to your earlier remarks about elected members playing a bigger part — and I think you meant in management, and not just policy-making — it is true that in the next few years we must put local government back on its feet.

But apart from those councillors who may be exceptionally good, how can we be sure that we have the *right* elected members to carry out the changes so badly needed? How can we ensure that the best cross-section of the community has the opportunity to serve the country? There is much dead wood in local government, and a great deal of time spent on party political issues, and not the internal government of this country. My question is, how do we get better people into local government, and give them the instruction they need to get to grips with the problems?

LORD BELLWIN: It is fair to say that you have touched on what is probably the biggest single problem that local authorities have to face.

There is no easy answer to this question, and I am sure that none would quarrel with the basic assertion that, if at the end of the day we cannot find a way of encouraging people onto local authorities, to find ways in which they are able to devote their time to local government, then the system is either in a desperate need of change, or we will fail.

The point at which authorities depart from managing is a very ill-defined one; it depends on each local situation. They do vary.

Some officers are magnificent, and in no way do I speak to denigrate what they achieve. The debate on accountability of local authorities is now in the open and officers are the last people who wish to be involved in that; it's the members who have to do it. Therefore, whether they like it or not, they have to get into things more than they did in the past.

Now, how we organise the time, how we encourage the kind of people we need to come into local government — I have no easy answer. I can only suggest that the image of local government will change as a result of its new openness. I notice that where once the CBI thought it wrong for firms to grant employees time spent on council business, now they agree that this is part of their work. If things are not done the way they like, then the private sector has itself to blame.

MR. MICHAEL NOAR (*Federation of Civil Engineering Contractors*): I would like to ask Lord Bellwin if he is aware that the construction industry does not share the government's satisfaction with the direct labour legislation — in fact it is an understatement to say we feel sadly betrayed by it. Does he know for example, that Bradford feel able, under the terms of that legislation, to increase the scale of their direct labour department without going out to competition, which cuts still further the opportunities for local contractors to compete with them?

LORD BELLWIN: I know that there are local authorities who are coking a snook, but the Act calls for information to be made public to indicate what a department is achieving. If it could be shown by Bradford, for example, that they were now achieving in open competition a performance that was better than the private sector, there would be no quarrel with them. Most people I know in local government, however, would put a very large question mark over that; and what the Act sets out to do is to make this competition become a reality.

Your federation is disappointed because there is not tighter control over direct labour. But the dichotomy is to reach a balance between seeking more competition and not knocking direct labour organisations as such. If it should prove that the Act is not achieving what it should achieve, then we shall be watching very carefully indeed. I have confidence that we will go a long way

down the line, and I think you may be being a little pessimistic; but we shall be watching very carefully.

MR. D. WATT (*Technical Services Dept., Thurrock Borough Council*): Welcoming the attitude you were taking about openness, I think the need is to reduce the cost of all services in the country at the present time, in the private and public sector. My job is made more difficult, in terms of an administrative overburden at a serious cost to the economy, in terms of getting bodies like the Federation of Civil Engineering Contractors to do work like renewing sewers, which are in a desperate state.

I think also that central government must take the lead in looking at the levels of representation. There are far too many members on local councils. If anyone would like to join me in sitting in the middle of democracy at 2 o'clock in the morning, he's welcome to do so! I would like Lord Bellwin's comments.

LORD BELLWIN: Regarding what should be the appropriate number of members, you may not know that there has recently been a new direction on this, and the numbers are being changed right now. Whether there are too many now is a matter for debate. Trying to legislate nationally for the local situations is hard. But yes, I think that what you say is right, and will discuss it with those who are involved in this at the present time.

International Examples of the Private Provision of Essential Services

COUNCILLOR MICHAEL FORSYTH

Westminster City Council

*Alongside his work as a Westminster City councillor, Michael Forsyth has made a detailed personal study of the use of private contractors in Britain and abroad. Some of his research has been documented in his pamphlet, **Re-servicing Britain**.*

CUTS WILL ALWAYS FOUNDER

I am buoyed up by the strength of the case which is made for bringing the private sector into local government. My interest in this subject first came about as a result of my experiences in Westminster, and comparing them with those of colleagues on other councils.

It can be a devastatingly tedious, frustrating and boring experience trying to make cuts. Failing miserably, you meet demonstrators outside the council chambers who attack you for being savage, unthinking and unfeeling (while you know personally that you have failed to make any impact whatsoever).

I think that the 1979-80 cuts exercises failed, and that future cuts exercises will fail, for three basic reasons. Firstly, because of the *calibre of councillors*, and the *nature of their position*; they will always shrink from making the difficult decision, they will always be subject to the interest group, more powerful in the immediacy of its influence than the distant ratepayer.

One has only to think of the countless examples of local authorities which are well served by commercial laundries. But if any authority should attempt to close down the most Victorian of steam-laundries, a whole coterie of people will appear arguing that the population will dress dirtily, that abject poverty will result, that hardship will be created, that race relations will suffer and so

on. The evidence will be cited, the witnesses will be paraded, the petitions will be presented, the newspapers will write their stories, and at the end of the day, the councillors, Tory, Labour or whatever, will ask themselves if it really is worth the bother, and they will give up.

Secondly, *local government officers* will behave precisely like their opposite numbers in the private sector, regardless of how able they are. What marketing director in a company faced with a decline in profits offers to manage with less of a sales force? What production manager says, 'I could do with fewer engineers?' It is folly, therefore, to set about a cuts exercise while members are content to come along to a committee and expect their officers to line up for the slicing of their departments and a reduction of their services.

Thirdly, unlike the private sector, *local government has no need to maintain its customers*, because for most of its services it is enjoying a monopoly. As for making a profit, it always has the ratepayer to turn to, whose purse can be raided for rates and taxes, usually with the rubber stamp of the elected members, who are quite happy to go out and defend it. So it will fail: it will fail because of weakness on the part of the councillors, because of their lack of knowledge and time, because of the curious way they set about it, asking officers to operate against their own interests, and because of lack of incentive.

Now I believe there is a way out, and that is to turn to the private sector in order to improve services and cut their costs at the same time. And it lies in distinguishing between local government *providing services itself*, and ensuring that a service of a proper standard *is provided*.

THE SCOPE FOR PRIVATE PROVISION

Direct labour, be it in building, or window-cleaning, or refuse-collection, or whatever, was originally introduced to save money. With hindsight, it seems almost astonishingly naïve to have imagined that by eliminating the businessman's profit, councils would save money and avoid 'wasteful' advertising and duplication. In fact, it is the businessman's profit, and the competition for it, which keeps his costs low and productivity high. He has to respond to demands for higher wages or better

working conditions with his profit in mind.

If he doesn't, he goes out of business. But local authorities don't go out of business — not even Lambeth seems to have managed that! They just cost their ratepayers more and more.

There is a great deal of evidence on building, for example, where Professor Fleming of Loughborough University has done painstaking work, and concluded that in terms of crude output, direct labour building departments were 54.8% less efficient than the private sector. And the disaster of direct labour departments in the building industry up and down the country is well-documented. It is true that that figure of 54.8% can be reduced if you take account of working proprietors; it can be reduced further if you take into account the way the private sector organises itself. But the fact of the matter is that the *cost* cannot be reduced in the same way.

Savas's Law

Now, with all the interest in building, it struck me as quite astonishing that there should be a consensus within the political parties that direct labour building departments have not been an enormous success, and that there was room for improvement. But no-one had thought of looking at other monopoly services which are supplied by direct labour — refuse collection, say, or parks maintenance.

If we look abroad to other countries, we see that whatever services one cares to look at, where the private sector has been brought in, the service has been dramatically improved and the costs have gone down. And there is an astonishing thing called 'Savas's Law'. Professor Savas is an American with a considerable background in local government, and has spent a great deal of time researching this subject in the United States, where half the domestic rubbish bins are emptied by private contractors. 'Savas's Law' says that if you take the cost of any service when provided by direct labour, and divide it by the cost as provided by the private contractor, it always comes out about the same: 5/2. The direct labour is something like 2½ times more expensive. This figure is based on surveys of numerous practical cases.

This should not be really surprising. By turning to the private sector rather than to their own departments, authorities in America are able to bring in expert services when and where they

are required; they are able to ensure that the companies providing those services are operating at their most efficient size, rather than being constrained by the geographical area of the local authority; and of course, it saves them inefficient or expensive capital investment. And one of the most interesting things is that the local authority officers themselves find that bringing in the private sector enables them to improve their standard of management. Instead of having to spend their time staffing their department, and patching up all the weaknesses, and having to defend it, they can spend their time overseeing the work of the private contractor. I shall return to this aspect later.

Refuse collection: developments abroad

Perhaps it is easiest to look at refuse collection, because of the ease of measurement of efficiency compared to other services such as social services. Savas carried out a study of 1,378 communities, and found that the average saving where the private sector was employed was between 40 and 60 per cent. He also found that in private companies providing refuse collection services, absenteeism is about half, man-hours per collection are about half, and crew size is about two-thirds. That explains some of the saving.

In New York, there are two identical suburbs in the way only Americans could make them identical. One is the Queens District of New York, and the other is the Bellerose. In Queens, there is a municipal collection twice a week, and the cost per household is \$207 per year. In the Bellerose district there is a *three times weekly* collection at a cost of \$72 per year. A third of the cost for 50% more service!

Perhaps the best way of appreciating the success of the private sector is not to look at it in an isolated example like that, but at the dramatic growth in the numbers of private companies which are providing this service in the United States. It started in the West, and it has snowballed to the point where many large companies have grown on the back of the enthusiasm which has been created by example after example. Middleton, Ohio, in 1972 saved \$350,000 on refuse collection by going to the private sector; New Orleans in 1979 saved \$200,000 simply by doubling the proportion which was carried out by the private sector from 10% to 20%; Camden, New Jersey, saved 50% of its budget, or \$700,000 in

1974 by bringing in the O'Connor Corporation.

It is very revealing to see how the O'Connor Corporation went about the job, which was previously carried out by direct labour using 17 vehicles and 71 men. O'Connor did it with 12 vehicles and 39 men. And the evidence is not just from the United States. It is from France, Switzerland, Austria, Germany, and even in communist Yugoslavia, where the municipal street-sweepers were replaced by a workers' co-operative with savings of about 35% per cent on costs.

Refuse collection: developments in Britain

In the United Kingdom some authorities have blazed a trail. Maldon saved £50,000 out of a £187,000 refuse collection budget by going private, and if a small authority can do that, one can imagine what a large authority could do! Then along came Rochford, who believed that they could save £150,000 out of their £500,000; and suddenly the trade unions came forward and offered a way of saving an instant £100,000. So even the *threat* of privatisation produces savings, and Rochford opted for taking the saving of £100,000 and the new working agreement.

Lord Bellwin mentioned Southend, who have decided to contract out their refuse-collection, street-sweeping, lavatory maintenance etc., at a saving of £400,000 from a £2.3 million budget. What is interesting about Southend is not just the saving, nor that six different companies tendered, but the fact that most of the council employees — 205 out of 250 — are being offered jobs at higher wages by the private contractor, who has also entered into an arrangement for the purchase of capital equipment. For a local authority in the current climate, this must be a tremendous bonus. It is also interesting that the unions in Southend came forward and offered savings of £217,000; so again, just asking contractors to give an estimate can produce savings. Others, such as Bracknell, who have a budget of £500,000, are currently in the process of going out to tender.

Lord Bellwin mentioned that six companies put in bids for Southend. Again, when we first started talking about this idea, people would say: 'It's all very well talking about it, but there aren't any private contractors. We all know this, our officers have told us. Nobody is interested.' And yet, as soon as a local authority opens its doors, six appear!

What is remarkable about the belief that contractors cannot be found is that it is a *British* company that is doing the whole cleaning operation in Riyadh on a £150,000,000 contract; a British company which is providing a private service in Lagos; and British companies, working with Italian companies, active in Buenos Aires. It seems that every authority in the world is prepared to offer British contractors an opportunity to bid, except for our own in Britain!

A closer watch on costs

The private sector succeeds by tight control over collection routes, manning levels, and all the rest of it, and by the introduction of new technology, and efficient use of capital. Perhaps the ultimate monument to the innovation and technology of the private sector is in Scottsdale, Arizona, where the private enterprise company have a machine called Godzilla which refutes the argument of all those who say that dustmen have a really dirty job and deserve everything they earn, and we should not really mind if they only work 24 hours a week. Godzilla does the work of two vehicles and 6 men, but with one man, who sits in an air-conditioned cab in this enormous vehicle, listening to a stereo system. That is perhaps an example of how far technology can go!

In Westminster, by contrast, and in many other authorities, our refuse vehicles, which cost £35,000 each, work on average about 5 hours a day. In the private sector such underuse of capital would not be tolerated. The average number of hours which our dustmen work is 25 hours a week and they are paid for 40; if they work 26 or on Saturday, they get overtime. The whole thing is a scandalous misuse of the rates.

Competition is vital if costs are to be trimmed

We are not going to be able to change this system without bringing in competition. I have mentioned how New Orleans made substantial savings by doubling the private sector involvement. Minneapolis is also a very interesting case, because they have been with private contractors for about eight years. They started off with 10% of the city covered, and the private contractors cost 60% less; then they went to 20%, then 30%, and eventually they got to the point where the private company was doing 60% of the city and direct labour 40%. And a funny thing happened — the costs

in the private sector were exactly the same as the costs in the public sector! So direct labour costs had come down to meet the private sector, and faced with their market disappearing, suddenly the trade unions, with a vested interest in keeping up manpower levels and expenditure, were equally desperate to maintain their membership and their hold on the city. They were far more vicious than any bosses when it came to formulating new bonus schemes. The equivalent of the director of technical services in Minneapolis was delighted by this situation, because he would watch the fight and get the standard of service he required; and that, surely, must be the goal for local government officers.

And control of the service is always improved. *Is it conceivable that a direct labour refuse collection service in this country could do what Minneapolis can do, which is to fine the contractor \$10 for every complaint received from a member of the general public?* Omaha imposes \$2,000 a day fines for missed collections. Even more interesting, in Laguna Beach in California, the contractor is paid a \$200 a month bonus for every month in which there is no complaint: *it is usually paid.*

OTHER SERVICES CAN BENEFIT

If we were only thinking of refuse collection, then this subject would be much less exciting and less dramatic in its implications for local government. But there are other areas and new British examples. In Humberside there were so many complaints about the cleaning of school windows in 100 schools in Hull, that eventually the direct labour service, which cost £87,000, was abandoned. Private contractors were brought in at a cost of only £37,000. And of course, there is no way of computing the spin-off which results from injecting new business into the private sector.

Open spaces

Let us consider parks. In Britain we spend £240,000,000 on parks and open spaces. But Dortmund in West Germany saved £200,000 by turning to the private sector for their parks maintenance. There are some very revealing examples in the United States. Downie in

California, saved 20% by turning their golf course maintenance out to the private sector; Ventura, in California, saved 20% on its parks maintenance; and Rohnert Park, which had a golf course losing \$60,000 a year, turned it over to private management and turned it into a \$60,000 a year money-spinner.

Perhaps the most amusing of all is the case of Lynwood, California, who turned their tree-trimming out to the private sector, cutting the cost from \$125,000 to \$87,000. Their officials were in an absolute daze when they discovered that the private contractor had trimmed as many trees in a week as the direct labour had done in the previous year!

Social services

Councils often admit that there is something to be done in terms of refuse collection, and perhaps parks maintenance, but not in activities such as social services, believing that the private sector with its nasty, mercenary ways has no part to play.

That is a lot of nonsense, because Kent has already blazed the trail. Instead of putting elderly people in expensive institutions, they have found committed individuals with some degree of experience to go and look after elderly people in their own homes, paying the helpers to cook, clean, and look after them personally. Kent have found that the elderly beneficiaries suffer less anxiety, depression, and loneliness; and one has only to read the report, which I commend to you, to see that the comments which the elderly people themselves make, justify the exercise.

Of course, not all elderly people can be dealt with in this way. But here is a way out of the sterile debate about closing homes and care of the elderly. Here is a way of *saving money and simultaneously improving* the standard of care. And why stop at the elderly? What about the problem child? Or one from a home which is not quite up to standard? Again, Kent has shown that many families would welcome a child into their own home, and could be paid to do it, saving a lot of money, and providing a far better background for that child than any institution.

Other services

There are other examples: Thanet District Council saved £35,000 by contracting out their *deck-chairs* to the private sector. They not only saved money, but sold the deck-chairs to the private

contractor over a period of five years, so they even got some capital receipts out of it. Chiltern District Council have made savings of some £16,000 on contracting out their pest control to Rentokil; other authorities could be looking at many other services.

The fact is that *virtually all council services are potential candidates for privatisation*. Building, or cleaning, or maintenance, or printing, or computer services are all pretty obvious. But what about architects', valuers', and solicitors' departments? And what about laundries and catering, which are often forgotten? And abattoirs — there are 50 slaughterhouses in this country making losses of up to six figures; nobody seems to know exactly how much they are losing, but we know it is in millions. They could well copy the example of Cologne, which found that it had a loss-making abattoir and turned it over to a co-operative of local butchers.

If the record of privatisation had been patchy, or had succeeded in some places and failed in others, then it would be worth applying selectively. But that is not the case; *wherever it has been tried it has been successful*, in all sorts of services. So why, then, will local authorities not grasp the nettle and follow Southend's example?

UNION OPPOSITION — A RED HERRING

One argument I hear against privatisation from elected members is that unions would never allow it. This is a moral issue of who runs the authority, and I happen to believe that local authorities should not be run by the trades unions, or run in the interests of the trades unions. But the unions will not be in favour of privatisation for the reason that it is more efficient; their self-interest dictates that they should not be in favour of it. Privatisation is a threat to their membership figures, their power, and their financial status. That is something which we have to face up to. Yet the union's *members* have nothing to fear from privatisation — in Southend they can look forward to better wages and better conditions, and throughout the world, municipal employees who have been taken on by private contractors have enjoyed better pay and conditions, resulting in higher morale and less absenteeism.

There is another plus factor here. Local authorities closing

down old people's homes, cutting services, or cutting the frequency of collections, never have public opinion on their side. Whereas local authorities *improving the services and cutting costs at the same time* will have a wave of congratulations on their hands, and trade union action will reflect it. Where is the national strike arising from Southend's decision? Where is the closure of all the services in Southend? Where is the dogma, the entrenched union position, and the refusal to countenance change? We have, instead, the unions coming along with a quarter of a million pounds worth of savings!

I believe that the *'trade unions' argument is much less impressive than people think*. People watching local government from outside, watching the municipal construction or maintenance job with the traditional group of workmen standing around, or hearing the stories of the refuse vans outside a particular pub, or of men knocking off at 11 a.m. to drive taxis, and the road-sweepers who hide their dustcarts and return at 4.30 p.m. to retrieve them — people might think there was something wrong with local government, and something wrong with the British worker. I think that they would be mistaken. *What is wrong is the system, which has allowed monopoly to rule*, which like all monopolies has grown flabby and inefficient.

There is an alternative — an alternative which demands courage. The argument against Freddie Laker was that if British Airways couldn't provide a service at their prices and make a profit, how could he provide a better service at a lower cost? Laker gave his answer in *practice*, and I think that the Lakers of local government are waiting on the tarmac now. All they need is for local authorities to give them clearance for take-off.

Questions and Discussion

MR. J. A. RICHARDS (*Town Clerk, Borough of Blaenau Gwent*): I would refer to the end passage of Cllr. Forsyth's pamphlet *Re-servicing Britain*, and ask what evidence he has to support the statement that men would prefer to spend a full working day doing productive work, and how optimistic he is about getting this across the committee room table to his refuse collectors? My council has just spent two years getting an agreement for a twice-weekly collection from a once-weekly collection.

CLLR. FORSYTH: It depends on your view of human nature. I think it is human nature to strive for job satisfaction and maximum rewards. I would cite as evidence the United States, where municipal employees enjoying so-called benefits and job security have deserted the public sector to go to the private sector in droves, because they can see an opportunity to make more money and have a better standard of job.

I don't think the point about facing the people across the table is relevant. We are at the stage where we can no longer tolerate the 25-hour week, and it is now time for the private sector to come in, and for those municipal employees to take up jobs in the private sector on the private sector's terms, if they wish to.

MR. R. MITCHINSON (*Chief Executive, Basildon Council*): We have heard a great deal about places from Saudi Arabia to California, and some nearer home. What we haven't heard much about is Westminster, Cllr. Forsyth's own area. It's all very well for government ministers to tell us to clear up our own back yard, when they haven't been very successful about doing it themselves. I would have thought also that someone in Mr. Forsyth's position would be able to tell us something about how he's been able to put the precepts which he so admirably presents to us into practice.

CLLR. FORSYTH: During the last dustmen's strike, there was little we could do, but we did bring in, on a small scale, a private contractor to deal with the problem. I have not dwelt on my own authority because there is nothing worse than the chap who comes along and says he is doing everything right. In Westminster, when I started talking about private contractors as an alternative, I had the support of very few members of the Conservative group, and the rest were voicing the usual arguments. After my piece in *NOW!* magazine and the pamphlet, and after I'd taken time to show them the successful examples, suddenly we had a majority of the group in favour.

The difficulty in Westminster is deciding how to go about it, whether you have a pilot area or attempt complete coverage. I would confidently predict that you will see Westminster turning to the private sector before very long. These things take time, and I do not expect every local authority in the country to decide tomorrow to contract out to the private sector. But they should all consider the argument, open their doors to private contractors,

and take it from there.

Most authorities will be so impressed that they will opt for the private alternative.

MR. M. ASHE (*Department of the Environment*): I would like to expand on a point Lord Bellwin made earlier. There is a tremendous number of examples of privatisation and contracting-out throughout the world, and the problem is assessing how it could work in this country. We are working on a survey of councils who have considered privatisation and accepted it or rejected it as an option, and other councils will be interested to know what circumstances it could operate for them. We should also be glad to hear of these at the department.

CLLR. FORSYTH: This is certainly something to welcome.

MR. K. J. FRASER (*Glasgow Parks Department*): I should like to know about the other side of the balance sheet. Surely, privatisation depends to a great extent on co-operation from the general public, e.g. in leaving their rubbish outside ready for collection. How has this co-operation been generated?

And on the golf-course point: I could turn a loss into a profit tomorrow with golf-courses in Glasgow, if I didn't make them available at a low price to as many people as possible! You can turn public parks and such places into exclusive clubs, and they'll make money, but are you really providing for your citizens?

CLLR. FORSYTH: You have strayed onto an area which I didn't mention, the whole question of charging, and whether local authorities should be providing golf courses at all. I happen to believe that golf courses should not be provided; however, they could be available at a reasonable price, through good management. I don't think it's acceptable for anyone to run a loss-making golf-course when they may be closing down mentally-handicapped services, or have a housing problem. Local government is a net to catch the unfortunate, and a ladder to get them out of the net, and it should not be spreading its role so far. If you provide golf-courses, why not bowling-alleys? Or cinemas? Where do you draw the line?

As to the question of the mode of pick-up, in the States there is a lot of kerbside pick-up. It is important to compare like with like. When you compare municipal with private on the same service, you find savings. I suspect one reason why Southend has turned to the private sector — and I have colleagues who live there — was

that residents had to cart their rubbish in splitting plastic bags out to the front gate for the *municipal* organisation to pick it up. In contrast, my employer, who lives in Maldon, found that the private contractor's vehicle comes up a long drive to the back of his house, removes rubbish and replaces bins, all without waking the family up!

If you think about it, this is an industry which has grown to enormous size: half the bins in the United States are emptied on contract. And when you think of the vested interests ranged against it, if there had been holes in the service undertaken by the private sector, they would have been exposed by now.

CLLR. C. T. BALL (*Basildon Council*): When I took on a municipal authority with 3 golf courses five years ago, they lost £7,000 a year — in other words, cost £7,000 to run. By doing away with inefficiencies, my profit on 3 courses is £60,000 a year, staying municipal. Conversely, the private golf club to which I belong, being a keen golfer, charges an annual subscription of £250 per year, with businessmen on the board of directors, and last year we lost £25,000!

CLLR. FORSYTH: When your golf-course was losing £7,000 before, it was funded by the ratepayers. Your private club is financed by people who want to play golf. If you are good at running your golf course, and you are making a profit, why not ask for tenders for the private sector to manage it for you? If you are truly efficient, you have nothing to fear. I suspect that the private sector could run your golf-courses at the same charge and make a larger profit, money which you could set aside for other council activities.

The Relationship between the Council and the Private Contractor

PATRICK GARDNER

Managing Director, Consultimate Marketing Services Ltd.

Patrick Gardner is managing director of Consultimate Marketing Services Ltd. Part of the Pyramid group, this company co-operates with several local authorities, raising advertising revenue from the private sector for them.

Consultimate acts as an advertising contractor for a number of local authorities around the country. The idea is to raise revenue which has not previously been raised, through advertising. I shall deal with one segment of the advertising market, by taking one slice of our current business and give some ideas as to why privatisation might work better.

A TYPICAL PROJECT

We have already heard statistics about good results from privatisation, and I think when we consider one specific project and analyse what we are trying to do, general principles and rules emerge which will explain why privatisation has been so successful.

The specific project which I want to outline is a mailer which we are carrying out for 9 authorities, representing about 700,000 households in all. Every year, every authority has to send out a rate demand in an envelope, and the authority has to pay for its distribution. The project we are working on, on a test basis, seeks to take advantage of that existing medium of distribution to insert with the rate demand what we call a 'multiple shopping mailer', eight coupons on one sheet of paper, offering discounts from shops within the area. If this project is successful within these 9 authorities, we hope to expand the service to a substantial number

of authorities in 1982.

Advertising revenue takes effort to earn

I should point out immediately that the original concept was to have one advertiser in each envelope, and the charge per thousand envelopes for that would be about £20. By putting 8 advertisers in together, we immediately raised the revenue to about £100 per thousand. When we started this project, we had to learn the optimum number, although we are familiar with the business of advertising and the company has been dealing with local authorities for a long time. New rules, policies and procedures had to be worked out for this project; for example, we had to segment the market of potential customers. Who is the likely potential customer who would benefit from this sort of advertisement in this particular area? We defined them thus: A customers were national concerns without a local office; B customers were national concerns with a local office; and C customers were the local retailers.

We had to evolve a marketing approach to them; the first two we tried were unsuccessful, the third one was successful. We had to set up sales training and an administrative system. Market research will be done on the effectiveness of this new medium for advertising, when the results come out. We will analyse the individual cost elements which go into this particular project. We will look at the possibilities of segmenting the larger authority; it may be easy to sell one advertisement in a small authority where the sum of money is not particularly big, but if you go to very large authorities, we are talking about £1,200-£1,500 for advertisements going throughout the authority. We must consider increasing the size of the mailer in some authorities; if it works for eight, perhaps it will work for twelve, and this will increase the revenue. If this is a viable advertising medium in April and September, perhaps we can do something in other parts of the year, and increase the frequency.

All these jobs which we as a business must do point to one particular factor, which is specialisation: we are specialists in this particular section of advertising. We weren't when we started — we've had to learn from our own and other people's experiences. We're not cleverer, or more hard-working than people who work

in local authorities, but by applying the results from these 9 authorities, and using our experience over perhaps 200 authorities, we can get more profit than could the local authorities themselves.

Blanket coverage

The second point I wish to make is that the contracts we have with the various authorities are on a blanket basis, covering almost anything anyone can think of. There is a rule in industry, which applies equally well in almost any situation, which is the 80-20 rule. That is, 20% of your projects will produce 80% of your returns. We have a list of potential projects apart from the mailer; and the electoral registration and the rate demand insert is going to produce four times as much revenue on a national basis as all the rest of them put together. So we shall take each project at a time, work down the list of the ones which are going to produce the most revenue, and introduce them to the authorities in that sequence.

It is important that we as a company approach the business of generating advertising revenue on a project basis. If we try to be all things to all men, in an unplanned way, all we shall do is create an enormous amount of effort in terms of energy and time, which will not really produce a satisfactory return for the authority. But whether we are contracted to just one project, or a blanket cover, we shall introduce projects on a general basis, having 'de-bugged' and tested them, and say to an authority, 'this is what we are going to do; this is what you have to do; this is the sort of revenue we would expect on previous history to generate from this sort of medium. Now you can take a decision on whether you think it is worth it.' The sums of money involved here are not so enormous as to warrant a lot of time and effort being diverted from other things, and it is incumbent upon us to provide a smoothly-running operation as far as the authority is concerned.

This brings me to a small problem area. We have had lots of ideas from people in authorities, they are very imaginative; but in most cases the effort required to get the money is not worth the return. It reminded me of when I was working in gem-stones, when we obtained a contract from the Zambian government for the exclusive rights to cut their emeralds, and the first bag was brought in with rough emeralds to be cut. When we opened it, there was nothing worth cutting. As far as the Africans were

concerned, they were all emeralds, and therefore were going to be worth a lot of money.

This is similar in advertising. It is not worth spending £50 to get a return of £25. As a company we have a responsibility to educate, inform and communicate to the authorities what are the best media for advertising possibilities.

OTHER POTENTIAL ADVERTISING SOURCES

We are looking at a number of other possibilities within the project approach which are not on the current list. I believe for example, that it is possible to produce a standardised tenants' handbook adaptable to the requirements of a specific authority and designed in such a way that it is a good medium for potential advertisers in the area. One benefit would be the improved advertising possibilities; secondly, standardised pigeon-holed information areas would cut down the amount of time they spend in preparation; and thirdly, there are potential cost savings in the production process. The underlying principle is again, expertise. We would work out a prototype with one authority, then have to take it round others to make sure it fitted their requirements, then test it, and then make proposals to an authority.

The principles behind privatisation

Going to the principles which might underly the operation of privatisation, I shall try to draw some general principles out of this small example.

The first is specialisation. The fact that there are all these jobs to do does not mean that all companies are going to do them. We have heard of the success of privatisation; I'm sure there have been failures. But I'm sure that the reason for failure has been that the company involved did not conduct the management of its business in the correct way; and the remedy in those circumstances is a competitive quote from somebody else. I feel it incumbent upon us to keep our authorities informed on our progress, about our plans and projections, so that they can monitor our performance.

Secondly, project management is important. If authorities group together too many things under one umbrella it is not as efficacious as taking one project at a time, working it out in detail, solving any problems, and then moving onto the next one. In a

competitive situation I would not mind very much; it is desirable that competition does exist. We may be very good at a mailer, and another company may be good at something else.

One example from America is Alcoa, which up until the war had a virtual monopoly of the aluminium business in U.S.A. Very efficient, they were almost the model company. They carried out a lot of research and testing, they were open to ideas, they made a direct conscious effort to overcome the liabilities of being a monopolist. During the second world war, it became necessary to increase the aluminium production very quickly because of the demands of war, and the U.S. government, largely to guarantee production of aluminium, and for no other reason, gave out a lot of contracts enabling new businesses to enter the industry. After the war, with several companies in the aluminium business, the uses of aluminium suddenly started to multiply. The source of ideas was not confined to one company, and whole new areas developed; the end result was that Alcoa became more profitable. The same thing could well apply in the field of advertising, with local authorities. If other companies come in as competitors, they will open up new avenues which we did not think of. This will stimulate us to open up an area we had not previously considered.

Another point to look at is *when developing assets are not being utilised.* All authorities do have assets which are under-developed. The mailing of rate demands was one asset on which we can base a viable business. The assets in libraries are the staffing, the enormous traffic through the libraries, the building. We are still trying to work out the best way of capitalising on this particular asset of the authority.

The next point I would make is in relation to *time-scale.* Businesses do take time to develop. If authorities expect magic revenue to appear immediately, they are not going to help themselves. There is a lot of pressure on contractors to try out projects too early; these are not done well and people lose their initial enthusiasm. So these things are going to take time to develop. Our company will not reach full flood until 1983-84.

The last general principle I want to state is in the field of *communications.* Here we are dealing basically with committees who do not understand the advertising media, and it would be wrong of us to expect them to do so. It is incumbent upon us to communicate with them in a very open-handed way the sort of

things we are doing and the reasons for them, in a way that they can understand. A lot of this information would be quite valuable to competitors; some sort of understanding of confidentiality would be asked for, and I am sure would be forthcoming; only in this way could we be as candid as we wished, and only by communication can we be judged on our performance.

Questions and Discussion

DR. EAMONN BUTLER (*Adam Smith Institute*): I am sure that Cllr. Forsyth will be able to tell us that they advertise on the back of bus-tickets in Tierra del Fuego! Mr. Gardner has mentioned libraries and rate demands, but what are the other sources which it is possible to put advertising revenue on?

MR. GARDNER: There are car-park tickets, libraries, wage-packets, wage inserts, salary slips; these are areas which are being looked at. Allotments could be a good medium for an advertiser in the gardening trade — any garden centre would be delighted to get a mailer out to people who run allotments. One untapped resource is the knowledge local authorities have; they know a lot about their areas, and if we can find a way of developing this it could be very worthwhile.

DR. MADSEN PIRIE (*Adam Smith Institute*): Can you give some examples of the sort of revenue local authorities can expect to make?

MR. GARDNER: The gross revenue which could be derived from *just the rate insert* and the electoral form insert could be £2,000,000 a year, and I would expect the profit to the authorities would be about half that. Over the country, that is not an immaterial sum to be generated. If we can build this up as a business, one can make a million pounds profit for the local authorities, and then look for another place to make another million for them.

That is on the assumption that about 200 out of 250 local authorities would be participating. This does not mean very much in terms of each council, but I have taken *only the mailer project* as one small example of *one source of revenue*. We emphasise to councils that one project of this nature is not going to ease all their financial problems; on the other hand, if it is done on a national basis, the profits could be very great indeed.

MR. C. G. F. PLATFOOT (*British Car Auctions Ltd.*): The competition element is very important in business. How do you overcome, when talking to councils, the fact that they are generally required to accept the lowest tender? How does this affect you as a businessman, if you have to lower your prices further than you would like?

MR. GARDNER: There is no legal requirement to accept the lowest tender, and what we are looking at here is who is going to produce the largest net revenue to the council? Let us assume that you have a specific person to sell advertising, and that the council is incurring all the costs and paying for the production of it. Now I know from experience that the first 50% of advertising one obtains much more cheaply; you have to work much harder for the second 50%. If the authority says 'I will take Mr. X because his commission is lower than Mr. Y's,' what may very well happen is that the lower commission will just deal with the first 50%, and Y may be intending to produce a much better net return by doing the harder work of going for the second 50%. This can be explained to and discussed with authorities — it's this question of communication.

On the mailer, we have a competitor who is offering a lower commission, but he has only generated £20 per thousand, as against our £100 per thousand. These are the statistics which I think will overcome that particular problem.

MR. LE PATOUREL (*Thames Water Authority*): We have used a mailer with our water rate demand — in fact, when I opened my own demand, I was faced with a colour photograph of a calculator! I should like to ask if studies have discovered people's reactions to receiving advertising material in an envelope which is itself not particularly welcome. Have local authorities found that this reaction might be counter-productive?

MR. GARDNER: After this mailer goes out in April, we shall be doing a follow-up. Already we have done preliminary research: after all, a local retailer is also a household, and so far there is a lot of support and favourable reaction. The fact that it may provoke discussion is in itself good advertising.

MR. P. G. SHEPHERD (*West Sussex County Council*): I think the speaker hit the nail on the head when he asserted that elected members with little knowledge of advertising have no idea of these things, and the epitome of absurdity seems to me to put

advertising on the back of a school crossing warden. A motorist confronted with the word 'Guinness' will think of nothing else for the rest of the day!

MR. GARDNER: We must define our role here very carefully. We must not 'sell' ideas to the local authority, but rather present firm, clear information from which they can make a decision.

Shortcomings in the Use of Direct Labour

COUNCILLOR ROBERT JONES

Parliamentary Adviser, Federation of Civil Engineering Contractors

Robert Jones is a member of the Chiltern District Council, and a prospective parliamentary candidate. He has considerable expertise in the field of construction, being formerly a research associate with the National House Builders' Council, and currently parliamentary adviser to the Federation of Civil Engineering Contractors.

THE LACK OF INFORMATION

The problem always when dealing with direct labour, be it construction or any other service provided by a local authority, is actually getting at the hard facts. There have been many brickbats hurled over the years by contractors who say that many direct labour departments are incompetent, that materials go missing, and that the labourer never does a full day's work. On the other side, people in local government complain that private contractors cheat on what they are providing, that they go bankrupt and so on.

I particularly welcome the government's move to make more information available on direct labour departments so that one can judge objectively, for the first time, what is actually the case. Unfortunately, this only applies at the moment to direct labour construction departments; we have had refuse collection mentioned, and I am thinking particularly of Hampshire County Council's asphalt plant and one or two other examples whose cost-effectiveness might well come under consideration.

The available evidence — room for improvement

However, this does not mean that there are no pointers at all to the levels of efficiency of direct labour departments, because there has been a stream of reports by district auditors over the years, relating to many local authorities throughout the country, and in almost every single case they have been highly critical of the direct labour departments concerned. They would not have been subject to an auditor's report, had not the criticism been justifiable, and one wouldn't get a report on a department which was efficient. But nevertheless I think it does show that there are a number of direct labour departments which are inefficient.

There have been several studies carried out on the levels of output per man, labour costs per £1,000-worth of materials, etc., and almost all of these have indicated that there are large variations between the private contractors and the local authorities. These are not entirely comparable, of course, because in some cases local authorities do a number of the smaller jobs; but even comparing like with like, there is a very substantial difference. Look at contracts, irrespective of whether direct labour is involved or not, and at the spread of contract prices. Even supposing the direct labour organisation was as efficient as the average private contractor, the possible saving by putting things out to competition is perhaps as much as the spread between the bottom and average prices. In the fields of highways and building of which I have had some experience, I have found variations of as much as 50 per cent, with a usual figure of 25-30 per cent.

I don't know if anyone here has seen the report of the chief inspector of audit this year, but one of the studies is a comparison between two direct labour organisations, and the difference between the two in terms of staffing, output and so on was very considerable indeed. I do not know whether the object was to compare specifically a very inefficient organisation with an efficient one, but the spread was considerable. These reports are worth reading in respect of services. We are in the era of value for money accounting, where auditors are not just looking for discrepancies in the books, but also to see whether better value for money can be obtained by a better way of organising a department, or by competitive tendering. This year's report reviews such things as staffing levels in primary schools, right through to payment of local authority employees. I hope we can

encourage the further examination of this sort of thing.

Legislative initiatives to promote competition

It is not surprising that on the whole, direct labour organisations are not as efficient as private contractors, because in many cases they are not expected to write detailed advance specifications to which they must work. The accounts may be submitted somewhat haphazardly, or they may even get swallowed up in the bulk of the office accounts (this applies particularly to administrative overheads). But hopefully much of this will be solved by the government's application of a financial framework. This should not be too controversial, because CIPFA, a body above reproach, initiated this review; it was accepted by the previous Labour government, and is being legislated by the present Conservative government. So there is a general measure of agreement throughout local government that this is a good thing.

There are controversial features of this legislation, of course, about the need to make return on capital, and certain points about compulsory tendering, but the point is that *at least we can start to get at the facts*. It is a pity that we have not made this application to other services, and if I have a message for Lord Bellwin, it is that the government should entertain the possibility of amending or making extra legislation so that *other* costs are properly reflected. Good treasurers will keep separate accounts for some things (and refuse collection is a case in point). But there are other things — conveyancing in local government legal departments, for instance — where the costs may not be available, but are swallowed up amongst the rest of the legal work. This is a case where one could get more information, and see whether it would be more opportune to go out to private contract.

Current versus capital spending

One of the great stimuli to going out to competitive tender is the plight that we are in at the moment, and the need for local authorities to save money, and therefore peg rate levels. But there is another aspect which I would like to mention, because it causes me a great deal of concern: the way in which the balance of capital and current spending has changed over the years. Nowadays, a large percentage of borough resources are going into wages and the expenses of local authorities' own 'central government'. Since

1972, figures for current spending have increased by 185%, whereas the capital spending of local authorities and national government has decreased by some 20%. Anyone who has any experience of the sewer systems of Manchester and London, and the road networks of the Midlands, the East Coast ports, etc., will realise that saving money on those is a very short-term expedient, which leads to higher costs in the long run. As such it is an inefficient use of our resources. This is a point which must be taken into account when considering the efficiency of local authority spending.

One cannot expect the government to rush in and legislate immediately on the obligations to keep proper accounts for all sorts of direct labour organisations, but one possibility is clearly that where thresholds are fixed (as in construction) quite a bit below the legal minimum, the work should also be put out, to be tested in competition with other smaller jobs. We see this in capital works and building, but it is not true in civil engineering work such as highways, bridges and so on. It would thus be very difficult for local authorities who are interested to tell whether they are operating efficiently on the smaller jobs. During the present recession, where there are so many small businesses short of work, it would be a very fruitful field for the local authorities to look for more competition.

An obligation to tender?

Another thing which can be thought about in the long term is some sort of system by which *contractors could actually serve notice on local authorities that they wish to compete for particular operations*, so that there was some obligation to go out to tender.

One of the problems of the moment is this: no matter how much you may educate people into looking for savings, facing the bureaucracy and facing the unions is such a problem that unless people are *obliged* to go for these figures and obtain them, they will only be obtained by a very small minority of local authorities. One of the great sadnesses that I have had in local government (and Cllr. Forsyth has voiced this frustration) is that I am now entering my tenth year as a councillor, and I find that it takes years between the initial suggestion of privatisation and the actual invitation of tenders. I have been trying to get some figures for refuse collection, and the first report by our officers stated that no firms were known to be doing this in the South-East of England!

This was clearly rubbish, because at that time 45% of refuse collection in Mid-Berkshire and approaching 100% in Maldon was being done at that time, to say nothing of the smaller amounts was undertaken in other authorities in other parts of the country. It is not for me to speculate on whether the officers were not aware, or did not wish to be aware. But the point that arises is that unless someone like myself actually has a means of obtaining information from an independent source to check officers' submissions, one is not in a position as a councillor to argue the rational case for looking at privatisation, and it will be brushed under the carpet too easily.

I hope that one of the exercises which Mr. Ashe and the department of the environment has in mind is to actually see that this information will be available for other local authorities, from the department.

It is too often said that there is an absence of firms willing to compete. In some areas this may be hardly surprising, because if a service has been provided by the local authorities since goodness knows when, how can there be any firms operating in this field? The lesson from Southend, as Cllr. Forsyth pointed out, is that six firms were interested under those same circumstances, where there was no substantial existing market. If this market can be built up over the years, it will create a new generation of businesses in this country which are oriented towards reducing local authority costs. This will be beneficial to us all. Even where the direct labour organisation may be efficient — and there is no reason for every direct labour organisation to go to private contractors — at least we would know what this work was costing us.

The political parties could play a role here also; but they are working on a voluntary basis, unlike the department of the environment, and perhaps the local authority associations could consider what they do for their members in terms of what information is available at the moment. This has a lot to do with motivating councillors, who will find that with enough information they are able to debate the issue properly. And their increased enthusiasm will be caught by their neighbours and friends who may be disenchanted with local authorities. We in local government do not like our reputation of being idiots, and if it were seen that we were taking a more active part in the management of local authorities, this might stimulate more people

to present themselves for election.

It is going to be a question of patience, of introducing these changes over a period, and not expecting privatisation of everything overnight. But unless we start now with enthusiasm, there are going to be further delays, and such firms that might have been interested might be bankrupted themselves by ever-increasing rates!

Questions and Discussion

CLLR. J. A. RICHARDS (*Finance Committee, Blaenau Gwent Borough Council*): I would like to ask the speaker's views on housing repairs and private contractors, as this is a much more difficult situation.

CLLR. JONES: As far as housing maintenance is concerned, this is a very profitable field for privatisation. One reason is that the depressed building industry will give a much sharper edge at the moment than they might in better times, as there is little building work around.

Under existing legislation, any housing maintenance work over £10,000 has to go out to a private contractor, and I would like to see more go out below that. In our local authority, we have put all our work out to contractors with the exception of the very small jobs, and as a side effect from that we are going to avoid the full works of operating the administrative side of the direct labour legislation. There is a *de minimis* exclusion for those employing less than 30 men, and therefore there is a great incentive to reduce costs by operating within that particular bracket. Gwent, for example, is probably an area where building is most depressed, and so there is a lot of scope.

MR. W. G. CRAMP (*Director of Works, Blaenau Gwent Borough Council*): I would like to know how Cllr. Jones thinks contractors will be compelled to maintain standards of work, and health and safety, and how they would operate to deal with emergencies; and, most important, how he would ensure that 'ringing' was kept to a minimum.

CLLR. JONES: The majority of complaints I get from my constituents are about the shoddy work done by the *direct labour organisation*, small though it is. And that has been my experience

not just on the authority I serve now, but with the two previous authorities.

This could be obviated by laying down rules under which both private and direct labour should work. To take Southend, the specification under which they will be operating the refuse collection is a 10-volume list, which is available for about £150 from Southend Borough Council. This lays down very specifically what is expected in the way of service, and this can be done with stand-by or in emergencies also. If there are complaints from dissatisfied consumers, and these are in a significant proportion to the work done, the authority would have legitimate come-back against the contractor, because this can be written into the contract.

As far as 'rings' are concerned, if they exist to any great extent, they must be very inefficient, because of the number of bankruptcies that occur in the building and civil engineering industry. The way to guard against this is to make sure that you don't invite local firms only.

MR. G. LAWS (*Trafford Borough Council*): Although I have no strong views either way on privatisation, I am very keen to get value for money for all local authorities, by whatever means we can. I have heard my political colleagues say that if you cannot win the point in a committee, there is no point in rushing out and attacking the system; you must keep trying to get people to come round to your way of thinking, and change by fighting from within.

What hasn't been addressed is that a number of constraints exist within which local authorities have to work, and I sympathise with my technical colleagues that they have to work within a set of rules, which they may not necessarily agree with. We have standard forms of contract, and within these we are expected to lay down certain procedures which should be followed by contractors who are invited to work for the local authority. If we were more diligent in checking that they were complying with those conditions, would these prices be so competitive?

I have personal experience of many occasions when local authorities have been 'ripped off' by private contractors, and also of 'rings' operating. I would like to cite the example of contract cleaners: we use these, and they do not do as good a job as those

employed by the authority in other places. They are employed on very penal wages and are exploited. We get an inferior job done, and the reason a contractor can do the job more cheaply is because he does not have the conditions of employment laid on him by the central negotiating body.

If we want to improve the management of local authorities, the answer surely is not necessarily to rush into privatisation, any more than we would call in central government to take over the job. The answer must be to put right what is wrong within. Replace the bad management with good management; if the salaries and wages are not sensible within the present economic climate, change them.

CLLR. JONES: There are many points to answer here, and I would like to answer the last one first. There may be cases of exploitation in the private sector, but every report I read indicates that wages and conditions are better; the people who are joining the new private firms are, on the whole, getting more money. A report by Bradford Metropolitan Council complained that they were having difficulty obtaining manpower because their wages did not compete with the private sector. But they were anxious to obtain more direct labour, presumably to impose these low wages on yet more people!

Of course there will be cases such as you mention, but fair wage clauses can be written into contracts, and there is no legislation that I know of which prevents local authorities from attaching extra clauses to contracts so long as they are comparable with the public sector.

But where you impose a condition upon an outside contractor which is not imposed on the direct labour organisation, this is not fair game. Remember also that the chances of direct labour organisations knowing what they are supposed to be doing in the first place are quite remote, because no detailed written specifications are applied to them; *you have no way of checking whether they have done what they are supposed to*. Quite often the director of works will say, 'We have discovered during the course of the contract that there are chalk mines under this particular site, so it will cost a great deal more to do.' The point is to get as much comparability as you can. Legislation can do much, but it will not do everything.

Better Welfare Services at Lower Cost

SIR JOHN GRUGEON

Leader, Kent County Council

Sir John Grugeon has been leader of the majority party on Kent County Council since 1974. He is also chairman of the finance committee of the association of county councils. In this paper, Sir John outlines some of the innovations in the provision of welfare services which have been made in Kent.

THE NEED FOR A FUNDAMENTAL REVIEW

We must consider seriously welfare services and their cost. Some people may have seen the television play *Life for Christine*, which highlighted in dramatic fashion some of the consequences of subjecting people to regimes and institutions — not centres of learning and discourse, but places where people are 'put away'. There is a great deal of truth in what the play set out to say: we must beware of the indiscriminate use of these establishments, however humane and benevolent the intentions of the management and staff. We should have recourse to them only for appropriate tasks, referring for treatment only when all other possible solutions have been exhausted.

Yet until recently many of these dangers were not recognised, and much of our welfare apparatus in local government, looking after the weakest and most unfortunate members of society, was based upon the provision of asylums. Literally, these were 'places of refuge', which in some instances amounted to incarcerating people, young and old. Of course, there have been enormous improvements since the early days, but increasingly we have come to realise the intrinsic limitations of even the most well-run institutions. Slowly, the truth has been dawning upon us that places such as remand centres, approved schools and borstals run

the danger of being little more than publicly-financed colleges for crime and delinquency, in which inmates act as tutors. In other words, we build a criminal culture. A young boy who has raped, a young thief, and a young boy who has assaulted, put together in a home for six months will exchange views and will become experts at three crimes.

And so, with the most benevolent regime, within the residential system we must treat with great care.

CARE OF THE ELDERLY

We move on to homes for the elderly. Here we run the risk of destroying the individuality of those people, reduced to a zombie-like existence, forgotten by the outside world. Let us consider how easy it is to put old folk in a home, and visit them for six months or a year. Slowly the pattern of visiting wears off, and the elderly person becomes hypnotised by the television in a cabbage-like existence. Sadly, this pattern repeats itself all too often. The elderly person becomes bewildered, and bereft of most personal possessions, and what becomes of life is just routine, lived wholly within the walls of the establishment, with comparative strangers, cut off from friends, neighbours and family. To compound the tragedy, we persist in the further erection of institutional buildings at a capital cost of thousands of pounds a bed, and then staffing at a ratio of almost one employee per two residents, to provide the necessary round-the-clock, seven days a week cover, even in the most modern, purpose-built labour-saving premises.

The average cost to this country is £18,000 per bed.

Budgetary stringency is a spur to innovation

And so except for the ultimate care of the frail and infirm, it is economic madness — public folly — perpetrated at unnecessary cost to the public purse, but of course with the very best of intentions. And so perhaps, necessity is truly the mother of invention and ingenuity. With the present economic conditions, there has been a strange coincidence in my experience between the severe financial constriction of the last few years, the growing realisation that costly traditional institutions have shortcomings, and the advent of new methods and techniques of caring for the misfortunate and helping them on an individual basis within their

own communities. In such ways can individuals lead happier and more fulfilling lives, and at the same time, the burden to the public purse is reduced.

We are changing the philosophy; we are coming back not only to self-responsibility, but the responsibility of others. Many counties are ahead of events in appreciating the limitations of institutional care, and it is over five years since the initial project seeking alternative methods was devised and put to field-testing and evaluation. Nevertheless, the ever-tightening budgetary problems of recent years have undoubtedly acted as a considerable spur to the further development and the rapid exploitation of those schemes which emerged successfully from the field services.

The new approach

The attack on the underlying problem has been two-fold. County councillors have followed a procedure of encouraging innovation on the part of chief officers and staff in joint effort with members. Management structure is devised to promote cross-fertilisation of ideas between members and officers and to inculcate conditions in which promising experiments can be pursued, instead of being stifled by convention.

Just as in private industry, it is necessary to invest a limited amount of money to make this happen. And you must make a judgment about risk capital, the same as you do in the private sector, and look at the return. One must risk money on equipment and facilities in the hope of future dividends represented by savings or cost-effectiveness. It is our experience that the financial rewards to the county treasury of the experiments which succeed far outweigh the costs of those which do not prove to be worthwhile.

The second point, within the latitudes allowed by statute, is that we do not sustain any service or facility merely because it has always been there. If there is one fault that stands out in local government it is overprovision of a service without first proving the need.

There are many examples throughout the country of a 24-hour emergency service provided by social services; in one authority this cost £125,000 a year for 5 years, and then members looked at based-budgeting, and decided to test the emergency service by scrapping it and replacing it by a skeleton service at a cost of

£15,000. The public outcry was enormous, from the doctors, the hospitals — you name it. But at the end of three months it was shown that on average there were only four cases a week which were being dealt with, normally and rationally, within the existing framework of the telephone, the police station and the ambulance service. So I do reiterate that often the overprovision is serious.

Performance review

A performance review group in Kent has a number of members who, skilled and experienced in their own right, and aided by suitably qualified officers, are carrying out a number of detailed studies of existing services. They are looking at the base items in the budget which would normally be carried out, as well as at growth. The scrutiny is not merely negative since it stimulates changes and innovations which I shall be referring to. Early days, you may say, but I believe that this sort of approach can achieve a lot more in the future; and of course, performance review does not only affect the field of social services.

Adequate funding of special research into ascertaining the real needs and requirements of the clients of the various services is my next point. One must enlist the support where necessary of independent consultants and university research teams (again involving the outlay of risk money). All of us today are near a university within our precepting area; let us use those resources.

Not all the projects have paid off. However, the ones that have come up trumps have *more than justified the costs* expended, leading to innovations and further adjustment of service provision to meet the needs of the clients of today, and not yesterday's clients.

So we have three prongs to attach on redundant, misapplied, over-costly, and inefficient activities. They have all been applied to social services, with promising results. In other words, better service, lower cost.

The Kent experience

One of the most outstanding innovations was the introduction of community care arrangements for the elderly. In this scheme, their admission to institutions can be delayed almost indefinitely, while enabling them to live in their own homes, surrounded by their own possessions, and easily accessible to their neighbours, friends and

relatives, *all at far lower cost than putting them into residential homes*. With some trepidation, the scheme has been tested in Thanet for three years, subjecting it to independent evaluation by the personal social services research unit led by Bledwyn Davies, a professor at the University of Kent at Canterbury. This new service has been used to support nearly one hundred elderly people, of whom 80% were women, a handful being under 75 years old, and more than half being over 80 and very frail. Daunting circumstances. Yet it all worked, and the scheme has now been extended into three other divisions, with further expansion planned for next year; and other county authorities are asking for details of our evaluation.

Fundamentally, the scheme is a carefully co-ordinated extension of the domiciliary visiting by full-time social workers and voluntary helpers, aided by home helps in co-operation with the district nurses and health visitors. What is new is the concept that neighbours, friends and relatives should also be mobilised to sustain the aid when necessary throughout the whole 24-hour period, 7 days a week, with coverage continuing over periods like Christmas and bank holidays. There is no standard pattern.

Everything revolves round a divisional community care social worker who has to diagnose just what help is needed to support a particular client. They then organise a package of helpers in the locality, exactly tailored to the particular circumstances. For example, there is one old lady who needs no help through the night, but needs a little assistance to get dressed in the morning and undressed to go to bed. Volunteers willing to help at these times have been found, even though in this case it means that the county council has to pay taxi fares when helpers have to travel outside the hours of public transport. At first sight, such expenses may seem extravagant, yet it is infinitesimal when compared to the £74 a week average cost of having to accommodate such a person in a conventional residential home.

The same financial consideration amply justifies the small payments which are made to offset the costs of helpers for their time and effort. It may surprise you that many of these helpers are themselves over retirement age, in their sixties. This helping activity serves also to give them an interest. They like the involvement, and find it a useful way of supplementing their pension. So we have an ever-expanding voluntary sector, and at

the same time we save a great deal of money.

The essence of the scheme is flexibility, and as this scheme extends, we are able to sell off the conventional residential homes for the elderly, which cannot be adapted economically for the needs of the very old, the very frail, and the infirm.

Today there are many people involved in social services who inherited homes under the Poor Law Amendment Act 90 years ago. It is a fact that my own local authority has a home which was a Napoleonic prisoner of war camp! Another home which we had for 60 years was a Victorian monstrosity. We sold it, and the home is now being run by private enterprise at much lower cost, and everybody is happy. Political cowardice is only a short-term expediency and never leads to long-term popularity. Of course, residential homes will always be needed, especially with an ageing population with a frail top end, but we need different types of homes run in new ways.

CARE OF JUVENILES

I should now like to turn to young people. In the old days it was far too easy to take a child into care, and add to the criminal culture of 16 or 20 children in a home, bereft of a family unit and family care. We looked at this very carefully, and again with the help of a university and a private enterprise foundation (the Sainsbury Foundation gave about £125,000 per year over four years, but now we are on our own), we took young persons who had unfortunate backgrounds, or spent time in remand homes. We trained a special force of foster parents, and gradually, after four years, we have produced some very detailed studies. These children are not everybody's cup of tea. They would have been the criminals of tomorrow in no uncertain way. They were in the age-bracket 14-17, and it is exceptionally difficult to find foster homes for these children. We had to be careful that there was no element of charity in the scheme. We had to be professional to the last degree, and make sure that there were adequate boarding-out allowances for the special fostering parents. We did not want to make it anything like the 'child-farming' in the States in the 20s and 30s. We had to train them, and do a daily, weekly and monthly monitoring for four years.

We had a five-year experiment period in which 156 youngsters

were fostered to 74 families, and at a 36% breakdown rate, it proved to be identical to that we experienced with ordinary fostering. This is a remarkable figure when we consider that 74 of the youngsters had been convicted, and 37 had severe psychiatric disorders.

In the fostering of these extremely difficult teenagers, we found it best for family placement foster parents to work in groups so that they could give each other mutual support. Having fostered the more difficult cases, we are now more determined than ever to open up prospects of fostering other young people in the same age-group instead of tamely accepting the traditional barrier to fostering anyone over the age of 13, even if it means paying fees to obviate the necessity of a wife going out to work.

In the same age-group, we are now working on another project, this time to experiment with short-term fostering of remand cases. Again, it seems probable at this stage that we shall achieve more worthwhile results in the care of the young person, while making a financial saving. Even more difficult, we are embarking on a scheme for the short-term, temporary fostering of mentally handicapped children, so that from time to time we can give their own families a short break from the day-to-day strain of bringing up such a child.

CONCLUSION

Overall, one of the main effects of these changes has been to localise many kinds of decision, even beyond the divisional officers, right into the field. In consequence, we are finding that the enhanced arrangements are giving the individual social worker in the field many more options to supply a solution to the problems which they encounter, and much closer involvement in the decision-making. This is keeping referral of cases to headquarters to a minimum, thereby saving money by eliminating some former, largely clerical, procedures.

I honestly believe that as a reward for willingness to innovate and risk a bit of money on the way, ratepayers are already benefiting to a substantial extent from the new welfare social service methods and facilities which have been introduced, and that there has been an improved cost-effectiveness. But above all, it is putting children and elderly people back into the family

environment, and not the institution.

Questions and Discussion

MR. J. TAINSH (*County Architect, Warwickshire County Council*): I am very pleased to compare Sir John Grugeon's work with that of my own council, of whose achievements I am proud. However, the volunteer side was somewhat skated-over. I think that we in local authorities are overlooking this side, particularly today, when people like Rotary and Round Table could be very well used by our social services department in giving help at different times. They are asking to be asked.

SIR JOHN GRUGEON: The whole basis of our community care project is based on volunteers. I am a great believer in pump-priming organisations such as Age Concern, and we are now looking at the Save the Children Fund. They run special homes for delinquent children and I am taking this up with the district auditor.

Any charity is bereft of capital, and you can profitably say to an organisation, such as Save the Children Fund 'You want to build an extension to your home of 40 beds: here is the capital, and instead of paying us interest, you guarantee us 20 places at that home for the next 30 years'. So they get half, and we get half; we get no revenue outgoings on that capital investment. In local government, the biggest problem is capital investment with its consequential revenue implications.

But pump-priming in the voluntary sector does have to be monitored. Charitable foundations neglect capital accounts so often — you give money away and you find all it has done is to enhance their current account which lies and does nothing. You must be shown to pump-prime and then gradually reduce funding, until that voluntary body is on a self-funding basis.

Something I didn't mention is the Massachusetts Key Project. Those of you in local government will recall that 2-3 years ago Massachusetts closed, overnight, 132 children's homes, and they literally went round in buses and dumped these children on foster families. From thereon they had the tracking system of social service workers monitoring the course of each child. We hope to send some of our social services workers over there next year to see the project.

We must keep up innovations; so often local government is criticised for not being innovative. As a businessman in the City, I can say that some officers are superb; what does worry me is the calibre of councillors!

CLLR. J.A.H. EDMONDS (*Leader, Dudley Metropolitan Borough Council*): I entirely endorse what Sir John has argued, and am glad to say that Dudley appears to be on the right track. However, the problem will come in the increase in home helps needed to cut back the residential care of the elderly, and our manpower figures will tend to increase. I have already been under attack from the local press for increasing our social workers in the cutback in residential care — this is something we must contend with — but as a nation we should get over to our constituents the need for their involvement.

What worries me is the number of people who opt out of the responsibility to their parents. It is far too easy in this country to get one's elderly parent put away in a home. Having an elderly parent living with you — as I have — can be inconvenient at times, but if more people in this country took on those responsibilities it would certainly help with the problems we are confronted with in local government, and would make the lives of our elderly people much more bearable. We must get this over in any way possible to the general public.

SIR JOHN GRUGEON: The abdication of parental responsibilities is quite appalling, but on the other hand you then have the economic forces which drive a woman out to work to keep the unit together. Although I am a Tory, I held one of the toughest Labour seats for 6 years, and the thing that used to appal me during the holiday times was the 'latchkey' children. I know the arguments about minimum wages and equality of women, but Cllr. Edmonds is right — it is our moral responsibility to look after our elderly parents to repay their care of us.

There should be no excuse for it, and I think we must look rather (as we are doing with mentally handicapped children) at the short-term flatlet or home for the elderly so that the people looking after them can have a break. If we could encourage this provision, we could persuade more people to look after the elderly.

CLLR. E.G. WINTERSON (*General Services Committee, Blaenau Gwent Borough Council*): Referring to the cost of keeping a person in an institution, this is something we have brought on ourselves. There is a partial answer to this: in my area where there was a health authority place looking after about 1300 mentally handicapped people. Within about 4 years this number was brought down to about 700 by negotiating with the local authority, who had homes built to allow some of these people to come back into the community. Local people were sympathetic and accepted and looked after these people. This is community spirit, bringing them into the community.

This can be applied to home helps. If they are only seeing an old person five days a week, that person could die over the weekend and it doesn't matter! The good principles of some of our home helps make them go in over the weekend with meals, so when we come to talk about working for nothing, some of these people are doing just that.

Also, better liaison is needed within parts of the health service whatever government is in. There should be one responsible body to look after social services, rather than two separate ones as at present.

I agree with the provision of a service which allows those looking after elderly relatives to have a rest, but I feel that because we have had people prepared to look after their relatives for 52 weeks in the year, this problem has not been given proper consideration. I am sure that such provision would encourage more people to take on this task.

SIR JOHN GRUGEON: There will always be the tragedy of the Maria Colwells, but we must reduce the chances of this happening. Costs are not the motive here, so much as changing the philosophy, so that the community undertakes responsibility for its own kith and kin, instead of the cradle-to-the-grave philosophy of the state providing all. Inbred in all of us, irrespective of party politics, is this 'Push it onto the state, it's no concern of mine' attitude.

Turning to the remarks on home helps, I did state that we had covered the gaps at the weekend etc., by voluntary help and paying the necessary expenses. Another point: how many of us as elected members have had to attend a protest meeting about the building or renovation of a home for handicapped people? And who is

complaining? The people next door! That is where we must be strong to point the moral responsibility, irrespective of party politics.

MR. P.G. SHEPHERD (*West Sussex County Council*): I would like to take up the question of the family being the best 'qualified' to look after elderly people. I would also like to tempt Sir John to say something about the 'professional' social worker with a diploma, who has been trained; in the same way, teachers have frightened off parents by telling them how little they know about bringing up their children according to the 'experts'. This, of course, is nonsense, but I think it may have something to do with the reluctance of people to look after their elderly relations. **SIR JOHN GRUGEON**: Regarding 'professionalism', I think a mistake we made during the rapid expansion of the social services was to recruit massive numbers of 'professionals' who thought they were the be-all and end-all of the social services, and antagonised magistrates, so that we had a difficult time building bridges between the judiciary and the field professionals. Fortunately, we have outlived that, and most authorities have spent a lot of money on in-service training, so that now we have some first-class field workers in our social services.

But again, you must maintain morale. We're all fighting a rearguard action against 'professionalism' in the social services, with the introduction of computerised records. They have done it in Leeds and Manchester, and it is marvellous. It takes the strain off the social services worker, it is still confidential, and leaves more time for case work. But we still have to stop our O & M and work study departments saying that social workers must do only so many cases a week. This is rubbish, because each case is different and demands a different length of time.

I don't want to get into a debate about reorganisation of the health service; it is sufficient to say there is one tier too many. But you must work with them, and liaison is a member responsibility. There are problems with joint funding, but it depends on the relationship which we as members build up between the area health and the social services department.

Use of building space for homes

One last point on cost-consciousness: would any chief officer consider building an old people's home over a fire station? In

Kent, we sold the air space over a one-unit fire station for £16,000, and on the first five occasions when the fire engine had been called out, the old people were unaware that this had happened. Local authorities build hundreds of fire stations and libraries, and never use the air space. If you get in touch with a housing association, they confirm that on $\frac{2}{3}$ trds of an acre, 32 old people's units can be built. In the case I am quoting, the local authority spent £25,000 on the site and recouped the £16,000 for letting the air space on a 125-year lease. Any local authority can do it. Do not let the officers tell you it's impossible — nothing is impossible.

The Practicalities of Trimming Costs

COUNCILLOR CYRIL TAYLOR

Greater London Council

Cyril Taylor is chairman of the professional and general services committee of the Greater London Council, and as such is responsible for most of the council's white collar staff. His publications include The Elected Members' Guide to Reducing Public Expenditure.

THE SIZE OF THE PROBLEM

The total public sector employment within Britain is 5,300,000 people (a figure which excludes the 2,000,000 people working for the nationalised industries, who have to sell their services through the charges made for the post office, the gas board, and electricity). That 5,300,000 is 21% of our workforce, which compares with 3,570,000 in Germany or 14% of their workforce, and 3,137,000 in France or 15% of their workforce. As unemployment rose over the last 30-40 years, governments of both political parties soaked up the unemployment by increasing public sector employment, and when the boom came, that employment was not released back into the private sector.

The problem is even more serious if you realise that local government employment in Britain is 3,021,000 whereas the local government employment in Germany is 1,178,000, and in France, only 847,000. I find it very difficult to justify why the British, with a lower standard of living than the French and the Germans, need to employ three times as many local government workers, at the same time employing as many central government workers as do France and Germany.

These are official government statistics, and are not available in this form in Britain. I had to get them from Brussels, and I hasten to add that the local government numbers include Scotland and Northern Ireland, and also include part-time workers, as do the

French and German statistics. So if we employ 5,300,000 public sector workers and France and Germany about 3,000,000 each, that would appear to be an excess of public sector workers.

What do we do with that problem? Before I start to try to solve it, let me also point out that there is a great deal of discussion going on in the country about public expenditure as a whole. We spend £70,000,000,000 on public spending including transfer payments; that is broadly about 45% of the gross national product.

MANPOWER MANAGEMENT

It seems to me that there is great difficulty in devising any sensible way of reducing public expenditure without looking at the manpower numbers and the salaries for manpower. Salaries account for 70% of the total cost of local government. If you genuinely wish to reduce and control public spending, you cannot do so without addressing yourself to manpower, both as to its numbers and to the salaries paid.

My first recommendation to the government is that a specific manpower reduction target be set at 10%, to be phased over 4 years (2½% per year), which I think is attainable. If it were attained in 4 years, the public sector borrowing requirement of £10,000,000,000 per year, (15% of our total public sector spending) would be reduced by half. Those of you familiar with local government salaries know that the cost of salaries, national insurance and office overheads is now £10,000 per person, and therefore 500,000 people transferred from the public to the private sector would save £5,000,000,000.

Immediately there will be those who will say this is a terrible thing to recommend, with unemployment levels so high. But the techniques which I shall shortly expound do not use compulsory redundancy as a primary tool, only as a very last fall-back tool. Over 4 years, that 2½% transfer could be absorbed easily if other action were taken to revive the private sector, because most of the public sector employees are highly skilled workers, secretaries, and accounting specialists, for which there is a shortage at the moment. There is no question that the clerical workers could be absorbed by the private sector if the change were phased over 3 or 4 years.

Having pointed out the total extent of public expenditure and

manpower, and having set a target of reducing that by 10%, the next question is, how do you go about doing it? The difficulty is that the typical councillor does not have the training or the background to understand or challenge the advice given to him by his officers.

There is a fundamental point that any councillor or minister must understand. That is the role of the complement, the authorised level of employment within any local government or central government unit. It is usually set at budget time, but it can be adjusted at any time throughout the year. If you adjust the complement, the machinery of the local government unit will bring the in-post numbers down to that complement, because that is the only way that local government works. It has to meet its budgets; the controller of finance and the controller of manpower will see that the numbers are reduced, and it will not be elected members making the decisions about where cuts should come.

Where should cuts be borne?

In order to reduce the complement, you wish to make the cuts where they can best be borne, and Horace Cutler's 'four questions' of where cuts should take place are famous. The first and basic question is obviously, *Is what is being done necessary at all?* Of the many examples we had at County Hall, we questioned the need for 127 council committees, backed up by the committee clerks, and the minutes, and the meetings, and all the work involved. We determined to get away with 27 committees. We took this step the day after we were elected, and not only cut down a considerable number of clerical staff, but also made the whole operation of the council more efficient as we reduced the paperwork.

You could get into controversial areas such as providing new housing in London where there is a surplus of about 50,000 homes over need. There are 2,650,000 housing units in London, and about 50,000 less people than that wanting homes. We thought that the problem was not to provide new homes, which is very expensive, but to renovate existing houses which are in disrepair, and switch the money from new building. That alone has resulted in a saving of 3,000 staff at County Hall: if you imagine the building of 6,000 houses in London, this required an enormous valuation department, architects' department, and the housing

department itself. The switch to renovation took only about a quarter of the cost.

The second question, *Is it really necessary to be done by the authority concerned, or should it be done by the private sector?* has been discussed widely. But there is still a great deal of duplication between central and local government, and between county and district authorities. We at County Hall decided that it was not right that the Greater London Council should have its own housing department looking after 220,000 council houses when there were 32 London boroughs, each with its own housing department looking after between 25,000 and 50,000 houses. They could very easily take over the GLC's housing, do it directly on the spot, and save council tenants having to contact County Hall to come and repair their bath plug. By handing over 220,000 GLC houses to the boroughs we will be able to eliminate our own housing department. Many of the employees will transfer to the boroughs, but there are still savings. I suspect that the duplication of services between county and district, and central and local government proliferates all over the place: building control, planning and transportation are just the obvious areas. If you eliminate duplication, you will eliminate the need for staff to perform the duplicated function.

The third and fourth questions are somewhat more esoteric. *Is the volume of activity correct? If you have a report produced every two months, would every six months be sufficient? Maybe the number of maintenance inspection visits could be cut; replacement of vehicles is another important field where overprovision exists, and there are many others.*

The fourth is probably the hardest of all to answer. *Is the function performed efficiently?* It is very difficult indeed for the part-time councillor to make any comment on, and that is why I strongly recommend setting up a performance review board and bringing in outside consultants to help. This will be resisted by officers, who naturally feel they know best; they do not want to have strangers asking all sorts of questions. Sir Derek Rayner's teams have already saved £80,000,000 a year.

Leslie Chapman's book, *Your Disobedient Servant*, is a manual of how the efficiency team works, and recommends a very fair way to make savings. He suggests 3-man teams be formed, and given 60 days to write their report. One member of the team is from the

department being looked at, one from the council or ministry's audit team, and one from outside, with expertise in that area. Before the team goes in, the union is consulted, and when the team arrives, the union is told that unless the team produces irrefutable evidence that the unions accept, the recommendation will not go forward. In other words the findings have to be so conclusive that even the most uncooperative staff association or union involved would have to reluctantly admit that it could do better, and save money.

This is hard to do; you will have the resistance of chief officers. We have done it on a number of occasions at County Hall; it has been very successful and we have not done it nearly enough!

Problems of pay and bargaining

I have talked about the total numbers, and some questions to ask about functions. Obviously, the numbers themselves are not the only side of the story. Pay levels are obviously crucial. It does no good to reduce staff by 2½% in a year if they then receive a 25% wage increase.

One of the problems we suffer is that we have a highly centralised wage negotiation process. It is nonsense that if you have a surplus of history teachers, for example, they should be paid the same 25% wage increase as a maths or science teacher who is in much greater demand. I would like to see a decentralised system of wage negotiations, where local councils can judge their own negotiations, taking into account the supply of labour locally. For example, if there is a desperate shortage of computer operators in London, then one has to pay whatever is necessary to attract them. If there is a surplus of history teachers, then one does not have to pay them as much as computer operators, etc. This idea that all jobs are worth the same is nonsense: the private sector could not survive on that basis, and public sector wage negotiations have been devalued by this process. Unions are set up on the basis of national negotiations, and the débâcle of the firemen's negotiations shows just how poor those national negotiation systems can be.

Pay is going to be a problem, but speaking as an employer of private sector labour, and someone who has a payroll to meet, I must make enough sales to produce the money to pay the wages. I find it intolerable that private sector pay is subject to the discipline

of market forces, when it appears that public sector pay has no market discipline whatsoever. Over the last year it has been running at a 25% increase because of Clegg and the other comparability studies, whereas the private sector increases were probably 10%-15%. It is the ratepayer who has to pay for those wage increases.

Local government leaders and chief executives are faced with a very blunt alternative: either they control and reduce their spending and manpower, or they increase their rate bills by 50 or 100 percent. It is a pretty stark alternative, but it is one they are not going to get away from. We should reform local government finance so that the electoral accountability of the local council is reinforced. After all, the government pays perhaps one half, the commercial ratepayer pays 35% (and has no vote), and the local elector pays 15%. Some local electors naturally help to re-elect the free-spending authority that looks after council tenants because it is in their financial interests to do so. If the cost of local government were entirely paid for by a local income tax on local electors, a very different point of view would prevail. Electors would know that if they voted in an administration that believed in high spending, it would hit their pockets directly. And this is a fundamental reform which, sooner or later, we must tackle.

The mechanics of improving productivity

Let us turn to relationships with the unions, and productivity. A few months after being elected to County Hall I asked the chief executive how many hours the typical GLC white-collar worker was supposed to work a year, and I was told that after deducting five weeks' paid holiday, one day per month flexi-time, his reading time to help him keep up with his professional expertise, his time off to attend conferences, his 35-hour week with one hour off for lunch, he was supposed to work 1200 hours a year. The typical private sector white-collar worker works 1650 hours a year.

I draw no conclusions from that; it has been negotiated by the staff associations and if anybody is to blame, it is the elected members who agreed to the staff codes in the first place. When you start looking at pay comparability and the Clegg commission, I wonder whether fundamentals such as this were considered?

If you want to increase productivity, obviously you have to enjoy good relations with the unions. This is a fundamental

requirement. Any private sector employer will tell you the same thing. The councillor, being part-time, relies upon his officers to give him the information to make his decisions. Unless he enjoys the confidence of the officers and staff lower down, he will not get the information he needs to make those decisions. So a fundamental requirement of productivity is confidence between the administration and the public sector workforce.

And this is hard to achieve. It means a lot of meetings, discussions with staff, newsletters, and above all, consultation: nothing affecting staff should be done without at least 20 days adequate consultation in advance of decisions being made. Elected members do not know the answers to everything, and people who have been in the job for 20-30 years can often tell them a lot more. I have an open door policy, and an amazing number of people come and tell me the things that annoy them, and the waste they see. I get a number of anonymous letters from GLC staff telling me of the wasteful work they are employed in. This shows that public sector workers want to do a good job and earn their pay, and they should be treated in such a way. It means consultation, and I want to emphasise that.

Cost accounting is essential

The GLC architects were chopped up into eight practice groups, which are now four because of the cutback in work. Each group has to publish quarterly an income statement. Their client is the housing department, and they are charging the 12½% rate. They produce the income statement and cost statement, which covers their staff and officers. If the two do not tally, I invite the chief architect to take the necessary action. Such discipline can be applied to practically every part of the council's service. If you cannot privatise the function in the first place, at least you can adequately cost-account it, so that the staff themselves have a yardstick against which to measure their performance.

Bonus schemes can be, and are, abused. But for blue-collar workers these can be extremely valuable, and again, it is in your interests to have the work done quickly and efficiently.

The amount of space occupied by white-collar workers is something else to consider. Each worker is supposed to have about 100 square feet. Demand that the controller of manpower produces, every three months, a departmental analysis of how

many workers are in each department, how many square feet of office space they have, and the average square footage of office space per worker.

You would be surprised. Office space in London is incredibly expensive. We have disposed of approximately 300,000 square feet which was costing us about £3,000,000 per year to rent. Surplus land should also be taken into account when local authorities are asking for capital grants for housing; they should be deemed to be selling that land. We now put onto Fido, our computer, a listing of all GLC land holdings; we reckon we have 1600 surplus sites. We have already sold £100,000,000 worth and we have another £70,000,000 worth to go. The gas board, or British Rail, all local government, central government and the nationalised industries are sitting on priceless assets in inner London and throughout the country. The gas board keeps sites in London in case some time in the future natural gas runs out and they need places to store coke and coal to feed the new power stations which would have to be built — making the assumption that one would build a power station in central London, which is nonsense!

TRIMMING MANPOWER LEVELS PAINLESSLY

Let us say that you enjoy good relationships with your staff — how do you go about cutting staff? If you announce that you are going to sack 500 staff tomorrow, which the private sector is doing, you will have blacking and you will have a strike. Compulsory redundancy is a tool of last resort, because there are much more useful tools which can be utilised first. A sizeable number of white-collar GLC staff leave each year, and my research indicates that other London borough staff leave at roughly the same rate of 13% per year. In Merseyside and the North-East the numbers are lower. If 13% of staff leave each year for one reason or another it does not take a genius to conclude that if the authority fills only 2 out of 3 vacancies, staff can be cut by 3-4% painlessly. Nobody can complain about being sacked, because these are people leaving voluntarily. I have put to the GLC a requirement that no vacancy is filled without my personal authority. The fact that the officer has to go to his chief officer, to the controller of manpower, who then has to come to me, is such an embarrassment that I never need to rule adversely on this.

Every quarter I approve some 10 or 15 hirings.

This is not a staff freeze, which to my mind is an extreme tool; it is a recruitment curve, where a senior elected member rules on outside recruitment. Redeployment is another factor which has not been much talked about. I have surplus architects who know that if they do not accept voluntary redundancy I may, because of legal requirements, resort to compulsory redundancy. I have persuaded 50 architects to move to building control work; I persuaded another 20-30 to take computer programming courses which we run ourselves, because we have a desperate shortage of programmers. They have decided that they can earn a lot of money as computer programmers and that the future for architects of public housing is not so great.

Other sources of savings

Public sector workers must be prepared to acquire new skills to satisfy the demand for work for which there is a market. Those whose skills are out of date require new skills, because the taxpayer and ratepayer are not going to go on paying people when there is no work for them to do. And the schools and colleges should be doing much more in the first place to give young people the skills which are required.

Voluntary redundancy is the next major tool. If someone is over 55, local authority severance pay can be quite substantial. The payments for younger people are not so good, and one of my recommendations to the government is that the statutory Crombie redundancy money, which is more generous, be available generally.

Compulsory redundancy may have to be considered at the end of the day, because there is a legal requirement that public authorities cannot pay wages to staff without work. This should only be used as a last resort, and what we are trying to do at County Hall is to point out that we do not want to sack anyone, but would rather they took the offer of another job, or voluntary redundancy. However, if staff do not accept the redeployment offer or the voluntary redundancy at a very generous rate, they may be forced into compulsory redundancy, the payment being at the statutory minimum, considerably less than voluntary redundancy.

Computers and efficient systems

Let us now see what the computers can do to help. Without a computer, a large authority is in very bad shape, because the only way to get staff numbers down is to exercise constant pressure. I get establishment numbers once a month, and without those statistics I would not have the knowledge of where vacancies exist, whether they were being filled from outside, and whether people were staying within their complement. I think that if the government wants to help, it could supply software programs (or even access to computers) so that local authorities could get much more sophisticated information. Without these data, I do not think we could have achieved what we did.

When we took over in 1977, we employed 31,428 staff, and we managed to persuade ILEA and the boroughs to accept 3,256 of our staff, which leaves a new starting base of 28,172. Staff in posts at the end of 1980 were 23,890, a net reduction of 4,282, or broadly, 14%. By May 1981 that figure will be 5,000 or 16%. *Nobody has been sacked*, and we have enjoyed remarkably good relations with our staff associations. It was only when we started considering compulsory redundancy that we had some grumbling.

CONCLUSION

Duplication is one area where we have not done nearly enough. Central government ought to be looking at each Act that it has passed over the last 30 years with a view to getting rid of them if there is no need for statutory provisions. They should also be looking at county councils, who in turn should be looking at district authorities, to see if functions are being duplicated.

An overall reduction of 10% of staff should be set, over 4 years. In order to get more people to accept voluntary redundancy, we need to get the Crombie statutory terms applied generally. Besides reducing numbers, we must reform the way pay is organised, and I welcome the fact that the government has accepted the recommendation of strict cash limit.

I urge councils interested in reducing staff to appoint a very senior person, either the chief executive or the controller on manpower, or on the elected members' side, a person on the reader's committee, who has a council-wide writ to examine sources of savings.

Questions and Discussion

MR. MICHAEL BETTS (*Pritchard Services Group Ltd*): The subjects that have been mentioned, such as trimming labour, matching services to demand, the provision of better management information, better use of computer technology and so forth, are all very laudable. But I found myself wondering whether these objectives might not be more easily and readily achieved by allowing the private sector where possible to compete directly with the local authority. A close eye on cost is standard practice in private contractors' business. Private contractors will not always do the job better or more cost-effectively, but we would like to compete on equal terms.

CLLR. TAYLOR: It takes time to make these changes; it took us four years to close our construction branch. I see no reason why, if the private sector can provide services more efficiently and more cheaply, it should still be done by the public sector.

CAPT. C.G.E. COTTRELL (*East Devon District Council*): I was interested in the remarks on the recruitment curves. In East Devon we have a system which we call 'drag our feet', whereby when a person leaves a job it is not necessarily filled, and after a month the chief officer has to report whether he requires a replacement. This is a logical extension from the fact that when a man has (say) 3 weeks' leave, his job is covered by others during that time.

If the chief officer finds he really does require a replacement, the chairman and vice-chairman of personnel will decide whether this will be granted. If the man is replaced, we wait one month and then recruit. This way we have saved about three months' salary, national insurance, etc.

CLLR. TAYLOR: This sounds like a good way of cutting costs. To detail the way that recruitment curves work: if you can go private, good. If you can do away with a job, even better. If you have to fill the job, offer it in the first place to your staff who have been declared surplus. Do not advertise the job throughout the council because you might get someone from another department seeking promotion. If no-one suitable from the surplus staff can be found, then advertise throughout the council, and perhaps the successful applicant's old job can be taken by a member of the

surplus staff. Advertise outside the council only with the direct approval of an elected member.

MR. A.J. WILLIS (*County Architect, Essex County Council*): I feel we are in danger of missing one of the critical points — education. If any manager looks at ways to make reductions, he has to start with the largest service. We should not treat education as a sacred cow, but should rather address ourselves to the question of whether other people do it better.

I should like to offer two examples, one from abroad and one from my own authority. Continental schools do not have playing-fields with the school, and therefore do not have to maintain these enormous amounts of land. It would be cheaper to provide one central facility, staffed at the centre. The second example is a study on utilisation of our school buildings, and we find that the best school we have in this respect is using its building 56% of the time. The largest part of costs of local government is in education. As managers, we should be dealing with the largest area — education.

CLLR. TAYLOR: You are quite right. The health service, with 1,100,000 staff, and the teachers with 3,000,000, must be considered if one is to make the reductions that are needed. The proportion of doctors and nurses to administrators and teachers was 75% 20 years ago, and has now fallen to about 50%. This is cause for concern.

MR. R.C. MITCHINSON (*Chief Executive Basildon Council*): In this country, housing is the second biggest expenditure element after education, whereas on the continent, public sector housing is a very small part of public expenditure; so comparative statistics are misleading.

Secondly, our greatest problem is meeting government requirements. The amount of time and money we spend sending information to the government is astonishing.

I would like to draw attention to Cllr. Taylor's remarks about the national negotiating machinery. To drop this machinery might be all very well for the GLC, but if you discard this machinery, which is there principally to protect the employer, not the employees, then the unions could pick you off one by one; we have seen this before.

A point in passing: in my authority, 52% of the rates are paid by the private sector, and in my authority we have been de-privatising

the architectural services since 1974, with the result that we've saved £443,000 on architects' fees. What has the GLC done in that time?

CLLR. TAYLOR: I agree with you absolutely on housing. However, the Germans don't have a housing waiting list; you can get a privately-rented house or flat very quickly, and this convinces me that it is not necessarily right that we have to have so much council housing. Perhaps a fundamental reform of the private rented accommodation legislation would be the answer.

The point about the manpower watch was interesting. Until it was required that the numbers be made publicly and locally available, chief executives did not worry about them. Now that ratepayers can ask questions, the attitude towards those forms has changed, and this is a healthy sign.

With reference to the de-privatisation in Basildon, I should love to look at their cost-accounting. Numbers can be changed so that overheads are not applied to a particular department, and one can make numbers do whatever they are wanted to do.

But you did raise a very fundamental point, which is that central government and local government both perform a service. Of course we need doctors, nurses, teachers, the defence forces and firemen. But I am sure you will agree that if we have too few producers of wealth in the country, you will get to the stage where there is not enough tax revenue to pay for those services. France and Germany provide ample evidence of services no worse than ours; their health services, pensions and teaching may all be considered better. So we do need substantial public services, but we need *efficient* public services, and we need far less people working in the public sector, because we need more people in the private sector to produce the wealth to provide those services.