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Treasury Chambers, Parliament Street, SW1P 3AG
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NBRM

PRIME MINISTER

LOCAL AUTHORITY CREDIT STANDING

We discussed on Monday the need for a line to take on the Audit Commission's Report on London Boroughs, so as to make it clear that the Government does not stand behind their debts.

2. I attach a line to take which has been agreed between officials in the Treasury, DOE and the Treasury Solicitors' Department. I am copying this minute to the Nicholas Ridley.

Cathy Ryding

PP

N.L.
29 January 1987

(Approved by the Chancellor
and signed in his absence)

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2 MARSHAM STREET
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My ref:

Your ref:

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1

28 January 1987

Dear David

AUDIT COMMISSION: LONDON REPORT

I enclose a copy of the latest draft we have of the Audit Commission's London report, which is due for publication tomorrow. We cannot be sure that there are no last-minute final revisions, but we will let you have a published copy as soon as we can. The Report is of course under an embargo until tomorrow.

I have arranged for briefing on the Report for Prime Minister's Questions tomorrow to go to you separately.

Yours ever

Isobel

MISS ISOBEL OGILVIE
Private Secretary

OCCASIONAL PAPERS

The Audit Commission
for Local Authorities
in England and Wales

Number
January 1988

The management of London's authorities: preventing the breakdown of services

Summary

Although London is the richest city in the United Kingdom, large parts of it face desperate social and economic problems. In some boroughs, unemployment among young men exceeds 45%; in some places, among young blacks, it exceeds 60%. More than one child in three is born into a single parent family. Half the school leavers have no 'O' levels or their CSE equivalents. Homelessness, housing conditions, crime, are worsening year by year, as the cycle of urban deprivation becomes more established. In such circumstances, although extra capital spending will be needed, money alone is not the answer; the need is for outstanding management of each of these problems. This is not evident in many London authorities.

Management problems can be clearly identified and include: reductions in grant, housing in poor condition, failure to act promptly on opportunities to reduce waste, difficulty recruiting and keeping staff, and generally poor industrial relations. And the consequences are serious: expenditure around double that in similarly deprived areas after allowing for the extra costs associated with employing people in London, poor services, a cash gap in prospect next year of over £400 million – as much as 40% of current revenue expenditure in some places – and over £700 million of deferred purchase arrangements which will load extra costs onto tomorrow's ratepayers.

The size of the looming cash gap and the scale of the problems has led the Commission

to publish this paper now.

But many authorities are already seeking to reform themselves, have been very open about their problems – often receiving little but further criticism for their pains. And analysis of authorities' performances shows that not all Inner City authorities are poorly managed. Local government must work if the problems of Inner London are to be tackled. So this paper reiterates the Commission's proposals for management reform within London authorities. Local accountability must be made more effective, management streamlined, the stability and authority of the positions of officers must be strengthened and the systems for distributing grant and controlling capital spending reformed.

“Once the cycle of decay becomes established it will be immensely difficult to reverse.”

Once the cycle of decay becomes established it will be immensely difficult to reverse. Prevention is the only viable strategy; and this will undoubtedly cost money. There is therefore no time to lose if effective action is to be taken to prevent the emergence in London of the urban dereliction that now affects some large North American cities.

1. Since it was established in early 1983, the Audit Commission for Local Authorities in England and Wales (The Commission) has become increasingly concerned about the cost and quality of the services delivered to Inner London authorities. This Occasional Paper summarises in turn the Commission's views on:

- (i) The nature of the problems facing Inner London authorities. Unless their magnitude and causes are understood and the serious consequences of neglect more generally appreciated, the Commission will have failed in its duty as an independent watchdog over local government management and finance.
- (ii) The evidence that improved local management could make a significant difference to the quality of local services.
- (iii) The immediate financial prospects. There is a gap between current levels of revenue expenditure and the funds likely to be available next year in the most deprived London boroughs, of over £400 million.
- (iv) The steps that will be needed in the near term by central government as well as local authorities to reverse the present decline. If local authorities in Inner London cannot be persuaded to adopt the steps necessary to improve their management performance, it will involve the imposition of new organisational arrangements.

The paper draws only on material already in the Commission's publications, published statistics and auditors' public reports where the facts have been checked with the local

All the reports published by the Audit Commission in the last three years have set out either specific recommendations for action by local authorities or conclusions on the local impact of government measures, e.g. for distributing block grant or controlling local authorities' spending.

Occasionally, however, studies carried out by the Commission raise issues which appear to merit broader debate. These subjects are covered in a series of Occasional Papers as a contribution to the wider discussions of important management issues affecting local government services. The first paper considered value for money in the fire protection services. This, the second Occasional Paper, examines problems facing management in Inner London boroughs, and what the consequences will be unless more effective management is applied. Other Occasional Papers will follow, as material emerging from the Commission's studies warrants.

authorities concerned. The Commission believes that the very existence of so large a public record - despite the obvious risks involved - demonstrates that many of the authorities concerned are seeking beneficial change.

Problems facing Inner London

2. Inner London comprises a dozen boroughs and the City of London. These authorities, with the Inner London Education Authority (ILEA), provide local government services to a population of some 2.3 million people and around 1.3 million commercial and domestic ratepayers. Members and officers in the boroughs in question face a desperately difficult situation: Inner London and four Outer London Boroughs - Brent, Haringey, Newham and Waltham Forest - which have many of the same characteristics include some of the most deprived in England and Wales on almost any indicator of social and economic deprivation.

3. There are very disturbing parallels between the situation in parts of London and that in parts of New York and Chicago. The South Bronx and the Southside of Chicago represent a future to be avoided at almost all costs. There, a combination of poor housing and education, high crime rates much of it drug-related, large scale immigration and

associated racial tensions, an exodus of jobs and the more well off to the suburbs, high youth unemployment and welfare dependency and the break-up of traditional family structures (with a very high proportion of single parent families), have served to create what some commentators in the United States have described as an urban 'underclass.' Each of these factors tends to reinforce the others, creating the kind of vicious circle shown in Exhibit 1. Once such a situation develops, it is extraordinarily difficult to retrieve, as American experience over the last three decades demonstrates. So preventing the further growth of an urban 'underclass' in the United Kingdom must be a national priority concern.

4. Many of the factors that have created an 'underclass' in a number of North American cities are present in large parts of Inner London and some Outer London boroughs with Inner London characteristics:

- There has been a decline in opportunities for semi-skilled and unskilled employment. Over the period from June 1982 to June 1986 the number of jobs in manufacturing and construction in Greater London fell by 126,000. This is particularly serious when around half the 95,000 leaving school in Inner London every year have no 'O' level or equivalent

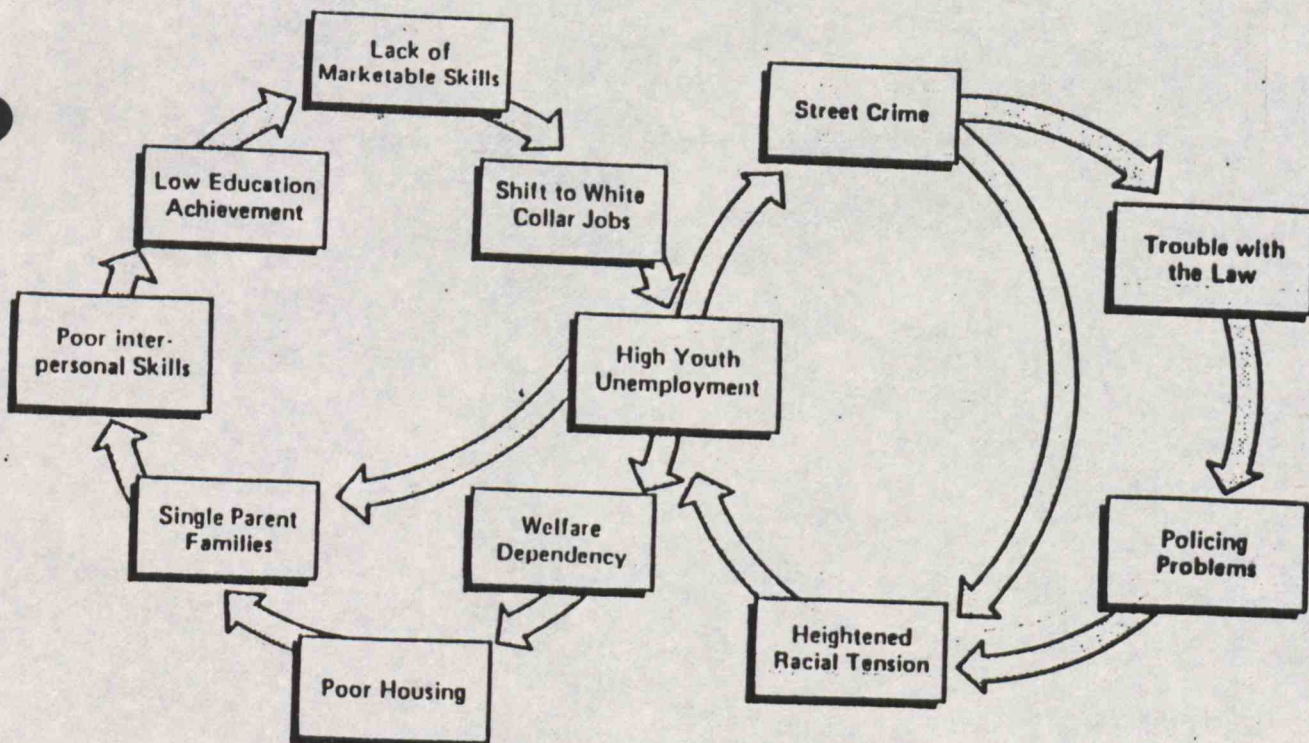
CSE passes

- Unemployment is relatively high, particularly among young people from ethnic minorities. In October 1986, unemployment among men in Inner London was 21%. At that time 34% of all men aged 20-24 were registered as unemployed (the figure was 46% in Hackney and 44% in Lambeth); for young people of Afro-Caribbean origin, the figure is likely to be higher still - in 1984 the unemployment rate among West Indians was double that for Greater London as a whole
- Nearly 40% of families live in council owned accommodation, much of it in poor condition. In April 1984, over one in five of the 444,000 Council dwellings was considered unfit, lacked some basic amenities or was in need of renovation. The Commission has already shown that the backlog of maintenance and improvement work on Council houses in Inner London is double the national average and averages over £4,000 per dwelling
- There is an increasingly serious problem of homelessness. On a typical night, over 5,000 families will be accommodated in bed and breakfast accommodation at Council expense; and there is the Council house waiting list in Inner London of over 150,000, partly caused by the difficulty young people experience in buying their first house.

1. The Origins of the Underclass, Lemann, Atlantic Monthly, June 1986.

Exhibit 1

NORTH AMERICA: A VIEW OF THE FACTORS CAUSING AN URBAN 'UNDERCLASS'



Crime, much of it drug related, is high and rising. The number of serious crimes reported per thousand residents in Inner London is 56% above the average for metropolitan areas outside London; and it has increased by over 90% since 1971. There is now a violent crime every hour in Inner London

The number of single parent families is high and increasing: in Inner London as a whole, in 1984, 31% of children were born into single parent families. (The figure was 39% in Southwark and 42% in Lambeth.) In 22% of the cases, the mother was under 20 years old

Racial tensions, and problems between the police and ethnic minorities are evident - and not just from the Brixton riots and the events on the Broadwater Farm Estate.

5. This catalogue of problems is so serious as to be difficult to comprehend by those who have never lived in a rundown Inner City area. The following quotation from a DOE report, included in the Commission's analysis of *Capital Expenditure Controls in Local Government in England*, puts into words the reality facing too many people in Inner London today:

"Many (estates) have become 'dumping grounds' for the poorest, most disadvantaged families, as 'better' tenants have moved. Very modern estates with the more up-to-date amenities are also hated for their long dark corridors and balconies and monolithic style. They provide havens for skateboarders, go-kart fans, and, in some cases, young muggers; they echo noise; they invite abusive graffiti; the lifts are regularly smashed. Some modern estates also suffer from physical defects, of which the most notorious are water penetration, condensation and unsuitable heating systems." (Priority Estates Project, DOE, 1980).

6. Exhibit 2 shows where the housing problems are particularly serious. In the most deprived authorities, over 40% of children born last year were to single parents and over a quarter of all those aged 18 or less live in a household where there is only one parent; the level of serious crime reported is more than 5% above the rate for London generally; in October 1986 unemployment among men aged 20-24 was over 40% and for those of Afro-Caribbean origin it was probably well over 50%; on an average day over 35% of the 5-year-olds who ought to be in school will be wanting.

7. Local authorities often lack the powers and resources to tackle these problems. But it is not for the Commission to propose policies or the solution to the 'Inner City' problems, or to comment on government policy towards Inner Cities generally or London in particular. But it is clear that faced with such challenges, the management of local services in London cannot afford to be less than outstanding. And this is the Commission's legitimate concern. Poor management was an important contributory factor to New York's

problems in the early 1970s: incompetent appointments to key management positions, workforce opposition to any changes in working practices, tension between the police and the local black community and heavy use of so-called creative accounting to mask the reality that the City was borrowing

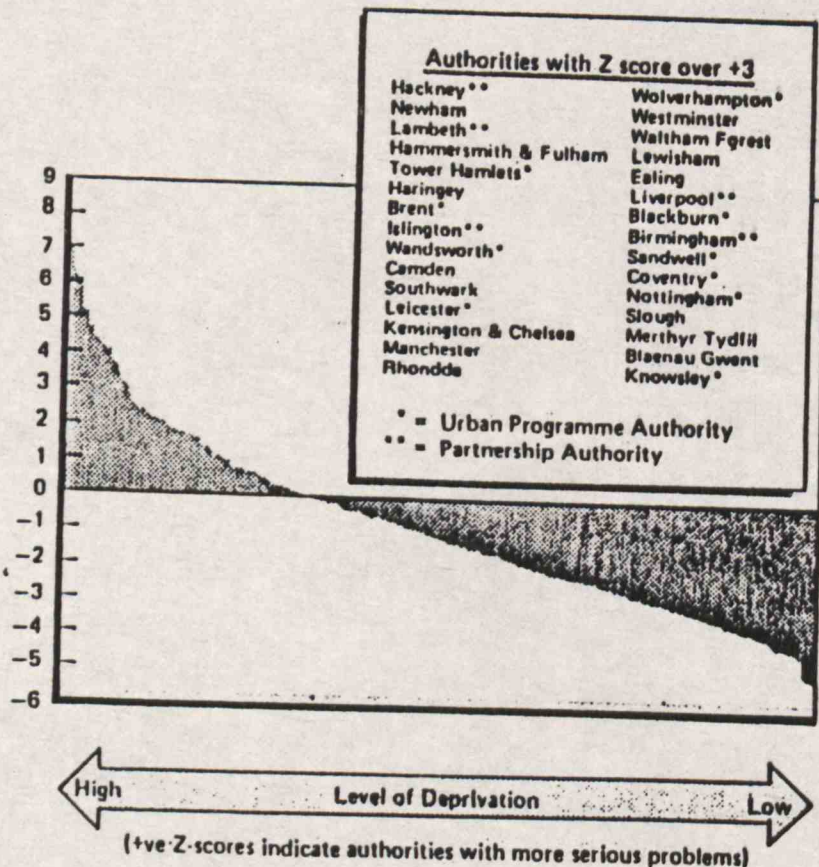
heavily to finance current expenditure all played their part. The situation in New York is described, graphically, by Charles Morris in *The Cost of Good Intentions*. Good management of Inner London boroughs is a necessary, if not sufficient, condition of preventing similar problems here.

"... it is clear that faced with such challenges, the management of local services in London cannot afford to be less than outstanding."

Exhibit 2

RELATIVE HOUSING DEPRIVATION

Authorities Housing Z-scores (based on analysis of 1981 census data)



Source: Department of the Environment

The 'management difference'

8. In its most recent *Annual Report*, the Commission drew attention to its concerns about Inner London in particular, in the following terms:

- Controllable revenue expenditure (i.e. excluding housing benefit and the cost of Home Office services such as the police and fire service) in Inner London was some 75% higher per resident than in metropolitan areas outside London in 1984-5.
- The trend in expenditure per person in Inner London since 1981 has been notably different from that elsewhere. Everywhere else it has fallen in real terms; in Inner London it has increased by 20%.
- Levels of consumer satisfaction with local services were notably lower in Inner London than elsewhere. A MORI poll for the Commission showed the following figures for overall net satisfaction with services (a positive figure means that more people express themselves as 'fairly or very satisfied' than were 'fairly or very dissatisfied'):

	Net satisfaction	Expenditure
Inner London	- 3%	£1,020/ resident
Outer London	+ 33	680
Metropolitan areas	+ 15	580
Shire areas	+ 31	460

9. Some London authorities have argued that higher spending reflects greater needs, and that these can only be tackled with more resources and that increased government grant and extra borrowing alone were required. However, increased investment only makes sense if it can be managed effectively: one of the lessons of the past is that 'throwing money at the problem' all too often only means more waste. So the Commission has undertaken a further review of the available information on the cost and quality of services in Inner London. It has reviewed the reports of its auditors both on the local arrangements for securing economy, efficiency and effectiveness and on individual services: housing management and maintenance, social services for children in care and the elderly, refuse collection, vehicle maintenance, cash flow management and internal audit. And evidence has been obtained from some North American cities facing the problems described earlier: New York, Boston, Chicago, Washington DC, Philadelphia and Atlanta.

10. This further work has confirmed the Commission's concerns. Even though there has recently been a welcome change in the atmosphere in which auditors have been working, and some useful progress has been made, a very serious situation is in prospect.

Not to put too fine a point upon it, large parts of London appear set on precisely the course which will lead to financial and management breakdown. In the Commission's view, the problems now facing some London boroughs are not due solely to social and economic factors over which they have no control. Of course these constitute a daunting management challenge. But management makes a vital difference - for good or ill: there is a marked contrast between the performance in terms of economy, efficiency and effectiveness of similarly deprived authorities in London and the provinces. This conclusion emerges from analysis of three groups of authorities shown below.

Group A Eight deprived London boroughs: Brent, Camden, Hackney, Hammersmith, Lambeth, Lewisham and Southwark.

Group B Eight other London boroughs facing similar problems of housing deprivation: Hammersmith and Fulham, Greenwich, Kensington and Chelsea, Newham, Tower Hamlets, Waltham Forest, Wandsworth and Westminster.

Group C The eight most deprived Metropolitan boroughs (excluding Liverpool for which information was not available): Birmingham, Bradford, Coventry, Kirklees, Knowsley, Manchester, Sandwell and Wolverhampton.

11. In terms of economy, there is a clear difference between Group A on the one hand and Groups B and C on the other in the level of staffing and expenditure ranking for Block Grant (excluding police, fire and education services) per capita in 1985-6:

The inclusion of Kensington and Chelsea and Westminster in Group B has the effect of very slightly increasing expenditure per resident.

Group	£ per resident	Whole-time employees per '000 residents
A	1,170	19
B	117	14
C	152	10

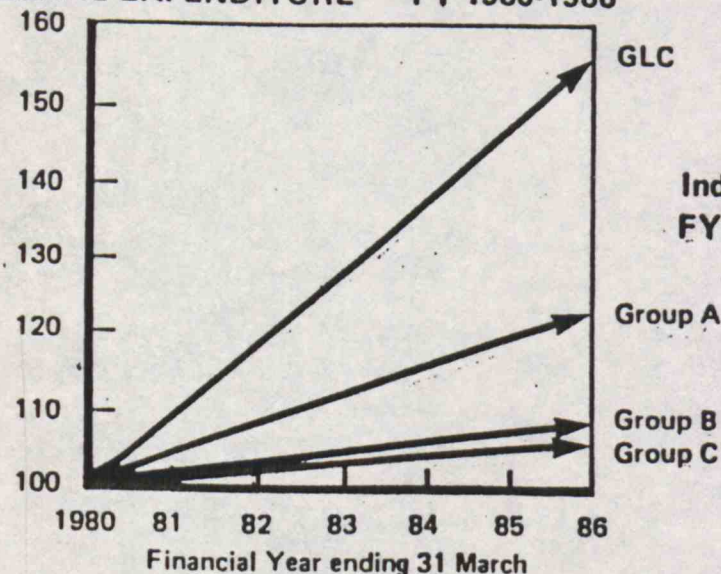
If Group A authorities had been spending at the same rate per capita as Group B, their total annual expenditure would have been some £260 million a year less, worth well over £150 million to the local ratepayers because of lower grant penalties.²

12. Some of the difference between expenditure levels in London and the provinces is due to the higher cost of employing people in Inner London. This is reflected both in the London weighting allowance and the higher gradings often necessary to recruit people to posts in London. Some experts have calculated that this adds as much as 30% to the staffing costs of London authorities. Even assuming that it costs 40% more to operate in London than in the provinces for reasons outside the control of London authorities, there is still a gap of well over 100% between expenditure per head in Inner London in Group A and the most deprived authorities outside the capital; and expenditure in Group A is nearly 50% above that in Group B for the same range of services. Moreover, as Exhibit 3 shows, there is an evident contrast between the three samples of authorities in the expenditure trends over the past six years. X

2. An authority's grant increases as spending is reduced below a level determined by the government. These calculations assume, as the authorities themselves claim, that none of the proceeds of deferred purchase arrangements has been used to finance day-to-day (i.e. recurrent) expenditure.

REAL CHANGE IN RATE AND GRANT - BORNE EXPENDITURE FY 1980-1986

Exhibit 3



Source: Analysis of CIPFA Finance and General Statistics, adjusted for changes in the retail price index and financial reserves. GLC excludes London Transport

Table 1: SELECTED COMPARISONS, 1985-6

Indicator	Group			Memo: Good Practice
	A	B	C	
Housing management performance index	2.4	1.7	1.8	1.4
Cost per child in council home (£/week)	£438	327	199	N/A
Refuse collection vs Ross standard (%) (6 houses/year)	+20% +54%	+6 +36	+17 +8%	-5 +
Maintenance cost per weighted vehicle (£/year)	£1123	830	832	700
Cash flow: rate income 'lost' through poor cash management (per £000 demanded)	£86	81	69	50

same period was 36%. There are currently no less than 32 senior (first three tier) posts vacant in the eight boroughs; at least 15 chief officer posts paying over £25,000 a year are currently vacant. By contrast, there are only five chief officer vacancies in Groups B and C. These stark figures may mask the difficult realities. In one of the boroughs in question, the auditor described the situation in the following terms:

"Vacancies were running at 20% and although the current year (1985-6) shows some improvement, there are still serious shortages. In Building Works Division, four of the top six posts have been vacant for several months, and Social Services has been 25% below its authorised complement of Social Workers . . . (with) on average, posts vacant for almost eight months . . . Two-thirds of the permanent employees leaving have been in post for less than two years."

17. Accounting and computer staff are particularly difficult to recruit and keep. Not surprisingly in such circumstances, there have been very disturbing delays in submitting accounts acceptable for audits. As at the beginning of December 1986, a number of the Group A boroughs had not submitted acceptable accounts for the year ended 31 March, 1986 to the Commission's auditor - even though the law requires that all accounts should be submitted for audit by 30 September following the end of the financial year. In such circumstances, members (and the local people) must lack information essential to effective management.

13. Relative efficiency and effectiveness are, of course, more difficult to assess than economy: it is possible that higher staffing and expenditure in Group A reflect greater levels of need and higher quality services. Table 1 shows how the various groups compare in the principal areas examined by the Commission over the past three years. The various indicators are discussed in more detail below.

14. In each case, the quality of local service is not the issue: the analysis compares like with like, and excludes the effect of policy and other variables outside authorities' control. The table shows that Inner London authorities tend to have costs for an apparently comparable standard of service well above the most deprived Metropolitan districts. But the analysis also reveals differences in patterns of expenditure between the two groups of London authorities. The Commission believes that some large part of this difference is attributable to local management. The rest of this section discusses the evidence in more detail.

Staffing

15. Local government is, of course, labour intensive. As Exhibit 4 shows, the eight London authorities in Group A have twice as many staff in post in relation to the local population as the most deprived Metropolitan districts outside London. For purposes of comparison, education staffing has been excluded. Moreover, these authorities have been increasing staffing in central services - e.g. committee support, personnel and management services, legal services and the like; in overhead areas in particular 'more' is not necessarily 'better'. Table 2 provides the details.

Table 2: CHANGE IN STAFFING, 1980-6
Staff in post at 15 March
Full-time equivalent

Group	'White Collar'	'Blue Collar'	Central Services
A	+19%	+4	+18
B	+7	-16	-14
C	+9	-14	+4

Had central staffing in the Group A London boroughs changed at the same rate as in eight other comparably deprived London boroughs in Group B, total expenditure would have been of the order of £50 million lower.

16. At the same time, for reasons discussed later, Group A authorities find it difficult to recruit and keep staff.

Table 3, based on data in the *Municipal Year Book*, shows the percentage of senior officers that has left the Council over a recent three-year period:

Table 3: TURNOVER AMONG SENIOR OFFICERS

% leaving in three years to late 1986	
Brent*	77%
Camden	69
Hackney	60
Haringey	39
Islington	46
Lambeth	25
Lewisham	57
Southwark	57

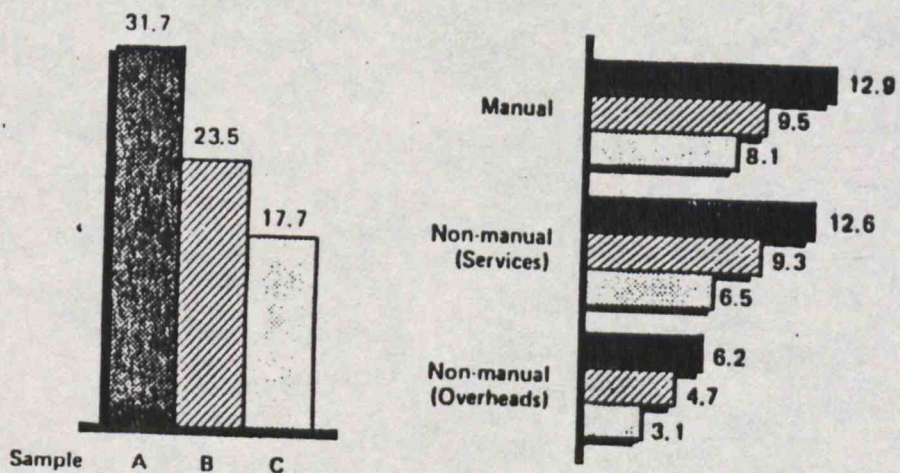
*Political control over Brent Council changed after the period shown.

The problem is not confined to Group A authorities: the comparable figure for Group B was 46%. By contrast, the average for the Metropolitan districts in Group C over the

Exhibit 4

STAFFING LEVELS, MARCH 1986

Full-time staff per 000 population



Source: Analysis of Manpower Watch statistics (excluding education)
[Sample A excludes Southwark]

Council house management

18. The task of managing more than 400,000 Council owned dwellings in Inner London is arguably the most important service that the Inner London boroughs provide – over a million people are directly affected, and the cost (of general management, excluding caretaking, cleaning, wardens etc.) exceeds £80 million a year. The Commission's recent report, *Managing the Crisis in Council Housing* contrasts the recent performance of the three groups of authorities referred to above:

	Group		
	A	B	C
Arrears (% of annual rent)	19.9	7.0	6.7
Relet period (weeks)	20	13	9
Management cost per dwelling	£201	£206	£101
Average rent for council house*	£18.55	£21.55	£17.83

* April 1986, not weighted; excludes Lambeth (no data), Kensington and Westminster (not representative).

19. The same report introduced the concept of an overall Housing Management Performance Index which shows how local performance can be related to good practice in housing management after taking into account relevant policy and other variables such as the level of deprivation, proportion of high-rise dwellings, size of the council owned stock and so forth. An authority performing at the good practice level – i.e. the level already achieved by one quarter of authorities – would have an overall Management Performance Index of 1.4. Table 4 shows the overall index for Group A authorities as well as the key components within the index. It shows that the management performance in the Group A boroughs is substantially worse than would have been predicted given the relevant local circumstances and 'good practice' performance. Thus, in Group A voids, staffing and other costs are 70% higher than might reasonably be expected, and arrears nearing three times good practice levels.

Table 4: HOUSING MANAGEMENT PERFORMANCE IN SEVEN GROUP A LONDON BOROUGHES

	Management Performance Index	
	Actual	Good Practice
Void	× 2.0	1.0
Arrears	2.8	1.0
Staffing	× 3.2	1.1
Other Costs	1.9	1.1
Overall	2.4	1.4

The overall MPI (weighted by the number of dwellings) for Group B London authorities

“... the situation has reached unprecedented levels, with total arrears exceeding £24 million.”

20. The following extracts from auditors' reports provide the flavour of the local situation with which management has had to cope in Group A authorities. Each quotation is from a recent report to a different authority that is already on the public record:

“... in my previous letter I commented on the worsening situation regarding rent arrears... It subsequently became apparent to me that many of the measures had not been fully implemented and the position was continuing to deteriorate. In recent months, the situation has reached unprecedented levels, with total arrears exceeding £24 million.”

“... for properties requiring minor repairs only, the average period between lettings was over 26 weeks.”

“... it is still not possible to have complete confidence in the figures produced by the housing rent system; the system is still vulnerable to fraud and income is not being collected as promptly as it should be (arrears rose by 19% in the two years to March 31, 1986 when they exceeded 22% of annual debit; over 17,000 tenants owed more than eight weeks' rent at the end of the financial year).”

“... in 1983, the system for dealing with emergency repairs to council houses was examined... as it appears, certain trades on standby were only required to work at infrequent intervals. Proposals were put to the Trade Union side in 1985. These were rejected and a revised scheme is to be submitted shortly.”

“... for properties requiring minor repairs only, the average period between lettings was over 26 weeks.”

“... documentary procedures are rudimentary and generate unnecessary paperwork and administrative effort... Arrears amounted to £11 million.”

“... the council should carry out a fundamental review of the (caretaking and cleaning) service... such a review should lead to a more efficient and effective service with potential saving of as much as £600,000 per annum. Throughout this period and even to date the (housing rent arrears) position has continued to deteriorate. The existing recovery procedures were having little effect (arrears at March 31, 1986 amounted to £11.45 million, 37% of gross debit). The net cost of the present unacceptable level of (housing benefit) errors could be more than £1 million per annum; overstaffing in the Housing Benefit division will be costing the council up to £380,000 per annum... It was taking on average, 80 days from the date of vacating a property requiring minor repairs until the property was available for letting and between (a further) 33 to 39 days before a property which was ready for letting was let.”

“... the cost per dwelling (of caretaking and cleaning) was 26% above the Inner London average; in early 1985, the housing department were finalising an internal report... I have suggested that officers should report in April 1987... total arrears have again increased, from £5.8 million in March 1984 to £6.6 million in March 1985 and £7.1 million in March 1986 despite write-offs in 1985-6 of £600,000... it took some 61 working days from the void date until properties subject to minor repairs were ready for letting...”

“... documentary procedures are rudimentary and generate unnecessary paperwork and administrative effort...”

Council housing maintenance

21. The Commission has recently examined housing maintenance performance; its conclusions were set out in a report, *Improving Council House Maintenance*. Auditors will be examining the local situation this year; but preliminary indications are that the position in Inner London is particularly serious:

- The maintenance and improvement backlog on houses of traditional construction in Inner London is £4,400 per dwelling, compared with £2,200 in Metropolitan districts
- Despite their serious problems, none of the eight authorities in Group A appears to be spending per dwelling as much on maintenance as Tower Hamlets, Wandsworth and Westminster in Group B
- Inner London authorities on average assign 30% fewer officers to organising repairs than Outer London boroughs for instance
- The cost of jobbing repairs on roofs in particular is some 70% higher on average in London than elsewhere as Table 5 shows. This is due in part to the preponderance of flats in London.

Table 5: COMPARISONS OF PRICES FOR SELECTED COMMON JOBS
Inner London vs Metropolitan and Shire districts

Roofing	+69.9%
Laying	38.8
Carpentry	31.1
Plumbing	29.0

22. The following extracts from the recent District Auditor's public report to a Borough in Group A illustrates the problems:

"The Council budgets to spend £20 million a year on day-to-day housing repairs... only one tender was received - from the Council's own Direct Labour Organisation. The repairs budget this year is likely to be overspent by £2.5 million... This has arisen from an 'almost total lack of accountability and control'... At the end of October 1985 there was a backlog of jobs within the Maintenance DLO equivalent to almost six months' work. And if the liquidated damages provision of the maintenance contract had been applied, the DLO would have to pay £4 million a year for failing to meet agreed response times".

"51% of all job tickets issued in October 1985 were (classified as emergencies)... excessive use of emergency procedures is wasting up to £600,000 a year. On average, repairs involve five trades..."

"The (capital) DLO has in fact been incurring considerably higher costs than the values (£8 million in 1985-6) that it has tendered, resulting in heavy losses (£4.8 million in the two years to March 1985)... had tenders reflected actual productivity, the DLO would not have won any of the contracts for which it bid in 1984-5... the shortfall against contracted performance is costing the Council £1.5 million a year in wages that are not being earned..."

Social services

23. Auditors reviewed services for children in care and the elderly in most of the boroughs in Group A during their audits of the 1984-5 accounts. In this case, they found much to commend in many Inner London authorities, particularly in terms of the reduction in the number of children in care placed in residential homes and the increase in the proportion fostered. Moreover, as the Commission's recent report on Community Care shows, many Inner London authorities make very much more generous provision for local services for the mentally ill and mentally handicapped than is characteristic of Shire Counties. Given the pressing need for such services, and the problems described in the Commission's recent report, *Making a Reality of Community Care*, the authorities' determination to make such provision despite the high cost of doing so is praiseworthy. However, serious management weaknesses were also apparent. In particular, the residential accommodation for children has generally not been reduced in line with demand, often due to industrial relations problems. As a result, there was serious under-occupancy and high unit costs. In many homes, the cost exceeds £10,000 a year per resident; and in one authority the average cost was nearly £55,000 per resident.

Refuse collection

24. In 1984, auditors carried out a review of the refuse collection service in over 350 councils, using the ROSS audit package developed by LAMSAC. This enables the auditor to compare local staffing and costs for domestic collection with a standard that takes account of local policy decisions on standards of service and also relevant local factors influencing collection costs which are not under the authorities' control. (In one Group A authority, council policy means that some households have twice weekly collections, on consecutive days.) Table 6 shows how the results compare - the only two Group B London authorities for which the information was available had costs very close in the ROSS standard.

25. In Group A boroughs, the cost of domestic refuse collection was at least 20%

Table 6: REFUSE COLLECTION, 1984
Costs per premise (weighted average)

	ROSS		
	Actual	Audit	Difference
Six Group A London boroughs*	£16.50	13.80	2.70
Two Group B London boroughs	9.00	8.50	50p
Group C Metropolitan districts	11.20	9.60	1.60

* Excluding Lambeth and Hackney, for which information was not available.

more than it need have been given local policies and conditions outside the authorities' control, e.g. housing density, high rise/low rise, walk-time on premises etc. In most cases, a further 10-15% would be saved by moving to different methods of collection; and bonus arrangements had not been subjected to detailed scrutiny for ten years or more. The situation in one of the Group A boroughs was described by the auditor in the following terms:

"A Refuse Package Agreement was introduced during 1984 which provided for twice weekly collections using the skip method, the clearing of empty properties on rounds and the collection of bagged street refuse... the workforce were not using skips but were being paid as though they were... costing the council more than £200,000 a year. Reversion to a once-weekly collection without the use of skips would enable the Council to save more than £500,000 a year, use of skips could increase this to nearly £700,000".

Vehicle management

26. The costs of vehicle management are much higher in Inner London than elsewhere, as Table 7 - which is based on the reports of auditors' projects now being discussed with authorities. x ? printing error

Table 7: VEHICLE MAINTENANCE, 1985
Cost per Weighted Vehicle

Inner London	£1,118
Outer London	877
Metropolitan districts	742
Shire counties	679
Shire districts	734

Maintenance costs in Group A authorities seem likely to be in line with Inner London

gen (in the two examined by auditors they averaged £1,123 a year per weighted vehicle). Two other Inner London boroughs in Group B had costs which were better than the 'good practice' level of £700 a year; so in Group A boroughs costs seemed likely to be around 60% higher than necessary.

27. The scale of the potential value improvements from better vehicle management is surprisingly great. For example, auditors' reports to Group A authorities show that in one authority the potential improvement was worth up to £1 million a year (28%) by reducing the size of the fleet by 15 vehicles to start with, rationalising maintenance arrangements (there are eight garaging bases) and improved purchasing and stock control. In another, maintenance costs were 57% above the good practice level. In a third case, the excess costs were of the order of £400,000 a year.

“... an average of over £8 is 'lost' for every £100 of rates due ...”

Cash flow management

28. During their audits of the 1985-6 accounts, auditors examined authorities' performance in terms of cash flow management. In authorities in both Groups A and B, an average of over £8 is 'lost' for every £100 of rates due, because of delays in sending rate demands, excessive administrative costs and arrears. The abnormal delays in 1985 in ratemaking were ignored for purposes of the analysis. The good practice level is a loss of £5; and the difference represents some £40 million in extra costs in the Group A boroughs alone:

- Arrears on sundry debtors average 35% of annual debit; in one authority, they were 96% - that is, there was a years' worth of sundry debts outstanding
- Mortgage arrears amounted to an average of 6.8% of annual payments due, compared with an average of 1.8% in Greenwich, Waltham Forest and Wandsworth for instance
- Staffing in the creditors' department was 25% above good practice levels on average, taking all relevant local circumstances into account
- In one authority, failure to collect money from the DHSS for the costs of housing homeless families has cost the ratepayers £1.3 million.

Internal audit

29. Finally, an effective internal audit service is vital for the continued financial integrity of local government. During the last audit round, auditors examined the internal audit arrangements in over 390 different authorities. Their reviews revealed a serious problem in authorities in Group A in particular:

- Vacancies account for 15% of authorised establishment, double the national average
- Fewer than one in four staff in post are qualified, compared with 37% in Metropolitan districts for example
- There is relatively little training. Fewer than 1% of staff in post are trainees, one-third of the national figure; and external man-days of training (excluding that for professional accounting qualifications) is not much more than four hours a year per member of staff.

30. The situation in the Group A boroughs is rather worse than in Inner London generally, where vacancies are concerned, as Table 8 shows. In this case, too, authorities are now discussing with their auditors steps to strengthen internal audit.

Table 8: INTERNAL AUDIT, 1986
Key Indicators

	Group A	Rest of Inner London	Metropolitan districts
Vacancies (%)	15	5	7
Qualified staff (%)	25	25	37
Trainees in post (%)	1	8	5
Training days/staff member*	0.9	2.5	2.3

* Excludes professional training.

31. Local authorities are not alone in incurring higher costs in London. For example, the Metropolitan Police (over which local authorities have no control, although 50% of the costs fall on local ratepayers) have costs that are very nearly double those in other forces responsible for Metropolitan areas (£112 per resident, compared with £60 in 1985-6); and the clear-up rate in London, i.e. the proportion of notifiable offences solved, is only 15% compared with 36%. Moreover, the Commission is not suggesting that all Group A authorities are poorly managed in every regard. What the evidence does show, however, is that compared with other deprived authorities in London, Group A authorities spend around £7 a week per household more, and the services they provide are often no better - and in some cases worse - than those provided by Group B authorities. That is not to say that all additional expenditure in Group A authorities is wasted, nor that members and their officers are not concerned to see improvements. For instance, de-centralisation and management in Islington is bringing useful benefits for the extra costs; and the recent performance of the

DLO in Hackney has been much improved. Nonetheless, a serious financial 'crunch' is in prospect.

“There will be a management breakdown ... if there is insufficient money to pay the wages of council employees. In a number of London authorities present expenditure is well above their income ...”

The immediate financial prospects

32. There will be a management breakdown in an authority if there is insufficient money to pay the wages of council employees. In a number of London authorities present expenditure is well above their income from rates, grants and charges. They have been covering the gap between income and expenditure by such measures as:

- Drawing down financial reserves created in the past. As the Commission has already shown, reserves have been built up by many authorities over the past few years as the 'cushion' against the uncertainties of the grant system
- Borrowing to meet housing and road maintenance costs that would traditionally be treated as revenue expenditure
- So-called deferred purchase arrangements, under which the council borrows to fund expenditure which can include day-to-day maintenance; the interest is rolled up, and the first repayment deferred

Table 9: ESTIMATES OF AUTHORITIES' CREATIVE ACCOUNTING MOVES
 £m, as at December 1986
 Cumulative

	Group A	B	C
	£m	£m	£m
Capitalisation of maintenance*	180	55	195
Deferred purchase arrangements	550	175	180
TOTAL	730	230	375
(Memo: Total per household	1042	355	344)

* In the three years to end March 1987.

for a period, usually three years. The eight boroughs in Group A have negotiated deferred purchase arrangements amounting to over £550 million, a large part of which is acknowledged by the boroughs to be financing revenue expenditure.

Table 9 (which excludes ILEA) provides estimates of the extent to which the three groups of authorities have used these devices in the past. A number of even more imaginative ways of circumventing the government's systems for controlling capital expenditure are now being developed. Once again, the contrast between Group A on the one hand and Groups B and C on the other is evident.

34. As a result, without further creative accounting measures a cash gap of serious proportions is in prospect. The estimated extent of the funding gap in the year beginning on April 1987 in the Group A authorities is not far short of £300 million. This gap represents some 30% of their 1985-6 revenue expenditure. The contrast with Groups B and C is notable:

Table 10: ESTIMATED FUNDING GAP FOR NEXT FINANCIAL YEAR
 As at December 1986

Group	£m	% Annual
		Revenue Expenditure*
A	290	30
B	130	21
C	140	10

* 1985-6 CIPFA Estimates: ILEA excluded.

The funding gap in Group A represents almost exactly the difference between expenditure per resident in Group A compared with Group B. In other words if all Group A authorities had been spending at the same level per resident as Group B (excluding Kensington and Chelsea and Westminster) there would be no serious gap in prospect next year.

35. Auditors have already drawn members' attention to the serious nature of the problems in prospect next year. They have made it clear

that authorities should budget within their means and must pursue spending plans which are capable of being met from resources which are likely to be available. A failure to do so could give rise to action against councillors under sections 19 and 20 of the Local Government Finance Act of 1982. The stage is therefore set for a further round of confrontation between the authorities in question and the government, with the auditors and the Commission caught in the middle.

36. The size of the imminent revenue shortfall is daunting, as Table 10 indicated. Steps such as the following may be necessary to bridge the gap:

- If council house rents were increased to the levels in Knowsley for example this would generate some £35 million in additional revenue; Wandsworth rent levels would generate an extra £120 million. At present, rents in Group B average some 15% above those in Group A, for similar houses (Kensington and Chelsea and Westminster have been excluded, as not representative). Moreover, much of the extra cost to the more deprived tenants would be met from Housing Benefit
- A combination of increasing charges and imposing a hiring freeze in administrative and other areas not delivering services directly to the public would also make a worthwhile, if painful, contribution
- The local auditors have identified specific value improvement opportunities in the eight boroughs in Group A worth of the order of £100 million a year once they have been fully implemented.

Complete elimination of all expenditure on women's rights, gay rights, local economic development and support for ethnic minorities would only save some £20 million in all Group A authorities combined (and £6 million in Group B).

37. However, the likelihood is that such measures will not be acceptable to the authorities concerned, on political grounds. And the councils will simply seek to borrow - through ever more ingenious schemes. This

“... in the coming year, it will be much more difficult for authorities to ‘fudge’.”

33. The moves discussed above did not involve any illegality; but that does not necessarily make them desirable. In any case, in the coming year, it will be much more difficult for authorities to ‘fudge’. The grant system extracts penalties for additional spending and, in any case, rate-capping limits the scope in all Group A authorities for raising money from ratepayers; and government is introducing legislation to prevent authorities funding current expenditure via deferred purchase schemes. But the authorities will not countenance any reductions in staffing, and have been reluctant to increase council house rents, and it is now late to expect total value improvement programmes to generate savings on the scale required next year - even if there were the will to implement them.

“... a cash gap of serious proportions is in prospect. The estimated extent of the funding gap ... is not far short of £300 million.”

was precisely the strategy adopted by New York in the 1970s. There should be no question of London boroughs being unable to meet their debts when they fall due - their capital assets (if sold) and the local revenue base should more than cover any likely debts. But the implications for tomorrow's ratepayers are serious, since the repayments will commence in three years. Exhibit 5 illustrates the scale of the burden now being built up by contrasting the effect on ratepayers in a typical Inner London authority of two strategies: an increase in rents as above, and borrowing the equivalent amount via deferred purchase arrangements under which interest is rolled up for three years and the principal repaid in equal instalments over ten years. In 1985-6, rates in Hackney would have been 142p in the

£, if rents had been increased to Knowsley levels, and 226p with a typical deferred purchase arrangement.



38. In short, Inner London faces particularly difficult social and economic problems, combined with expenditure in Group A authorities for apparently comparable services over twice that in the most deprived areas in the provinces. A cash gap of over £400 million is in prospect for next year in the 16 authorities in Groups A and B - as is the likelihood of yet more creative accounting, loading costs on to tomorrow's ratepayers. Local estimates suggest that the situation will worsen substantially in the following year.

Such an outlook is plainly unacceptable. However, the situation will not be improved by yet more public criticism; neither will the problem simply go away. A concerted effort to strengthen local management is needed. The final section of this paper draws together, from a number of different reports, the Commission's views on the near term steps that warrant urgent consideration by the authorities concerned, as well as government.

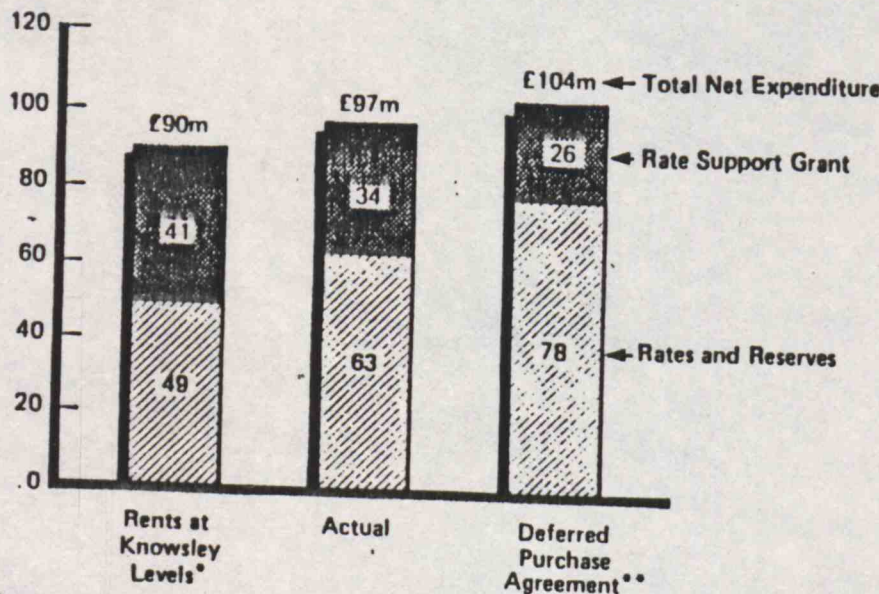
Near-term steps

39. Experience of urban renewal in this country (e.g. Glasgow) and in North America suggests that a comprehensive rather than a piecemeal approach to the problems of Inner London is essential. Exhibit 6 shows some of the main elements of a possible strategy for reversing the decline in Inner London, drawing on this experience. The strategy deliberately focuses on management. This is not just because the Commission has no standing in policy matters; with competent management of the local authority any policy initiatives are unlikely to produce the anticipated benefits.

Exhibit 5

EFFECT ON HACKNEY RATE PAYERS OF DIFFERENT FUNDING STRATEGIES, 1985-86 ESTIMATE

£ million



Memo:

Implied Rate: 142p 183p 226p

* Actual net expenditure, less £7.3 million in extra rents

** Actual net expenditure, plus effect of arrangement to generate £7.3 million a year negotiated in 1982 @ 12% interest deferred for 3 years and repayable over 10 years

Source: Audit Commission analysis

- There is general agreement among those familiar with the problems of inner city deprivation that one of the keys to reversing the cycle of inner city decline is to give young people hope and self-respect - in particular, a reasonable prospect of a job. What is needed is a partnership between the public and private sectors. Local universities and colleges, so long as private funds (and jobs) are attracted to depressed areas. Scottish experience shows that a ratio of public to private funds of 1:4 or better is perfectly feasible. Public funds perform a crucial 'priming' role. The recent resurgence of Glasgow is due as much as anything else to the creation of jobs in the private sector and a productive partnership between relevant local authorities, universities and employers. But it is simply not reasonable to expect firms to invest when they have no confidence in the local authority management. The economic history of Liverpool is a tragic case in point. Local advisors to firms considering investment in England will testify.
- There needs to be powerful local organisations to organise the effort - at least within the public sector - and to drive it forward. In Glasgow, this role was played by the Scottish Development Agency which promoted the City Centre project. In most North American cities, the City Council plays the central role. In London, the boroughs should provide the necessary impetus.
- Without improved local management, additional public funds that may be made available will not generate the returns that might be anticipated. There will simply be more waste. And high rates will encourage potential employers to expand elsewhere.

PREVENTING FURTHER DECLINE IN INNER LONDON

	CURRENT	REQUIRED
Vision:	Damage limitation	Turnaround
Implied National Strategy:	Tight central control <ul style="list-style-type: none"> - rates - borrowing - capital spend - pay and conditions Privatisation	Make local government work <ul style="list-style-type: none"> - strengthen local accountability - distinguish roles of members and officers - access to local sources of capital - reform grant system Partnerships with private sector
Local Structure:	Fragmented <ul style="list-style-type: none"> - authorities - services - members 	Streamlined committee structure 'Cabinet' government Strong Chief Executive
Style:	Centralised, committee-based 'Management by members' Employees' interests first Concern for equity	Maximum delegation 'Management by managers' Customer interests first Concern for value
Key systems for local authority:	'Grantsmanship' Creative accounting Access to capital markets	Strategic planning and control Performance appraisal Management information
Skills:	Caucus and party management Committee management Public relations	Line management Community relations Communications Information technology
Staffing:	Emphasis on central staff Professional/service demarcations Non-competitive pay/ low productivity	Lean overheads Flexible deployment of staff Competitive pay/ high productivity

40. There is no point in treating the symptoms of the poor management performance – in effect turning off the fire alarm in the hope that this will put out the fire. The strategy will have to address the underlying causes illustrated in Exhibit 7. In particular, without the right managers in place, with appropriate powers, the prospects for worthwhile improvements in the situation are poor.

41. The Commission has already put forward proposals to improve the management of authorities in Inner London. And, of course, over the past four years, its auditors have discussed detailed recom-

mendations with individual authorities. So far, progress has generally been disappointing. But the Commission and its auditors have been convinced that some, at least, of the authorities in Group A now recognise the need for change in the way their affairs are managed, and recently, progress in reducing waste has been more encouraging. The rest of this paper summarises the main steps that the Commission believes can and should be taken immediately to improve the management of all Inner London authorities that the Commission believes warrant urgent consideration:

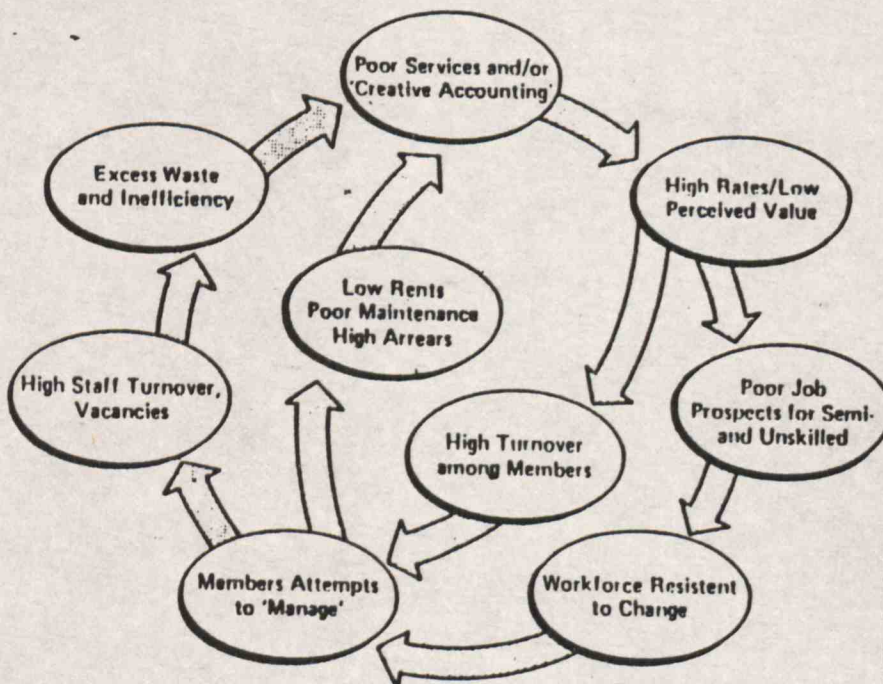
- (i) Streamline the local organisation, so that authorities are not bogged down in committee-ridden bureaucracy.
- (ii) Strengthen the position of chief officers vis-a-vis members of authorities. It is essential that London authorities, which face some of the most difficult problems in public administration in the United Kingdom, are able to recruit and retain the very best officers that local government has to offer. Present arrangements make this very difficult, and turnover and vacancy levels are disturbingly high.
- (iii) Strengthen local accountability, which is particularly weak in Inner London.
- (iv) Reform the system for distributing grant and controlling capital expenditure. For whatever reason, some deprived London authorities receive a lower grant per capita than other, less deprived, authorities outside the capital; and the present systems for controlling capital spending are in urgent need of reform since they cause large-scale waste and inefficiency and do not concentrate public resources (i.e. borrowing approvals) where they are most needed.

The rest of this paper describes in turn why each of the above steps is necessary and what could be done. Without these steps, the chances are small of attracting more investment – which holds the key to the new jobs without which serious social problems in Inner London are bound to persist.

“There is no point in treating the symptoms of the poor management performance . . . turning off the fire alarm in the hope that this will put out the fire.”

Exhibit 7

THE CYCLE OF DECLINE IN INNER LONDON
Some Management Factors at Work



“ . . . there are far too many councillors in local government.”

Streamlining the organisation structure

42. The London boroughs in Group A provide services costing some £800 million a year (excluding education) to some 1.7 million people. These services are the collective responsibility of no less than 491 councillors in eight boroughs. The Commission has already made clear its view that there are far too many councillors in local government. In normal circumstances the extra costs involved are not insupportable – despite the problems inherent in managing networks of large committees. As the Commission's various reports have demonstrated, most local authorities are able to operate reasonably economically, efficiently and effectively despite the managerial handicaps they have imposed on themselves.

43. But the situation in London is different. A practice of 'management by members' has evolved, whereby members seek to do officers' work for them. Most authorities have at least 10 standing committees and many more sub-committees. There would be several committee meetings most days, each requiring papers as well as officers in attendance.¹ The result is predictably cumbersome and expensive not just in members' and officers' time and central overhead costs, but also in delays. Auditors' reports refer all too frequently to the long time it takes to secure action. The following timetable is typical:

- 27 January, 1984: Auditor refers to problems with rent arrears
- 12 March, 1985: Further references by auditor in Management Letter
- 13 March, 1986: Officers report submitted to Housing Management (Rent Arrears) Sub-Committee, Committee resolves to circulate for review
- 30 September, 1986: Deadline for other Committees to comment

Thus, 2½ years after the problem was first surfaced, the Committee structure is still talking about what to do.

44. The problems of management by members is compounded by the high turnover among members. Excluding Lambeth, in the boroughs in Group A less than 10% of the members now in office has more than four years' experience. There is therefore a dearth of experienced councillors. And many members are more concerned to protect the present jobs of council employees than they are to improve services or reduce waste and inefficiency. The officers can be seen as part of the problem rather than as part of the solution; and, in any case, local government salaries and conditions make it difficult for Inner London authorities to compete with the private sector or less stressful authorities in the provinces - where housing and travel to work costs are generally much lower. This is particularly true in the information technology field, where senior council staff in London are paid around one-third below the rate necessary to attract the very best qualified people, as the jobs demand.

45. Relations between members and senior officers are further compromised by labour relations problems. Members often find it

"Auditors' reports refer all too frequently to the long time it takes to secure action."

difficult to distinguish between their roles as politicians, employers and trade unionists. It has proved extremely difficult to secure changes, in the face of trade union opposition often supported by members; and attempts at any kind of performance review all too often result in demands for extra services which are countered by claims from the trade unions for additional staff and salary regradings. As a result, auditors' reports are peppered with references to industrial relations difficulties. The following quotations provide a flavour of the situation; each comes from a different Group A borough:

"... the Council has a 'no redundancy' policy for its employees. Such a policy might be expected to lead to harmonious industrial relations but in fact this is far from being the case... Staff operate a policy of no cover for vacancies, sickness... staff in the public libraries have also imposed minimum staffing numbers; when numbers on duty fall below levels set arbitrarily by the staff side, libraries are closed to the public... During 1984-5 there were numerous days when area offices of the Social Services department could not open to the public... Implementation of new technology generally has been subjected to delays due in part to the protracted negotiations (required by the New Technology agreement) for each work area affected... Staff side (trade union) representatives are normally able to attend and speak at committee meetings (of the authority). "... action should be taken to secure more effective working relations with trade unions, to ensure that prolonged disputes or negotiations do not arise... (I am) concerned at the lack of progress concerning bonus schemes... closure delayed by the effects of industrial action." "... during 1983-4 and 1984-5, there were four periods of industrial action during which a ban on admissions to residential homes was imposed." "... because of trade union resistance, no work has yet been undertaken on the

electricians and plumbers (incentive) schemes; while what little work has been undertaken on the highways and sewers schemes has been hampered... Supervisors (are) refusing to co-operate with work study (of work inspection arrangements)."

In such circumstances, as was shown earlier (paragraph 16) officers will vote with their feet and leave, since they wish to be able to manage, free of continual labour relations hassles.

46. It is difficult to see how the situation can be improved while the present amateur approach to local management remains. It does not have to be this way, as the Widdicombe Inquiry made clear. Indeed, other major cities in the Western World manage their affairs without the benefit of anything like so many elected members. For example, Atlanta, with a population of 705,000 and annual expenditure of \$1.8 billion (including Fulton County) provides a wider range of services than Inner London boroughs - including education, police, fire services, some health care and water and sewerage services. The City Council comprises 18 members, of whom 12 represent individual districts and six are elected city-wide; and there are seven elected Fulton County Commissioners. The City Council has nine standing committees. The picture is similar in most US cities, including many in the South and West that are notably well managed.

"... authorities should consider... cabinet-style government..."

47. In London, there is no reason to think that further fragmentation of the structure of local government will do more than make a difficult situation worse. Rather, the challenge is to make the existing structure work. For a start, more effort needs to be devoted to providing elected members of authorities with some form of management training if they are to continue to be involved in operating decisions. In addition, authorities should consider adopting what amounts to cabinet-style government in place of what one observer (sympathetic to the problems of the authorities in question) has described as 'management by mob'. Specifically the following approach should be given urgent consideration in all Inner London authorities:

¹ The papers for a recent meeting of one authority's Policy and Resources Committee totalled over 700 (sic) pages; some were not distributed until the meeting itself. At the last count, the Council had a total of well over 100 committees, sub-committees and working parties of members.

CONTRACTORS
3 21 & NUMBER

- Elected members should determine council policies and priorities and (of course) the budget and the rating decisions which flow from them; and subject to the safeguards against politicised appointments discussed below, they should appoint the chief officers of the council
 - Chief officers should have delegated executive responsibility, without the need to refer back to the committee or council for authority to take operational decisions - so long as these are consistent with the agreed policies and priorities, and can be met within the approved budget
 - Each committee's executive role should be confined to monitoring performance against agreed policies and priorities
 - Sub-committees should be wound up, except under exceptional circumstances. Where they are established, they should have a specific task and a limited life
 - 'Back-bench' councillors should have the officer and other support necessary to enable them to deal effectively with 'case-work' from their constituents
- A single, flat-rate, allowance should be paid to members for the totality of their council work to discourage unnecessary committees and meetings.

48. Arrangements along these lines have worked perfectly well, not only in many North American cities but also in some notably well-managed English local authorities. There is no reason why they could not be adopted in the near term in Inner London. Similarly, early steps could be taken to strengthen officers' positions. But these measures involve a level of self-discipline and willingness by some members to forgo the appearance (not the reality) of taking executive decisions.

“... these measures involve ... willingness ... to forgo the appearance (not the reality) of taking executive decisions.”

Strengthening officers' positions

49. Napoleon is alleged to have remarked that "it is not men that matter, but the man". Certainly, the Commission has observed that the calibre of an authority's senior officers is reflected in the quality of the service it provides. The same applies in the case of council estate management and head-teachers and schools, incidentally. For this reason, the Commission welcomes moves to decentralise housing management, as has taken place in Islington for instance.

50. Given the nature of the problems now facing local authorities in London it is essential that all possible steps are taken to reverse the present trends which make it difficult to attract the very best officers to the boroughs facing the most serious problems. The Commission has already put forward proposals to this end, in its response to the recommendations of the Widdicombe Inquiry. Specifically, the Commission has proposed that:

- (i) The selection and dismissal arrangements proposed in the Widdicombe Report should be applied to all chief officers, and not just the Chief Executive.
 - Interview panels should be limited in size (normally to no more than five people) and should include at least one independent external assessor and a member of the local opposition for all chief officer appointments. The assessor should be in a position to prevent what appears to be an inappropriate appointment going ahead
 - Rolling four to five year contracts renewable only by mutual consent should be considered to safeguard chief officers' professional independence. And there should be an independent element in the procedure for hearing appeals against dismissal; in this case, too, the independent assessor's ratification should be mandatory.

(ii) The standard Chief Executive's contract should define his (or her) authority vis-a-vis other chief officers and in particular specify the Chief Executive's role in selection, promotion and compensation decisions.

- (iii) Members of authorities should concentrate on the appointment of chief officers and those reporting directly to them (i.e. first and second tiers). They should not be involved in any appointment below the third tier; and they should only become involved in the third tier appointments in exceptional circumstances.
- (iv) The pay and conditions of service for first and second tier officers in all London authorities should be reviewed, urgently. The review should be asked to determine the extent to which the present terms are

sufficient to attract people of the required calibre and experience to these very demanding jobs where the turnover rates remain disturbingly high. (In its report, *Managing the Crisis in Council Housing*, the Commission has already called for such a review).

(v) A Code of Practice could define the responsibility and authority of members and officers in detail.

“... it is axiomatic that the council should have to balance the needs of those who benefit from services against those who pay for them.”

Strengthening local accountability

51. Local Government is not the same thing as local administration of national services - such as exists within the National Health Service. Locally-elected councils have an important say over the level and cost of local services; and they must balance expenditure with income from all sources. If the local electorate are not content with their council's decisions, they can decide to elect an alternative.

52. This is the theory. It will be evident that effective local accountability is key to the viability of local government. 'No taxation without representation' is a generally conceded claim, even if the converse is not. It is, arguably, no more than human nature for citizens to be more careful with their own money than with public funds. In any event, local government exists to ensure both that services are appropriate to local needs and demands, and that local ratepayers' interests are protected. If an appropriate local balance is struck between the costs and value of local services, it is axiomatic that the council should have to balance the needs of those who benefit from services against those who pay for them. Such is the position in many shire areas, and in most Outer London boroughs - where domestic ratepayers represent a sizeable proportion of the local electorate and contribute substantially towards the cost of local services.

“... local identity is more difficult to establish in London than it is elsewhere.”

53. But the situation in London is different. Inner London, domestic ratepayers meet only 17% of the cost of local government services (compared with 27% in Outer London and 24% in shire areas, for example); and the commercial ratepayers meet 49% of the costs, double the level elsewhere. Moreover, local identity is more difficult to establish in London than it is elsewhere. Over half those working in Inner London do not live there. Many residents do not work in the borough in which they live (10% do not work in Inner London); and an unusually high proportion of the local population moves every year - as much as 25% in some authorities. Interest in serving in local government as a member is therefore understandably low.

54. In addition to changing the arrangements for financing local government, the Commission has already suggested the following steps to strengthen local accountability:

Recast the Housing Benefit arrangements, so that recipients benefit from lower than average rates and contribute towards the cost of higher rates. The present arrangements are on a cost plus basis: many recipients are reimbursed for the full cost of their rates whatever they might be. So it is entirely possible that similar families living in houses a few hundred yards apart would receive different levels of Benefit. If they received a standard amount per adult and child - based on reasonable local housing cost - recipients of Housing Benefit would not be unaffected by their council's spending decisions, as at present.

(ii) Introduce a system under which one third of the council is elected every year. This system operates in a number of English local authorities at present, without any of the disadvantages claimed. The Commission believes that local accountability will be strengthened - and local electors' ability to influence events will be enhanced where there are annual elections.

(iii) Provide better information for local electors. If the local electors lack relevant, timely and understandable information about their authorities' performances,

there is no reasonable prospect that local accountability will be more than an empty concept. The Commission believes that the present situation is quite unsatisfactory and has proposed steps to improve the situation to the Department of the Environment.

(iv) Reduce the scope for creative accounting so that, in particular, capitalising of revenue expenditure (e.g. on housing jobbing repairs) does not mask a failure to take difficult decisions, loading on to future generations the costs that should be borne currently.

Reforming the systems for distributing grant and controlling capital expenditure

55. The Commission has already published its view on the present system for distributing block grant to local authorities and controlling their capital expenditure. There is no point in repeating the criticisms here - not least because government has come to accept that the present systems have reached the end of their useful lives. Suffice it to say that, in the Commission's view, the existing systems are wasteful and inefficient - and have given rise to many of the creative accounting devices referred to earlier. Like tax avoidance, creative accounting will always exist so long as there is such a complex system of central planning and control. The key to reform, as the Government now appears to acknowledge, is effective local accountability and a far simpler system.

56. The general weaknesses with the grant distribution system affect London authorities as they do the rest of the local government. They are so serious that the Commission believes that early corrective action is required. But London faces some particular problems, associated with the combination of relatively high rateable values, and the withdrawal of grant from authorities spending

above GRE - which has the effect of penalising ratepayers for the spending decisions of councils over which they have little (if any) influence. Because the objective has been equalisation of rate poundage - not the average rate bill for a comparable property - under the present system, deprived London authorities can receive less grant per person than less deprived authorities outside the capital. For example, the residents of Hackney which is arguably the most deprived borough in the country, received some £200 per household less in rate support grant last year than Manchester, which has lesser problems

“... deprived London authorities can receive less grant per person than less deprived authorities outside the capital.”

and does not face the extra cost of the London labour market. The difference would have meant almost £15 million in extra grant to Hackney in 1985-6.

57. So far as capital is concerned, it is obviously desirable to concentrate the available public support on those areas that need it most. Expenditure on housing improvements in London needs to be increased, yet capital allocations for housing to local authorities in Greater London have fallen from £1.5 billion in 1979-80 to under £500 million last year; and London's share has fallen from 35% to under 30%. However, as the Commission pointed out in its report, *Managing the Crisis in Council Housing*, almost £800 million in borrowing approvals is being allocated to authorities who should be able to deal with their local housing problems without the need for additional long-term

“Like tax avoidance, creative accounting will always exist so long as there is such a complex system of central planning and control.”

being. Moreover, as Exhibit 8 shows, between 1981-2 and 1985-6 the total rate support grant, housing subsidy and urban programme grants received by authorities with the most difficult housing problems (i.e. with a housing Z-score of two or more) fell almost as fast as in other authorities; in absolute terms, the total housing subsidy and urban programme grant per council dwelling fell most in the most deprived authorities.

58. Of course there is no point in 'throwing public money' at local housing problems, however serious, if local management is not competent to put it to good use. But Inner London authorities cannot be expected to tackle their local housing problems without at least unfettered access to future capital receipts, the ability to fund capital expenditure from revenue and reasonable confidence about the level of borrowing

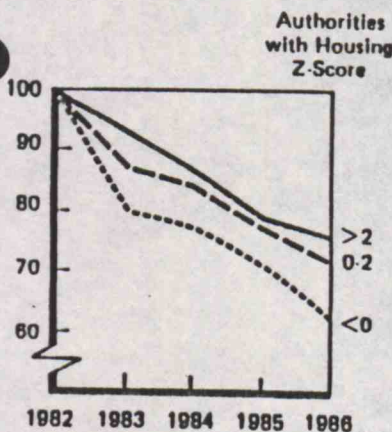
approvals over the next three years. Additional borrowing will also be necessary if the capital's housing problems - in terms of homelessness and the backlog of repair and improvements - are to be tackled effectively: but this will only make sense if there is persuasive evidence of effective local management.

★ ★ ★

Exhibit 8

TRENDS IN GRANT SUPPORT, FY 1982-1986

Rate support grant, housing subsidy, urban programme grants
£ million, at 1981 prices; Index: FY 1982 = 100



Z-Score	%	£m
>2	-24	-892
0.2	-28	-428
<0	-37	-624

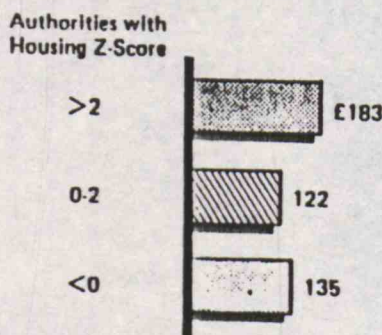
59. To summarise, the Commission foresees very considerable problems in Inner London. The Southside of Chicago and Harlem and the Bronx in New York provide a foretaste of the future that is in store unless action is taken to address the underlying problems: high welfare dependency and generation intervals of 15 years or less; youth unemployment of 70% or more; extremely high crime rates, much of it drug-related; uneasy relations between the police and a disaffected and largely unemployable urban 'underclass' with no stake in the development of the society in which they live. This future cannot be allowed to happen. And, in the Commission's view, the key to preventing it is effective management of the local authorities most directly concerned.

60. The Commission does not issue such warnings lightly; and it has been heartened at the concern to see constructive action that is evident in some of the boroughs referred to in this paper. Many members are all too well aware that things cannot sensibly go on as they are; they acknowledge both the seriousness of the imminent financial crisis and the need to strengthen local management. The Commission and its auditors are anxious to help in any way possible. It is always open to authorities to ask the Commission to carry out local special studies, under Section 29 of the Local Government Finance Act of 1982; and auditors are always ready to undertake extra work in particular problem areas, in accordance with the Commission's Code of Local Government Audit Practice. A number of authorities have already taken advantage of this service. A constructive immediate next step would be the establishment of a joint working party of Audit Commission staff and representatives of the Inner London boroughs to agree on the way forward in the boroughs facing the immediate financial crisis, and with respect to the central programmes and systems affecting Inner London.

61. However, it is nearly three years since the Commission warned that failure to reform the grant distribution system and to strengthen local accountability would lead to an explosion of creative accounting; and it is two years since the Commission pointed out the waste and inefficiency generated by the present systems for controlling capital spending. No action has yet been taken on either front by government. The consequences are apparent to the most casual observer. A less than urgent response to the problems of Inner London could have even more serious results.

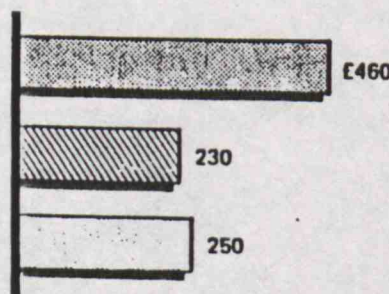
REDUCTION IN CENTRAL SUPPORT, FY 1986 vs 1982

Housing subsidy and urban programme
£/dwelling, at 1986 prices



HOUSING INVESTMENT PROGRAMME ALLOCATIONS, FY 1986

£/dwelling



Source: Audit Commission analysis of published information, 1986