changing prospects for direct labour

John Tilley

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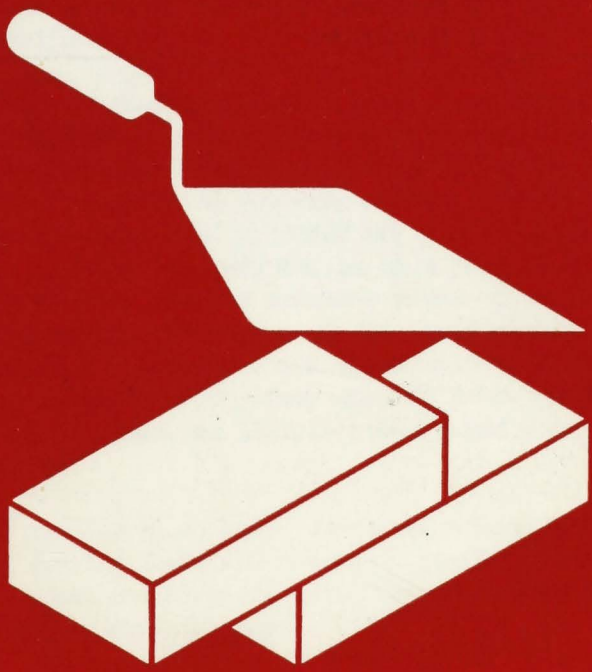

initiatives in local government 3

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(series editor)

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initiatives in local government

Colin Crouch **series editor**

Largely because of the receptivity of the mass media to the propaganda of the building industry and of private enterprise lobbies in general, direct labour building departments are among the least popular of local authority activities. At best, they are regarded as being devoid of all political interest. However, as John Tilley shows in this pamphlet they are yet another instance of those unexplored resources which rest at the disposal of local authorities and which Labour councillors could have been using over the years to further their political goals. A large proportion of the building work carried out in this country is done for local authorities, and yet for the most part they are dependent for this on a part of the private sector of industry which is often inefficient, unstable and incapable of providing secure conditions for its workforce.

Tilley's aim is to show Labour councillors and others how they can revivify direct labour organisations. Fortunately he is able to draw on practical examples of what some councils are already achieving. In doing this he is fulfilling one of the main aims of this series of pamphlets: to give wider currency to policies which are being successfully pursued by some local authorities and from which others might learn. Such a series can be worth while only if it can be of practical use to to those involved in local government, and if it accurately reflects the range of activities of Labour councils throughout the country. Its chances of meeting these objectives will be greatly helped if councillors and others involved in local government politics contribute to the series suggesting issues for future pamphlets or, better still, offering drafts for publication. Those interested should write to Colin Crouch at the Fabian Society.

This is the third pamphlet in the series "Initiatives in Local Government". The other two are "Building Better Communities" by Chris Cossey and "Inner City" by Nicholas Falk and Haris Martinos. They are available from the Fabian Society, priced 30p and 45p respectively.

1. blind spots

Labour councillors are passionately concerned about building more houses, yet few of them seem to bother much about who builds them, or at what price. Labour activists are passionately concerned about increasing public ownership of the means of production and yet few of them give top priority to more public ownership in the building industry, which is the only major productive industry regularly seen by the public in operation.

These blind spots have permitted successive Labour Governments to ignore the failings of the construction industry. The handful of Labour councillors who are putting real effort into the difficult task of trying to extend municipal ownership of the building industry are isolated and unprotected.

The campaign of exaggerations and distortions by the private builders' lobby against municipally owned building is not rebutted by the Labour leadership, either in Parliament or in the National Executive Committee. This pamphlet is intended to encourage the Labour Movement, and Labour councillors in particular, to fight back, to value the achievements already made by council building departments, and to launch their own campaigns to expand this crucial area of public ownership.

Far too many Labour councillors, even when they are in control of their authority, regard the building operation as a rather dreary offshoot of the housing department, which can be left to the council officials. In some cases this becomes a self-fulfilling attitude, and unchecked bureaucratic procedures, together with insufficient concern about the cost of the operation, can give some justification to the many critics of municipal building.

At present, municipally owned Direct Labour Organisations (DLOs) account for about 7 per cent of the output of the building industry. But half of the output of the entire industry is carried out for customers which are public authorities of one sort or another. The great bulk of DLO output is routine repairs and maintenance of council housing and other council property. Of the 170,000 workers in the municipal building sector, only 27,000 are employed on the construction of new buildings.

The theme of this pamphlet is that Labour councillors have in their hands a power which they should use to the full. They should use it to intervene more vigorously in the building industry rather than just provide orders for it. The two essentials for successful municipal building are firm political control and a commitment to commercial viability. The restraint on local government expenditure means that Labour councillors should be looking for new areas of activity which do not mean increased costs, and for long term reductions on the costs of new housing and public buildings. More municipal building—if it is properly run—will save money by carrying out building operations more cheaply than the private builders. It will relieve unemployment among a labour force which is always in need of secure employment, and never more so than in the current recession because the construction industry is always one of the last to recover from a slump. It enables councils to plan their housing programmes with greater certainty because it rules out the problems arising from the possibility that in a building boom the private contractors will either refuse to bother with local authority work or that they will put in high tender prices because they do not need the work. The council with a big DLO dealing with maintenance has a much firmer control of the politically sensitive issue of the quality, and speed, of repairs to council housing.

The building industry has become notorious for the "lump" system of labour-only subcontracting in which the men, by alleging that they are self-employed, avoid tax and national insurance payments. These excesses do not only lead to gross exploitation, antagonism to trade unions and a complete lack of safety standards for the men who are on the lump, they also mean bad workmanship which councils have to put right at high cost when the "lump" gang have disappeared. The

most serious accusation levelled against the private contractors is their failure to accept their responsibility to train apprentices. The numbers of apprentices fell from 66,000 in the 1960s to less than half that total during the boom of the early 1970s. All DLOs provide training for apprentices even though they are ineligible for the large training grants which private contractors can get from the Construction Industry Training Board.

The limited number of Labour councillors who take an active interest in municipal building may be explained partly by the confusion created by the variety of expressions used to describe the same operation. " Direct labour organisation ", "Public works", "Direct works", "Building works ", or " Construction services " are just some of the titles used, and to a layman—which includes many councillors as well as most of the general public—they mean nothing at all in themselves. All these titles are attempts to express the concept of a local authority which employs building workers directly to carry out the building work of the council. " Directly " in this case means the opposite of " indirectly ", hiring private contractors to do the work.

It is difficult to conduct a campaign—inside or out of the Labour Party—if those you are trying to persuade do not understand the words on your banner. For the purpose of this pamphlet the title " Direct labour organisation " (DLO) is used to describe the operation, but suggestions for a more explicit title are still urgently needed.

2. the Labour movement and the building industry

The building industry featured prominently in the early history of trade unionism with the " Builders' Parliaments " of the 1830s. Twenty years later the craft unions of the carpenters and of the bricklayers were part of the " junta " of eminently respectable unions from which the movement developed in the second half of the 19th century. In Socialist literature, one of the half dozen most influential novels is *The Ragged Trousered Philanthropists* by Robert Tressell which describes in painful detail the indignities, injuries and exploitation suffered by unorganised building workers in the Edwardian era. Yet in spite of this long connection and pressure from trades unions and others, Labour Governments have given surprisingly little attention to tackling the problems of this industry as part of a socialist programme.

This is a particularly glaring omission because so many policies—housing, schools, hospitals, roads, new factories—can only be implemented through the construction industry. If building costs are high then these policies have to be cut back. If the building industry has a limited capacity, then the programmes are slowed down. Labour politicians tend to see land availability as the major bottleneck, but building capacity can be just as important.

Another reason for the political neglect of the industry is that it falls awkwardly between the three categories of manufacturing industry, public utilities, and service industries. It has aspects of all three, but the " broad brush " approach which Labour's policymakers tend to adopt for each of the categories is demonstrably inappropriate for the building industry. For example, as a manufacturing industry, it undoubtedly has a definite end-product, but increased production cannot help the export drive (except perhaps in the case of prefabricated units) and in any case the product is usually only manufactured after the customer has been found. Another reason had been until recently the fragmentation of the union structure within the industry. The proliferation of craft and general unions meant that it was difficult for any common plan to be drawn up for the industry, because each union had a sectional interest to preserve.

This fragmentation of the unions reflected the fragmentation of the industry itself which is not only scattered physically over thousands of building sites, but is also divided between a handful of very large companies and a multitude of others of every size. It is one of the few industries in which there still is real opportunity for small scale " private enterprise", and many building firms are based on the efforts of a single individual who decided to set himself up in business. The genuineness of the risk they take (and, perhaps, of their lack of business training) is shown by the consistently high number of building firms who go bankrupt.

The only socialists who have ventured into the unique jungle of building management have been those local councillors who decided to employ building workers to do the council's building work. The first known decision to set up a municipal direct labour building venture was taken by the London County Council in 1892, four years after its foundation, followed by the Vestry of Battersea in 1895, and other authorities when the new local government system was set up at the turn of the century.

Direct labour building was of course only one of the ways in which the socialists were attempting to extend the range of activities carried out by the new emerging councils. But the construction of public buildings by building labour employed directly by the public authority concerned was not just the invention of socialist councillors. It had been the pre-capitalist norm, before separate building contractors were established a few centuries earlier. Indeed, Stonehenge is probably the oldest public building in Britain built by directly employed labour and its present state serves as a warning of the need for good maintenance as a back-up to good construction.

While the municipal socialists of the Victorian and Edwardian eras achieved total public acceptance for their extension into

fields such as sanitation, public cleansing, refuse collection and housing, the bridgehead established in the field of building was never fully consolidated. Public municipal ownership in the building industry has remained a contentious issue between the major parties, and direct labour departments have been political footballs, blown up when Labour controlled the council, deflated when the Tories took over and, at all times, heartily kicked around in political debate. There have been dramatic successes particularly in northern cities such as Manchester, Sheffield, Sunderland, Derby and Wakefield. Apart from this regional concentration there are successful DLOs elsewhere, mainly in Scotland and the London area.

The struggles to establish effective and efficient direct labour organisations by Labour councillors have been hampered above all by the lack of any central coordination of their efforts. The Labour Party nationally gave no lead either in the form of policy decisions at Conference, or much help when Labour Governments were in power. There is no national pressure group putting forward the case for direct labour and giving advice to individual departments. The only professional body to represent this branch of municipal enterprise is the Institute of Municipal Building Management, which, despite very small resources compared to the supporters of private enterprise, has managed to make a considerable impression in the last few years. At council level, the emphasis has been on getting houses built, with little concern for who built them, or what they cost to build.

Where an individual councillor or a small group of councillors managed to run a good department there was virtually no way for councillors in other authorities to find out how it was being done. Every council learned by trial, and often error, and the errors gave the Tories a chance to cut down the department when they gained control—although they did not always feel the need for an excuse. The only consistent voice has been that of the private contractors—through the Aims of Industry and the National Federation of Building Trade Employers (NFBTE) who have maintained a chorus of abuse when they felt that direct labour was threatening their vested interests. This culminated in August 1975 in a call by the president of the NFBTE for a "full scale investigation by the all party Commons Expenditure Committee into the performance and accountability of local authority direct labour organisations." He accused councils of feather bedding their direct labour organisations and concealing overspendings, and he added that the Government encouragement of direct labour building was "irresponsible and inflationary."

A more measured criticism came in an article by Michael Latham MP, a former director of the House Builders Federation, who said of direct labour: "It involves a municipal competitor backed by the ratepayer, not subject to normal commercial disciplines, not seeking to make a profit, nor even to show a rate of return on its assets." The private contractors oppose direct labour because they don't like to compete with DLOs for the work available from councils, but there is some substance in some of their criticisms—if only because DLOs are so different in different councils and while many are very well run, there are some which are not.

Labour councillors should not write off all the attacks on direct labour because they come from such obviously biased sources. They should make an effort to improve the DLO in their own council so that it cannot fairly be accused of any of the shortcomings which the NFBTE try to pin on all DLOs.

A variety of circumstances have combined to make the next few years an ideal time for Labour councils to review the working of their DLO, or to embark on the establishment of a DLO if none already exists.

3. the current opportunity

The most important aspect of the current climate of opinion is that the Labour Government is beginning to take an active interest in the subject. Reg Freeson, the Minister of Housing, announced in October 1975 that he was organising a departmental working party to examine direct labour. He made it clear that a rigorous examination would be made, and that costing and accounting practices of DLOs should enable a proper comparison to be made with private contractors. " We need to have a better overall appreciation of the way in which direct labour organisations operate in practice. We need to know in more detail the kinds of organisation and management and staff structures that exist, their advantages and disadvantages. Our basic aim is to have a healthy and efficient construction industry able to build the facilities we need at reasonable cost and to time. Competition under fair and reasonable rules has an important part to play in stimulating efficiency, and a vigorous public sector could help to provide that competition."

The main union in the industry, the Union of Construction, Allied Trades and Technicians (UCATT)—which was formed in 1971 from several smaller unions—has survived its difficult early years and is now in good shape, ready to lend effective support to the objective of achieving an expansion and improvement of direct labour building. This campaign is supported by the other unions in the industry, including the TGWU, the GMWU and the EETPU.

The present slump in the private sector of the building industry gives the unions an extra motive to press for increased activity in the public sector, and the alleviation of unemployment and casual labour in the industry is also of course a major objective for councillors.

The slump makes expansion possible, because it means that councils wil be able to attract the skilled labour they need. It is very difficult to start or expand a direct labour department during a building boom, such as that of 1971-3, because the private sector is able to offer very high rates of pay, above those which local authority can offer. But the present opportunity will not last long if the economy picks up in 1977 and speculative property development begins again.

Local authorities themselves are beginning to realise the need for greater coordination and collective discussion about direct labour. The Association of Municipal Authorities has recently agreed that the Public Works Committee shall be a full standing committee and they have already begun to issue advice to member councils. Now that local authority reorganisation is complete throughout Britain and councils have begun to settle down after dealing with their first priorities such as finance, social services and planning, there is a good case for looking at the way the building services of each council are carried out. The Bains report which was the blueprint for local authority reorganisation did not even mention direct labour building as a matter for the new authorities to consider. Now that most of them have finished their work arising from Bains they can move on to what Bains forgot to mention.

These favourable circumstances have come together to provide a golden opportunity for Labour councils to extend their municipal building operations, but there are two more reasons why urgent attention should be given to the subject by all Labour groups. The restraint on public expenditure will go on for some time, and as the Treasury quest for " nil growth " by local authorities goes on, the traditional avenues for initiative and innovation by Labour councils are being blocked. There must be a danger that Labour councils will simply become the custodians of the *status quo* in their areas, and the important role of elected councillors as the pioneers of new policies will decline. This could easily lead to a stultification of labour groups, driving newer and younger councillors out of local government and narrowing the horizons of those who remain. Municipal building is one of the very few areas of local government where expansion does not lead to an increase of public spending, because the size of the public expenditure is not affected by the choice of contractor. If it

leads to savings on building costs the money saved can be used to fund growth on other services.

The second point is that the whole concept of municipal building fits in with the latest Labour Party thinking on the role of the public sector in industry. The philosophy first expounded in Labour's Programme 1973 and again in the 1974 Manifestoes, called for a public stake in all major sectors of industry. Limited public ownership within an industrial sector that is dominated by privately owned companies is exactly what municipal building departments have been trying to do for decades. The only difference from the NEB approach is that there is no national direction of DLOs. With the building industry, as with all sectors of industry, there is a case for outright nationalisation, but the municipal building approach, like Labour's Programme 1973, implicitly rejects that as an attainable objective and concentrates on acquiring a part of each major sector in order to have a significant influence in the whole sector. Labour's Programme 1976 does however give more attention to the building industry than the 1973 Programme although it does not contain any precise proposals.

4. setting up and running a direct labour organisation

The central problem of direct labour is that the relevant department of the council must combine the advantages of being both publicly controlled and publicly accountable, with those of financial efficiency and competitive viability, that is, the best of both the private contractors' and the local authority's worlds. A badly run department would combine the worst of both worlds by being shielded from public gaze in bureaucratic obscurity and protected by favoured treatment from the rigours of commercial competition.

The first principle which the councillors must establish is that the DLO should have a distinct and separate identity within the council. That means at minimum that there must be a committee of the council which deals exclusively with direct labour building. It may be a full standing committee or a sub-committee, but the two essential elements are that its name should indicate that it is concerned with the DLO and that it should be able to report directly to council. The advantages that stem from a distinct and politically accountable committee are that the members of that committee acquire a sense of having to protect the special interests of the DLO when they differ from those of the council as a whole, and that other sections of the council, and the local community become aware of the existence of the DLO. The distinct committee should be matched by a distinct department of the council, with a chief officer whose title again makes it clear that he is exclusively concerned with direct labour building. He should have the status of a fully fledged director, to ensure that other departmental chief officers are not able to pull rank on him.

The purpose of establishing the separate and special nature of direct labour building is to get across the impression that it is different from the other parts of the council's activities, and that because of its "commercial dimension" it must be treated differently both by the elected councillors and by the full time officials. That does not mean that the department can be totally outside the corporate structure of the council. There must be links with the Chief Executive, and he must have some ultimate authority to decide in disputes between departments, including the DLO. But there should be no day-to-day involvement of the corporate management team although it is difficult to lay down hard guidelines for this function because there are several varieties of corporate structure among councils. The objective is well put by Ken Wilson, recently retired director of the Manchester DLO: "A building department requires many facilities in maintaining its dynamism and flexibility, none more so than freedom from the inflexible burden of bureaucratic practices."

The department must have a position which shows that it is more than a "dirty works department" which takes on the awkward jobs which private contractors will not touch. It must also have the freedom to avoid some of the local government procedures which can slow down the decision making process. The relationship with the rest of the council structures must be based on two rules—that the accounts of the department are kept fully and quite separately and that the department receives no favours from the other departments which are its clients. These rules must be kept if there is to be a genuine basis for comparing the performance of the department with that of private contractors. The structural separation of the department helps the observance of these rules, but the spirit of the rules should never be abandoned. The reason for them is obvious. The accounts are worthless if they are mixed up in the accounts of the client departments, such as the housing department. The accounts should be published for the committee and they should go into details on each contract—giving, incidentally, far more information than any private builders do. The other point which must be made about accounts is that the new construction account must be kept distinct from the maintenance one. The two types of work are both building, and they both employ craftsmen with the same skills, but the commercial and financial operations are very different, and there should be separate accountancy approaches on the one hand to routine repairs of council housing and to building

new homes on the other. This is particularly vital in departments which are doing most of the maintenance work for the council, because they will be accused of hiding the losses they make in the competitive field of new construction in the costs of the largely uncompetitive field of maintenance. Again there is no rule of thumb about the method or depth of accounting but broadly the new construction work is only meaningful in terms of a cost valuation comparison—that is comparing the cost of the work to the department which built it, with the value of the completed building to the council, which ordered it.

Maintenance is best presented through some form of trading account, in which the department charges the same rates for routine jobs as the local private contractors—who will have already agreed a schedule of rates with the council's architect. The accounts should also demonstrate the extra costs which direct labour incurs compared with the private employers—higher superannuation contributions, greater safety training, apprentice training and long service supplements. If they are listed in the accounts, the price of being a responsible and publicly accountable contractor is made clear to the council and to the public. The second rule is linked to the commercial policy of the department in which the key issue is how far the contracts should be won in competition and how far the council should agree to give a certain proportion of its new construction work to its own DLO. The two extreme positions can be ruled out. To give the DLO all the construction work it could handle without any competition from private contractors would destroy the competitive element which serves to keep prices down. Even though the system of open tendering for public authority contracts is not a perfect form of judging competitive efficiency, it is a useful way of giving some indication of relative costings. The tender figure can of course be added to in the course of construction by the "extras" that are claimed by the contractors.

No competition at all would make life too cosy for the DLO and too expensive for the ratepayers, but the other extreme of compelling the DLO to win all its work by open competition is too rigorous a rule for a contractor which can by law have only one customer—its own council.

Private contractors can tender for work anywhere in the country, for any customer private or public and can if the worst comes to the worst "buy" work by tendering at less than the expected cost in order to keep their operation ticking over during a difficult period. They often obtain work by negotiation with private companies. A building department cannot do any of these things, and it would be unfair to expect such an organisation to reach any reasonable level of efficiency if it was completely unable to plan its work load for a reasonable time ahead but had to wait passively for the next order to arrive from the housing and other departments of the council.

It is impossible for a building department to plan for the future if it has nothing to go on except the housing and other capital building programmes of the council.

Housing programmes are one thing when they are approved by the Housing Committee and something quite different in terms of actual building starts. The date on which a building contract is expected to go out to tender can be delayed by months or even years because of problems with decanting, CPO confirmation, or plain red tape.

So the question really is about what proportion of a council's building contracts should be negotiated with the building department and what proportion should be put out to competitive tender—in which the building department can compete if it wishes to. The Department of the Environment laid down guidelines in 1969 that at least one in three of all contracts awarded to a DLO should be won in open competition. The Conservative spokesmen for building have suggested that the proportion should be as high as 85 per cent—with only 15 per cent for negotiated agreement. In practical terms there should not be a magical fixed proportion for each year. The policy should

be a flexible one because the needs of the department will change.

During a building boom there will be no problem about winning contracts in open competition because the private builders will be much more interested in getting private commercial contracts for hotels and office blocks. They will be happy in those times to leave the local authority work to the local authorities. In leaner times, like the present, building departments will find that the private contractors are looking hard for work and "buying" it in some cases. In that situation the building department should occasionally have a chance to have the first crack at a contract by trying to negotiate a price that is acceptable to the Department of the Environment and to the client department. Without this opportunity the DLO can run out of work and be faced with making men redundant.

Over a five year period (which normally includes a boom and a recession) an efficient building department should get about three quarters of its work by winning it in open competition. One hopeful development which may enable departments in the future to adopt a policy of getting all their work in competition is the possibility that DLOs will be able to work for other public authorities in their area, rather than just for the council of which they form a part. There is no reason why a council building department which has shown itself to be effective and efficient should not be allowed to tender for the building contracts of, say, other tiers of councils, or nationalised industries, or public bodies or even charitable institutions (such as housing associations).

A clause to this effect was included in a GLC Bill to allow the GLC and the London Boroughs Building Departments to do work for other public bodies. A choice of customers would remove building departments from an exclusive reliance on their own council and would ensure continuity of work, thus enabling the department to adopt a policy of getting all its work by competition. This should please critics of direct labour building. The GLC Bill also proposed another extension of the scope of building departments which is not so desirable. The GLC suggested that their Construction Branch should be able to carry out repairs for owner occupiers where they could not get private builders to do them economically. This would be a self financing service.

The clause in the GLC Bill was defeated in Parliament but there is growing pressure for the principles which it proposed to be implemented in Government legislation.

5. manpower policy

Building is a labour intensive industry and it has always controlled its labour market by financial incentives. Public owned building cannot and should not copy the practices of the private sector in paying distortedly high wages in boom times and then laying off men indiscriminately during the bad times. Nor can public building departments use the flexibility presented by the notorious " lump " system.

A long term aim of responsible employers must be the decasualisation of the building industry. This can only be obtained by a new approach on employment policy and only the local authorities can give the lead which can eventually take the industry out of its present jungle.

Building Departments have to pay the rates agreed nationally on the Joint National Council for local authority building workers. Bonus schemes have to be subject to the scrutiny of the district auditor. There is no scope for " phoney bonuses " or " under the counter payments " which are rife in the private sector. Building departments can usually compete with the private sector on all other working conditions and they should sell themselves on these grounds. The greatest advantage of working for a building department is security and continuity of employment. Instead of facing the probability of the sack at the end of each contract as for most private employers, the building worker can look forward to being transferred to another site, or even to the maintenance department. Councils can also offer better canteen and welfare facilities, better safety procedures, long service payments and higher superannuation benefits.

What local authority building departments have to fight against is the impression that working for the council is a soft job where waste of time and materials is unimportant because " it's only the council's money." In such a labour intensive industry, with the places of work scattered around a number of sites and individual houses, the morale of the workforce is the most important element in the search for efficiency. The pride which many building workers have in their skills and their ability can be turned to public advantage if they are given work in which those crafts and skills can be used to the full. And that does not only mean on the building site itself. The key to a sense of commitment and involvement is that the knowledge and experience of the employees can be fed into the department by participation in management.

That means joint regulation at every level —between management and the trade union stewards in a formal structure of industrial democracy. In Wandsworth the trade union stewards have been invited to sit in on the meeting of the council committee itself, so that they can contribute to debate, influence decisions and be part of the collective management.

The special nature of local authority building creates many problems for the management officials who are subject to the pressures and influences from councillors above and stewards below, unlike the management of any private building firm. But these pressures can be turned to advantage if they are channelled into constructive forms of consultation.

It is important that the recruitment of senior management is not restricted to local government officers and that at least a handful of the department's top managers come straight from the private sector—bringing with them the commercial drive and cost consciousness which are vital ingredients of a successful DLO.

The biggest municipal DLO in Britain is that of the Greater London Council, but the best known is the one in Manchester, which provides an example of what can be achieved by sympathetic councillors and dynamic management. Ken Wilson, who retired last year as the Director at Manchester is the Grand Old Man of the direct labour world, and he is now a member of the Department of the Environment Working Party. His DLO was set up in its present form in 1960 by the Labour controlled Manchester City Council. Since then it has doubled its manpower and more than trebled its output. There are now more than 5,000 employees

including 530 apprentices. A particular feature of Manchester DLO is that nearly 200 disabled people are employed, a very high figure compared with the rest of the industry where few employers accept their responsibilities to the disabled.

Ken Wilson claims that the Department had enjoyed about 100 million dispute free man hours, during a decade which saw a series of bitter and protracted disputes in the private sector of the industry. Over the 15 years of its existence it has built 16,000 houses, including 30 blocks of flats, at an average rate of 1,142 per year. On the 71 building schemes completed, the value of the work done was £33,877,092, while the cost to the council was £33,408,549 — resulting in a saving of £468,543. Manchester DLO have also produced statistics to show that their contracts are finished more quickly than those of private contractors, and that the maintenance costs of DLO built housing estates are much lower than those of privately built ones. Mr Wilson has also calculated the extra costs which a DLO has to bear, because it pays much higher rates than private industry to its employees for long service, superannuation, holiday pay and sick pay. In addition private employers receive a substantial grant for taking on apprentices, but the municipal DLOs have to find all the costs of their training programmes. These extras add up in Manchester's case to a total of nearly £1 million a year, or five per cent of a total turnover of £22 million.

Ken Wilson does not see this as a reason why DLOs should be uncompetitive, but he accepts that it undermines the old argument that DLOs are necessarily cheaper because there is no need to show a profit: "On the assumption that this extra expenditure is profit, but is paid back in benefits to the operatives, it does provide the equating factor in competitive tendering with a contractor's profit and negates any argument that Direct Works should be cheaper as they do not need to make a profit."

6. the future

If the Labour Government and more Labour councils rescue municipal building from its obscurity, by removing some of the legal restrictions and by encouraging expansion, then it may for the first time take over a substantial sector of the building industry. If the municipal sector is to expand in a way which will affect the big construction companies it must be in the field of new construction.

At present only 4 per cent of new construction for public bodies is carried out by the public, municipal sector. For council housing alone the figure is even lower at 3 per cent. These figures are not only miserably small, they are also a decline from the position in 1969 when 9 per cent of public building was done by directly employed labour. The 1969 level may reflect the result of five years of Labour Government, together with Labour control in the mid 1960s in many authorities (the loss of many councils in the late 60s would not work through to construction figures until after 1969).

The lesson to be drawn from the above figures is that a quiet and haphazard increase in new building by municipal building departments can take place in the right political atmosphere, but it can also be wiped out just as quietly if the municipal sector remains a political football. A lasting expansion must be based on a municipal sector which has adopted accounting principles, standards of efficiency and openness to public scrutiny which ensure that when control of the council changes away from Labour the incoming controlling group find it difficult to stifle the municipal building department. But there is no chance of establishing a consensus for the survival of municipal building departments unless the facts and figures are presented in such a way that they cannot be dismissed as Labour propaganda.

Conservative councillors will always have a tendency towards favouring the private building contractor, but they are equally committed to providing "value for money" for the ratepayers and if the efficiency of the department is spelt out in unchallengeable figures then they have no excuse for exercising their ideological bias towards private enterprise at the expense of the ratepayers. That does not mean that Tory groups all over Britain will suddenly become wildly enthusiastic about public ownership in the building industry (indeed, we are still a long way from all Labour groups being enthusiastic).

The new factor will be that of public opinion. If a building department produces accounts that show its efficiency, it can publicise them through the local press and directly through the council's information services. The public in general, and the ratepayers in particular, will become aware of the advantages to their purses, as well as to the public benefit of municipal building. The chances of achieving a major breakthrough in public acceptability depends on the accounting system and the commercial attitudes of building departments.

The biggest snag and challenge in the GLC proposals is that if the building department is able to do work for authorities other than the one of which it is part, those other authorities will resent any accounting system which does not show clearly the deficit or surplus of the department. To give an example, when a building department builds a swimming pool for the council of which it is part, the final cost will inevitably be different —to some degree—from the contract price. If it is more than projected, then the council has to raise the extra capital. If it is lower than expected then the capital borrowing requirement is reduced. Once the customer is no longer the parent council, this system has to go. If the swimming pool is being built for a neighbouring council then the customer council will insist on having a purely contractual relationship and any unjustifiable losses will have to be borne by the "building council." On the other hand if the swimming pool is built at a surplus the "customer council" will resent the fact that its ratepayers will have to pay out more than the final cost, while those of the building council will benefit financially from a decision to build a pool. Where the customer is a Government body financed by taxation, or a charitable

organisation, the surplus/deficit dilemma will be different again, but equally liable to create conflict. The parties may argue about what should be done with the surplus or deficit, but they will all agree that the precise amount of the surplus or deficit should be made clear in the accounts. The general principle of municipal building accounting must be that the department should be treated as a trading organisation and not as an administrative or spending department of a local authority. But there can never be complete comparability between the accounts of a municipal building department and those of a private building contractor. To begin with the two organisations have to meet different statutory requirements, and the ultimate sanctions they each face (the official receiver and the district auditor) are very different. (Incidentally it is often claimed that municipal building departments do not operate efficiently because their managers and owners are not financially accountable in the way that private company directors and shareholders are. In fact the amount for which the district auditor can surcharge councillors if he finds that they have neglected their duty is a much greater potential punishment than the limited liability which ordinary shareholders bear.)

The need for revised and standardised accounting methods for municipal building has been recognised by the Chartered Institute of Public Finance and Accountancy. In June 1975 they produced a report of a working party on what they called "Direct Works Undertakings Accounting", which was widely accepted in the municipal building world in spite of its generally hostile tone. There are some very worthwhile suggestions on how councils should apply accounting principles which will stand up to public examination. "The overall theme which is reflected in the working party's report is that the accounts should not only show financial results, but should also be capable of demonstrating performance. Moreover, because of the climate in which direct works undertakings work, it has been regarded as highly important that the reports should reflect with the utmost accuracy the year's transactions. The system must ensure that the customer pays a charge for the service provided in accordance with the policy of the authority. The accounts must show the financial relationship of the undertaking with the other departments of the authority and the overall result of the activities of the undertaking."

The report proposes ways in which the accounts can be kept in order to enable councillors to tell whether the department has traded successfully during the year. Such information is not only necessary for public information, it is also vital for councillors if they are to avoid subsidising other public bodies by making a regular deficit on contracts which their building department carries out.

The new era of municipal building is one which will hold new risks as well as new challenges. The old enemies of publicly owned building are already prophesying disaster. Malcolm Hoppe of the Aims of Industry wrote recently in the Building Trades Journal: "By going into the commercial market—where direct labour no longer has a captive client bound to meet all its costs—councils are taking on substantial risks. It is a field in which close management control is absolutely crucial. Local authority works and housing committees could soon be trying to act like boards of directors. Many councillors continue to show considerable ignorance of the problems inherent in building. They are likely to embark on their duties as directors without much appreciation of the risks they will be taking. The money they risk will belong to the ratepayers."

It is touching to see private enterprise so appalled by the idea of risking other people's money, but the point is a fair one. If the Labour movement is to make a success of expanded public ownership in the building industry through the municipal sector then it must be on a basis of accounting systems which are seen to be clear and fair, administrative systems which enable the professional managers to get on with their job, industrial democracy which utilises the experience and loyalty of the employees, and a political campaign which honestly acknowledges

the problems as well as stressing to the public the great advantages of a vigorous competitive public sector within the chaotic jungle of the British building industry.

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