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**ACCOUNTABILITY
IN THE
DELIVERY OF LOCAL SERVICES**

**BRITISH AND RELATED
INTERNATIONAL EXPERIENCE**

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By

Kenneth Davey

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ACCOUNTABILITY IN THE DELIVERY OF LOCAL SERVICES

British and Related International Experience

Introduction

The ballot box has been traditionally seen as the guarantee of local government accountability. The supposition is that elected representatives who do not manage local affairs to the satisfaction of their voters lose the next election. Even so, many national systems of local government hedge their bets by imposing paternalistic oversight as well.

The last two decades have reflected worldwide concern that neither mechanism has proved sufficient. Electoral accountability is undermined by various factors including low turnouts, the preoccupation of voters with national rather than local issues, lack of clear information on which to judge performance or assess policy options, and a general backlash against "big government", whether national or local. Central government oversight is not necessarily exercised with the degree of rectitude or benevolence intended by the legislation. Central interventions can be ill-informed, partisan and downright corrupt. Local authorities, whether elected or not, are criticised for being unresponsive and inefficient - ruled more by the interests of the producer of services than the of consumer, not doing what people want, and doing it wastefully.

These assertions are described here as perceptions rather than empirical truth. They do, however, underlie a widespread search for new means of improving the accountability of local government and local services. I have been asked to describe the British reforms to the Conference because they have been uniquely radical and systematic. They have many echoes elsewhere.

The British Agenda

During the last fifteen years the British Governments led by Margaret Thatcher and John Major have launched a wide variety of initiatives with two related aims: to make public services more responsive and to increase their cost efficiency. "Increasing consumer choice" and "value for money" have been their watchwords. The Citizen's Charter (HMSO 1991) has attempted to provide them with a single coherent framework. These initiatives have affected all branches of the public service, but in different ways. Local government has been the main target of competition policy, the health service of internal market development, the utilities of privatisation, and the central government of cost centre management. The main shape of the individual reforms is discussed in the following paragraphs.

Competition

Under legislation passed in 1988 local governments are compelled to tender contracts for most of their manual services, including refuse collection, street cleaning, the maintenance of parks, cleaning of schools and other buildings, and school catering. The management of leisure facilities is also subject to compulsory competitive tendering (CCT), and it is about to be extended to some other

"white collar" tasks such as housing management and aspects of legal, architectural and financial services. "In-house" departments are permitted to compete with external bidders for the contracts, but on various conditions designed to create equal terms, e.g. they are required to make a commercial rate of return.

A variation on CCT operates in the field of public transport. Bus services have been deregulated in the sense that there is open competition on routes which are fully self-financing. Uneconomic bus routes are subject to public tender, with companies quoting the standard and frequency of service they can offer and the amount of subsidy they will require at a given fare structure.

It should be appreciated that British local authorities are very large by international standards, with average populations well over 100,000. As a result they have been self-contained in the delivery of services and have had no previous tradition of contracting out except for major construction projects. CCT has, therefore, been a major change in procedure and attitude.

Independent research into the first five years' experience of CCT suggested that the impact has been largely positive (Walsh and Davis 1993). Service standards have been maintained, and have improved in areas where they were previously below average; this has been chiefly due to the necessity to specify service standards for contractual purposes and to monitor their performance. Costs of the contracted services have fallen by an average of 6% in real terms; the need to establish a "client side" administration to manage contracting on behalf of the local authority adds to costs, but has been more than offset by increases in productivity as a result of competition. There have been social costs in reduced employment levels coupled with lower emoluments for unskilled manual workers; basic wage rates have been largely unaffected but bonus payments have been more parsimonious, and absenteeism rigorously reduced. Financial savings have arisen mainly in the purely manual services such as refuse collection and cleaning. There have been few cost savings in leisure service management, although the public may have gained insofar as contractors have varied the range of activities offered and prices charged to increase custom; (contracts for running leisure facilities such as swimming pools normally specify the maximum charges to the users and leave contractors free to introduce "happy hours" and other forms of discount).

So far approximately 70% of the contracts have been won by "in-house" departments and the remainder by private sector companies. In-house departments have had to increase productivity and change management styles considerably to win and keep the contracts, however. There were fears that competition would decrease over time as private sector companies amalgamated or "ringed". This has not materialised and competition has tended to increase as contracts have come up for renewal and retendering.

With the exception of leisure management, the experience of CCT has been largely confined to manual services with highly routinised and measurable tasks. How readily it will apply to the "white collar" tasks remains to be seen.

CCT has been imposed far more comprehensively on local government services and is only just

beginning to spread to other branches of the public service. A major variation has been the development of an "internal market" within the National Health Service. Hitherto most medical services such as hospitals were funded directly by district health authorities under fixed annual sub-budgets based on input costs, (salaries, drugs, equipment etc). Under the internal market the individual units - hospitals, ambulance services, community services etc -have been made autonomous trusts or independent cost centres, which contract with health authorities and individual general practices for the provision of specific services at negotiated unit prices. The service remains free to the patient, but the larger general practices now have delegated budgets with which to select and purchase care for their patients from hospitals and community services.

The NHS internal market has only been operating for eighteen months and it is too early to assess its impact. So far the costs in terms of reorganisation and bureaucracy have received more attention than the benefits. There is early evidence of hospitals becoming more cost conscious and speeding up their rate of admission of non-urgent cases, but it has not yet been susceptible to rigorous evaluation. The greatest opposition has been to the delegation of budgets to the larger general practices which has been alleged to discriminate against the interests of patients of smaller practices.

User Participation

A second avenue of reform has been increasing the participation of users in the management of public services. This has three dimensions:

- (i) direct involvement in management;
- (ii) increased consultation;
- (iii) participation through choice.

The most conspicuous example of direct user involvement in *management* is in the government of schools. Under recent legislation local education authorities (county or metropolitan district councils) must allocate at least 85% of their recurrent expenditure on education to individual schools for management by their governing bodies and head teachers. Parents and local education authorities share the right to appoint the membership of the governing bodies. At the same time parents have been given the right to choose a school for their children (subject to availability of places), and schools have the right to accept all those applicants for whom they have space.

This has resulted in a substantial redistribution of resources. Education authorities have to allocate their budgets to individual schools by formula, based at least 70% on pupil numbers. This in itself means a substantial change from a distribution based purely on historical factors, and is reinforced by the expansion and contraction of individual schools in response to parental choice. Meanwhile budgetary delegation means substantial reallocation of resources within schools; it usually results in savings on energy and similar costs through greater care, but also in a preference for the employment of younger and less expensive teachers. This is alleged to discriminate against the

interests of women seeking to rejoin the teaching profession after rearing children.

User management is also practised in the field of public rented housing, though less widely. In a number of cases management of housing estates has been delegated to tenants' associations. There has also been a widespread tendency, actively encouraged by the Government, to transfer local authority housing stock to housing associations. These are autonomous trusts, which usually have a substantial, though minority representation of tenants on their governing boards.

User *consultation* is widely practised though with varying impact on management of services. All areas have community health councils, which are effectively consultative committees for the National Health Service. The main utility services such as water and electricity have statutory consumers' committees, though with no power beyond a right to be consulted on changes in services and prices and to voice public complaints. Many local authorities now conduct consumer surveys and opinion polls on the nature and quality of their services.

The Citizen's Charter strongly emphasises the role of consumer *choice* in improving accountability. In practice real choice has been slow to emerge as most public services remain monopolistic by nature. Some competition is beginning to emerge in the provision of electricity to large commercial consumers and in telecommunications. The main innovation in terms of choice is the Community Care programme introduced in current form in 1993. This basically offers elderly people in need of physical help a choice between residential care and support in their own home. Ideally this programme offers the elderly a very high standard of support, but there are serious questions whether, given the demographic trends, it can be afforded. It is circumscribed at present by a degree of rationing and uncertainty as to the degree of personal contribution to the costs expected from savings as well as current income. Parental choice of school has already been mentioned.

Performance Measurement

A third approach to accountability has been the collation and publication of comparative data on performance. This relates both to costs and quality.

The Audit Commission was established in 1981 to supervise the audit of local government and the National Health Service. It was specifically charged with promoting efficiency in addition to the traditional concerns with probity and legality. It has used the collation and publication of unit cost comparisons as a cornerstone of its work in this respect. The data is now published regularly in respect of all services. It is used moreover as a basis for detailed studies of individual tasks which seek to identify the reasons for differing unit costs and disseminate knowledge about good practice. Numerous studies have now been published covering everything from refuse collection and vehicle maintenance to political overheads and purchasing policy.

The most controversial innovation has been the recent publication of comparative data of school performance measured by examination results. This is contested, particularly by the teaching profession, on the grounds that it ignores the varying social backgrounds of school populations and

does not measure the true "value added" by a school. A long term attempt is being made to measure this value added through tracing the performance of individual children at several stages in their school career; this, by definition, will take several years to yield results.

Contracts

Contracting out aims to improve accountability through both competition and the contractual relationship between the contractor and client. There are many attempts to introduce the latter dimension even where there is no competitive tendering.

This is a major feature of the central government's "next steps" initiatives, whereby many routine tasks such as the payment of benefits or the issue of passports or driving licences are delegated to quasi-autonomous though still publicly owned agencies. These agencies are then regulated by agreements with their parent ministries specifying the tasks to be performed, target standards (e.g. clearance times for passport applications) and unit costs. In return the agencies have relative freedom in managing budgets, conditions of service etc.

This process has been replicated in local government where many central support departments or sections such as payroll management or legal services are governed by service level agreements. Cost centre management is widely practised in universities where fee and other revenue accrues to faculties or departments which are then charged for central support services and the rental of space.

Access

Public agencies including many local authorities, the National Health Service and the Social Benefits Agency have tried to improve public access to their services. A wide range of devices are used including publishing telephone hotlines for service requests and complaints with designated names and numbers, opening offices out of normal working hours, "one stop shops", or publishing information in intelligible language.

These processes have some practical impact in improving public knowledge of, and access to services. They also have some effect on bureaucratic attitudes, since they encourage staff to feel that their purpose is to serve rather than be served.

Privatisation and Regulation

The major utilities - water and sewerage, gas, electricity and telecommunications - have been subject to a different approach. The national or regional corporations which had taken over these responsibilities from local government and other bodies, have been sold into private ownership. They are subject, however, to supervision by official regulators. The regulators have to approve their tariffs and service standards. The privatisation legislation sets ceilings on the tariff increases which may be approved; in the case of gas, electricity and telecommunications these ceilings are

varying percentage points below the rate of inflation, so that prices have to be reduced in real terms. In the case of water and sewerage the ceilings are percentage points above the RPI, allowing substantial real increases in prices to finance major investment to bring services up to new environmental standards.

The regulators are also empowered to force the electricity, gas and telephone companies to open up their networks to competition. Competition and choice between suppliers have inevitably been slow to develop, although large commercial consumers do now have alternative electricity supplies in some areas, and telecommunication options are widely open. The privatised utilities are diversifying their operations and buying into foreign systems; this is probably good for the trade balance, though British consumers complain that resources are diverted from their own investment needs.

The impact of privatisation has been highly controversial. Public attention has focused mainly on the increases in the water and sewerage tariffs and on the huge salary rises which the top executives of all the privatised enterprises have awarded themselves; the latter have been defended on the grounds of parity with other private enterprises of similar scale, but the comparability is challenged because of the monopoly position of the utilities.

The privatised utilities have accelerated their rate of investment since they are liberated from public sector borrowing limits. Real prices have fallen except in the case of water and sewerage, but these savings are due to technology which would have been available in any case, although public enterprises might not have been as ruthless in reducing their labour force. The increases in water charges have become a particular target of criticism this year as an exceptional drought has created a water shortage in many regions.

In the continuing absence of effective competition the regulators remain the main agent of public accountability. How far they have been able to fulfil this role is again a subject of hot debate. The electricity regulator has been strongly criticised for permitting tariffs which provide excessive profit margins. There has been no suggestion of corruption, but a feeling that personal bias and limited information have influenced regulators' decisions to an extent which is probably inevitable.

International Comparisons

The British experience is unique only in its comprehensiveness, in the mandatory obligation to tender local government services, and in the application of contractual disciplines to in-house as well as external provision.

French local authorities have a far longer experience of contracting out. This stems from their extreme fragmentation; there are 36,000 communes of equal legal status, of which 33,000 have populations under 2,000. They have been compelled to utilise external service producers to obtain expertise and viability. The most conspicuous example is water supply which is a communal responsibility, but in practice 75% of the service is franchised to companies. Two companies, Compagnie Generale des Eaux and Societe Lyonnaise des Eaux have dominated the sector,

diversifying also into other municipal services such as public works construction, cleaning, car parks, leisure facilities, street lighting, telecommunications, catering and undertaking. Private sector companies led by Transexel-GTI have also been franchised to operate 85% of the public transport networks.

The large water supply and public transport companies were mainly established during the second half of the 19th century. A new generation of French companies grew during the post-war period concerned in various ways with land development. They engaged in design and construction of housing and industrial estates, roads, wholesale markets, ports and leisure facilities. These were mainly semi-public companies with the majority of the equity in public hands. The development of this network was actively promoted and funded by the Caisse de Depots et Consignations (CDC), the central government subsidiary which was at that time the main depository of government controlled savings funds and the main source of credit for investment in local public services.

A third arm of French service delivery has been joint stock companies to develop low income rental housing with a mixture of communal and private sector capital, together with extensive cooperation with non-profit organisations in the management of welfare, sports, cultural and educational facilities.

Historically, municipalities were relatively passive partners in these relationships. The companies and the other external agencies took most of the initiatives in design, capital financing and construction of facilities which they continued to operate on varying kinds of franchise. Franchises have limited durations and communes have the option to change their provider; they rarely do so. In recent years, however, communes have played an increasingly active role. New franchises are far more rare. Communes prefer to control project design, to finance construction directly and contract out construction and operation separately. Service operation contracts therefore involve leasing or simply managing municipally owned assets. There is an increasing tendency for communes to collect service charges themselves and pay operators from their budgets. These changes reflect an increasing technical capability within town halls, coupled with reaction against the paternalism of the state institutions, including the CDC, and the national companies.

German municipalities also have a tradition of franchising the construction and operation of major utilities, although these are generally regional rather than national. Contracting out routine manual services such as refuse collection and street cleaning to companies is common in other European countries such as the Netherlands and even Sweden, whilst external participation in the personal service and welfare sectors is largely confined to non-profit organisations.

Private sector participation in public service provision outside Europe and North America has been surveyed in research recently undertaken for the Urban Management Programme (Batley 1992). Such participation is widespread in the absence of public provision, i.e. as a response to public sector default. It is less common within the formal framework of public services, although interest and experiment are growing. Examples include franchised toll road construction in Jakarta, Manila and Seoul, private enterprise water supply in francophone West Africa, and contracted manual services

such as refuse collection in many Latin American cities.

The experience relayed in Batley's research is very mixed. Privately managed refuse collection has been generally more efficient in the commercial and formal residential districts of Latin American cities, but ineffective in low income and informal neighbourhoods. Penang municipality has found difficulty in the financial supervision of refuse collection contracts and has to maintain its own flying squads to collect the litter dropped outside the contractors' rigid schedules. Commercially operated water supplies have again operated well in commercial and middle/high income areas, but have been reluctant to extend into poorer neighbourhoods. BOT toll road schemes have been highly viable for the operators, but their impact on the overall costs of congestion are questionable.

Comment

Aims and Instruments

The approaches to the delivery of public services I have described have two aims:

- (i) to improve *outputs* in terms of the volume and/or quality; and
- (ii) to control *inputs* and improve cost-efficiency.

The main instruments, which are variously represented, are (i) involvement of *external agencies* in delivery, (ii) *measurement* of output, standards and costs, and (iii) *competition*.

Improving Outputs

So far as improvement of *outputs* is concerned, the involvement of external agencies has been important in providing access to technical capacity by small municipalities. It has accelerated the utilisation of new technology. Dependence on large companies may, however, simply introduce the rigidity of their own standard packages. Non-profit organisations and user participation may well make services more responsive to public demand, although there is always the danger of bias towards the preferences of middle class activists.

Franchising and BOT schemes are also said to increase output by their access to new sources of capital. This can be misleading. Franchisers basically finance their investment from the same sources as the public sector: borrowing from the capital markets and recovery from consumers. They may enhance capital funds simply by evading public sector borrowing limits, though the macroeconomic benefits are purely cosmetic. The potential advantage is in management rather than funding - in the hope (not always realised) that commercial operators will be more rigorous in controlling costs and charging consumers.

The widest gains in service quality are probably made through measurement, through specifying the quantity and standards of service expected of operators and measuring performance, whether against

targets or by comparison with parallel operators. These gains are not dependent on external delivery of services; they are equally available to in-house management.

Improving quality and accountability through providing choice between alternative providers has been harder to achieve. Most public services remain monopolistic in character, with capital intensity a barrier to competition. Choice is beginning to emerge in Britain in fields such as schooling and the care of the elderly, but there are severe financial constraints in shifting supply in response to demand, and varying capacity among the public to express and exercise preference.

Cost Efficiency

Competition can be effective in improving cost efficiency. It depends on the existence of genuine alternative producers, integrity in the award and supervision of contracts, and technical ability to specify contractual requirements and monitor performance. The latter factor depends in turn on measurement. Once again, measurement can secure efficiency improvements without competition or external providers.

Conclusion

In evaluating these approaches one must distinguish between conditions in which external provision and/or competition are most necessary, and those in which they work best. They are most necessary in two circumstances. The first is where territorial fragmentation makes some form of contracting or franchising the only way to retain some degree of local accountability in a capital-intensive service. The second is where a combination of unemployment, union militancy and political volatility makes effective management of a direct labour force impossible.

The circumstances where these arrangements work best are very different - those of prosperous cities where there is vigorous business competition and where contract supervision is reinforced by a culture of efficiency in town halls. Ironically, these are also the circumstances where direct delivery of services may also be highly effective.

Measurement of outputs, standards and costs lies at the heart of accountability. It is crucial to the other two instruments, external provision and competition. But it can also improve performance without them. Its value rests upon the assumption that most people work best when they know what is expected of them and are judged on their performance.

This is not to suggest, however, that measurement is either easy or the solution to all ills. Applied to the British National Health Service it has tended to concentrate on the easily quantifiable elements of health care like the length of waiting lists and times, possibly to the detriment of fair priority and quality in treatment. British Rail improved its apparent record of punctuality simply by redefining any train as "on time" if it was less than ten minutes late. Data collection has costs in time and diversion from what professionals see as their "real job" of treating patients, teaching pupils, assessing benefits and so on. Only the accounting profession readily welcomes the emphasis on

accountability.

Nevertheless, measurement remains the key to accountability, and there is no escape from the overarching need to get the measurements "right" in terms of both accuracy and relevance.

Kenneth Davey,

September, 1995

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