

PRIME MINISTER

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

1. You told me in July that while you did not want to initiate a further independent exercise at that stage, you wished me to tackle waste in local authorities to the extent possible within my present terms of reference. As I understand it, this was because you were disappointed with the advice you had received from DOE, DHSS, the Scottish and Welsh Offices in response to your request for views on the best way of attacking waste in the public sector outside central government, which you saw as an important subject for study in its own right and as a way of helping local authorities and the NHS to absorb the cost of recent pay increases whilst still living within their cash limits.

Action to date

2. What I have done so far is limited by the time available to me and my staff, by our comparative ignorance of local government and by my wish to avoid causing extra work for Ministers until I had a clearer view of what I might be able to do. My aim has been to make myself more familiar with the issues in local government, on which I have so far concentrated.

3. I have invited notes on some fundamental questions from three local government departments, DOE, DES and Transport, which I have just received but have not discussed with the Ministers concerned. Between us, Mr Priestley and I have had talks, mainly on a personal footing, with Lord Bellwin and later with him and Mr K Potts the former Chief Executive of Leeds; Sir Desmond Plummer; the Lord Mayor of Plymouth, Councillor G J Jinks, who sent you a personal and confidential letter in July; the Director of Education for Devon, Mr J G Owen; the heads of two comprehensive schools in the West Midlands, Mr and Mrs G Willsher, who had sent me a useful memorandum; Mr Ian Hancock of Cooper & Lybrand, management consultants, who have recently done some work for Hereford and Worcester; and Mr R W Rose, a retired local government officer, who had also written to me.

4. The most useful papers I have seen are Value for Money, a report on Cheshire CC, carried out by PA Management Consultants on behalf of the CBI; the report of the Chief Inspector of Audit on The Local Government Audit Service (November 1978); and the recent White Paper, Central Government Controls over Local Authorities.

The issues and their context

5. The central issues, as I see them, are how local government can help itself and be helped to deliver more cost-effective services to its electors and what part the central government has to play in this.

6. The context in which these issues have to be considered is very subtle and complex, but seems to me to consist in five main points, as follows:

a. Local authorities as the White Paper on Central Government Controls states are "Democratically elected wholly responsible bodies" (paragraph 4). The Government wants them to be "free to get on with the tasks entrusted to them by Parliament without constant interference in matters of detail by the Government of the day". Some of them are already active on the efficiency/waste front, but others are strongly committed to the view that spending is the shortest road to the millennium.

b. Local authorities would certainly respond to a central government "attack" on local waste with fierce references to the beam in Whitehall's eye and to the inconsistency between an attack and the thrust of the White Paper. So would some of the unions, which in some authorities appear to have a firm grip on the elected representatives and their managers.

c. An attack could damage the working relationships which departments have with the local government associations and with individual local authorities, relationships which they rightly value but which, I suspect, can be rather incestuous and somewhat overlook the interests of the rate-payer (see below).

d. A very substantial part of the money which pays for local services is provided by central government on behalf of the taxpayer in block grant. Ministers are not accountable to Parliament for the detailed ways in which this is spent by local authorities, but it is argued by respectable opinion that the financial relationship between central and local government went wrong when specific grant was abandoned. The Government itself argues that it has an "ultimate responsibility to Parliament and the public", for example in respect of "certain national policies which it is the Government's duty to

pursue even though they may be administered locally" (White Paper, paragraphs 4 and 6).

e. The argument that local authorities are directly accountable because democratically elected and that central government should therefore keep off is somewhat specious, I think. No-one could reasonably assert that all good things come from the centre, nor indeed that enabling the centre to lord it over local authorities would be an unmixed blessing. On the other hand, the proportion of the local electorate which turns out to vote is usually low and I doubt whether it can be argued that, generally, councillors are turned out of office because they are bad managers of resources. Whatever the constitutional position, I suspect that local electors think mainly in terms of quality of service delivered, expect standards to be consistent across the country, often do not like what they see and have a strong if vague belief that Parliament and Ministers are the ultimate guarantors of quality. I do not think it too much to say that there is a lack of public confidence in government institutions and that, given the Government's commitment to efficiency and the economical use of resources, it would be damaging if it did not protect consumers of local services as far as it reasonably could and be seen to be standing up for them against vested interests. In saying this, I am struck by Sir Desmond Plummer's reference to the need for a "Public Accounts Committee" to act on behalf of the electorate in a way which it cannot do for itself; to the need for a strengthened District Audit Service to act in support of this; and to the time and energy which are required of local councillors if they are determined to promote cost-effectiveness. His view was that it would require two terms of office to get it right, one to lay the foundations and the second to build on them.

7. Bringing my impressions so far together, I would want to advise an approach to the problem on this basis:

a. An acknowledgment that central government is not perfect and that example is better than precept.

b. An acknowledgment that local government has wide responsibilities directly to its electorate and that some authorities are already doing much to improve their own services (see below).

c. An argument that central and local government are at a stage in the economic life of the country when they must both work for greater cost-effectiveness, be seen to do so and share experience.

d. An argument that, as also in respect of my recommendations for central government, there is no substitute for the close examination of the costs of services and for the detailed scrutiny of particular services in order to arrive at sound principles and practices for management. Thus, once again, I would argue that the best hope of reform lies in the hands of those responsible for managing resources, provided they are properly stimulated and kept up to the mark.

e. Finally, because the electorate is disgruntled but somewhat inert in its suspicions, there is the argument that the central government has a role of "guarantor" of the quality of services. This is already very specific in respect of certain services, notably fire and police, less so in respect of others, notably education. It will be in the interests of the nation as a whole to play this role to the fullest extent possible.

8. I now briefly describe what is happening already on the efficiency/waste front and then go on to offer some detailed suggestions for further work.

What is already happening and what more might be done

9. Many people feel that the dead hand of institutionalised pressure groups will stifle a radical approach to local efficiency, that is to the questions why local services are delivered as they are, at what cost and whether they provide value for money. Against that background, I now try to identify the main actors and to see what they are doing and what more they could do.

10. The actors are three, local authorities, in their individual and collective capacities; the District Audit Service; and central government. I leave out a fourth actor, the local electorate, because I regard it as inarticulate. Its voting behaviour is as already described and its ability and willingness to challenge local authorities are limited; as the Chief Inspector of Audit shows, for example, only 199 electors exercised their right to question the auditor about the accounts in 1977 - 1978.

11. It may be most helpful to begin with central government, one of whose functions is to help create the conditions in which local authorities can work more efficiently. Here the main activity as set in hand by

your Administration consists of:

- a. the review of controls of local government;
- b. the review of central government's role in relation to local by-laws;
- c. the proposal to reduce the number of circulars and other communications and the review of the need for statistical returns from local government;
- d. the review of control over capital expenditure;
- e. the review of the statutory duties placed on local authorities;
- f. consideration of different options for the block grant and cash limits system;
- g. the intention to make available more information about local authority costs and to develop comparisons between local authorities as a counterpart to the relaxation of detailed controls.

12. As the Secretary of State for the Environment has explained, the key point here is that the quid pro quo for greater freedom should be a clarification and strengthening of the accountability of local authorities to their electorate. I agree with his proposals here, which are to legislate to require authorities to publish more information in the Rate Demand Note and the Abstract of Accounts, and with his wish to see the quarterly "Manpower Watch" figures published to show the trends for each authority as well as the aggregate trends (as at present).

13. What local authorities could do for themselves is substantial. There have been several reports by government departments, professional and local authority bodies and others in the recent past, emphasising the importance of "value for money" and performance reviews. As the Chief Inspector of Audit has said, it is very difficult to assess the impact of the various reports issued. The main landmarks which he discerns through the mist are these:

- a. Some authorities have set up cost reduction units or performance review committees and/or have commissioned work by consultants.
- b. Most larger authorities and some smaller ones have established their own organisation and methods units and work study sections.

c. The monitoring of manpower numbers is commonplace.

d. The Local Authority Management Services and Computer Committee (LAMSAC) has made special studies and has compiled work measurement data. It also keeps an index of all value for money exercises undertaken by local authorities notified to it and will inform authorities wishing to study a particular problem of others who have already done work on it. LAMSAC now also covers local authority purchasing.

e. The Royal Institute of Public Administration's Local Government Operational Research Unit is substantially funded by fees for investigations on behalf of local authorities and others. The varied problems it tackles are generally those capable of solution by an OR approach.

14. I understand that DOE Ministers believe that local authorities make too little use of the services which LAMSAC offers; they intend to discuss with the local authority associations what might be done about this, including publishing more widely the comparative studies already undertaken by LAMSAC.

15. The Local Government Audit Service audits the accounts of most local authorities. It totals about 650 staff, distributed throughout England and Wales in 59 small units; it is appointed by Secretary of State for the Environment, who also appoints auditors other than the District Auditor when local authorities choose to go outside. The Audit Inspectorate at DOE HQ provides inspection and advice, but is not staffed to collect and process a lot of information about local authority performance.

16. There has been an important development in local audit practice in recent years. Auditors are now meant to consider whether the accounts "disclose any significant loss arising from waste, extravagance, inefficient financial administration, poor value for money, mistake or other cause". Auditors are supposed to get after some fundamental questions: Are the authority's accounting and information systems adequate? Can job be done more cheaply? Can goods or services of the same quality be bought more cheaply?

17. The auditor may choose to select particular aspects of local administration for a detailed investigation. Subjects studied include the administration of a social services department; comparing the cost of external painting

of councils houses by direct labour and contractors; and vehicle hire.

18. Given Sir Desmond Plummer's views as reported in paragraph 6 above, it is interesting that the Layfield Committee proposed making the Audit Service independent of both central and local government under an official with a status like that of the C&AG, while the Expenditure Committee in July 1977 proposed that C&AG should actually take over responsibility for it. The last Government instead set up the Advisory Committee on Local Government Audit (the Maynard Committee), to consider general questions of efficiency and value for money, whose reports should "attract a measure of public attention" (Command 7117, March 1978, paragraph 97). The key to the success of this Committee, and indeed of the Audit Service, lies in the degree to which local authorities feel they are under pressure to reform their behaviour. As long as the Auditor lacks a power of surcharge and does not find a local authority in technical error and as long as there is no external body like the PAC to put a local authority over the jumps, it is unlikely to feel threatened. Mr Potts told us that he would favour restoring the power of surcharge, in order to give the Audit Service teeth.

19. We come now to the issues needing treatment. Some of the main points at the local end seem to be these:

- a. Lack of clarity in specifying the respective responsibilities of different tiers in the structure of local government.
- b. The inertia of the system, including the reluctance of local councillors to have their administration looked over; to find the time and effort to review the delivery of services; and to upset the unions.
- c. Lack of clarity within a local authority about respective responsibilities, for example, of the Chief Executive (where they exist and they are not universal) and of Chief Officers.
- d. A strong tendency to "departmentalism", especially on the part of education.
- e. Control over finance and manning may be relatively weak. It may be ineffective in combating a strong tendency towards incrementalism in financial planning and allocation, in spending unnecessarily to use up the annual budget and in over-seeing the use of resources of all kinds by departments.
- f. Lack of clarity within a particular department, as to the balance of responsibility between

those who provide a service and those who administer it. This is, I suspect, particularly evident in education, but is not exclusive to that service.

g. A tendency to load administration and ancillary support on top of services for no obvious advantage. The Lord Mayor of Plymouth's personal estimate was that one-third of the city's staff were carried on the backs of the other two-thirds.

h. There is now a mass of "management information" and planning material available to councillors, but it is too complex for them to cope with.

i. Control over capital projects may be weak, because of lack of managerial experience and forethought.

20. At the national end, I see as the crux of the issue two fundamental but implausible relationships. First, although constitutionally independent of Ministers, local government receives much of its income from them. But it is not thereby anymore amenable to central initiatives since it is not accountable for how it spends what it gets.

21. Secondly, the argument that local democracy secures accountability for the use of resources seems to me largely lip service for reasons I have already touched on. The emphasis your Administration places on efficiency and waste is profoundly welcomed, I suspect, by numerous voters who, not well up in constitutional matters, look to the national government as the promotor and guarantor of good standards of service and as a court of appeal.

22. It seems to me that the response to these problems is a choice between a very radical challenge to the accepted financial modus vivendi on the one hand and making the most of the instruments which already lie to hand on the other.

23. The present financial relationship is not defensible logically. One course would be to withdraw central funding and to make local government wholly responsible for financing its services. Resourcing and accountability would then be wholly local. If the abolition of central funding is not acceptable on the grounds that the nation has an interest in the local pursuit of national policies, in the broad equalisation of provision and thus in the broad application of common standards, the corollary seems to be that local authorities should be accountable to Ministers for the subventions they receive. The principle would be that Ministers should satisfy themselves, as in the case of bodies which receive grant-in-aid direct from their departments, that local authorities have the appropriate management

systems, adopt the appropriate standards of service and apply the funds to the intended purposes. But practice would need to be firmer and clearer than I understand it sometimes is in the case of grant-in-aid.

24. The first course is simpler conceptually and probably more viable than the second, which would require much resolution of purpose to give it a sustainable force while avoiding bureaucracy. Both courses would be highly controversial.

25. Apart from these changes, and from any lesser plans for stiffening financial control, there are instruments now to hand in the shape of statutory control, inspection, influence and exhortation.

26. I leave statutory control out of account, as your Administration is seeking to reduce that to reasonable minimum.

27. Where inspection is retained, I think it essential to be certain what it is for. I have not enquired about the inspection of Fire and Police Services, where the Home Secretary prescribes minimum standards. My impression of the inspection of Schools and Further Education is that it has not been concerned with value for money, except in respect of equipment purchases in FE, for many years. References to the Inspectorate's local work by those whom I have consulted, other than DES, have not on the whole been favourable, but there is endorsement of its "national survey" work.

28. The main issues here are whether the Inspectorate still has a local inspectorial role at all, as opposed to an administrative one, whether it should be deployed locally and thus whether it is really a national research and development body. The old view was that because Parliament made parents send their children to school, it should guarantee that the education given was worth having. There is indeed a massive issue here. As an employer, and one who compares what happens here with Canada, I fear that too many of our children are made into second rate people by second rate education.

29. Of all professions, education is one of the most clique-ish. It was put to us strongly that the education establishment presented a united front to the rest of the local authority, to the parent and the taxpayer and that the Inspectorate is "part of the educational Mafia". I believe that the Inspectorate should be the friend of the

taxpayer. So the issues boil down to the questions, "What standards do we wish to promote? What is the best policy for inspection to promote and monitor the achievement of these standards? What information should be made available to the rate paying public about the performance of its institutions?"

30. I should perhaps note in passing that the Inspectorate, despite what is often said to the contrary, is plainly an instrument of Government and has no separate place of its own in the constitution. As for influence and exhortation, I think one should be clear that one is trying to influence both local authorities and the local electorate. And I should say, first, that in seeking to influence and exhort, Ministers would do well to be able to show that their own house was in order: "Do what I say, not what I do" is never an inspiring battle cry.

31. Secondly, Lord Bellwin had, I think, some excellent suggestions for things that local authorities can do to absorb cuts in expenditure without extensive reduction in services. In discussion we have canvassed the idea of a paper, perhaps prepared by me, which could draw on existing experience to show that reducing anticipated and actual levels of expenditure can produce more cost effective services. In the main, such demonstrations would relate to particular services and to the ongoing masses of current expenditure, although I think that there is plainly a need for advice on the management of capital projects. The demonstrations would also need to refer to some of the practices which either impede or promote effective management.

32. Possible subjects for inclusion in demonstrations might be:

- a. Questioning the need for and cost-effectiveness of services. This would obviously be much assisted by a detailed scrutiny of particular services, especially in respect of manning.
- b. Moving away from incremental budgeting and a set rate of increase of expenditure; planning resource allocation by reference to proved need.
- c. Setting expenditure objectives for committee chairmen and chief officers; clarifying the respective roles of leader, chief executive, chairmen and chief officers in resource planning, control and management.
- d. Measuring performance by achievement, not by expenditure level, and by reference to external

standards and comparisons as well as to internal criteria. Making appraisal a regular feature of management, eg by performance review committees.

e. Finding money within existing budgets for services by savings and the sale of assets.

f. Breaking down unnecessary departmental barriers, especially in respect of assets and equipment and the wider community use of land and premises.

g. A good relationship with unions based on a promise of "no compulsory redundancy" and showing that economies can benefit services as well as the ratepayer.

33. This suggestion is thus for an opening paper of observations and suggestions, perhaps supported by annexes describing good and bad practice, and subsequently for a series of detailed pieces on particular services or practices. Both the examples in the first paper and the subsequent scrutinies should for preference be the product of particular local authorities. Getting local authority co-operation might be difficult, but should not be impossible.

34. Thirdly, I think there is a general issue about the use of manpower. On the one hand, there is the question whether the number of operatives or executants employed is needed to provide the service. Second, there is the question whether the back-up administration gets in the way. This field is of course crammed with holy cows. Nor is it unique to local government. It is no use having a "Manpower Watch" unless it helps with discipline over the use of people. I have not yet been able to give this much thought, but I certainly see it as an excellent area for exemplary work on staffing standards and the use of the staff, all around the theme of "value added" by labour.

Conclusion

35. I conclude that there is a good deal going on but that it is critically dependent upon the willingness of local government to look at itself seriously. The measures of reform your Administration has in hand are very much in the right direction, but I think they leave open the fundamental question of the financial relationship between local authorities and central government.

36. If the question of the financial relationship is untimely, I think that the Government nonetheless has instruments to hand which it can use. These are inspection, influence and exhortation as briefly outlined above. Putting it crudely, I think that the ratepayer expects Ministers to stand up on his account and, while listening to the pressure groups, to put his interest first.

37. I have offered a number of suggestions, but I am very conscious still that I am a newcomer to this field and I should be glad to see whether they coincide at all with your thinking.



Derek Rayner
28 September 1979

I attach a minute on my impressions and some of the main facts. Because it is based largely on personal conversations, I am copying it only to Sir John Hunt. I apologise for its length.

2. The minute is very much the first thoughts of a newcomer. Because of that, and because it is based on a highly selective and narrow sampling of facts and opinions, it may seem jejune. Having entered that reservation, I see the main points as follows:

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- c. There are some promising local developments in the management of resources. Your Administration is attempting to free local authorities to be more accountable but is also considering whether the financial relationship can be somewhat adjusted. I suspect that these developments leave the basic question of the financial relationship at a. above unanswered.

- d. That question could be answered either by making local government wholly responsible for funding itself or by making it accountable for what it gets from the centre.

- e. If such a fundamental change is not on, or not on yet, your Administration has nonetheless instruments to hand which it can use - statutory controls, inspection, influence and exhortation. Based on what I have seen so far, I make some suggestions of an interim kind:

- i. The policy for educational inspection should be clarified, if it is intended to retain a responsibility for inspection at all.

- ii. I agree with the thought noted in the attached minute that the position of the District Audit Service should be strengthened.

iii. The Whitehall pot should not call the town hall kettle black, but attention can be drawn to good and bad practice in respect of some of the key points (eg financial management, organisation, manning, use of assets and control of capital projects) and to some of the questions which should be asked. It seems to me that Lord Bellwin has some particularly good thoughts here. The means of drawing attention might be a publication followed later by publications on some of the good work that local authorities have been doing themselves.

3. I describe those thoughts as interim, because I suspect that the main need is for Ministers to decide on a strategy on local value for money. The issues are substantial and I feel in my bones that they call for a well thought out plan of action. The obvious point is that local government is not the delegate of central government and that it is most likely to reform itself if it comes under a strong financial regime and under strong psychological and moral pressure to put the interest of the rate-payer first.

4. I sense that there is an opportunity for major reforms if one can find the right combination of sticks and carrots and if central government stands up firmly for the local consumer where it can do so. As I say in the attached minute, education seems to me a prime area for dishing the pressure groups. If my unit and I can contribute to defining this opportunity and getting it taken, we will do so gladly. I do not feel qualified by experience, or indeed by availability, to play a leading role. But we might be able to help keep up the momentum and challenge some of the fixed ideas and comfortable liaisons which are so plentiful in this area.


Derek Rayner
28 September 1979