

TO ALL MEMBERS OF THE SHADOW CABINET

I enclose, as requested, our attitude to direct labour.

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Introduction

The issue of expansion of direct labour departments has caused growing concern over the past few years. This is partly because increasing evidence of inefficiency in local authority direct labour departments has contributed to the image of local government as a service careless about ratepayers' and taxpayers' money. Furthermore, the Labour Government has seemed unwilling to act on the recommendations of a working party of the Chartered Institute of Public Finance and Accountancy (report published June 1975) which proposed tightening up the procedures of direct labour departments including separate trading organisations, competitive tendering and improved accountancy procedures.

Instead the Labour Government established a Department of the Environment Working Party on Direct Labour in October 1975. Now, following the failure of a number of private bills to expand the work of Direct Labour, the Government proposes to introduce legislation expanding the work of local authority direct labour departments, before the working party has completed its work. The Government's justification for introducing new legislation at this time is the imminent necessity to replace orders under the Local Government Act 1972 empowering certain district councils to carry out direct work for other authorities. It has been pointed out by the NFBTE that this can be achieved by renewing the orders or introducing a simple bill which would in no way extend the powers of direct labour departments.

The Conservative Position

Conservatives have been critical of waste in direct labour departments, and have urged the Government to implement the recommendations of the CIPFA report. Conservatives take the view that there was no necessity to set up a Departmental Working Party to look at Direct Labour, but in view of its existence, believe that the decision to introduce new legislation before the working party has reported is ill-founded and premature.

Criticism of direct labour and the call for implementation of the CIPFA recommendations were made by Mr Keith Speed speaking at Eastbourne on 18th November 1975. He noted that Direct Labour Departments would continue to operate in Conservative local authorities where they were competitive, efficient and properly accountable to the ratepayer. He said however:

"We reject the philosophy of an extension of state control into building and construction I hope every Conservative council in the country will implement these (CIPFA) recommendations at the earliest opportunity."

In the supply day debate on direct labour and municipal trading on 26th January 1976, Mr Timothy Raison attacked the provisions to expand direct labour, in the Greater London Council (General Powers) Bill and the Tyne and Wear Bill:

"It is nonsense to talk about new powers of this kind."

He went on to say:

"It is important that we take seriously the recommendations of the Chartered Institute of Public Finance and Accountancy what they aim to do is provide a minimum acceptable standard."

(Hansard, 26th January 1976, Col. 106-10)

On 8th June 1976 Mr Keith Speed addressed a Conference on Direct Labour at the Cavendish Centre in London, and criticised the Labour Government:

"They are wedded to the notion of a major expansion of direct labour work in local government, and have promised early legislation in advance of the Minister's working party which is looking at direct labour The Minister in the meantime consistently refuses to endorse the CIPFA recommendations in any way."

At the Conservative Party Conference on 6th October 1976, Mr Keith Speed called for a moratorium on new legislation adding burdens to local government:

"This applies especially to the threatened Bill to extend the work of Direct Labour Departments, which we shall vigorously oppose in and out of Parliament."

The Government have subsequently accepted the recommendations of the CIPFA Report, which may in some form be incorporated into the Bill but, as Mr Keith Speed pointed out on 23rd October 1976 at a meeting in Charing, Kent:

"The Government's new Bill to expand the work of local government direct labour departments is a bid to advance the nationalisation of the private building sector. It is the stated objective of Labour's Programme for Britain 'That a major public interest must be created within the building and construction industry'. No matter what concessions are made, as indicated in the Minister's Scarborough * speech, to creating a new framework for the tendering and accounting

... / of direct

* Ernest Armstrong, Scarborough, 19th October 1976.

direct labour departments, he cannot conceal the real objective of this Bill - to nationalise the building industry. In his speech Ernest Armstrong referred to the devastating effects of peaks and troughs on 'those who depend on building for their livelihood'. What thought has he given to the small builders whose livelihood depends on the improvement and maintenance work for the private house owners, which the Government proposes to transfer to direct labour departments of local councils.

"This Bill is a doctrinaire socialist measure designed to damage the private sector. Many of the proposals it implements are unacceptable to us as Conservatives, and we will vehemently oppose them. We are not alone. Builders, Civil Engineering Contractors and many people in local government, in District and County Councils are opposed to these proposals. We will take a firm stand against this insidious backdoor nationalisation which would use ratepayers' money to subsidise inefficient competition against free enterprise, and extend the public sector in a major way."

Conservative spokesmen have clearly demonstrated that:

1. We oppose any expansion of local authority direct labour departments, and any legislation which would give effect to this.
2. We support the establishment of new accounting methods, separate trading operations, and the strengthening of competitive tendering for existing direct labour departments so that ratepayers and others can measure the true costs of these departments.

In this, the Conservative view of the Direct Labour issue is not incompatible with the view of the Federation of Civil Engineering Contractors as set out in Appendix 1.

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AJMH/JMH
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APPENDIX 1

From Direct Labour: The Case for Competition Federation
of Civil Engineering Contractors submission to Minister
for Housing July 1976.

4. THE NEED FOR GENUINE COMPETITION

While for the reasons given above the Federation does not consider that the establishment of direct labour departments is either necessary or desirable, it remains the case that some Local Authorities have in the past established such departments and may wish to continue their operation. In so far as these Local Authorities are democratically elected and are using funds provided by their electors, there would seem to be no justification for restricting their freedom in this regard.

It is, however, essential that all those employed on Direct Labour work should know that their performance can be measured against some outside yardstick. The Federation would therefore argue that in these cases and certainly where funds from the Central Exchequer are involved, it is essential that direct labour departments should operate on a basis capable of clearly demonstrating both to their Councillors and Rate Payers and to the Central Government the true costs of their operations.

In this regard the Federation endorses most strongly the recommendations set out in the report of the Chartered Institute of Public Finance and Accountancy "Direct Works Undertakings Accounting." In particular, the Federation considers:-

- (i) that direct labour departments where they exist should be established as quite separate trading entities required to submit firm tenders rather than estimates and showing a profit or loss on their trading activities.
- (ii) that there should be competition for all major contracts and not as at present only a proportion of contracts.
- (iii) that the accounts of direct labour departments should be drawn up and published to show clearly the true costs of individual contracts undertaken by the department including labour, materials, plant and motor haulage, sub-contractors and overheads, including administrative and financing expenses etc.
- (iv) that there should be independent supervision of all major contracts undertaken by direct labour, in order to ensure that there is so far as possible equality of treatment for contractors and direct labour with regard to such matters as cost variations, changes in specification, standards of workmanship etc.