

LONDON BOROUGH OF LAMBETH

INQUIRY REPORT OF

MISS ELIZABETH APPLEBY Q.C.

JULY 1995



INTRODUCTION

1. In April 1993 the London Borough of Lambeth (hereinafter called "Lambeth") appointed me to conduct an Inquiry within the terms of reference set out hereafter. Due to difficulties within Lambeth the documents which enabled me to commence the Inquiry were not signed until the 14th June 1993.
2. My terms of reference were to produce a written report to Lambeth on:
 - (a) The arrangements by it for the carrying out of work pursuant to its statutory and other duties as defined by the Local Government Planning and Land Act 1980 and the Local Government Act 1988 in respect of
 - General highway works
 - Works of maintenance
 - Collection of refuse and other cleaningbetween 1987 and 1992 or such earlier period as considered relevant thereto.
 - (b) The contracts relating to those matters entered into by Lambeth including the subcontracting contracts awarded by the DLO.
 - (c) The deficiencies in the management organisation and operations of Lambeth legal and financial and otherwise relating to the matters

referred to in (a) and (b) above as are disclosed in the course of the inquiry.

- (d) The extent of freemasonry within Lambeth.
- (e) Any abuse within Lambeth as disclosed in the course of the inquiry

and to make recommendations

- (i) On any other abuses or deficiencies found including the application of control and of systems to prevent future abuse and rectifying deficiencies.
- (ii) Any amendment or alterations to Lambeth's procedure and administration.
- (iii) Any financial and legal controls that should be adopted.

3. The inquiry was held by me in private. This proved to be beneficial, as a number of members of the public and employees gave evidence to me strictly on a confidential basis, which, if the inquiry had been held in public I would not have received. I received many documents on a confidential basis.

4. I express my thanks to officers, employees, councillors and members of the public who assisted my inquiry by giving evidence and providing documentation.
5. During my inquiry I became aware of the substantial number of inquiries and investigations that had been carried out over the years at the request of Lambeth and indeed the number of inquiries and investigations that were continuing. At one time during the course of my inquiry these numbered at least 15. Having considered some of the past investigations and reports it became clear to me that not only were the reports relevant to my inquiry but that if the recommendations made in the reports had been implemented many of the current problems would have been eliminated or substantially reduced. The fact that the recommendations have not been implemented and in some areas ignored is totally unjustified. The blame for this omission must lie not only at the feet of the officers but also the members in office at the time.
6. I became increasingly concerned that my appointment was yet another inquiry set up by Lambeth with the real prospect that my report would become yet another report in Lambeth's archives. My concern was such that during the course of the inquiry I saw the leaders of the three parties on two separate occasions when I expressed my fears to them.

7. Whilst I was instructed to focus on a number of specific areas as time went on it became clear to me that Lambeth's problems were widespread and that it would give a false picture of Lambeth if I limited myself to specific areas. Whilst my report concentrates on particular matters I am satisfied that Lambeth is in an appalling mess and that it is unlikely that any department is properly managed.
8. During my inquiry there have been four Chief Executives. Shortly after my appointment Mrs Linda Watts became Acting Chief Executive having taken over from Mr Herman Ouseley. She remained Acting Chief Executive from April 1993 until June 1993 when Mr Henry Gilby was appointed as Chief Executive on an 18 month contract expiring in December 1994. Mr Henry Gilby had been with Lambeth for a considerable period of time prior to his appointment as Chief Executive. I soon became aware that Mr Gilby's appointment was not welcomed by all departments neither was it welcomed by a quite substantial number of members. In about May/June 1994 it became clear that Mr Gilby's contract was not going to be renewed by Lambeth after December 1994. It is unfortunate that no arrangements were made by Lambeth to ensure that a new permanent Chief Executive was appointed in time to take over from Mr Gilby in December 1994. In consequence, whilst Mrs Heather Rabbatts was appointed as Permanent Chief Executive in early 1995 her appointment was not to take effect until 3rd April 1995. This meant that Lambeth had to take steps to appoint an interim chief executive for the

period December 1994 to the end of March 1995. Lambeth appointed Mrs Sari Conway as Acting Chief Executive for this period. Neither Mrs Conway nor Mrs Rabbatts had been employed by Lambeth prior to their appointments.

9. Prior to the appointment of Mrs Rabbatts, I had formed the view that Lambeth had no officer capable of leading the restructuring that must take place if Lambeth is to overcome its problems. The difficulties facing Mrs Rabbatts are substantial. She will not be able to achieve the requisite changes, unless members are committed to giving her sufficient freedom and power to manage the changes effectively within Lambeth's overall policy guidelines. The problems are so widespread, I feel that Mrs Rabbatts will not be able to achieve the required improvements unless she has a team of one or two assistants independent of the Directorates to help her make the changes and ensure that the changes are well structured and a permanent feature. The team cannot be selected from employees in the Directorates for two reasons, the Directorates are not well managed and the animosity which exists between one Directorate and another is quite intense. Mrs Rabbatts will be faced with balancing many conflicting priorities. I fear that Mrs Rabbatts will also be subject to considerable pressure to continue investigations into the past. I am firmly of the view that Lambeth will be unable to achieve any dramatic improvement unless Mrs Rabbatts and her corporate team, the officers and the members concentrate on achieving, as soon as possible, the changes required to

improve the way Lambeth conducts its business. I was relieved to learn that in 1994 in a joint letter from the leaders of the three political parties to the two prospective applicants for the post of Chief Executive it was stated that

"whatever out political differences all three parties are united about the need for dramatic improvements in the quality of services the Council provides and of the general management of its business."

However, I do stress that if the parties are to achieve this goal all the members must be committed and work towards the same goal.

10. When I was appointed in the middle of 1993 I had hoped to complete my report by the end of 1993. However, the problems I discovered were widespread and it became clear that I was not going to achieve this objective. Further, as time went on and I became more familiar with the way Lambeth was run I became convinced, that unless and until Lambeth appointed an independent outside permanent Chief Executive, any recommendation I might make would have no chance of being put into operation. I felt that whatever intent was expressed by officers or members, the system was such that Lambeth was incapable of implementing any substantial changes. I am fortified in this view by Lambeth's failure to address properly recommendations in previous reports. A further factor in the delay in publishing this report is related to the litigation commenced by Lambeth in October 1993 which is known as the Botes action and is currently awaiting judgment. I had been told that judgment would be given in or about March of this year. It now

appears that August is more likely, but uncertainty remains and I have been asked to release my Report. Further I feel that as Lambeth now has a permanent Chief Executive in place it is only right that my report be published so as to assist the Chief Executive and Lambeth to set up a structure with a view to achieving improvements in its services and in its management.

11. In the following paragraphs I shall set out the background history insofar as I feel it relevant to my Inquiry. I shall deal with the specific matters referred to in my terms of reference as well as reporting on other matters which are indicative of the widespread problems facing Lambeth. I shall explain the cause of Lambeth's problems and shall put forward recommendations that I feel need to be followed if Lambeth is to have any hope of achieving the required improvements in the quality of its services and the general management of its business.

BACKGROUND HISTORY

12. Lambeth's difficulties can be traced back to the late 1970s and 1980s. It was during this time that the seeds were sown which have led to Lambeth's current problems.
13. From 1979 until May 1994 (apart from a few months in the early 1980s) a Labour administration was in control of Lambeth. Following the elections in May 1994 Lambeth became a hung council with Labour and

Liberals each having 24 members and the Conservatives having 16 members. Whilst this is not a very satisfactory position, in the light of Lambeth's problems, if members are committed genuinely to improving Lambeth's services and management it will not provide an obstacle in achieving that goal.

14. I am satisfied that in the 1980s Lambeth's ruling party was intent on obstructing the implementation of government policy in a number of areas. The facts clearly indicate that it had little or no regard to reducing public expenditure, that it refused to accept the consequences of the abolition of the Greater London Council, that it embarked on a policy of protecting its own workforce at all costs thereby undermining the compulsory competitive tendering legislation brought in by the Local Government Planning and Land Act 1980 (the 1980 Act) and the Local Government Act 1988 (the 1988 Act). Further, I am satisfied that Lambeth operated an unwritten policy which served to undermine and severely prejudice the collection of rent arrears, the collection of poll tax and later council tax. And finally Lambeth appeared to apply a recruitment policy that led to staff being recruited who were not only unqualified and inexperienced but were totally unsuitable for the job given to them. The recruitment of staff bore the signs of nepotism. The financial structure of Lambeth became so defective that it was not able to finalise its yearly statutory accounts in due time and setting the yearly budget became a major operation lasting up to 6 months. The result is that

Lambeth is in an appalling financial and administrative mess with non-existent or incompetent management. This situation is exacerbated by the excessively high absenteeism/sickness rate among staff. I have received no satisfactory explanation on this matter.

15. From 1979 to May 1994 the Labour administration itself was unstable and turbulent with the unions appearing at times to have far too much influence and control over the party. In 1986 the District Auditor certified as due from 32 members of Lambeth losses which had been caused by wilful misconduct in failing to set a rate by the due date. As a result of this those members were all disqualified from office for a period of 5 years. After the election of new officers only 3 of the controlling Labour group had previous experience as councillors. They and their colleagues faced the task of directing an organisation with many thousands of staff, an annual budget measured in hundreds of millions of pounds and a management which was not up to doing the job in hand.
16. In March 1991 some of the members of the controlling Labour administration became so out of line with their own party that the party itself suspended 13 members. Notwithstanding this chaotic state of affairs the Labour administration remained in control until May 1994, when Lambeth became a hung Council.

17. I have found that the Directorates, rather than working as a team providing a service to the public are independent of and jealous of each other. I have found that a large number of the management are, either incompetent or incapable of dealing with the current problems which are now so widespread that no Directorate can be free from criticism. Further it seems to me, that some members are not clear as to their role, namely setting policy objectives and making decisions in that policy framework. I think consideration should be given to members receiving an initial training so they fully understand their role and what is expected from them. Council meetings became unruly, at times lasting until well past midnight and achieving very little on the agenda. Audit investigations became a frequent occurrence. Investigations and inquiries became a normal occurrence involving the ever increasing limited resources of Lambeth. Lambeth became the object of media criticism on almost a daily basis. Lambeth was seen to stumble from one crisis to another. Indeed the situation continues, as seen from the latest budget crisis in the Social Services Department, which at the end of the first quarter was projecting an overspend of £5 million on community care. The problems of Lambeth over the years are highlighted by the Reports of the District Auditor from 1979.

June 1979

◆ Substantial rise in expenditure on housing modernisations and conversions;

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| | ◆ | Lack of trading accounts and reports to Members
for Directorate of Construction Services; |
| | ◆ | Serious increases in housing rent arrears; |
| April 1980 | ◆ | Deteriorating financial position; |
| | ◆ | Lack of financial control over housing repairs
expenditure; |
| December 1980 | ◆ | Serious financial position; |
| July 1981 | ◆ | High levels of expenditure and overspending of
investments; |
| | ◆ | Lack of accounting controls; |
| | ◆ | High rent arrears and insufficient provision against
bad debts; |
| January 1982 | ◆ | 40% increase in rent arrears in 9 months; |
| November 1983 | ◆ | Fundamental problems in accounting systems for
stores and housing rents; |
| | ◆ | Further increases in rent and rate arrears; |
| | ◆ | Ineffective recovery action; |
| May 1984 | ◆ | Failure of direct Labour organisation to comply with
competition legislation (the 1980 Act and regulations |

thereunder) on housing maintenance for 1982/83 and 1983/84;

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|----------------|---|---|
| March 1985 | ◆ | Staff shortages and serious inadequacy in accounting |
| May | | systems; |
| June | ◆ | Delaying preparation of annual accounts; |
| September 1985 | ◆ | Late rate making and consequent formal audit action; |
| September 1986 | ◆ | Potential financial crisis; |
| | ◆ | Dangers of creative measures to close the budget debt; |
| | ◆ | Inadequate financial and accounting controls; |
| | ◆ | Insufficient computer resources; |
| | ◆ | Opportunities to improve value for money not followed; |
| July 1987 | ◆ | Risk of financial crisis; |
| | ◆ | Dangers for future budgets of creative measures; |
| | ◆ | Difficulties in verifying the accounts for 1984/85 and 1985/86; |
| December 1987 | ◆ | Serious qualifications of 1984/85 accounts; |

◆ Accounts for 1986/87 not yet produced;

December 1988 ◆ Continuing delays in production of annual accounts;
 ◆ Potential breakdown of internal controls and
 consequent undiscovered losses;

August 1989 ◆ Chronic delays in annual accounts;
 ◆ Rising arrears;
 ◆ New challenges - not properly addressed -
 education, Community Charge and increased
 compulsory competitive tendering;

September 1990 ◆ Late and inaccurate accounts;
 ◆ Poor budgetary control;
 ◆ Ineffective administration of Community Charge;

1991 ◆ Arrears remain at excessive levels;
 ◆ Ineffective recovery procedures;
 ◆ Annual statements of accounts not up to date;

1991 ◆ Accounts remain out of date;
 ◆ Rising arrears;

- ◆ Failure of the Direct Labour Organisation to comply with competition regulations on highway maintenance;
- 1993
- ◆ Late and inaccurate accounts;
 - ◆ Chaotic budgetary control;
 - ◆ Increased arrears;
 - ◆ Major financial problems identified on housing maintenance; highway maintenance and other contracts.

and thus it continues....

18. The problems set out in the paragraph above became greater over the years, more widespread and more difficult to sort out. Lambeth's policies and actions of the eighties and early 90s (up to April 1991 at least) has been the contributing factor in creating the perfect atmosphere for abuse of the system by persons working within Lambeth and outside. Lambeth has suffered at the hands of dishonest employees, dishonest members of the public and dishonest contractors.
19. The difficulty that Lambeth faces if it is to turn over each and every stone to discover whether or not a particular fraud or abuse of the system took place is that such action can be very expensive, time consuming and

ineffective. Not only is it very expensive in monetary terms, but it is expensive in manpower and time. The result of trying to "clean up" the past before one concentrates on improving the present, is that the past can become the dominating factor and the present continues with the same deficiencies and failures as the past. Indeed, I think this is part of Lambeth's problems. The atmosphere for abuse therefore continues. I am satisfied that Lambeth's problems are so extensive that unless it puts its energies and resource into setting up a proper management for the future and a management and structure which will ensure that the atmosphere for abuse of the system is removed or at least is capable of being identified at the time, the problems in Lambeth will remain and worsen and services will continue to suffer.

20. In the past it has been suggested that tackling waste and fraud was so difficult because most people denied its existence and it was so big, so deep and so widespread it was too much for people to comprehend.

I think this is true. The problems must, however, be understood and addressed.

21. I have been asked by many persons to find out and state who was behind Lambeth's problems. I have explained above what I consider to be the source of the problems and how those problems snowballed. During the course of my inquiry I have received numerous allegations as to the cause

of Lambeth's problems including the influence of Freemasonry, a 'Mafia' exerting pressure over the officers and a pornographic ring holding officers and members to ransom. I have received no evidence to substantiate these allegations.

22. It has been suggested that unless I can diagnose the disease properly it is no good prescribing the medicine. I believe that I have diagnosed the disease. But even if I have not, I am satisfied that if Lambeth adopts the strategy I recommend that it will achieve the required improvements, to the quality of its services and the management of its business as well as ensuring that Lambeth is placed on a sound financial platform.
23. I have received evidence from many members of the public, who are totally dissatisfied with the way Lambeth serves them today. The public pay their council tax and Lambeth receives money from Central Government to enable it to provide services to the public (tax payers money). The public are not receiving proper services. There has been no proper delivery of services for a number of years. The failure to deliver proper services is nothing to do with under funding: it is due to Lambeth's mis-management of its funds. The services can and will only be improved if and when Lambeth has in place a proper management structure and proper control over its business and finances.

24. In one of his management letters the District Auditor reported that he had not experienced difficulties in obtaining agreement from officers and members to the recommendations he had made for improvement. In reports published in 1993, he stated that the recommendations flowing from his reports had been readily accepted by chief officers, and the political leadership, but he reported that his disappointment and concern was related to Lambeth's inability to translate most of its plans and ambitions into positive action. This inability is commented on, in a number of the Reports commissioned by Lambeth going back to 1986 and beyond. Lambeth must take positive action now to achieve the improvements needed.
25. Before I turn to look at the specific areas raised in my terms of reference and other wider issues, I should state that there are many employees working for Lambeth that are hard working and efficient, but demoralised by Lambeth's current state of affairs. Lambeth must make public its intent on achieving "dramatic improvements in the quality of services ... and the general management of its business". It must take swift and positive action to rectify the current state of affairs. It will then have no difficulty in enhancing the morale of its staff and attracting high calibre employees for any managerial vacancies it might have.

The 1980 Act and 1988 Act

26. I am satisfied that one of the main objectives of the Labour administration during the 1980s was to avoid the compulsory competitive tendering process introduced by the 1980 Act and ensure that its own direct labour organisations were awarded work contracts, at all costs. In my opinion, this led to increased expenditure, poor quality of services and opened the door to widespread abuse of its system.
27. The 1980 Act required, with certain exceptions, principal authorities to subject a prescribed portion of their direct service work (functional work) including buildings and highways construction and maintenance work, to fair and frequent competition with contractors in the private sector through a tendering process. Transactions carried out by the direct labour organisations (the DLO i.e. Lambeth's own workforce) were required to be kept in separate accounts, and the DLO's performance was to be monitored in the form of a rate of return on capital employed at the rate of 5%. Charges to clients' accounts for the work and the corresponding credits to DLO Revenue accounts, have to be calculated in accordance with the DLO's tender, as if they were private contractors. The 1988 Act introduced conditions which had to be fulfilled before an authority was entitled to carry out functional work. In particular an authority was prohibited from acting in a manner having the effect of restricting, distorting or preventing competition. In other words the authority must not act in an anti-competitive manner. Lambeth

established 4 direct labour organisations (DLOs) under the 1980 Act
namely

new construction over £50,000;

new construction under £50,000;

maintenance;

highways.

As a result of consistent failure to achieve the required 5% rate of return the new construction over £50,000 DLO was closed down in 1987 by the then Secretary of State for the Environment.

28. The objective of the 1980 and 1988 Acts was to ensure that Councils received value for money for the services covered by the Act. Proper management of the work carried out by the DLO required the effective operation of two distinct functions. First, was the client function which acted as the purchaser of the work. The client would be responsible for a detailed specification which would be served as a tender document. It would decide the technical standards to be applied and the timescale for completion. It would also be responsible for ensuring that the work was completed to its satisfaction. Second, was the contractor function and it was intended that the DLO should operate, in almost every aspect, as any other private contractor. Accordingly, it was required to price a tender document accurately and competitively in order to win the work. If it won the tender, the DLO would need to employ the operatives, purchase materials and provide the plant necessary to do the work. It would be

subject to the directions of the client, but would be independent of the client and, had at all times, to work pursuant to the tender document and the agreement of the client.

29. The failure to comply properly with the 1980 legislation, and the consequent failure to achieve value for money for the public living in Lambeth is seen during the 1980s when Lambeth embarked on a large number of capital building projects. These projects included Unigate Valley Road, St Johns Crescent and Foxley Road, which I deal with below.

Unigate Valley Road 1985

30. This contract was for the construction of 151 dwellings for housing on the Unigate Valley Road site at Streatham. The contract went out to tender and was awarded to the Directorate of Construction Services (DCS) which at the time dealt with Lambeth's DLO for new construction. Whilst the tender price of DCS was £4,216,000, the eventual expenditure of DCS on this contract was £8,184,857.
31. It appears that once the contract was awarded to DCS that DCS assigned almost 100 percent of the work to subcontractors, although DCS was paid for the sub-contractors' work.

32. One of those subcontractors went into liquidation and another determined the contract prior to its completion.
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33. At the tender stage the internal audit recommended much tighter financial control on this contract. The recommendation was ignored; there was no tightening of the control over this contract. The staff in control of the contract seemed to be unqualified or inexperienced.
34. One of the major weaknesses of the contract was in the management of Borough Development Directorate (BDD) the client, which seemed to be under the influence of the unions. The processing of reports to the relevant Committee was severely defective or non-existent.
35. The lack of any formal or notional contractual documents between the clients BDD and DCS meant that the contract had no boundaries. It could not start and finish at a contractual price. Problems that were thrown up by the contract had to be dealt with one by one and without any contractual or financial significance. There was no documentation between the subcontractor and DCS, and problems that arose had to be dealt with as and when they arose. It was impossible for BDD as the client to hold DCS as the contractor to any requirement. There was no proper management of the job and no supervision of DCS. In one of the external works carried out by a subcontractor, the original quotation of £244,059 ended up at £1,367,038.

36. The differences between the tender or quoted price and the final expenditure was so large, that I suspect that there may have been something much more sinister than "mere" mismanagement. However, due to the lack of documentation, in particular the complete failure to note precisely what the job was and whether it had been carried out properly or at all, means that it is impossible to come to any conclusion on this contract save to say that it resulted from unbelievably bad mismanagement and created the perfect atmosphere for abuse.
37. This contract was considered by the internal audit and by other investigations and led to a number of constructive recommendations being made. No substantive recommendations were implemented.

St John's Crescent

38. St. Johns Crescent was yet another example of a totally mismanaged contract. St. Johns Crescent was concerned with a contract for the rehabilitation and conversion into 21 flats of 4 storey semi-detached houses and 3 four storey villas. DCS's tender was accepted in the sum of £792,388 and DCS in turn sublet the builders work element of this as two contracts Nos.6 to 12 St. Johns Crescent for £297,661.48 and Nos.14 to 18 for £234,525. It appears that both DCS and BDD were unhappy with the sub-contractors performance. There were such a large number of variations and consequent increase in costs, that the sub-contractor was told by BDD to suspend works on a number of occasions, whilst DCS

attempted to obtain additional authorisations from Lambeth for the increases, through its urgency procedures. When DCS requested the sub-contractor to give a price to complete the contract, it quoted a figure of over £1.8 million. Even this figure did not take account of further architects instructions. Neither BDD nor DCS acted in a professional manner. The contract was not properly managed, the tender had errors that were overlooked. There was no independent surveys or specifications from DCS and the costs to Lambeth escalated. This contract was looked into by internal auditors who made a number of recommendations to both BDD and DCS. Neither BDD nor DCS learnt from the problems it experienced on this contract, nor did they appear to take note of the recommendations made by audit.

FOXLEY ROAD CONTRACT

39. Lambeth's Housing Committee gave approval to Phase A1 of the Foxley Road contract at the design stage estimate as at the 3rd December 1984. At that time the estimated costs was £4,050,000. In January 1985 the Housing Committee recorded that the overall priority governing housing programmes were

- (i) maximisation starts on site by May 1986 and
- (ii) maximisation of work for the capital division of DCS.

The objective of (i) seemed to be to minimise the possibility of a new Council under different political control cancelling projects after the local elections in May 1985. The second objective seems to have been the negotiation of as much work for DCS as possible. The minutes of Lambeth record satisfaction at "Lambeth's position as the biggest new build authority in London". At the end of April 1985, the design proposals of Phase C2A were estimated to be £3,100,000 and Phase A was reduced to £3,825,000. Formal DOE approval of the design stage costs was received by BDD in about November 1985. The contract went out to tender. In Phase A DCS's tender was the lowest tender and DCS was awarded the contract.

40. Having awarded Phase A to DCS, Lambeth awarded Phase C2A contract to DCS not by way of tender but by way of negotiation. From the documents I have seen, it appears that there had been an arrangement, with BDD, that if DCS was awarded Phase A they would be entitled to negotiate Phase C2A contract. DCS awarded the labour only brickwork contracts on Phase A to a sub-contractor. Problems arose between DCS and the sub-contractor and the sub-contractor's performance on Phase A began to deteriorate, and gave rise to operational and administrative problems. It seems, from the documents that I have seen, that the major dispute between DCS and the sub-contractor concerned an informal agreement between DCS and the sub-contractor, that having been awarded Phase A it would also be awarded Phase C2A. Further, it

appears that the tender rates of the sub-contractor in relation to Phase A were submitted on the basis that it would be awarded Phase C2A. In February 1987, DCS was forced to terminate the contract with the sub-contractor on Phase A. There then remained a running dispute regarding the levels of labour and costs. The Foxley Phase A contract came to a standstill. The major cause of Phase A falling into such difficulties was because of the apparent "arrangement" that the losses the sub-contractor would sustain on Phase A would be covered by the profits it intended to make on Phase C2A.

41. Thereafter the subsequent problems on retendering for bricklaying and the delays in placing orders for facing bricks fundamentally disrupted the work programme on phase C2A. The delays led to substantial losses and increased cost to Lambeth. The reports to the relevant committees were unclear and misleading.
42. I highlight the Unigate Valley Road contract, St Johns Crescent and Foxley Road because it shows not only failure to comply with the relevant legislation but gross mismanagement of these contracts by the client and contractor side of Lambeth, as well as highlighting the enormous losses to Lambeth. The mismanagement and the losses are of such proportions, that they do have all the hallmarks of fraud. However, the lack of documentation and the expiration of time, means that these contracts can

be seen only in a historical context. The substantial losses, however, can only mean that other services must have suffered considerably.

HIGHWAYS' MAINTENANCE

43. At Lambeth, the highways DLO (DLOH) formed a major part of the Council's Directorate of Civil Engineering and Public Services (DCEPS) which reported to the Public Services Committee. DCEPS provided not only the contractor role but also the client role for civil engineering work. Lambeth's maintenance DLO was organised in the DCS reporting to the Construction Services Committee. Once again, DCS provided not only the contractor role but also provided the client functions on behalf of its major client the Directorate of Housing and Property Services. In April 1991, Mr Herman Ouseley the then Chief Executive of Lambeth carried out a major reorganisation of Lambeth. He abolished DCEPS and allocated its responsibilities to other Directorates. A new Directorate of Environmental Services (DES) became responsible for a wide range of client functions including highway maintenance. The DLO(H) contractor functions was allocated to the new Directorate of Operational Services (DOS). The split of client and contractor between DES on the one hand and DOS on the other hand gave rise to a dispute between them about the amounts that should be charged to the client for 1990/91. An officer of DOS referred the dispute to the Directorate of Legal Services (DLS) for a decision and it soon became clear to DLS that there were grounds for grave concern.

44. This dispute led to the highway maintenance work becoming part of the Section 5 report and being included in my terms of reference. Since I was instructed, the District Auditor has prepared his report on this work.
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45. As in the case of the capital projects Lambeth did not comply with the requirements of the 1980 Act. Any work carried out in breach of The 1988 Act is unlawful expenditure.
46. During the period 1986 to 1991 Lambeth failed to provide an effective client contractor split between the highway department and the DLO(H). The highway engineers on the one hand and the officers in the DLO(H) were both part of the same department (DCEPS) and were not independent of each other. Client officers failed to have any detailed specification and therefore could not identify the work that was to be carried out by the contractor DLO(H). Neither, did it carry out a monitoring process either during or on completion of the contract. The client officers therefore had no means of identifying the work that should have been done nor could they be satisfied that that work had been done or properly done. This meant that expenditure of the DLO(H) could not be properly accounted for by the client officers. The DLO(H), who was intent on being awarded the contract, was therefore left by the client officers with considerable influence over the decisions. Whilst it was not expected to find a formal written contract as the client and contractor were part and parcel of one department there was no arm's length

tendering process. There was gross mismanagement of the contract and very slack financial supervision. On one occasion, a private contractor withdrew from the tendering process after experiencing difficulties in establishing any sensible support arrangement with the client side of the department. The lack of support from the client side seemed to ensure that the DLO(H) was awarded the contract at all costs, and thereby avoided the compulsory competitive tendering process.

47. The lack of independence between the client and contractor meant that the precise amount of unlawful expenditure is very difficult to identify. The record-keeping was slack, the budgetary control was lacking and any relevant documents were poor. The District Auditor concluded that the unlawful expenditure amounted to £20 million. I think that that is a proper estimate.

48. The mere fact that the expenditure was unlawful and not in compliance with compulsory competitive tendering process of The 1980 Act does not in itself lead necessarily to the conclusion that Lambeth and the members of the public did not receive value for money. However, the results of the tendering process in the latter half of 1991, showed that the difference between the prices tendered by the DLO(H) in the period 1986 to 1991 were substantially higher than those tendered by private contractors post 1992. The District Auditor has estimated that for the years 1988 to 1991

the increased costs to Lambeth on highway maintenance was £5 million.

I think that is a realistic estimate.

49. In 1986 DCEPS put out to tender an annual contract for highway maintenance. The DLO(H) was not the lowest tender, at the time, the tenders were submitted to the mayor's office. But having been returned to the DCEPS Finance Division to be arithmetically checked the DLO bid was adjusted so that it became the lowest tender. The contract was therefore awarded to the DLO(H). Having been awarded the contract the DLO(H) then subcontracted much of the work to what had been the lowest tenderer and other contractors. The District Auditor reports that the DLO(H)'s expenditure on the subcontractors' contracts and its income from the client were subsequently included in the DLO(H) accounts and that it was his belief that the arrangement was entered into so that the profit could be used to improve the DLO(H)'s rate of return. I think the tender was adjusted, so that the work could be awarded to the DLO(H) and then subcontracted so that a profit could be used to improve the DLO's rate of return. I conclude that it was the intention of DCEPS that the DLO was awarded the contract come what may.
50. The annual contract for highway maintenance was then extended not by a proper tender process, but by negotiation. Approval was then sought from the relevant officer through the urgency procedure. In my opinion

~~the urgency procedure adopted to extend contracts was a device to~~
circumvent The 1980 Act procedures.

51. When the annual contract for highway maintenance expired in June 1988 Lambeth decided to change the basis of the main contracts to be offered for competition. Up to that time contracts were let on a borough-wide basis and covered all aspects of routine maintenance. It was then supplemented by further borough-wide contracts for specialised work carried out by particular trades such as street lighting. The new proposal was however to move to district-based contracts in which each contract for a particular district included not only general maintenance work, but also all the work previously carried out by specialist contractors. I am satisfied that the main attraction of this change was that the DLO(H) had an advantage over rival contractors as they would not possess all the specialised trades required and would find the format of the contract unattractive. This change required Lambeth's approval, but it was not authorised by Lambeth and would therefore be unlawful. Post 1988 this change to the contract would have been regarded as anti-competitive and in breach of the competition regulations, and, as such the expenditure would be unlawful.
52. Whilst the ROCC computer system was blamed for lack of monitoring of expenditure on these contracts, I reject this explanation.

53. There was no proper reporting to members on these highway maintenance contracts and no proper accounts were kept. It was the practice of the DLO when issuing sub-contracts to charge the client directorate a management fee. The fees charged by the DLO were excessive and in my view unlawful. It had the effect of increasing the rate of the return of the DLO on its capital employed.
54. The Street Lighting Contract in July 1992 is yet another clear example of the DLO being awarded the contract in breach of the competitive tendering legislation. However stringent targets were set which the DLO was required to meet, if the contract was to be renewed. The DLO did not meet its targets. A Monthly Report to the relevant Committee identified the problems. But, because no decision was made on this Lambeth had no alternative but to extend the contract. This DLO has been shut down.
55. I find that there were serious management failings on the highway contracts and the delay in producing final accounts served only to delay the discovery of the problems.
56. The actions of the DLO(H) on highway maintenance contracts means that Lambeth did not receive value for money and that money could have been used by Lambeth on other services.

57. The arrangements for the carrying out of highway maintenance have improved since 1992 when the client/contractor role was separated. Nevertheless since 1992 the management supervision and control of the arrangements are still below standard. Lambeth can not proceed on the basis that the abolition of DCEPS has led to an acceptable management of the highway maintenance contracts.

Housing Repairs

58. Up to 1994 Lambeth owned approximately 44,000 council houses. Approximately 15,000 houses were transferred to Lambeth on the abolition of the GLC. Lambeth did not agree to the abolition of the GLC and obstructed the transfer of the stock. The housing repair contract is very substantial and has a budget of about £35 million a year. A budget well able to provide the repairs, if properly administered.
59. In November 1983, Lambeth fundamentally altered the way it was going to deal with repairs to housing stock. The object was that DHS would give up its client role, detaching itself from responsibility for maintenance and a high degree of decentralisation was to be introduced by introducing the concept of the neighbourhood office. 32 neighbourhood offices were to be set up. In the Independent Inquiry Report into the Directorate of Construction Services (DCS) dated July 1987, the report considered the management structure of the DCS and its relationship with other Directorates. It concluded that taking the clients role away from DHS

~~was a mistake, but that decentralisation to neighbourhood offices had~~

worked reasonably well. In particular, it made it easier for tenants to report matters requiring attention and tenants were able to identify with the work force. The report noted the difficulties of Lambeth having to absorb some 14,898 GLC dwellings, but concluded that the budget was adequate to carry out the repairs and improvements required for the whole housing stock. The report emphasised the need to separate the roles of client and contractor. The clients role falling on DHS and the contractors' role falling on (DCS). It underlined the fact that separating the roles would leave the management of DCS free to concentrate on establishing a really efficient DLO acting purely as a contractor. The report advised that there was a need for radical change in the attitude of DCS, not only in procedures, but also in the state of mind in the workforce as a whole, who should abandon its present defensive attitude. This attitude continues. The report referred to other reports on the operation of DCS and stated that they had uncovered areas where there had been no accountable procedures, workmanship was poor and where there was a serious lack of procedures designed to ensure that Lambeth obtained value for money. As seen hereafter, many of the recommendations made in that Report went unheeded. If the recommendations had been complied with, Lambeth's present problems on housing maintenance would have been lessened.

60. Lambeth's housing stock is now divided into 20 neighbourhoods and three contract areas. The Building Maintenance Department of DOS (formerly the Directorate of Construction Services) hereinafter called DOS(BM) carries out repairs on behalf of DHS in respect of 14 of the 20 neighbourhoods and in 1992 a repairs and maintenance contract in relation to the other 6 neighbourhoods was awarded to Botes on a 3 year maintenance contract. As stated above Lambeth terminated the Botes contract in October 1993 and thereafter Lambeth commenced an action against Botes alleging, inter alia, breach of contract, breach of trust and misrepresentation.

61. In 1994 Widnell Chartered Quantity Surveyors were instructed to prepare a report on the housing repair contract. They reported in February and June 1994. Widnells found that the original specification of work, required in connection with any given repair, did not to a significant extent reflect the work paid for and proper control of the work was not exercised. That in a significant number of cases the quality of the work did not meet acceptable standards. That whilst DHS had detailed procedures in place DOS(BM) did not and that neither DHS nor DOS(BM) followed procedures. Further, Widnells concluded that it did not consider that the cost of the works charged to Lambeth properly represented the value of the work done. The filing system procedures were criticised and files could not be found. The report further found that there was no supervision or confirmation that the work had been done at

all or done adequately. Lack of information relating to the work to be carried out, the completion of such work, the costing of such work and the supervision of such work made it difficult to draw any firm conclusion as to whether the expenditure by DHS was proper expenditure or unlawful expenditure.

62. During the course of my inquiry I received numerous complaints from members of the public in regard to housing repairs. The complaints ranged over a wide area. For example:

(a) Allegedly installing a damp-proof course and re-pointing walls at a cost stated by DHS to be £10,000 when the work that was carried out was a mere wiping of the walls with a bleach and repainting of the walls, the damp reappearing a few months later.

(b) Complaint that a street door was leaking when it rained. The complaint repeated to DHS on many occasions. The eventual response of DHS was that a new door had been fitted and paid for. DHS was informed that this was not correct and a new door had not been fitted. DHS without visiting the property insisted that a new door had been fitted and refused to acknowledge the complaint or inspect the property.

(c) The complainant informed DHS of the lack of repair on a number of occasions only to be told by DHS that the contractor had called at the

property but could not gain access. The contractor was not required to leave a calling card and the complainant disputed that any contractor had called. It seems that the policy of DHS is to pay the contractor a sum of money each time he alleges that he has called at the property and the complainant was not at home although there can be no proof that the contractor did in fact call.

(d) Complainant reports for example five defects in the property. The DLO(BM) carried out two of the repairs but the three repairs remain. The complainant telephones the DHS to tell them of the position only to be told that the work must have been completed fully and satisfactorily as the work has been paid for. Having looked into these matters it seems that the housing repair department had no sufficient record indicating the details of the repairs needed to be carried out. It had no information as to whether the repairs had been carried out or when, it had no information as to whether the repairs had been satisfactorily carried out and no record if dissatisfaction was registered with DHS.

63. I received numerous examples of DOS(BM) being paid by DHS for work that was not carried out.

64. The cause of so many complaints on the housing repair contract was lack of management. I accept that the contract involves a very large number of repairs, some small and some large and some arising on a day to day

basis. However, it is still essential that a proper written record of each and every repair is maintained, what the repair involves, what contractor is due to complete the repair, what will be the cost of the repair, when it is proposed that the repair will be completed, whether the repair has involved extra work and if so the amount of such extra work, whether the work was carried out satisfactorily: if not carried out satisfactorily when the job is to be re-done and whether or not extra expense will be incurred. If these details are not kept, then it will be impossible for the work to be properly dealt with or monitored.

65. The 1987 report into the Directorate of Construction Services made considerable recommendations in relation to the maintenance contract of the housing stock. It is apparent to me from the numerous complaints I have received from the public that the recommendations were not fully or properly implemented. Widnells' report repeated the recommendations and added further recommendations. I have seen little evidence of improvement. This mis-management, lack of records and careless or non-existent supervision helped to create the perfect atmosphere for abuse of the system. Financial management appeared to be unstructured if not non-existent. This approach also made it very difficult to know whether or not the system was being abused and the extent of such abuse. It would make it very difficult to know or identify a dishonest employee or a dishonest contractor.

66. Procedures are in existence in DHS and DOS(BM) that should ensure that the jobs are done properly and Lambeth receives value for money. The past has indicated that Lambeth has failed to adopt the procedures.
67. Whilst the Neighbourhood Office does have many good points (see above in para.59) their budgeting controls and records are haphazard. The offices must be well managed.
68. I remain concerned about the management of DOS(BM). The attitude of DOS(BM) and DHS remain distant and unsatisfactory.
69. The housing repair contract is providing neither a good service nor value for money for Lambeth. Strict supervision must be maintained at all times. A suitable computer network properly operated may provide significant benefits.
70. A further factor that concerns me on the housing repair contract and also concerned Widnells, was the management fee charged to DHS by DOS(BM) for supervising sub-contracts. I consider the fee was excessive and used to inflate its annual return. I believe that currently the system has been altered so as to exclude sub-contracting thus eliminating the problem of the excessive fees.

71. Lambeth must give its urgent attention to the Housing Repair Contract, but first it must satisfy itself that the management in DHS and DOS(BM) is both efficient and competent.

Nomination and Selection of Contractors for Tendered and Non-Tendered Work

72. I merely raise this matter to ensure:

- (a) that urgent action is taken to check the suitability and financial soundness of the contractors on the list;
- (b) that the contractors on the list are adequately rotated;
- (c) that if a contractor is removed from the list, he is not replaced on the list without adequate reason.

REFUSE COLLECTION

73. This contract has to go out to competitive tendering. The problem with these contracts appeared to involve the evaluation and costing of the tender. However, it appears that Lambeth received value for money, as the DLO tender was the lowest tender, no matter how the costing of the tender was dealt with.

74. This contract merely serves to underline the importance of the tender and its evaluation which must be clear, professional and in accordance with the relevant legislation.

DHS, Fraud and Debt

75. The fraudulent obtaining of housing benefit and income support by officers at Lambeth exposed in 1993, caused me considerable concern. Even in clear cases of fraud action appeared to be lacking. I felt that where there is sufficient evidence of fraud by Council employees they should be prosecuted and disciplinary action taken. One officer who was convicted and given a suspended sentence by the Court remained working for Lambeth, as did three other officers, who had fraudulently claimed benefits totalling several thousand pounds. The one officer worked in the Housing Benefit Department. In 1993, it seemed that there could be as many as 400 to 500 officers receiving fraudulent handouts. Lambeth seemed confused at the time as to what to do in these cases. I could see no justification for Lambeth's failure to take strong action in this matter. I felt that Lambeth had lost its sense of values. Lambeth has now adopted a policy to ensure that proper action is taken in the cases referred to above.
76. Housing fraud is a major problem in London and Lambeth is no exception. In 1993 I received evidence that a number of allegedly homeless people in priority need had been given accommodation on the

basis of fraudulent information. Some of these people then sublet the accommodation at a profit. There appeared to be widespread abuse of the Homeless Persons Service within Lambeth. The abuse indicated a wide knowledge in the community of how to abuse the system. And it was believed that there may be organised fraud supported by high quality forged documents. A number of these fraudulent people also fraudulently obtained housing benefit and income support. An operation was set up in 1993 to deal with these problems.

77. Sale of keys of council housing was a recurrent feature in the 1980s and early 1990s, but the Housing Department has set up a procedure with a view to ensuring that this does not continue.
78. Debt management is another area where Lambeth has dismally failed. While steps have been taken to improve this situation, the amount owed to Lambeth continues to rise. Bad or doubtful debts mean less money for Lambeth to spend on providing local services. The failure to collect debts has a direct effect on Lambeth's finances as the cash received earns interest and reduces Lambeth's need to borrow. As the auditor has pointed out the annual cost of borrowing £100,000,000 is £7,000,000, which is the equivalent to an annual charge of more than £75 for every Council tax payer.

79. It does appear to me, that in the eighties and early nineties (1991/92), Lambeth operated an unwritten policy not to collect its rates and taxes and not to collect rent and the failure to collect continues. Lambeth falls well below the national average for its collection of council tax. In 1994/95 £66,000,000 was to be collected. By October 1994 Lambeth had collected only 66% of the amount due for 1993/94 and only 38% of the amount due for 1994/95. In October 1993 the housing rent arrears amounted to over £25 million. Improvements are being made and in October 1994 the arrears had reduced to over £20 million. The failure to collect money due to Lambeth means there is less money to fund the provision of its services.
80. Recently it has been identified that Lambeth is owed 14.3 million pounds from current and former tenants in temporary accommodation. The auditor reported that Lambeth believed that 75% of the people in temporary accommodation should have their rent covered by housing benefits, but not all tenants had submitted claims and of those who did many had not supplied sufficient information for Lambeth to assess the claims properly. In early 1995 there were currently over 3,400 incomplete claims form, which if processed could have meant the award of benefits. It seems unlikely that more than a few would be completed.
81. As at October 1994 if one takes account of the arrears of Council tax, community charge, rates, non-domestic rates, debts, housing rents,

temporary accommodation and mortgage arrears Lambeth is owed over £200 million. This is an appalling record and appalling mis-management. There is no justification, or acceptable explanation as to why Lambeth is in such a bad financial state.

82. The authority's grant claims causes major problems. The claims are substantial and include housing subsidies in the sum of about £120,000,000 for the year 1993 to 1994. The public interest report issued in May 1993 referred to delays and failures to submit claims for school milk and milk product subsidy which had cost almost £30,000. Despite some improvements the authority failed to submit a claim for the 1993 term and this failure cost Lambeth £31,000 in subsidy which would have been paid if the claim had been made on time. The District Auditor stated that his report on claims set out his concerns that "a council which claims to be seriously under funded has done so little to maximise the funds which may properly be due to it". The concern remains 18 months later.

83. The above illustrates some of the problems of DHS and the Finance Directorate.

Sub-Contracting by DLO

84. I have received volumes of documents relating to the sub-contracting that used to be carried out by DLO. Currently there is no sub-contracting. The main cause of the dispute concerns firstly the treatment of sub-

contracted works by DOS in the trading accounts prepared under the 1980 Act and secondly the charges made by DOS to its internal council clients for sub-contracted work. The first matter relates to section 8 of the 1980 Act. The main issue turns on whether or not a particular item classes as functional work or is work that should be treated as non-functional work. Functional work is work for the performance or in connection with the Council's functions. However, section 8(2) places limitations on functional work, so far as sub-contracting is concerned. It provides

"Subject to sub-section 3 below where local authority... carry out ... maintenance work for the performance of or in connection with any of their functions ... by placing a contract for the doing of the work by another person either directly or in whole or in part through sub-contractors the work shall be treated as not being functional work".

and section 8(3) provides:

"That sub-section 2 shall not apply to work done under a contract if that work is dependent upon or incidental or preparatory to other construction or maintenance work undertaken or to be taken by persons in the employment of the local authority or development body".

Therefore if the work carried out by a sub-contractor is not "dependent upon or incidental or preparatory to, other construction or maintenance work undertaken or to be undertaken by persons in the employment of the local authority" it is not functional work, and, if it is not functional work it must be treated as if the sub-contractor is working directly for the

client, notwithstanding that the DLO tender covering the work had previously been made and accepted by the client.

85. Section 8 of the 1980 Act has critical financial implications for the DLO and Lambeth. As seen above, the DLO has, for example, charged DHS a management fee when a sub-contractor has been selected and contracted by the DLO. If the sub-contract does not comply with section 8, DLO cannot claim the management fee. The inclusion of the management fee in the trading account of the DLO has in some instances been vital because it has enabled the DLO to show the required 5% return where it would otherwise show a loss. Even if a management fee is allowable within the terms of section 8, it must be a reasonable fee. As stated above I consider as do Widnells, that some of DLO's fees are excessive.

86. It is essential that this dispute is clarified and that Lambeth, through its Legal or Finance Departments, provides each of the Directorates with a clear opinion as to the approach that should be made to section 8 and, in particular, how the cost of sub-contractors should be shown in the trading accounts. Thereafter each of the departments should comply with the opinion. Lambeth must adopt a clear policy on this issue.

Deficiencies in Management Organisation and Operations of Lambeth, legal, financial and Otherwise relating to the matters referred to in (a) and (b) above

~~87. I have dealt with the deficiencies in the management and organisation of~~
certain of the Directorates and turn now to deal specifically with the Legal
and Financial Departments so far as paragraph 2(a) and (b) of my terms
of reference are concerned.

88. So far as the Legal Department is concerned in the context of this Report,
my main criticism is the failure of the department to take steps to reduce
the use of the urgency procedures by Lambeth's officers and ensure that
reports are concise and clear. At one stage the urgency procedure relied
upon was merely an oral procedure. At the current time the urgency
procedure is required to be in writing. However, I think the urgency
procedure has been used by officers more as normal procedure than an
urgent procedure. I also consider that the urgency procedure has been
used at times, to "force" the Committee into giving a particular decision.
Action must be taken to reduce the use of the urgency procedure.
Continued use of this procedure is yet another example of mis-
management.

89. I have received evidence that there are a number of occasions when
reports to Committees are delayed in the Legal Department. The content
of reports is bad. They are often lacking in information and far from
clear for Committee members. The standard of reports must improve.
The report must be concise and must set out the relevant material (but no
more) required for the Committee to come to a proper decision. Many

reports are not only far too long and contain irrelevant material, but do not indicate clearly what decision is being sought from the Committee and the justification for that decision. Defects in the reports are such, that it can make Committee members wary of the decision, that is being sought from them. They also waste the Committee's time and often mean that the agenda is not covered by the relevant Committee. Bad reporting is yet another example of incompetence and bad management.

90. The relationship between a number of the Directorates and the Legal Department is strained with the Directorates criticising the Legal Department for its slowness or failure to deal with a question raised and the Legal Department criticising the Directorates for their mismanagement. These relationships must improve if Lambeth's business is to run smoothly.

Financial

91. The financial state of Lambeth can only be described as appalling. Section 151 of the Local Government Act 1972 requires Lambeth to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. There is a legal requirement to keep financial records and produce timely annual accounts, as well as:

the provision of financial advice to Lambeth;

management of Lambeth's cashflow;

ensuring that there is a proper budgetary control;

collecting all income that is due and making all properly authorised payments;

92. Until recently Lambeth failed to meet its statutory duty to publish a statement of accounts within 9 months of the end of each financial year. Public interest reports and management letters catalogue the failure to meet this deadline. As at 1993 Lambeth had failed to publish its annual accounts on time for the previous 8 years.
93. In 1994 and 1995 there was a rapid improvement in the finalisation of the accounts. However, because of the delay and the failure of Lambeth to keep or maintain detailed accurate financial information the accounts can be signed off only with heavily qualified audit opinions. Up-to-date and accurate accounts is fundamental to the effective management of any large organisation. By reason of its past failures in completing on time or accurately its annual accounts the local electors and tax payers are denied the accountability to which they are entitled. The rights of the public are severely diminished by Lambeth's failings, because they are not entitled to inspect the accounts and other documents until the accounts are put on public deposit prior to audit and they do not have the right to question the auditor or make objections to items of account until the audit has started and the passage of years reduces greatly the value of the public's rights. Without up-to-date accounts it is impossible to ensure efficient delivery of

Council services. The accounts serve as a means of identifying and rooting out bad value for money and waste of resources. Not until the accounts are completed is it possible to make important financial judgements and future budgets. Without completed accounts, Lambeth is flying blind. The continued delay in the production of Lambeth's accounts, means that its financial position remains uncertain and unsatisfactory. Lambeth cannot make realistic plans for the future unless it is confident of the resources available to it which requires the prompt finalisation of accounts. Further, it is essential that Lambeth has firm financial management to control its expenditure and income. Lambeth has had neither of these factors for many years. No one knows the true state of Lambeth's finances. This is the consequence of gross mismanagement.

94. Over the years the budget setting process has been tortuous. It has generally begun in October each year, but has not been agreed finally until the statutory deadline in March. The members and senior officers have therefore spent 5 months pre-occupied with budget setting issues leaving individual budget managers unsure of future resources and not able to plan the provision of services effectively.
95. The concerns of the district auditor in relation to the financial administration of Lambeth have been set out time and again in audit reports.

96. As a number one priority Lambeth must ensure that its Financial Department is properly and efficiently managed and its finances properly administered.

Conclusion

97. Lambeth is in an appalling mess. The financial control of Lambeth is such that vast amounts of money are wasted and, in consequence, services are severely prejudiced. What is so surprising is that many of the defects in Lambeth's administration have been identified time and time again by internal audit, by the District Auditor and by independent Reports. It seems, that while the conclusions and recommendations flowing from the audits and the reports have been readily accepted by chief officers and the political leadership, Lambeth has been totally unable or unwilling to translate its plans and ambitions into positive action. Lambeth seems intent on living in the past, and never improving its future. The time spent by officers and resources used for looking into the past is considerable, and means that less time and resource is available to improve the future. Unless Lambeth turns its time and attention to the future, the much needed improvements will never come about.
98. The source of Lambeth's problem can be traced to the eighties. Those years seem to have created a "culture" in which Lambeth is trapped. The mis-management of Lambeth has merely grown and grown and became more widespread over the years. I have not looked into each and

every Directorate of Lambeth, but I would be very surprised if any department is free from mis-management. I strongly advise Lambeth members to proceed on the basis that mis-management is to be found in each and every Directorate.

How are the changes to be achieved

99. I cannot under estimate the difficulties that are going to be encountered in making the changes that are required.

(a) The person who will be responsible for directing the changes will be the Chief Executive, Mrs Rabbatts. Members need to provide her with the flexibility and power she requires, if there is to be any hope of improvements being made to the Lambeth administration in the foreseeable future. In my view, Council members who require or demand continued investigations into the past are not acting in the best interests of the public. Mrs Rabbatts needs to be given authority to take on one or two high calibre assistants experienced in local government. Their role would be to assist Mrs Rabbatts with the management and administrative changes that need to be made in the Directorates and the monitoring of these changes.

(b) There must be a competency assessment of all employees in each Directorate or Department at managerial level. Those

employees who are not competent in their position must be removed. This will be difficult to achieve and painful. The Unions may find it distasteful. It is, however, a necessary step if Lambeth's administration and finances are to improve.

(c) There must be an urgent recruitment of high calibre, qualified and experienced officers to fill vacant or new posts at managerial level in each department. The recruitment procedure necessarily involves the members. This necessity sometimes leads to quite considerable delays in making appointments. Every effort should be made by members to ensure that delays are kept to the minimum.

(d) The Finance Department requires urgent attention. Until Lambeth establishes a sound and organised financial structure it will have no hope of improving its position.

(e) Members must be made aware of their duties and responsibilities to the electorate and the taxpayer. They should ensure that their meetings are efficient and well run.

(f) The reporting system from the Directorates to the Committees needs urgent consideration. Some reports have to pass through an unnecessary number of Committees, which results in unjustifiable

delay. Reports must be concise and clear, so that the members can clearly appreciate from the report what they are being asked to do. Reporting should improve with an efficient management structure. The urgency procedure must be limited to a genuine urgent situation.

(g) Members and officers should comply with the legislation.

100. An efficient corporate monitoring team to assist the Chief Executive and efficient management in each of the Directorates will lead to an efficient administration and a sound financial structure. An efficient and sound administration and a strong and sound financial department will ensure that fraud, dishonesty or abuse of the system is removed or at least capable of being identified and proved.

ELIZABETH APPLEBY QC

LONDON BOROUGH OF LAMBETH

INQUIRY REPORT OF
MISS ELIZABETH APPLEBY Q.C.

SUMMARY

JULY 1995

1. I was appointed in April 1993 to enquire into matters specified in my terms of reference and any other abuse that materialised during the Inquiry.
2. During the Inquiry, I became increasingly concerned that my appointment was yet another Inquiry set up by Lambeth with the real prospect of my report becoming yet another report in Lambeth's archives. At one time, during my inquiry, there were 15 Inquiries taking place in Lambeth.
3. Having considered some of the previous reports provided to Lambeth it became clear that some of the problems that I was required to look into had been the subject of previous reports in which recommendations had been made, which would have alleviated Lambeth's problems considerably if they had been implemented.
4. It appeared that most of these recommendations, whilst being welcomed by officers and members, were not implemented.
5. I am satisfied that Lambeth's difficulties can be traced back to the late 1970s and the 1980s. It was during this time that the seeds were sown which led to Lambeth's current problems. From 1979 until May 1994, apart from a few months in the early 1980s, Lambeth was in control of a Labour administration. I am satisfied that in the 1980s and early 1990s (April 1991), Lambeth's ruling party was intent on obstructing the

implementation of Government policy, in a number of areas, in particular failure to reduce public expenditure, refusal to accept the consequences of the abolition of the GLC, carrying out a policy of protecting its own workforce at all costs, thereby undermining the compulsory competitive tendering legislation brought in by the Local Government Planning and Land Act 1980 and the Local Government Act 1988. Further, I was satisfied that Lambeth operated an unwritten policy which served to undermine and severely prejudice the collection of rent, rates and taxes. And finally, it appeared to me that Lambeth applied a recruitment policy that led to staff being recruited who were not only unqualified and inexperienced, but were totally unsuitable for the job given to them. The financial structure of Lambeth became so defective, that it was not able to finalise its yearly statutory accounts in due time, and setting the yearly budget became a major operation lasting up to 6 months.

6. During the period 1979 to April 1991, the Labour administration itself was unstable and turbulent, with the unions, at times, having far too much influence and control over the party and the Council. In 1986, the District Auditor certified as due from 32 members of Lambeth, losses caused by wilful misconduct in failing to set a rate by the due date. These members were disqualified for 5 years. In March 1991, some of the members of the controlling Labour administration became so out of line with their own party, that the party itself suspended 13 members.

7. The consequences of this administration ~~has resulted in the~~ chaotic financial and administrative state that I find Lambeth in today. The administration is disorganised and chaotic. The management is appalling.
8. Lambeth's financial history means that its true financial position is unknown. The continued delay in the production of Lambeth's accounts meant that its financial position remained uncertain and unsatisfactory, it also meant that the rights of the public were severely diminished by Lambeth's failings. The public were not entitled to inspect the accounts and other documents, until the accounts had been put publicly on deposit prior to audit. When the accounts were eventually completed, they were so heavily qualified that their accuracy must be in doubt. In truth Lambeth is flying blind.
9. It is essential that dramatic improvements be made to Lambeth's structure and swiftly. The members have already made one important step in this direction by the appointment of a permanent chief executive in the form of Mrs Heather Rabbatts.
10. The Council will be able to achieve further dramatic improvements if it takes the following steps
 - (a) Authorises Mrs Rabbatt to appoint one or two persons to assist her in achieving the changes and monitoring them thereafter to ensure

that they remain permanent features. These assistants should be high calibre persons with knowledge of local government.

- (b) Competency assessments should be carried out in the Directorates at managerial level. If a person is not up to the job they are then holding, that person will have to be removed.
- (c) The recruitment policy of Lambeth overall should change, so as to ensure that persons are recruited who are capable of doing the job well. Lambeth should look for qualified and experienced persons of the highest calibre.
- (d) The Finance Department needs urgent attention. Until Lambeth establishes a sound and organised financial structure, it will have no hope of improving its position.
- (e) Members must be made aware of their duties and responsibilities to the electorate and the taxpayer and meetings of the Council should be efficient and well run.
- (f) The reporting systems of the Directorates to the Committee must be made efficient. The reports must be clear and concise, so that members clearly appreciate from a report what they are being asked to do. The urgency procedure, which over the years had

been used as a normal procedure must be limited to a genuinely urgent situation.

- (g) Members and officers should comply with the legislation. Directorates should be guided in clear terms where the legislation is unclear.

11. I am satisfied that if there is an efficient management in each of the Directorships, fraud, dishonesty or abuse of the system will be removed, or at least be capable of being identified and proved.

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