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PREM 19/291

SECRET

Confidential Filing

Waste in Local Authority Expenditure

LOCAL GOVERNMENT

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
16.5.79		23.4.80					
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PREM 19/291

PRIME MINISTER

We will leave it to Mr. H. for the Local Govt. no CAB
MAD 20/1/80

Several weeks ago, you endorsed reactions from Sir Derek Rayner and Sir Kenneth Berrill to Mr. Heseltine's response to their earlier minute about efficiency and waste in local government. You agreed to have the Rayner/Berrill comments sent to Mr. Heseltine and other colleagues in your name.

I have been holding back on this, because the build up to the Civil Service manpower Cabinet seemed likely to absorb all the attention that Ministers would currently give to these management issues.

Now that you are on the point of announcing conclusions on central government manpower and efficiency, we could return to the charge about a parallel effort in local government. You will see separately in this box a report from Mr. Heseltine that last year's overall local government expenditure out-turn is 4½% above the level requested by central government as part of the public expenditure reductions. There has been angry reaction around the country to the level of rate increases and there are threats of some additional increases to meet education salaries. In this climate, an effective campaign could be well worthwhile. On the other hand, Ministers cannot give a great deal of time to issues of this kind, and you are hoping to engage them in the central government manpower issues at present. They know that Sir Derek Rayner is behind the suggestions for an initiative on local government waste. Mr. Heseltine much prefers to stick to his own approach. A central issue in the Heseltine/Rayner and Berrill argument is the proposed Accounts Commission for local government. This will have to come back to H Committee, as Mr. Heseltine got mauled in QL when he tried to slip it into next year's legislative programme. (You are also due to have a talk with the Conservative leaders of the local authority associations early next month.)

Against this background, would you still like us to return to the charge on these matters (I attach the draft letter which has been prepared), or would you prefer to let it rest until the Accounts Commission is tackled in Cabinet Committee?

9 May 1980

MAD



10 DOWNING STREET

From the Private Secretary

30 April 1980

EFFICIENCY AND WASTE IN CENTRAL GOVERNMENT

The Prime Minister has read with interest your Secretary of State's minute to her of 12 March, and the Chief Secretary's observations on it. She has raised a number of points.

Information

The Prime Minister agrees that the preparation and publication of guidance and information on such matters as value for money, management, spending on different services and manpower should be done in a way which does not suggest that central government knows best. She thinks that your Secretary of State's initiative through the Consultative Council on Local Finance to commission work jointly by CIPFA and SOLACE provides a sound starting point, but that it will be important to ensure that the resultant data can be made generally available and, as necessary, in a form simpler than for experts.

The Prime Minister would like to know more of your Secretary of State's proposals for promoting "a national public debate" on the data to be made available, assuming for this purpose that the Advisory Committee on Local Government Audit remains in being and that the "Accounts Commission" (see below) is not established.

/Accounts

Accounts Commission for Local Government

The Prime Minister has noted the reservations expressed by the Secretary of State for Education and Science (Robert Green's letter to me of 13 February) and by the Chief Secretary. She agrees with your Secretary of State that, if the Government decided to proceed with the proposal, it would be preferable to have a single Commission for England and Wales. She accepts the general objectives he has in view but is not convinced that setting up an "Accounts Commission" would be a better way of achieving them than building on District Audit and the existing Advisory Committee.

The Prime Minister would, therefore, like your Secretary of State to take account of the following points when he consults interested colleagues in finalising his proposals:

(i) The Secretary of State recognises that the success of the proposal would depend very much on the reaction of the leaders of the local authority associations, to whom he proposes to talk informally. Given the authorities' reactions to somewhat similar proposals by the Layfield Committee earlier, it seems probable that they would equally strongly oppose the establishment of an independent Accounts Commission. Given other current problems with local authorities, benefits of the proposal (as opposed to those of other options) will have to be well established and sufficient to make the risk of further controversy worth taking.

/(ii)

(ii) It is envisaged that the Commission would have to contain at least a strong minority of local authority representatives. There must be a risk that it would be necessary to concede a majority. If that happened, the present independence of the District Audit Service, for which the Commission would have executive responsibility, could either be or be seen to be jeopardised. The Prime Minister thinks that it would be wise to assess this risk fully.

(iii) It is not clear whether the alternatives of building on District Audit and the present Advisory Committee have been thoroughly explored. Sir Kenneth Berrill and Sir Derek Rayner made some suggestions for improvement in paragraph 6 of their joint note. The new arrangement for an annual published report by the Chief Inspector of Audit is useful; the latest report makes a solid contribution on several "value for money" issues. It is true that the Advisory Committee still has to prove itself but in principle there seems to be no reason why it should not over time be strengthened, for example by giving it a statutory existence or access to audit reports on individual authorities. In that way, it might develop functions similar to those proposed by your Secretary of State for the new Accounts Commission, without assuming executive control over District Audit.

(iv) The Prime Minister is doubtful about the analogy suggested between the Accounts Commission and the Public Accounts Committee. As she understands it, the Commission would not represent the Supply function in any sense that the PAC does; to suggest that it did

/would tend

would tend to obscure the fundamental question how best to secure accountability by local authorities for resources supplied through RSG within the limits of our constitutional arrangements and conventions.

Guidance on good management, value for money and manpower

It is not clear from the Secretary of State's minute which of the recommendations made by Sir Kenneth Berrill and Sir Derek Rayner on the production of various kinds of guidance and reviews are covered by the proposed initiative through the Consultative Council on Government Finance. The Prime Minister thinks that there is at first sight a good case for including in it their recommendations 4 (value for money), 5 (management roles) and 9 (Manpower regimes).

Timetable

The Prime Minister is grateful for the robust way in which your Secretary of State and others are tackling the question of local authority efficiency in speeches and interviews; but she thinks that it would be helpful to Ministers generally to have a clear strategy, indicating what Ministers would like to have achieved, by when. She would therefore still welcome proposals from your Secretary of State for a co-ordinated campaign which could be pursued by Ministers collectively.

I am copying this to John Chilcot (Home Office), Godfrey Robson (Scottish Office), George Craig (Welsh Office), Don Brereton (DHSS), Robert Green (Department of Education and Science), Alistair Pirie (H.M. Treasury), Geoffrey Green (Civil Service Department) David Wright (Cabinet Office), Gerry Spence (CPRS) and to Clive Priestley (Sir Derek Rayner's Office).

D. A. Edmonds, Esq.,
Department of the Environment.



2pps

Local Govt.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Mark Carlisle QC MP
Secretary of State
Department of Education
and Science
Elizabeth House
York Road
London SE1 7PH

2 May 1980

Dear Mark,

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

12 April 80
Thank you for commenting, in your letter of 22 April, on my minute to the Prime Minister on this subject. I am disturbed if you believe the new block grant system will require your Department to exercise closer and more detailed oversight of local education authorities than in the past. I would certainly not see block grant as a means of determining and controlling patterns, as distinct from levels, of expenditure, and I trust we are at one on this. Of course the new system will require a better understanding of local needs and spending in response to them. But my point was that the general restraints on overspending which will be built into the new block grant system will permit us to relax our detailed controls over many matters which can best be decided at local level, while taking a firmer grip on overall economic and political strategy. MT to us

The question of the balance between the taxpayer and the ratepayer is obviously one to which we must return. What I had in mind in advocating a shift in the balance is the way in which the present high level of grant cushions the local electorate against any real appreciation of the consequences of local authorities' spending decisions for their own pockets. My own belief is that there are still economies to be achieved without substantial rate increases or serious damage to essential services. But so long as ratepayers perceive the benefits of extra local authority spending without having to find anywhere near the true marginal costs themselves, local authorities will have little incentive to mount the vigorous attack on waste which is vital. How fast and how far it is possible to go this autumn

to encourage efficiency by shifting towards a form of taxation
acknowledged to be unpopular must be a matter for collective
political judgement at the time.

I am copying this letter to the recipients of yours.

Yours
John Biffen

JOHN BIFFEN

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MAY 2 1980

Mr PATTISON

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT: DES

1. This is a late thought on the draft letter of 23 April to Mr Green.
2. I see in the TIMES report of the Home Secretary's statement yesterday on the Prison Service that the new office of HM Chief Inspector of Prisons will have the duty of, among other things, submitting "an annual report which will be published and other reports which will be made publicly available as appropriate".
3. The Inspectorate of Schools publishes the results of surveys of subject teaching or educational stages (primary, secondary) and has done so for some time, but it has not published regular annual reports on the state of education since the early years of this century. I think that it is at least worth considering whether an annual report on the "state of the nation" (which is already prepared by the Inspectorate for its own purposes) and on the return to the nation on its investment in education would be valuable. By providing useful data and an independent opinion, it should weaken the stranglehold of the educational establishment on rational debate of 'value for money' in education.
4. If agreed, you might include as a new sub-paragraph c in paragraph 2 of the draft letter the following:

"c. The Prime Minister thinks that it would greatly assist both the general public and those with local responsibility for providing educational services if the Inspectorate submitted an annual report on its view of these services' efficiency. This report, which she would think ought to be published, might concentrate on "value for money" questions. It might deal with the country as a whole, but be built up from reports on each local education authority, copies of which might be made available to the authority automatically and to others at a modest charge."
5. If this was included, the present para. 2c would become 2d, of course.

SP

C PRIESTLEY
1 May 1980



-2 MAY 1960





10 DOWNING STREET

From the Private Secretary

30 April 1980

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

You will have seen a copy of my letter of 30 April to David Edmonds (Department of the Environment) on this subject, in response to his Secretary of State's minute to the Prime Minister of 12 March.

The Prime Minister has also seen your letter of 13 February and the references to education in the note of the meeting between Ministers, Sir Kenneth Berrill and Sir Derek Rayner of 22 February. She would be grateful if your Secretary of State would let her have his further thoughts on efficiency and good management generally and on the use of his Inspectors in promoting value for money. I note below the Prime Minister's reactions on a number of points arising in these exchanges.

a. The Prime Minister recognises that over the years the Department of Education and Science has done valuable pioneering work in helping to establish means of measuring and achieving value for money. But since, as you say, education in England accounts for about half of total local authority current expenditure and manpower, it is now all the more important that the Government should press the "value for money" principle hard, in matters of both national and local application, to

/honour

honour its Manifesto commitment to help local people to get services of excellent quality.

(b) The Prime Minister hopes that priority can be given to developing means of judging what schools and colleges ought to provide and cost, but would like to know how it would be used, given the slowness to help themselves and each other mentioned on page 2 of your letter. There are already commonsense measures of the comparative cost effectiveness of local authorities and what seems to be required is a reliable combination of these and quantitative measures which parents, councillors and the Government can use. She would like to know what assessments are made by the Inspectors of local authority cost-effectiveness, whether on behalf of the local authority itself or the Secretary of State and how these are used.

(c) The Prime Minister agrees that the need to develop management competence in education is urgent. She attaches particular importance to developing the management skills of present or future senior teachers and to the Inspectors' role in this. She would therefore like an assessment of the effectiveness of existing measures and proposals for the future, including the implications of those for recruitment to the Inspectorate.

It would be helpful if the report could cover Scotland and Wales as well as England and Mr. Carlisle will no doubt wish to consult the Secretaries of State for Scotland and Wales in preparing it.

/I am copying

I am copying this letter to Godfrey Robson (Scottish Office), George Craig (Welsh Office), Don Brereton (DHSS), Alistair Pirie (H.M. Treasury), Geoffrey Green (Civil Service Department), David Wright (Cabinet Office), Gerry Spence (CPRS) and to Clive Priestley (Sir Derek Rayner's Office).

R. J. Green, Esq.,
Department of Education and Science.

Mr PATTISON

Local
Govt
has seen

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

In response to your minute of 14 April, I
attach draft letters to Mr Edmonds (DOE) and
Mr Green (DES) for your consideration.

Sp

C PRIESTLEY

23 April 1980

DRAFT OF 23 APRIL 1980

D A Edmonds Esq
Department of the Environment

EFFICIENCY AND WASTE IN CENTRAL GOVERNMENT

1. The Prime Minister has ^{*read with interest*} ~~seen~~ your Secretary of State's minute to her of 12 March, and the Chief Secretary's observations on it, ^{*she has raised a number of points.*} ~~and has asked me to let you have the following comments.~~

The Information base

2. The Prime Minister agrees that the preparation and publication of guidance and information on such matters as value for money, management, spending on different services and manpower should be done in a way which does not suggest that central government knows best. She thinks that your Secretary of State's initiative through the Consultative Council on Local Finance to commission work jointly by CIPFA and SOLACE provides a sound starting point, but that it will be important to ensure that the resultant data can be made generally available and, as necessary, in a form simpler than for experts.

3. The Prime Minister ^{*would like to know more of*} ~~will be glad to know your~~ Secretary of State's proposals for promoting "a national public debate" on the data to be made available, assuming for this purpose that the Advisory Committee on Local Government Audit remains in being and that ^{*the*} "Accounts

Commission" (see below) is not established.

"Accounts Commission for Local Government"

4. The Prime Minister has noted the reservations expressed by the Secretary of State of Education and Science (Robert Green's letter to me of 13 February) and by the Chief Secretary. *She*

5. ~~The Prime Minister~~ agrees with your Secretary of State that, if the Government decided to proceed with the proposal, it would be preferable to have a single Commission for England and Wales, *she accepts* and with the general objectives he has in view (~~eg better monitoring of local authority accounts, with a heavier emphasis on value for money, better comparative analysis and wider publicity~~), but ~~she~~ is not convinced that setting up an "Accounts Commission" would be a better way of achieving them than building on District Audit and the existing Advisory Committee.

The P-M — therefore
B. *She* would like your Secretary of State to *take account* consider the following points *when he consults interested colleagues* in consultation with relevant Ministers *in finalising his proposals:* in working up his final proposals:

a. i The Secretary of State recognises that the success of the proposal would depend very much on the reaction of the leaders of the local authority associations, to whom he proposes to talk informally. Given the authorities'

reactions to somewhat similar proposals by the Layfield Committee earlier, it seems probable that they would equally strongly oppose the establishment of an independent Accounts Commission. Given other current problems with local authorities, ~~it is desirable that the~~ benefits of the proposal, ^(as opposed to those of other options,) ~~are~~ ^{will have to be} well established and sufficient to make the risk of further controversy worth taking.

~~ii~~ It is envisaged that the Commission would have to contain at least a strong minority of local authority representatives. There must be a risk that it would be necessary to concede a majority. If that happened, the present independence of the District Audit Service, for which the Commission would have executive responsibility, could either be or be seen to be jeopardised. The Prime Minister thinks that it would be wise to assess this risk fully.

~~iii~~ It is not clear whether the alternatives of building on District Audit and the present Advisory Committee have been thoroughly explored. Sir Kenneth Berrill and Sir Derek Rayner made some suggestions for improvement in paragraph 6 of their joint note. The new arrangement for an annual published report by the Chief Inspector of Audit is useful; the latest report makes a

solid contribution on several "value for money" issues. It is true that the Advisory Committee still has to prove itself but in principle there seems to be no reason why it should not over time be strengthened, for example by giving it a statutory existence or access to audit reports on individual authorities. In that way, it might develop functions similar to those proposed by your Secretary of State for the new Accounts Commission, without assuming executive control over District Audit.

d. The Prime Minister is doubtful about the analogy suggested between the Accounts Commission and the Public Accounts Committee. As she understands it, the Commission would not represent the Supply function in any sense that the PAC does; to suggest that it did would tend to obscure the fundamental question how best to secure accountability by local authorities for resources supplied through RSG within the limits of our constitutional arrangements and conventions.

Guidance on good management, value for money and manpower

7. It is not clear from the Secretary of State's minute which of the recommendations made by Sir Kenneth Berrill and Sir Derek Rayner on the production of various kinds of guidance and reviews are covered by the proposed initiative through the Consultative Council on Government Finance. The Prime Minister thinks that there is at

first sight a good case for including in it their recommendations 4 (value for money), 5 (management roles) and 9 (manpower regimes).

Timetable

8. The Prime Minister ~~recognises~~ and is grateful for the ^{robust way in} ~~vigour~~ which your Secretary of State and others are ^{tackling} ~~bringing~~ to the question of local authority efficiency in speeches and interviews; ^{she} but ^{that} thinks it would be helpful to Ministers generally to have a clear strategy, indicating what Ministers would like to have achieved, ~~or helped to have achieved~~, by when. She would therefore ^{still} welcome proposals from your Secretary of State for a co-ordinated campaign which ^{could} ~~can~~ be ^{by Ministers collectively} ~~settled~~ ^{pursued} at a meeting of Ministers [in the near future].

9. I am copying this to John Chilcot (Home Office), Godfrey Robson (Scottish Office), George Graig (Welsh Office), Don Brereton (DHSS), Robert Green (DES), Alister Pirie (Treasury) ~~and~~ Geoffrey Green (CSD) ~~and~~ ^{Cabinet Office} ~~to~~ David Wright, ^{CPRS} Gerry Spence and Clive Priestley ^(Sir D. R. office) ~~(Cabinet Office).~~

M A PATTISON

DRAFT OF 23 APRIL 1980

RT

J R Green Esq
Department of Education and Science

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

You will have seen a copy of my letter of [date]

1. ~~I enclose your copy of a letter~~ to David Edmonds (DOE) on this subject, in response to his Secretary of State's minute to the Prime Minister of 12 March.

2. The Prime Minister has also seen your letter of 13 February and the references to education in the note of the meeting between Ministers, Sir Kenneth Berrill and Sir Derek Rayner of 22 February. She would be grateful if your Secretary of State would let her have ~~by [30 May]~~ his further thoughts on efficiency and good management generally and on the use of his Inspectors in promoting value for money. ~~The Secretary of State may wish to take account of the following points~~ *to or a number of points arising in these exchanges.* ~~which the Prime Minister has asked me to convey to you.~~ *The Secretary of State may wish to take account of the following points* ~~which the Prime Minister has asked me to convey to you.~~ *to or a number of points arising in these exchanges.*

a. The Prime Minister recognises that over the years your ^{DES} Department has done valuable pioneering work in helping to establish means of measuring and achieving value for money. But since, as you say, education in England accounts for about half of total local authority current expenditure and manpower, it is now all the more important that the Government should press the "value for money" principle hard, in matters of both national and local application,

to honour its Manifesto commitment to help local people to get services of excellent quality.

b. The Prime Minister hopes that priority can be given to developing means of judging what schools and colleges ought to provide and cost, but would like to know how it would be used, given the slowness to help themselves and each other mentioned on page 2 of your letter. ~~Her provisional view is that~~ ^TThere are already commonsense measures of the comparative cost effectiveness of local authorities and ~~that what is~~ ^{what seems to be} required is a reliable combination of these and quantitative measures which parents, councillors and the Government can use. She would like to know what assessments are made by the Inspectors of local authority cost-effectiveness, whether on behalf of the local authority itself or the Secretary of State and how these are used.

c. The Prime Minister agrees that the need to develop management competence in education is urgent. She attaches particular importance to developing the management skills of present or future senior teachers and to the Inspectors' role in this. She would therefore like an assessment of the effectiveness of existing measures and proposals for the future, including the implications of these for recruitment to the Inspectorate.

3. It would be helpful if the report could cover Scotland and Wales as well as England and Mr Carlisle will no doubt wish to consult the Secretaries of State for Scotland and Wales in preparing it.

4. I am copying this to Godfrey Robson, (Scottish Office) ^{to} ~~and to~~ George Graig (Welsh Office) and ~~to the other recipients.~~
~~of copies of my letter to David Edmonds.~~

M A PATTISON



file Local Govt
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10 DOWNING STREET

From the Private Secretary

MR. PRIESTLEY

The Prime Minister has seen Sir Derek Rayner's minute of 3 April, about efficiency and waste in Local Government.

She is in general agreement with the comments made by Sir Derek and by Sir Kenneth Berrill. I would therefore be grateful if you could now let me have draft letters to the Private Secretaries at DES and DOE.

I am sending copies of this minute to David Wright (Cabinet Office), and Gerry Spence (CPRS).

M. A. PATTISON

14 April 1980

TWR

Prime Minister

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If you broadly go along with Derek Rayner's and Ken Berrill's (see Flag B) comments,

PRIME MINISTER

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

Yes please not

I will get Derek Rayner's people to draft minutes for you to send to Mr Heseltine and Mr Callaghan.

Flag A ✓
Flag B ✓
Flag C ✓

1. You asked for my comments on the Secretary of State for the Environment's minute of 12 March.

2. I have seen Sir Kenneth Berrill's note to Mr Pattison of 27 March and agree with all that is said there. I have also seen the letter from the Secretary of State for Education and Science's private secretary to Mr Pattison of 13 February.

R

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(There is also a minute of Flag D from

Accounts Commission

3. I would add these comments to those made by Sir Kenneth Berrill -

to Unit Secretary -

a. I note that the Secretary of State for Education and Science thinks, as Sir Kenneth Berrill and I do, that it would be preferable to build up the District Audit Service rather than create an Accounts Commission. Indeed, I suspect that enthusiasm for this body is at best luke warm outside DOE.

he, like Rayner, dislikes the idea of an

b. I earnestly hope that, if the Commission is established, it can cover both England and Wales; I agree with Mr Heseltine's preference on this point.

Accounts Commission

R

c. I think that Mr Heseltine's reference to the Public Accounts Committee as a possible analogue may be open to question, on two counts -

i. The PAC represents Parliament as the giver of Supply. The Accounts Commission would not, as I understand it, represent the Supply function in any sense that MPs in the PAC represent it. To suggest that it did, in my view, would obscure the fundamental question whether the Government or Parliament want accountability by local authorities for resources supplied through RSG.

ii. The PAC model of accountability, in my view, places too much emphasis on investigating bad management. I believe that bad management can best be recognised and analysed if pains are taken to consider examples of good management as well.

d. Does the creation of the Commission square with the Government's policy to provide for greater local responsibility and, if not, what are the additional benefits compared to the alternatives put forward in our minute of 4 January?

Guidance on Good Management, Value for Money and Manpower

4. It is unclear from the Secretary of State's minute which of our recommendations on the production of various kinds of guidance and reviews are covered by the proposed initiative in the Consultative Council on Government Finance. You might wish to confirm with the Secretary of State that it will include Recommendations 4 (value for money), 5 (management roles) and 9 (manpower regimes), which I regard as a package, and also ask for a clear indication of the timetable to which he would be working.

Campaign Timetable

5. Whilst recognising and applauding the "vigorous campaign" being waged by the Secretary of State and his colleagues, I suggest that you ask for details of the campaign strategy, very much on the lines, "What do we want to have achieved by when?"

6. I firmly believe that it is important for any campaign, if it is to succeed, to be co-ordinated and targeted at specific things. The Annex to our minute was intended to provide guidance for such a strategy.

Education

7. I strongly support Sir Kenneth Berrill's suggestion that you ask Mr Carlisle for his conclusions on the role of the inspectorate in the context of getting value for money. Mr Carlisle was quite specific in saying at Mr Heseltine's meeting with us on 22 February that the Inspectorate lacked management experience and that their basic objective had not previously been concerned with cost effectiveness. So, if I may suggest it, I think you might ask for Mr Carlisle's views not "in due course" but by the end of the month.

8. In writing to Mr Carlisle I would urge you also to invite him to be very specific about the DES's contributions to effective management, again on a "campaign" basis as in paragraph 5 above. Sir Kenneth Berrill and I may indeed be "ignorant" of the detailed ways in which DES and its inspectors work, but he has had the advantage of being Chairman of the UGC and I the employer of many thousands of young people who have passed through the educational systems of the United Kingdom and Canada. I may not have an intimate knowledge of what happens in Elizabeth House, but I do know enough about the products of the system to find Mr Green's letter to Mr Pattison very disappointing. It did not in my view offer a convincing rebuttal of our observations or our suggestion that there is a need for a greater central lead on standards and an increased inspectorial role for the Inspectorate. I was particularly struck by these points -

a. The view that "value for money" is dependent on levels of expenditure.

This is so.
b. That, despite the presence of its inspectors in the field, DES does not know with any assurance how well an authority is operating. (This I find astonishing given the level of expenditure on education.)

c. The welcome attempt to determine standard expenditure for individual authorities "may be inhibited by constraints on manpower". (Surely this is a matter of priorities within DES?)

d. The suggestion that, despite the undoubted importance of the management function in education, DES's promotional activities "are likely to be vulnerable to the current squeeze on resources".

9. Although I recognise the difficulties attending DES's position in our constitutional arrangements, I think that the people for whom the educational service exists would only benefit from the development and application of a clear, thought-out DES policy on "value for money". I recognise too that, as Mr Green says, DES has done pioneering work over the years. So I hope that Mr Carlisle would produce for you a wide-ranging strategy as part and parcel of the Government's campaign on the people's behalf to help them get excellent local services.



Next Steps

10. If it would help, my office would be glad to produce draft letters to the Secretaries of State for the Environment and Education.

11. I am copying this to Sir Robert Armstrong and Mr Ibbs.

A handwritten signature in blue ink, which appears to read "Derek Rayner", is written over a horizontal line. The signature is fluid and cursive.

DEREK RAYNER

3 April 1980



PRIME MINISTER

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

I found Michael Heseltine's reactions (in his minute to you of 12 March) to the paper by Sir Kenneth Berrill and Sir Derek Rayner an interesting insight into his plans for progress on the local authority front. You may like to have my views.

It is of course for Michael to take the lead in formulating judgements about the interaction between central and local government. I support the general thrust of his policies, particularly his plans for increasing ratepayer involvement and local authority accountability. These strike me as a good way of giving the policy on waste a momentum of its own, and more effective than detailed involvement by central government in local authorities' affairs. Our role must be to ensure that the financial and other systems for which we are responsible encourage - or at least do not deter - good housekeeping and active local monitoring.

Block grant fits in very well with this strategy since it acts as a disincentive to overspending by local authorities while avoiding scrutiny of details. The same reasoning leads me to question whether it makes for efficiency for the tax-payer to meet, on average, more than half of local authorities' current costs. The greater the proportion of local financing, the greater the stimulus to ratepayers to challenge both the amount and the deployment of local authority spending. This is an issue to which we should return in the autumn in deciding on the terms of RSG settlement for 1980-81.

Michael's minute lays considerable stress on the role of the District Auditor in identifying and advising on elimination of wasteful practices, both in specific and general terms. This is obviously an area where we can and should encourage effective financial discipline, but I am not yet persuaded that an Accounts Commission would in fact be the best way forward. The views of the local authorities, which Michael is now seeking informally, will of course be a major consideration when H Committee reconsider the proposal for a Commission, but I think we should be cautious about embarking on such a scheme if they are opposed to it, especially if the gains involved are more presentational than practical. In those circumstances strengthening the existing local audit arrangements might in the end be just as effective.

I am copying this letter to the recipients of Michael Heseltine's.

W.J.B.

JOHN BIFFEN.

R 2/4

2 - APR 1980

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RESTRICTED

Qa 04985

To: MR PATTISON

From: SIR KENNETH BERRILL

Efficiency and Waste in Local Government

1. You asked me for comments on the Secretary of State for the Environment's minute of 12 March. I list these below under three heads, corresponding to the main issues which were discussed in the note which Sir Derek Rayner and I put to the Prime Minister on 4 January and which we have subsequently discussed with Mr Heseltine and other Ministers. Sir Derek is out of the country at the moment and I am, therefore, commenting separately rather than jointly.

A. The proposed Accounts Commission and the future of District Audit

2. In his note Mr Heseltine is concerned mainly with his proposed new Accounts Commission for Local Government for England and Wales (or possibly one Commission for each separately). There is no disagreement about the objectives. They include strengthened monitoring of local authority accounts (with special emphasis on value for money), better comparative analysis, and wider publicity. But in our original note, Sir Derek Rayner and I expressed some doubt whether setting up the proposed Accounts Commission, as opposed to building on District Audit and the existing Advisory Committee on Local Government Audit, would be the best way of achieving these objectives. As the responsible Minister, Mr Heseltine's views must carry considerable weight; nevertheless the Prime Minister might wish to raise the following points -

(a) Mr Heseltine proposes to talk informally with leaders of the local authority association and recognises that the success of his proposal would very much depend on their reaction. But given the authorities' earlier reactions to somewhat similar proposals by the Layfield Committee, there must be a strong risk that the setting up of an independent Accounts Commission would be strongly opposed by local government interests. Given also other current difficulties with local authorities (particularly over the Government's block grant

RESTRICTED

proposals), one needs to ask whether the benefits of the proposal (as opposed to other options) are sufficiently clearly established to justify the additional controversy.

(b) The composition of the Commission is not yet determined. It is envisaged that it would have to contain at least a strong minority local authority representation, but what are the chances that it would be necessary to concede a majority. If this happened, would the present full independence of the District Audit (for which the Commission would have executive responsibility) be jeopardised? This would be a retrograde step. Has this risk been fully assessed?

(c) Have the alternatives of building on District Audit and the existing Advisory Committee been sufficiently explored? On improving district audit Sir Derek and I made some suggestions in paragraph 6 of our joint note. In addition, the new arrangement for an annual published report by the Chief Inspector of Audit is a valuable one, and the latest (second) report makes a useful contribution in a number of 'value for money' areas. So far as the Advisory Committee is concerned, it has still to prove itself. But in principle there seems no reason why it should not over time be further strengthened, e.g. by giving it a statutory existence, or by giving it access to audit reports on individual authorities (which are already publicly available in their own areas). In this way, one could see it developing functions similar to those proposed by Mr Heseltine for the new Accounts Commission but without executive control of District Audit.

3. The Prime Minister might like to suggest that, before the Secretary of State's proposals are put to colleagues in H (or discussions opened with the Associations) these points should be specifically considered.

4. The Prime Minister may also like to note that, although the Accounts Commission set up in Scotland in 1975 has to some extent been seen as a precedent both for the present proposal and for Layfield's similar proposal; in fact the starting point for the Scottish Commission was very different. Until recently all local government audit in Scotland was in private hands and only under the new Commission is the public audit function being built up.

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This contrasts with England and Wales where 95 per cent of audit is in the hands of District Audit and which provides a base on which to build which was not available in Scotland.

B. Publication of Information.

5. In our joint note, Sir Derek and I recommended that central and local government should collaboratively prepare and publish guidance and information on such matters as value for money, management, spending on different services and manpower. For my part, I agree very much with Mr Heseltine that this should be done in a way which does not suggest that central government knows all the answers already, and I think that Mr Heseltine's proposal, viz. for an initiative through the Consultative Council on Local Finance to commission work jointly (possibly from CIPFA), provides a sound starting point. Other contributions will be made through the publication of standardised financial information on which good progress is now being made, and - particularly on value for money - through the annual reports by the Chief Inspector of Audit and the Advisory Committee (or of course - if it were to be set up - by the Accounts Commission).

C. Inspectorates.

6. The Prime Minister felt that our recommendations on inspectorates and the management of education were worth pursuing in their own right, but that they should be separately considered by the Secretary of State for Education (your letter of 18 January to Mr Edmonds). Mr Carlisle was present at our discussion with Mr Heseltine on 22 February (you have the minutes of this meeting), when Mr Carlisle agreed that his Department would consider in more detail the role of the Inspectorate in the context of getting better value for money. The Prime Minister might wish to ask Mr Carlisle separately to let her have his conclusions on this in due course.

7. I am sending a copy of this minute to Sir Derek Rayner and Sir Robert Armstrong.

KB

27 March 1980



27 MAR 1960



local Govt

10 DOWNING STREET

From the Private Secretary

B/F24/380

MR. PRIESTLEY

The Prime Minister has seen the Secretary of State for the Environment's minute of 12 March, about efficiency and waste in local government.

She has noted that Mr. Heseltine does not seem disposed to suggest any new action in response to the ideas put forward by Sir Derek Rayner and Sir Kenneth Berrill, but that he regards work already in hand as meeting some of the points in question.

The Prime Minister would be interested to see comments from your office, and Sir Kenneth Berrill, before she decides how to respond to Mr. Heseltine.

I am sending copies of this minute to Gerry Spence (Central Policy Review Staff) and David Wright (Cabinet Office).

M. A. PATTISON

17 March 1980

APB

PRIME MINISTER

Flag A

This is Mr. Heseltine's response to your request to him to consider the Rayner/Berrill ideas for a campaign on waste and efficiency in local government.

I expect that Sir Derek Rayner will want to respond to this in due course. This is not a very positive reply to the ideas. Mr. Heseltine is saying that the work he has in hand already will go some way to meeting the Rayner/Berrill targets; that he still regards his Accounts Commission as an important part of improving accountability; and that the idea of providing guidance to elected members of local authorities about value for money/efficiency questions, best practice elsewhere, is a move in the wrong direction for central Government.

Would you like to withhold a response until you see what comment colleagues produce?

Yes - but we must not wait too long.

S.J. Pike Duty Clerk
M MAP

14 March 1980

A

PRIME MINISTER

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

Following your Private Secretary's letter to mine of 18 January, I have now had an opportunity, with Mark Carlisle, Nicholas Edwards, and my colleagues here, to discuss with Sir Kenneth Berrill and Sir Derek Rayner their paper on this subject. I am now writing to give you and our other colleagues a progress report.

We are, I think, all agreed on the need to promote better-informed criticism of local government performance, both internally by elected members and externally by local public opinion. The conspicuous lack at the moment is in the information, and especially the comparative information, which can provide the basis for this. I have a number of measures in hand which I think will go a long way to remedy this and to meet the objectives to which the Berrill/Rayner paper is addressed.

The first of these is to secure the publication by local authorities of standardised financial information. I am seeking power, in the Local Government Planning and Land (No 2) Bill, to require local authorities to publish information in a form which will give the local electorate a much more precise idea of how well their Council is using its resources. It is vital that in this enterprise we should have the co-operation of local government itself; and I am delighted to say that the local authority Associations have agreed to commission, jointly with my Department, a study to propose what this information should be and to develop a Code of Practice about its

publication and dissemination. This study is being undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) and is due to be completed in April. I shall consider this code of practice and discuss it with management accountants experienced in local government work before agreeing it. And of course the Code of Practice will if necessary have statutory backing.

We are, as you know, publishing from this month in the quarterly Joint Manpower Watch manpower totals for individual authorities together with year on year changes. As soon as I have the necessary powers I shall see that these figures are also broken down service by service.

But financial and manpower information about individual local authorities is only the first requirement; and, within the manpower information, it may be desirable to distinguish between the operational services and the supporting administration as we do in defence. We also need central collation, analysis and publication in order to produce proper comparisons between authorities. The great diversity of geographical, social and economic environments in which individual authorities operate requires these comparisons to be very carefully drawn if they are to carry conviction. The District Audit Service already contains a considerable amount of expertise in this area. But until very recently this has been deployed primarily if not exclusively in the context of individual audits, and there has been no machinery for basing a national public debate upon it. In the last two years, however, for the first time, the annual report of the

Chief Inspector of Audit has been published; and the Advisory Committee on Local Government Audit (chaired by Mr Brian Maynard of Coopers and Lybrand), appointed about a year ago by our predecessors, which receives that report, will issue its own first report this spring. This is a valuable development in opening up a discussion in this area at national level, and especially in promoting comparative studies.

An Advisory Committee however has in my view some important disabilities. It has no statutory existence, no formal powers, and no staff, except a small part-time secretariat provided by my Department. I wish to build on existing developments by establishing an Accounts Commission. The objection is to merge as far as possible 3 existing bodies. The Advisory Committee, District Audit and LAMSAC.

My proposal for an Accounts Commission is intended to strengthen and deepen the kind of work which the Advisory Committee has begun to do by making it a more powerful body and giving it executive responsibility for the operation of the District Audit service. It would have access to the auditor's reports on individual authorities, which the Advisory Committee does not have. The statutory powers of the District Auditor would remain as they are under this Government, and the independent position of the Chief Inspector of Audit would also be safeguarded. The Commission would provide a form of independent, public and formal supervision for the work of the District Audit Service which it now lacks and which could in time give the work of the Service the kind of publicity and authority which (allowing of course for the

constitutional differences) the Public Accounts Committee now gives to that of the Comptroller and Auditor General and his staff.

The Commission would also be able to use private auditors to audit individual authorities under the Chief Inspector and thus open the way to an increase in private sector participation in this important work. The costs of the Commission would be borne by Audit fees, as those of the District Audit are now, though I would not rule out the possibility of making small Government grants to it for particular purposes. The District Auditors would cease to be civil servants and would be employed by the new body.

I envisage that the membership of the Commission would be partly independent and partly representative of local government, with an independent chairman. I would wish local government to see it as its own instrument for helping it to raise its standards of efficiency and value for money in the longer term. The question of whether the Commission should cover both England and Wales, or whether there should be separate arrangements for the two countries is something which the Secretary of State for Wales and I will be discussing further. If there were to be a single Commission which I would prefer its members would, of course, be appointed by the Secretary of State for Wales and me.

The Commission would if local government will agree be a means of improving and extending the work of the Local Authorities Management Services and Computer Committee (LAMSAC). This body is run by the local

authority Associations but jointly funded by them and my Department. It has done some useful work in the value for money field but I do not believe that, for a number of reasons which I need not pursue here, its full potential has been achieved. Management accounting work is urgently needed in local government and rather than build up this expertise in the District Audit I would rather draw on an existing capacity.

I am convinced that the Accounts Commission, properly established, could be the means of bringing about that strengthening of District Audit on which the Berrill/Rayner paper lays stress, rather than an alternative to it. But before I bring this subject formally back to my colleagues in the Home Affairs Committee I intend first to discuss it informally with the leaders of the local authority Associations, since I believe that its success will depend very much on how they react to it.

The Berrill/Rayner paper also proposes the production of various kinds of guidance for elected members and others on efficiency and value for money. I do not myself think that central Government is well placed to do this effectively. The paper itself refers to the danger of "the Whitehall pot calling the Town Hall kettle black". We do not have so good a track record ourselves. What is needed, if it is to be effective, is guidance which issues at least partly from local government itself and disseminates its own best practice (we must not forget that standards in some authorities are already high). I think that we might best make progress here by means of an initiative in the Consultative Council on Local Government Finance, to whom I would propose that we should

jointly commission, perhaps from CIPFA, the production of material on the lines envisaged in the paper. This would cover, in particular, the use of performance review committees. I am encouraged here by the readiness with which we have secured the Associations' collaboration in the studies on publication of information mentioned above.

The Berrill/Rayner paper also proposes a campaign by Ministers. However my colleagues and I are already conducting a vigorous campaign on this issue in interviews and speeches, and have every intention of continuing to do so. I am now exploring new methods of using visual aids and similar advanced communication techniques to involve local councillors in what can be achieved in the better run authorities. I am also exploring what information the outside management accounting companies possess that might help.

I am copying this letter to Willie Whitelaw, John Biffen, Patrick Jenkin, Mark Carlisle, Nicholas Edwards, George Younger and Paul Channon; and to Sir Kenneth Berrill, Sir Derek Rayner and Sir Robert Armstrong.

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12 March 1980

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12 MAR 1980



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JMD

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

Note of a meeting held at the Department of the Environment
22 February 1980

Present:

Secretary of State for the Environment
Secretary of State for Education
Secretary of State for Wales
Minister for Local Government and Environmental Services
Parliamentary Under Secretary of State DOE (Lord Bellwin)

Sir Derek Rayner
Sir Kenneth Berrill
Mr Clive Priestley

Sir John Garlick
Mr Cole
Mr Gruffydd Jones
Mr Ennals
Mr Heiser
Mr Osborn
Mr Kimmance
Mr Edmonds
Mrs Hewlett Davies

DOE

Mr Ulrich

DES

Mr Girling

DTp

Mr Craig

Welsh Office

1. The Secretary of State for the Environment said that the meeting had been arranged to discuss the minute submitted to the Prime Minister by Sir Derek Rayner and Sir Kenneth Berrill of 4 January, and the initial reactions of the Prime Minister, recorded in the letter circulated by her office on 18 January. Four broad issues had been identified: improving audit arrangements in local government, either by the setting up of an Accounts Commission or by strengthening the existing advisory group or the district audit service; the need for publication of comparative information on local government costs and practices; the mobilisation of public opinion and a campaign by Ministers; the role of the Inspectorate in education.

LOCAL GOVERNMENT AUDIT ARRANGEMENTS

2. Sir Derek Rayner said that one doubt about an Accounts Commission arose from the effects of setting up a new bureaucratic organisation, which would take on its own staff and develop its own momentum, without being subject to Ministerial control. His preference would be for a strengthening of the existing Advisory Group, and a stronger district audit service. The Secretary of State for the Environment said that he shared totally the objective of greatly improved management accounting in local government. Preliminary discussions had now taken place on a possible Audit Commission, which would take in the existing Advisory

Group, the Local Authority Management Services Advisory Committee (LAMSAC), and the district audit service. This would bring about considerable privatisation of public sector activity; reduce public sector manpower; merge 3 bodies - including a Quango - into one; and integrate effectively local and central expertise. Advisory groups were generally ineffective.

3. In discussion the following points were made:

- i. the existing district audit service functioned on a highly independent basis; the Secretary of State appointed the Chief Inspector, but did not interfere with day to day activities, which were on a statutory basis. Audit service costs were fully met by fees; this would continue with a Commission;
- ii. LAMSAC carried out a great deal of useful work, but it was not effectively disseminated; one result of a strengthened Commission would be to publicize good practice.

4. Summing up the discussion on this point, the Secretary of State for the Environment said that it was now important to set out the options for, and the implications of, an Accounts Commission, in more detail, taking account of the points made by Sir Derek Rayner. He would circulate shortly a paper to colleagues, prior to discussion with the local authority associations.

PUBLICATION OF INFORMATION

5. The Secretary of State for the Environment explained the comprehensive range of powers incorporated in the Local Government Bill to secure publication of relevant information. He had asked the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society for Local Authority Chief Executives (SOLACE) to work with officials on the form and type of information, but he also wanted to commission work from independent management consultants from the "consumer" viewpoint. Sir Derek Rayner said that it was important for the local electorate to be presented with facts which could be used to put pressure on councillors; and Sir Kenneth Berrill added that the local media should be given information on which could be based penetrating local debate.

6. In discussion the following main points were made:

- i. central/local relationships were already very strained. Great sensitivity was needed in handling any issues which implied central government laying down standards, or guidelines;
- ii. the first objective of DOE was to get information published locally; the next stage would be to pull information together for central publication, as a second phase;
- iii. there was a potential contradiction between the objective of central government withdrawal from "nannying" of local government and issuing the type of detailed guidance implied by centralised standards and advice;

- iv. there were considerable difficulties in measuring the output of local government, especially on a comparative basis;
- v. it was arguable too that central government should give a lead - as DOE already was with the publication of planning appeal statistics;
- vi. careful consideration was needed of what information was published and in what form;
- vii. a major need was to give councillors adequate information for unless they became cost-conscious effective control over a bureaucracy whose interest was in spending rather than saving was unlikely; the example of progress in this areas was the abolition of Parker Morris and project control in housing.

7. Summing up this part of the discussion, the Secretary of State for the Environment said that there was general agreement that the local electorate and local councillors needed better, fuller and comparative information. Ministers collectively would need to consider the scope offered by the information clauses in the Local Government Bill. This was a critically important area; a great deal of local government resistance would need to be overcome.

A CAMPAIGN TO MOBILIZE PUBLIC OPINION

/to 8. The Secretary of State for the Environment said that he was totally committed to making available/councillors and ratepayers the widest practicable amount of useful information. But, as the last part of the discussion had showed, there were problems. Local government would resent what they would see as central government interfering in local issues. Yet to be useful, central government would have to concentrate on specifics and on comparisons to mobilise opinion. Sir Derek Rayner said that it was essential to educate the councillor and that making available to him examples of good practice was a first and fundamental step.

9. In discussion the following main points were made:

- i. the large rate increases likely in spring of this year would concentrate public opinion;
- ii. many local government functions were determined by the requirements of local government. The functional committee at the local level was generally more concerned with spending than saving; on the other hand in recent months a realisation had grown up in local government that resources were limited and the campaign of the Secretary of State for the Environment for reductions in expenditure had begun to be effective;
- iii. it was important that councillors should set from the top a budget limit rather than budgets being made up by aggregating from the demands of every level;
- iv. capital projects were still not handled well in local government, and, in particular, the capital implications needed to be brought home. Central government could play

- a much more constructive role;
- v. performance review committees in local government were of great value and this concept should be encouraged whenever possible;
 - vi. it was arguable that, perhaps especially in education, local authorities were now seeking to constrain rather than to increase expenditure. There was a genuine fear of rate increases.

10. Summing up this part of the discussion, the Secretary of State for the Environment said that the points made by Sir Derek and Sir Kenneth needed to be taken into account in considering the action that should now be taken. Some significant progress had been made; more was possible. In the light of the discussion he would make specific proposals to Ministerial colleagues, including performance review committees.

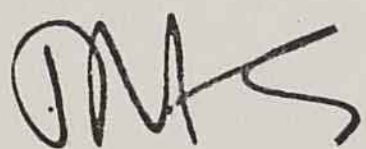
THE ROLE OF THE INSPECTORS IN EDUCATION

11. Sir Derek Rayner said that he felt that the Inspectorate could be used on value for money as well as on quality in education issues. The Inspectorate were more concerned with professionalism than the sensible use of resources. Headmasters were not trained to deal with questions relating to the best use of their assets and resources. Sir Kenneth Berrill added that the present balance was wrong and that the Inspectorate should concentrate more on cost effectiveness, and creating an awareness of value for money.

In discussion the following points were made:

- i. the Inspectorate did lack management experience and their basic objective had not previously been concerned with cost effectiveness. However, increasingly the emphasis had moved to management and a main function was now to compare the use of resources between schools and to advise accordingly;
- ii. it should be possible to explore the possibility of giving the individual headmaster much greater control over the resources at his disposal. In some counties this had happened, though there had been examples of shambolic results.

In conclusion, the Secretary of State for the Environment suggested that this was an area which needed further discussion; and the Secretary of State for Education agreed that his Department would consider in more detail the role of the Inspectorate in this context.



D A EDMONDS
PS/Secretary of State
22 February 1980

- cc. Those present
PS/Prime Minister
PS/Chancellor of the Exchequer
PS/Chief Secretary
PS/Secretary of State for Health & Social Services
PS/Sir Robert Armstrong

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MFJ

MR PRIESTLEY

Thank you for your minute of
18 February, about efficiency and
waste in local government. I
confirm that there is no particular
hurry about responding to DES comments.

M. A. PATTISON

20 February 1980

Sp

Local Govt

cc Sir Derek Rayner
Mr Spence

Mr Pattison

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT: DES

1. I take it that there is no hurry to reply to Mr R J Green's predictable letter to you of 13 February (which I think I could have written myself without difficulty) and that a response can be formulated in the preparation of the wider programme or package. Perhaps we can have a word about this later on.

2. In the meantime, you may like to know that Sir Kenneth Berrill and Sir Derek Rayner are due to see Mr Heseltine on 22 February. If you have any thoughts to feed in, they will be more than welcome.



C PRIESTLEY
18 February 1980



19 FEB 1960



From: THE PRIVATE SECRETARY

✓ MAP
Local Govt



HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

15 February 1980

Dear Chris,

You circulated on 18 January the paper by Sir Derek Rayner and Sir Kenneth Berrill about local government management and effectiveness.

The proposals are of particular concern to the Home Secretary because the Home Office responsibility for direct grant services - police, magistrates' courts, probation, civil defence - involve us in a closer relationship with local authorities than is the case with some other services. At the same time the proposals inevitably involve a possible conflict with the current wish to leave local authorities the greatest measure of discretion, to reduce central government intervention and to reduce Civil Service functions and staff members. The merits of the proposals ought to be applauded on all sides: but it seems inevitable, even though the idea would be that local authorities themselves should take most of the initiative towards better management and comparisons of performance and objectives, that central government will get involved in more work and the demands for staff will increase - centrally or locally.

These basic questions of principle and of central/local government relations are primarily for DOE.

I do not think we could usefully make more detailed comments at this stage until we see the Department of the Environment's views on the proposals in relation to local authorities generally.

I ought to mention that we have twice resisted, before the Public Accounts Committee, suggestions that the Home Office and the Police Inspectorate should become closely involved in the detailed expenditure of police authorities and thereby reduce their discretion.

I am copying this letter to the recipients of yours.

Yours,
John

Clive Whitmore, Esq.

15 FEB 1950





✓
MAD

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

D A Edmonds Esq
Private Secretary
Department of the Environment
2 Marsham Street
London
SW1P 3EB

15 February 1980

Dear David,

My Secretary of State has seen your reply of 6 February to Mike Pattison's letter of 18 January about efficiency and waste in local government. He would naturally wish the personal social services provided by local authorities to be included within the scope of any further initiatives, which should recognise in their detailed application the special features of social service provision. He believes that the way forward will lie through discussions with the local authorities and will await with interest the outcome of the meeting which your Secretary of State proposes to have with Sir Derek Rayner and others.

I am copying this letter to Mike Pattison and the recipients of his letter.

Yours ever

David Boreham

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PRIME MINISTER

Mr Carlisle's initial reaction to the Berrill/Rayner paper on local government.

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222
FROM THE SECRETARY OF STATE

MA 14/2

Mike Pattison Esq
10 Downing Street
LONDON
SW1

February 1980

Did he ever send details of no. of visits of. 1/2 of admin. cost over 10 years?

Dear Mike,

Now requested ra. MA 20/2

You sent me a copy of your letter of 18 January to David Edmonds about the Rayner/Berrill paper on the possibility of a campaign for securing greater efficiency in local government. My Secretary of State has a major interest in this issue, since in England education accounts for about half of total local government current expenditure and manpower. He must also take account of the effect which the Rayner/Berrill proposals may have on his relations with local education authorities since the statutory framework for the education service in England obliges him to pursue his policies largely by informal means and with the support and goodwill of local education authorities.

Mr Carlisle agrees with the Rayner/Berrill report that there is scope for increasing the efficiency with which local authorities run the education service, that councillors should take a close interest in its efficiency, and that they and their senior staff would be assisted if they could look to some independent, outside advice on good practice and on what would secure value for money.

He also agrees that comparative information about the expenditure of individual education authorities on particular services is useful. The DES has pioneered and supported the collection and publication of such information, and Mr Carlisle strongly supports the proposals in the Local Government Bill to extend and standardise the information published by local authorities. But differences of expenditure can often be explained by differences in the classification of costs, the structure of the institutions, geography, curriculum, standards of provision and many other factors. In any case, in education better value for money is not always achieved by lower expenditure: for some authorities it is achievable only by spending more, because the existing level of expenditure yields such a poor educational return.

The variety and interplay of all relevant factors do not, in the present state of our knowledge, permit the DES to say whether an authority is

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operating efficiently or inefficiently with the degree of assurance needed to justify asking the authority to explain a particular level of expenditure or staffing. To take just two of the examples quoted in para 21 of the Rayner/Berrill report, the comparison between Surrey and Suffolk secondary education unit costs takes no account of the relatively much larger numbers of Surrey pupils who stay on beyond 16; and the comparison between Bedfordshire and Lancashire primary education conceals the fact that Bedfordshire, unlike Lancashire, has middle schools which contain some pupils of secondary age but are included in primary schools for the purpose of the statistic quoted. Given such structural differences, it would not have been surprising if selecting the highest unit cost to compare with the lowest from amongst all the countries had produced bigger differences than 20% or 30%.

My Secretary of State considers that the Rayner/Berrill report underestimates the great difficulty of establishing valid forms for the cost and staffing of a particular educational activity or unit (eg a school or FE college) which could form the basis of DES advice in local education authorities. DES has so far been able to provide such advice on the capital cost of educational building. On current costs, DES proposes to use the new system of block grant to develop an effective method for determining standard expenditure for individual education authorities. We cannot be confident of achieving this quickly. Even then we should only know what, given the various factors, an authority might be expected to spend in relation to another in order to achieve a certain level of educational provision. We would not know what they ought to spend in absolute terms. We are therefore now looking at the feasibility of developing a method of judging what schools (and perhaps FE institutions) ought to provide and cost. But this is an immensely difficult task, which has never been undertaken in England, and in attempting it we may be inhibited by constraints on manpower.

Mr Carlisle therefore considers that, in the shorter term, improved local government efficiency in education must stem mainly from local government's own efforts, for example in developing the service given to them by such organisations as LAMSAC. They have been disappointingly slow to help themselves and each other in this way. The Government's prime role would be to encourage public recognition that local authorities have a duty to make themselves more efficient, and to help each other to do so. In that connection still greater concentration by the District Audit Service on value for money audit would be a helpful Government contribution. Mr Carlisle considers that strengthening that service's position is likely to be preferable to the creation of an Accounts Commission.

As regards the two Rayner/Berrill recommendations specifically related to education, Mr Carlisle agrees with the Prime Minister that the recommendation about HM Inspectorate does not fit into this particular campaign although their public reporting of good practice and their care for standards do encourage local authorities to get value for money.

Recommendation 7 and paragraphs 25 and 26 of the report seem to be based on ignorance of HMI's functions, work and size. Mr Carlisle is satisfied that HM Inspectors work fairly and squarely within known policies, whether these be concerned with standards, curriculum, teacher qualifications or public expenditure. They have, however, a duty to report frankly to him on the outcome of these policies and this must at times mean that inadequate standards have to be attributed to inadequate provision and expenditure.

The doubt expressed in the Rayner/Berrill report about HMI's local inspectorial role, apart from misunderstanding their relationship to local authorities, over-

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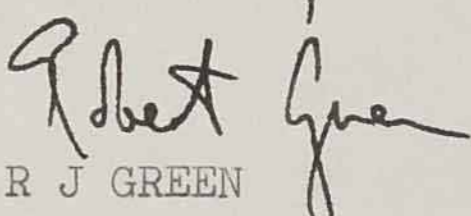
looks the fact that HMI Inspectorate is a small body by comparison with the number of institutions to be inspected. Because of its small size, it has of necessity concentrated work on major matters of public concern where the achievement of effective performance is a matter of urgency. In line with the Select Committee report of 1967-8, formal inspections still take place where there is special reason. In addition local education authorities understand the functions of the published reports resulting from inspection surveys and have responded well to their evidence and recommendations. For example, every Chief Education Officer in the country will be involved in the follow-up to the National Secondary Survey which relates directly to the Government's desire to establish consensus on the curriculum and to improve standards.

Mr Carlisle does not therefore feel there is anything particular to pursue in respect of HM Inspectorate. He is, however, aware that local authorities and in particular local advisory services have some difficulty in carrying on from where HMI's work properly leaves off. There may well be a need to examine the inspectorates of local education authorities, taking into account their size and other functions.

Rayner/Berrill make the specific recommendation that the Education Departments should review urgently their contribution to the management competence of senior teachers and administrators. (Recommendation 8 and paragraph 29.) This is already in hand: a good deal of activity exists. Two important research projects are being undertaken and HMI have made a review of provision in a number of authorities and institutions, the results of which are being analysed and discussed with the people concerned. More importantly, by inspection and associated reports to LEAs and in institutions, HMI contribute directly to management competence; they also take part in courses provided by many agencies and mount a small number of courses both regional and national for heads of department, heads and other local authority personnel. The urgent need to develop management competence is a regular theme of discussion with education officers and the trainers of teachers. But these are activities which are likely to be vulnerable to the current squeeze on resources.

The issues raised by the Rayner/Berrill report are far-reaching and complex and involve not only individual services but their interrelation at local level. Mr Carlisle has seen Mr Heseltine's suggestion, in David Edmonds' letter to you of 6 February, of a bilateral meeting with Rayner/Berrill. He hopes that this discussion could be broadened to include other Ministers with responsibilities for local authority services; he would personally very much welcome the opportunity to contribute.

I am sending copies of this letter to David Edmonds (DOE), and the other recipients of yours, and to Kenneth Mackenzie (Scottish Office) and George Craig (Welsh Office).

Yours ever,

R J GREEN
Private Secretary

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CONFIDENTIAL



✓ MAP 7/2
BF 28/2

Local Govt

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

6 February 1980

Don Pike

Thank you for your letter of 18 January about efficiency and waste in local government. My Secretary of State has now discussed with the Minister for Local Government and Environmental Services and officials here the ideas set out by Sir Derek Rayner and Sir Kenneth Berrill in the paper which they produced for the Prime Minister which was annexed to your letter. As you are aware, the proposal for an Accounts Commission was discussed at H Committee on 6 November, and since then there have been fairly intensive inter-Departmental consultations. We are now at the stage of discussing with local government and other interested parties, before reporting to Ministers.

In the first instance, my Secretary of State feels that the subject could perhaps best be carried forward by a discussion between Sir Derek Rayner, Sir Kenneth Berrill, Mr Tom King and himself. He therefore proposes to set up a very early meeting to discuss the paper and its implications.

I am copying this to the recipients of your letter.

Yours ever
D A EDMONDS

Private Secretary

Mike Pattison Esq
10 Downing Street

7 FEB 1960

6 7 8 9 10 11 12 1 2 3 4 5

Faint, illegible text, possibly bleed-through from the reverse side of the page.

FILE local Govts
cc WO
D/Tms

22 January 1980

The Prime Minister, with a few of her colleagues, recently had a meeting with the Chairman of the Conservative Party to discuss the relationship between central and local government.

As one result of the meeting, the Prime Minister has asked Mr. Heseltine to look at the possibilities for a campaign to improve efficiency and reduce waste in local government.

I now enclose a copy of a letter which I have sent to David Edmonds about this. At the time, this was copied to the Private Offices of the other Ministers who had been involved. You, George Craig (Welsh Office) and Genie Flanagan (Department of Transport) to whom I am copying this letter and enclosure, will also wish to be aware of this work.


18-1-80
M. A. PATTISON

Godfrey Robson, Esq.,
Scottish Office.

Mr PATTISON

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

1. Thank you for your minute of 18 January and its attachment.
2. I see that the Scottish and Welsh Secretaries and the Minister of Transport are not among the copy addressees and wonder whether they should be included.
3. If the Education Secretary's response is not copied to this office, may I ask you to ensure that Sir DR does see it?
4. There is no need to reply to this minute in writing.


C PRIESTLEY
21 January 1980

24 JAN 1950

12 1 2 3 4 5 6 7 8 9 10 11





local Govt

10 DOWNING STREET

From the Private Secretary

MR. PRIESTLEY

Thank you for the loan of these originals.

I enclose a copy of the letter I have today sent setting out the Prime Minister's reactions. You will see that I have included a mildly censored version of the paper, which excludes paragraph 38 and recommendation 11, for reasons which we have discussed. I have also made the reference to Councillor Jinks more anonymous.

MAP

18 January 1980

CONFIDENTIAL



File Local Govt AS

cc Transport
Welsh Office
Scottish Office
CSD

10 DOWNING STREET

From the Private Secretary

B/F 1/2-80

18 January 1980

Dear David

During the meeting on local government held here on 8 January, the Prime Minister asked what could be done to produce greater savings in local government. There was some discussion both of manpower control, and of the measures which your Secretary of State has in hand to ensure that adequate information is published when local authorities are considering spending proposals.

The Prime Minister has been giving further thought to questions of efficient use of resources at this level, which she initially raised with colleagues early last year. (Tim Lankester's letter of 16 May, and replies, refer.) Some of the Government's measures aimed at putting its own house in order should be producing tangible results over the next few months. The Prime Minister would therefore like your Secretary of State to consider how Ministers might prepare a parallel campaign for local government. She has it in mind that this could be launched later in the year.

I enclose a minute by Sir Derek Rayner and Sir Kenneth Berrill, covering a paper they have produced in response to the Prime Minister's request for proposals. The Prime Minister is attracted by the recommendations they make, and the annexed outline for a campaign. She has asked that the Accounts Commission proposal should be further considered as recommended in paragraph 7 of the paper. She would further like your Secretary of State to consider whether the remaining recommendations, together with the annex, provide the basis for a worthwhile campaign. She would also welcome his views on timing. In respect of these recommendations, the Prime Minister strongly supports the ideas in paragraphs 12-16 and 20-21. These fit in well with your Secretary of State's proposals on the quality of information published when local authorities take expenditure decisions. She believes, in particular, that the examples in paragraph 21 should be referred to the relevant authorities and published in due course if no satisfactory explanation is forthcoming. She is not, however, convinced that recommendations 7 and 8 (on inspectorates and the management of education) fit comfortably with the remaining ideas for this particular campaign. Mr. Carlisle may have comments to make on these points, which she thinks are worth pursuing in their own right.

/The

CONFIDENTIAL

WSP

The Prime Minister would like Sir Derek Rayner to be associated with any campaign in this field, and she would like your Secretary of State to consider how best to make use of his services for this purpose.

I am sending copies of this letter and enclosure to John Chilcot (Home Office), Martin Hall (HM Treasury), Don Brereton (Department of Health and Social Security), Peter Shaw (Department of Education and Science) and to Martin Vile (Cabinet Office), Gerry Spence (CPRS) and Clive Priestley in Sir Derek Rayner's Office.

*Yours ever
Mike Patterson*

David Edmonds, Esq.,
Department of the Environment.

PERSONAL

PRIME MINISTER

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

1. We attach a note on the possibilities for effective and feasible action in the field of efficiency and waste in local government. Our recommendations are numbered in the margin of the text and summarised in paragraph 39.

2. We believe that there are three key issues, the power of the central government's purse; the power of public opinion; and the will of local government itself.

3. The first of these is the subject of other papers before you. Decisions on the central funding of local government (the block grant, the future of the rating system) and on the pattern of accountability are of critical importance to the behaviour of both central and local government. The attached note is concerned primarily with the "value for money" aspect of local government expenditure. It complements the Government's central strategy on the amount of money to be made available and on control over expenditure. It is about making the best use of the resources available. We have addressed the Government's central financial strategy only sparingly, but we should emphasise that we see it and the "campaign" we recommend in the attached note as companion pieces.

4. The power of public opinion we regard as of massive importance.

At the moment many of the public are frustrated at their impotence in the face of inefficiency and waste by their local councils. We think that it would be dangerous to allow them to remain thus frustrated. Opinion needs to be better informed so that local electors can themselves hold their representatives more readily to account. But it should not all happen at the local level; Central

Government has a necessary role as custodian of the public interest in the general cost effectiveness as well as the quality of services. We envisage Ministers, putting it in rather old-fashioned terms, as champions of the anonymous taxpayer.

5. The main point, as we see it, is how to provide the two paymasters of local government, the local ratepayer and Central Government itself, with consistent information about the way in which local authorities spend and the cost-effectiveness with which they do so. The aim should be to build on what already exists, including the work of the District Audit Service and the Chartered Institute of Public Finance and Accountancy, but also to use the central knowledge and resources of Ministers and their Departments so as to leave local authorities with less excuse for inefficiency.

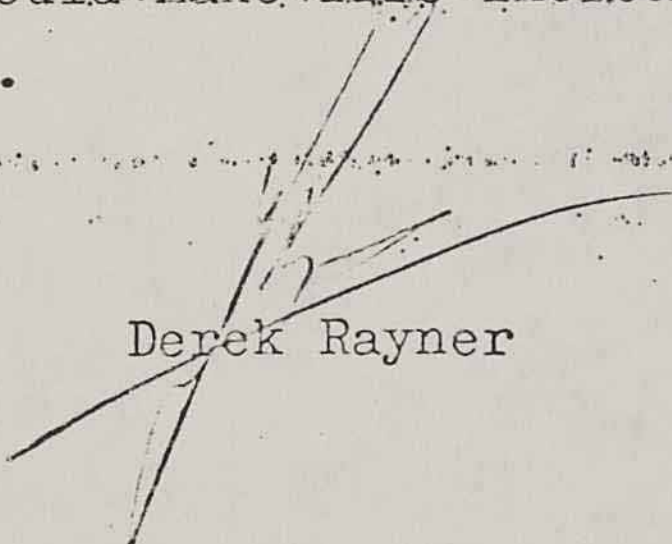
6. We are fully aware of the dangers of an approach which would turn the will of local government against Ministers. Elected members have the responsibility for local services. Some of them and some managements are very good indeed. We therefore suggest an approach which recognises that both Whitehall and Town Hall are greatly reformable; that both need a revolutionary change in their attitudes to the husbandry and use of resources; and that both have the talent and the determination to outface and solve their problems, including restrictive practices if these are properly exposed.

7. We would not expect universal support from the local authority world for our proposals. But we think that mobilising the good authorities to show what can be done; spreading the word; and a better informed public opinion would make life increasingly more difficult for the malingerers.

K.B.

Kenneth Berrill

4 January 1980


Derek Rayner

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

Finance and financial accountability

1 The fundamental issue of accountability is not dealt with in this note, but it cannot be totally ignored. The effectiveness of any campaign to improve efficiency and reduce waste will depend to an important extent on the framework of financial accountability within which it has to operate, which is just as important as the tightness or easiness of the availability of resources.

2 Our proposals for the campaign assume that

a. PESC allocations in the local government field are tightly drawn, providing for little or no growth;

b. current expenditure provision is tightly related to need, with penalties for overspenders and cash limits

rigidly adhered to; and

c. capital expenditure is similarly constrained, with a ceiling on total capital expenditure by each authority.

3 On the more basic issue of changing the pattern of accountability the options appear to be:

a. to withdraw central funding and to make local government wholly responsible for financing itself;

- b. to make local authorities account to Ministers for the way they spend on particular services;
- c. to persuade Parliament to assume a monitoring role by extending the remit of the Public Accounts Committee and of the Comptroller and Auditor General to local expenditure;
- d. to rely on the provisions of the Local Government, Planning and Land Bill.

4 These questions are large and controversial. We raise them here for two reasons. First, they are relevant to the Secretary of State for the Environment's proposal to set up an "Accounts Commission for Local Government in England and Wales". Broadly speaking, the proposal envisages leaving central and local government in the same relationship of financial accountability as before, but taking away from local government a certain measure of independence in the appointment of auditors and the common service contained in the Local Authorities Management Services and Computer Committee (LAMSAC). The Commission would also absorb the District Audit Service and the Advisory Committee on Local Government Audit. It would involve the Comptroller and Auditor General, thus apparently bringing in Parliament, on a basis not clearly indicated.

5 It is not obvious to us that the local authorities can be expected to agree with the proposals for an Accounts Commission nor, if it meant a quarrel, how it could avoid reducing opportunities for other and possibly better steps later on. The proposal seems to us to import an awkward mixture of encouragement to and audit of local authorities but, perhaps more important it raises the question whether it is right to respond to worries about the efficiency and the accountability of local government by reducing its capacity to reform itself by taking away some of its functions and giving them to a non-elected body appointed by central Government.

6 Secondly, there is the future of the District Audit Service. We doubt the merits of the "Accounts Commission" proposal, but we do believe that the DAS is potentially a very important weapon in the campaign we recommend. We think that it should be strongly encouraged to spend more time on "value for money" as opposed to financial auditing, and to give more publicity to its audit reports. District Audit might be made compulsory for all local authorities (about 1 in 10 local authorities choose their own private auditors) or strengthened by bringing in outsiders on secondment (as in Canada). Local authorities who do not have Audit Committees should be put under pressure to set them up so as to consider audit reports seriously.

Recn 1 7 We recommend that the constitutional implications of the "Accounts Commission" proposed should be set out so as to enable Ministers to consider whether, if adopted, it might work against rather than for more substantial change and that the Government should consider further, in this context, how best to develop and deploy the District Audit Service.

Broad principles

Recn 2

8 Against that background of tightness of local authority money generally and strengthened local audit, we recommend an approach to a campaign on efficiency and waste in local government along the following lines:

a. The country expects that government, nationally and locally, must not only work for greater cost-effectiveness of services, but be seen to be doing so. This means that elected members must take their management role more seriously and that public opinion must be mobilised to see that they do.

b. Common sense suggests that as the central Government parcels out a lot of the taxpayer's money to local Government, it shares the responsibility for seeing that it is well spent.

c. But the Whitehall pot should not call the Town Hall kettle black. Central Government should acknowledge that it is itself imperfect and that example is better than precept. Ministers would be more persuasive if they could show that they were putting their own house in order. "Do what I say, not what I do", is never an inspiring battle cry.

d. At the local level the best hope of reform lies in the hands of those responsible for managing resources, ie elected members, provided they are properly stimulated and kept up to the mark. The best messages about good management would derive from the good practice of those authorities which are already doing much to improve management and services.

e. The practical substance of the Government's approach should be three pronged: the close examination of particular services and the use of manpower; the management and financial regime; and the use of such instruments as Inspection which lie in its own hands. These three are considered below.

Prong I. The examination of particular services

9 "Local Government" and "Central Government" are large, unhelpful terms. To give drive to a practical programme, we need to think in terms of relationships between local authorities for particular services (eg education, fire, housing, planning, police etc) and the relevant Whitehall departments (eg DES, Home Office, DOE etc). We also need to be conscious that each service is "defended" by a thick cluster of vocal and sometimes potent lobbies and pressure groups, national and local.

10 We recommend that the drive should be given force and sustenance by mobilising local public opinion. Local Government claims that it sets great store by local accountability, but we fear this is all too often a dead letter. Let central Government stimulate the appetite of the local people and the local press and build up the expectations that local authorities should be (and need to show themselves to be) cost-conscious and that the services provided are concerned with cost effectiveness as well as with quality.

11 One of your correspondents, Mrs Isobel Spencer of Leicester, has caught the point well, arguing that the opponents of "cuts" are getting the headlines:

"Would it be possible.....to examine in some detail one or two areas of public expenditure and publicise examples of how money could be saved other than by cutting services. It seems to me that no public bodies are taking a long positive look at their accounts and saying 'this or that is extravagant and the money would be better spent in another way'. Many of the people I talked to have the hopeless feeling that they cannot have any influence on the stupidities that go on. Please could you not really 'hammer home' in some practical way that it is wastage that should be cut, not services."
(Letter of 18 October.)

12 We think that it should be readily possible for central and local Government to prepare collaboratively a "do it yourself" guide for those responsible for particular services on how to appraise their costs and their effectiveness. This would be supplemented by examples of cost-conscious (and perhaps un-cost-conscious) management, getting down to the detail of running, say, a school or a residential establishment and doing so in vivid and direct

language. One should also look at such "business-type" undertakings as public transport. It would be desirable to get particular authorities to prepare the examples, and indeed to put their names to them, but that might be asking too much of human nature.

13 It would be necessary to publish the guides and to ensure that the examples, even if pseudonymous, were authentic.

14 It would also be important to persuade local authorities themselves to review services, or some characteristic part of them, following the guidance given and then to publish the results.

15 The coverage of guides and of reviews might include:

a. Questioning the need for and cost-effectiveness of services or parts of services. (This would obviously be much assisted by a detailed examination of particular services, especially in respect of manning. (see para. 34 below).)

b. Questioning incremental budgeting and set rates of increase of expenditure; planning resource allocation by reference to proved need.

c. Measuring performance by achievement, not by expenditure level, and by reference to external standards and comparisons as well as to internal criteria (see para. 22 below).

d. Finding money within existing budgets for services by savings and sale of assets.

e. Breaking down barriers between services, especially in respect of such assets and equipment as premises and vehicles (see para. 20e below).

Recn 4

16 We therefore recommend the publication of a guide containing observations and suggestions, supported by examples of good (and possibly bad) practice and subsequently the publication of a series of detailed pieces on particular services. Both the examples in the first paper and the subsequent examinations should be the product of particular local authorities, although published by central Government. Getting local authority co-operation might be difficult, but should not be impossible. We deal below (paras. 35 and 36 and Annex) with the question of Ministerial responsibility for this work.

Prong II. The management role of local representatives

17 We referred above to the "family connection" in services as between Town Hall and Whitehall (para. 9). The local reflections of this are "departmentalism" and the comparative weakness of the full Council and of its central controls over finance and manpower as compared with the strength of departmental Chairmen and Chief Officers. (This has been compounded since re-organisation by a certain lack of clarity in specifying

the respective responsibilities of different tiers in the structure of local Government.)

18 We believe that the main targets in this area are these:

a. Obscurity about the respective responsibilities of members in their different capacities as Councillors and members of "service" committees and about those of the Chief Executive (where he exists) and of Chief Officers.

b. Inertia, including the reluctance of members to have their administration looked over by outsiders, to find the time and energy to review the delivery and quality of services and to upset the unions.

c. The ineffectiveness of control at the centre of a local authority over finance and manning (in overseeing the use of resources by departments and in combating the tendency towards incrementalism in financial planning and allocation, towards spending unnecessarily to use up the annual budget and towards loading administration and ancillary services on top of main services for no obvious advantage).

d. Weak control over capital projects, because of lack of managerial experience and forethought.

e. Lack of intelligible management information for members.

19 Our suggestions here centre on clarifying the management role of elected members and their staffs and strengthening their capacity to carry it out.

Recn 5

20 We recommend as follows:

a. There should be guidance prepared by central and local government collaboratively on the nature and performance of elected members' role as managers, again based on good local authority practice.

b. This should include guidance for Committee Chairmen and Chief Officers on setting expenditure objectives; clarifying the respective roles of leader, Chief Executive, Chairmen and Chief Officers in resource planning, management and control; and the type of information required to enable members to become good managers.

c. There should also be guidance on the management of such particular services and institutions as large comprehensive schools (see also para. 29 below).

d. The Government should either arrange itself or stimulate others to arrange courses and conferences for local representatives on their "value for money" role.

(Lord Bellwin recently told a local authority gathering, "There is an enormous number of Conferences..... for members and officers, covering every functional activity

in local government and yet never have I heard of an open national Conference of members, specifically to examine ways of doing things better".)

e. Both guidance and conferences should be specific. Some examples which occur to us are these:

i. Members should be encouraged (and a corresponding public expectation should be stimulated) to look at such transdepartmental issues as heating, lighting, cleaning, transport, premises, invoicing and printing.

ii. The machinery for this should be specified, with an explanation of the use of Performance Review Committees and Audit Committees, neither of which is by any means universal but of each of which there is, we understand, some encouraging experience to tap.

iii. Members might also be encouraged to consider whether it is true, as many people believe, that public expenditure cuts tend to fall most heavily on service provision, leaving administration relatively unscathed and, if so, to examine the organisational forces that lead to this and how they might be neutralised.

21 Mr Ian Coutts, the Conservative Leader in Norfolk, has recently drawn attention to such differences between unit costs as these:

- Northumberland spends nearly twice as much on fire cover per thousand people as Northamptonshire.

- Bedfordshire educates primary school children at a cost per pupil 30 per cent higher than in Lancashire; Surrey educates secondary children at a cost per head 20 per cent higher than in Suffolk.
- Buckinghamshire produces school meals at a cost 20 per cent higher than in Hereford and Worcester.
- Derbyshire pays 40 per cent more than Salop to keep a child in a community home.

22 One of the most important tasks is for central and local government collaboratively to ensure the provision of information which will enable elected members to compare expenditures between local authorities. This means providing a common basis of information which can be of service to local authorities and their two paymasters, the local elector and the central government. What is spent? What is bought for the expenditure? Much useful work is already done in this field by the Chartered Institute of Public Finance and Accountancy, but we do not believe that the results are used as extensively by local authorities as they should be. There is also IAMSAC, but not all local authorities use it. We would want to see local self-help strengthened but because much of the present organisation and methods work in local authorities is feeble and inadequate a powerful external impetus is required in the shape of regularly published information on spending on different services. We think that the Government should set this information in context by such central analysis as local authorities cannot manage for themselves.

Prong III. The use of instruments in the Government's own hands,
notably inspection

Recn 7

23 Apart from the District Audit Service on which we have already commented, we believe that the Government should consider what instruments it can itself bring to bear on local authorities without overbearing. We recommend in particular that the purposes and methods of relevant inspectorates should be reviewed urgently.

24 In the case of the Fire and Police Inspectorates this would mean considering the extent to which they are at present concerned with resource allocation, rather than with the maintenance and improvement of professional standards. (For instance it has been put to us that their effect is to drive up the costs of services because of their insistence on the best equipment; and the Fire Inspectorate have certainly been unsuccessful in preventing many local authorities from exceeding by a long way the Home Office Standards on Fire cover.) Similar questions could be asked of the Career Service Inspectorate.

25 In the case of the Schools and Further Education Inspectorate (which deals with by far the largest single local authority expenditure) we think that there is a truly fundamental issue about the role of central Government. The old view was that because Parliament made parents send their children to school, it should guarantee that the education given was worth having. We are bound to say that in our view we still fail to preserve many of our children from being made into second rate people by second rate education and that, far from being the taxpayers' and

parents' friend, the Inspector has become part of the educational stage army and defence mechanism.

26 It is doubtful whether the Inspectorate performs a local inspectorial role of real value: it appears to have become another "research and development" organisation. The issues are, "What standards do we wish to promote? What is the best policy (taking cost-effectiveness into account) for promoting and monitoring the achievement of these standards? What part should the Inspectorate play in this process? What information should be made available to the public about the performance of particular institutions as a result of inspection?"

27 We see this as a key issue in determining whether such a service as education is run by the professional establishment mainly by reference to criteria powerfully modulated by the interplay of pressure groups or whether the Government plays that central part which no other national institution can play, namely asserting and defending standards on behalf of the people as a whole.

28 A storm of protest from the profession would be likely to meet moves by Government to assert a greater central lead on standards, to increase the inspectorial role of the Inspectorate, and to strengthen the responsiveness of local authorities to inspections (backed up by publication). It is, however, our clear impression that such moves would be welcomed by many in the practice and administration of education and by a multitude of parents.

29 We also recommend that the Education Departments should urgently review their contribution to the managerial competence of senior teachers and administrators. Being head of a large school, or a polytechnic or a college is taxing and difficult, but our understanding is that the training available to Principals, Heads and Deputy Heads is limited in extent and value.

Manpower

30 — A Lord Mayor's correspondence with you and Sir Derek Rayner's Office during the summer showed that the growth of local authority manpower seems inexorable, even to those at the local level.

31 However, the consumption of manpower can be attacked by reference to some fairly simple questions and by exposing the answers to the public gaze:

- How many people are needed in order to provide the service that is needed?
- What are the effects of having more people than are needed, eg in administration and ancillary services?
- How much double-banking is there between services?

32 It is no use having a "Manpower Watch" if one does not get behind the figures and explain in as much detail and as vividly as possible what staff actually do and what value they add.

33 This is also a minefield. But we believe that it calls for radical measures to expose the nature and cost of both over-manning and of such restrictive practices as constraints on the redeployment of labour, staffing levels and phoney bonus schemes.

Recn 9

34 We recommend that central and local government should collaborate in preparing for publication descriptions of the use of manpower as part of the series of appraisals outlined in paragraphs 12 - 15 above; that they should describe the model staffing regimes for particular services and institutions; and that Central Government should also publish data enabling levels of staffing to be contrasted as between different local authorities. Again, as much as possible of the descriptive work should be done by local authorities themselves, but we believe that the Government should become in effect a "consumer association" for the taxpayer.

Ministerial action

35. Several Ministers and departments are involved in our recommendations. We must say frankly that an early need will be to get departments to commit themselves to helping the local taxpayer get value for money, even if it harms the traditional supportive relationships between central departments and their local government opposites. We should therefore raise with you the question of leadership and co-ordination.

Recn 10

36 Our view is that you might ask the Secretary of State for the Environment to take the lead on your behalf, to prepare rapidly a plan of action for agreement by you and your colleagues and subsequently to report back to you at regular intervals. On the other hand, of course, you might prefer to keep the reins in your own hands for the time being.

37 We offer in the Annex the outline of a strategy, which we invite you to consider.

Summary of recommendations

38 Our recommendations are as follows:

Recn 1 The constitutional implications of the "Accounts Commission for Local Government in England and Wales" proposal should be set out so as to enable Ministers to consider whether, if adopted, it might work against rather than for more substantial change and the Government should consider further, in this context, how best to develop and deploy the District Audit Service (paragraph 7).

Recn 2 The approach should be as in paragraph 8.

Recn 3 Given the existing distribution of responsibilities between central and local government, public opinion should be mobilised and the Government should regard itself as a "consumer association" for the taxpayer (paragraphs 10 and 34).

Recn 4 The Government should publish a series of guides and papers on value for money, preferably incorporating the work of local authorities (paragraphs 12-16).

Recn 5 The Government should publish guidance on the management role of elected members and of those responsible for providing services (paragraph 20).

Recn 6 The Government should publish data on local authorities' spending on different services (paragraph 22).

Recn 7 The purposes and methods of Government Inspectorates should be reviewed urgently, with particular reference to education (paragraphs 23-28).

Recn 8 The Education Departments should review urgently their contribution to the management competence of senior teachers and administrators (paragraph 29).

Recn 9 The Government should publish descriptions of the use of manpower, model staffing regimes and comparisons of staffing levels (paragraph 34).

Recn 10 A plan of action on the lines of the Annex should be adopted (paragraph 36).

Kenneth Berrill

Derek Rayner

4 January 1980

ANNEX

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT: OUTLINE OF A PLAN OF CAMPAIGN

A What are the targets?

- 1 Targets are likely to be both general and particular.
- 2 General targets might include elected members' indifference to value for money; poor central control over the allocation and use of resources by departments; poor control over capital projects; and general weakness of the management structure and arrangements.
- 3 In sum, the main general target would be devising a pattern of managerial practice appropriate to the rest of the century.
- 4 Particular targets might include both individual local authorities which are inefficient or prodigal and, more commonly, given the nature and thrust of this exercise, the various services for which local authorities are responsible or some particular aspect of them.
- 5 Manning can be tackled as a general target to some degree, but it would be better dealt with as a characteristic of particular services. (The important general point about it is that over-manning is proof of weak central management control.)
- 6 In the case of each service, there are such questions as:
 - Establishing the nature and extent of the function which must be carried out.
 - Discarding bye-functions which need not be carried out.
 - Establishing levels of staffing and equipment appropriate to the function and the economic circumstances.
 - Establishing the correct balance between the staffing and equipment actually needed for the service and for administrative and ancillary services in support of it.

- Establishing the nature and extent of the information needed for effective management by elected members and others.
- Establishing the cost of such inhibitions as those of restrictive practices.
- Establishing the cost of "departmentalism".

B What needs to be done next?

7 The opportunities for effective action need to be judged by reference to intended action on other fronts (E below).

8 The character, timing and presentation of an initiative then need to be worked out by reference to, inter alia:

- Ministerial leadership and co-ordination
- Identification of targets (A above)
- The contribution to be made by Ministers fronting onto particular services (Home, Environment, Scotland, Wales, Social Services and Education) and by some central point, if any
- Presentation and co-operation: winning the support and help of particular local authorities, the local authority associations and staff associations, and the public.
- Doing the fieldwork
- Publishing the results

C How should it be done?

9 We suggest that you should first call together the relevant Ministers and take their advice on the issues and the possibilities, on the basis of a draft plan of campaign.

10 The aim should be to get agreement to the draft plan and then

some rapid work by individual Ministers to give it substance in respect of the contribution to be made by each Department.

11 These contributions would be mainly in terms of getting local authorities to do exercises themselves, but Departments would have to work themselves on such issues as the contribution of Inspection to securing value for money and pulling together separate experiences of separate local authorities.

12 Ministers' contributions to the plan should be brought together by a Minister nominated by you, or by a central point nominated by you, and presented to Cabinet for agreement by, say, mid-February.

D Who are those in or near local government already attacking the targets?

13 It would be necessary to specify both particular elected members and authorities with a view to enlisting potential allies and co-workers.

14 Similarly, it would be helpful to specify those tendencies which are already working in the direction desired by the Government, to analyse their effects and to consider how they should be boosted. These include:

- The development of the managerial role of the full Council and such central committees as the Finance Committee
- The employment of Chief Executives
- The use of Performance Review and Audit Committees; the work of the District Audit Service
- The information work of the Chartered Institute of Public Finance and Accountancy
- The (slow) development of such collective services as those of LAMSAC

15 Again, there should be good practice in the management of particular services locally which should be identified by Departments

E What are the relevant changes the Government has in hand or in prospect and the instruments which it might use already in its hands?

16 Relevant prospective changes are as set out briefly in other papers and are:

Reduction of central controls and circulars.

Reduction of central control over the allocation of capital expenditure, but increased control over total capital expenditure.

Proposed reform of RSG from 1981/82.

Review of statutory duties.

Review of scope for privatisation/contracting out.

Proposals to require publication of cost statistics.

DOE proposal for an "Accounts Commission for Local Government".

17 The "instruments" include Inspection; influence; exhortation and guidance. It would be necessary to review them quickly to see what contribution they should make, in effect the policy behind them.

COVERING PERSONAL

cc Sir Derek Rayner

Mr PATTISON

na
MAD

enclosures returned

MAD

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

I attach a copy of Sir Kenneth Berrill's and Sir Derek Rayner's minute to the PM of 4 January, together with the original of the attachment to it - this will copy better.

2. The knights will, I am sure, be pleased that their note has proved helpful, but Sir Derek Rayner will be disappointed if the education recommendations are played down as he attaches particular importance to these.

3. On the text of the note, you may wish to be aware of or to consider (as appropriate) the following:

Paras. 4-7: DOE and other officials are re-working the Accounts Commission proposal but, as indicated in my letter of 10 January to Mr Heiser copied to you, Sir DR thinks that it would be far better to strengthen the District Audit Service - something the Government could do off its own bat.

Para. 30: Councillor Jinks's correspondence was personal. You might prefer to say, "A Lord Mayor's correspondence"

Paras. 35 and 36: You should satisfy yourself that these paragraphs, particularly the last sentence of each, are not likely to upset people needlessly. The same perhaps applies to paras. 9-12 of the Annex.

Para. 38: I stand by the reference to Sir DR here, but you might wish to consider whether the PM should be advised to keep him in reserve for the time being.

cp

C PRIESTLEY

Encs: As para. 1 above

17. 1. 80

PRIME MINISTER

*More all recommendations
but should whether 7 of are with
Pursuing as vigorously as the rest.
Please get of the relevant
divisions etc -*

You should perhaps take another look at this paper from Sir Kenneth Berrill and Sir Derek Rayner about efficiency and waste in local government. It has a number of specific recommendations, and I would like to know whether you want us to take these up.

You will remember that you were very disappointed by last year's initial suggestions from colleagues about waste and efficiency at the local level. You intended to return to the matter, but the right opportunity has not presented itself, with the Government becoming increasingly involved in the detail of existing legislative commitments.

The present is not a good time to launch a new campaign. But we hope that by the middle of the year, Government can point to some tangible successes in efficiency and waste issues affecting Whitehall - through progress on Sir Derek Rayner's initial projects, progress on civil service manpower, progress through Sir Leo Pliatzky's work, and progress on effective public expenditure control through cash limits. Once central government can show that it is leading by example, we could return to the question of a parallel campaign at local level, an area where any success could be of considerable political value.

If you favour some or all of the recommendations in this paper, I would like to write to the offices of those Ministers who attended your local government meeting this week. I would set out these proposals, as suggestions put to you following your

/ initial

initial enquiries about efficiency issues in local government. I would invite reactions to the proposals, with a view to asking Departments to prepare for the launching of a campaign in the future, possibly this summer.

The recommendations can be found in the longer paper behind the covering minute. They cover:-

1. The handling of the "Accounting Commission" proposals (Paragraph 7). *Agreed*.
2. An approach to a waste and efficiency campaign (Paragraph 8).
3. Mobilising local public opinion (Paragraph 10).
4. The dissemination of good local practice (Paragraph 16).
5. Advice for elected local authority members on their role as managers (Paragraph 20).
6. Providing properly presented financial information to help elected members set their officials' proposals in context (Paragraph 22) - I think that this ground is already covered to some extent by Mr. Heseltine's present proposals.
7. Some re-examination of the various different inspectorates at local level (Paragraph 23).
8. Management in education (Paragraph 29).
9. Advice on economical use of manpower (Paragraph 34).
10. The proposal that Mr. Heseltine might be invited to take the lead if such a campaign is to be launched (Paragraph 36), and
11. Sir Derek Rayner's possible contribution (Paragraph 38).

11 January, 1980.

MAP

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CONFIDENTIAL

J. H. Ryden
M. W. Wilson
na

Subject file
Relationship with Local Govt - Part 2
MM Local Govt

NOTE OF A MEETING HELD AT 10 DOWNING STREET AT 1700 ON 8 JANUARY 1980
TO DISCUSS THE RELATIONSHIP BETWEEN CENTRAL AND LOCAL GOVERNMENT

Present: Prime Minister
Home Secretary
Secretary of State for the Environment
Secretary of State for Social Services
Secretary of State for Education and Science
Chief Secretary to the Treasury
Lord Thorneycroft
Sir Frank Marshall
Mr. Clive Whitmore
Mr. Michael Pattison

The Prime Minister recalled that the Chairman of the Party had written to her in November about the concerns expressed by representatives in local government. She invited Sir Frank Marshall to outline the position. Sir Frank Marshall said that he had encountered a range of problems in travelling around local authorities. Initially, reductions in public spending had caused difficulty, but these were now being overcome. He had recently put three questions to the Conservative controlled councils in England and Wales. He had asked what had been done to reduce expenditure, first in percentage terms and secondly in cash terms, and thirdly what would be done to reduce manpower in the current year. He had a 64% response. They had responded manfully to the requirement for cuts, and many had gone further than instructed by central government. The results were now being correlated. Mr. Heseltine had seen a first draft of the results, and this was now being revised. In the Autumn, the matters of concern to local government were essentially the financial provisions of the Bill, especially on the block grant and capital controls. The overwhelming opinion of the local authorities was that these would result in a strong centralisation trend to the detriment of local autonomy. The three associations had come down against the proposed changes. In Sir Frank's view, the real problem was that there had been insufficient time for consultation, and the time available had been ill-used. These central/local issues could only be resolved in a process of give and take, and there had not been enough give from central government. Ministers were now engaged in campaigning

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about the changes, and this would probably win greater agreement. He was confident that both points could be resolved.

The Prime Minister commented that Conservative councils had long pressed for a unitary grant arrangement. There had been many complaints about the inequity of the existing system. Sir Frank Marshall said that the block grant would replace two key elements of the existing rate support grant. Many Conservative authorities felt that the changes were being introduced to catch a few extravagant Labour controlled authorities, and that this was insufficient reason for imposing new controls on all authorities. They believed that the true decision on allocation of money between alternative uses would now be removed from the grass roots to Whitehall. He accepted that this would be true of capital expenditure, not revenue expenditure, but in effect this would result in Whitehall prescribing the use to which the councillors should put their revenue. Mr. Carlisle commented that the changes would require central government to assess local authority needs. This was theoretically required under the current system, but in practice need had been assessed by what the authorities spent.

Mr. Heseltine said that the new system had yet to be finalised. The methodology for calculating local authority needs was now the subject of consultation. The local authorities had objected to the old system, and he had therefore invited them to say what they wished to replace it with. He had personally seen 150 local authority leaders in the past 24 hours, and had found that opposition to the changes were based purely on ignorance. Sir Frank Marshall commented that this arose from poor consultations. There had been a Consultation Paper on the capital provisions but none on the block grant.

The Prime Minister stressed that the Government were responding to demands from the local level. It was now necessary to sell the changes properly. She recognised that local officials - as opposed to local politicians - were stirring up resistance, but it was the job of the elected central government, not paid local officials, to provide leadership. Mr. Heseltine commented that the reactions of councillors were based on briefing from their permanent officials. The new system would allow much more light into the operations of local government, which many officials resented. Every local

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/ authority

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authority group leader had been invited to meet one of his Ministers over the next ten days. In his view, there was no substantive hostility to the block grant arrangement, although there were difficulties on capital controls. Sir Frank Marshall concurred.

The Prime Minister expressed concern about how some authorities might take advantage of the capital control changes. This was why there must be an ultimate right of Whitehall to call in proposals. Mr. Heseltine pointed out that any capital spending now required the submission of at least six different forms to his Department. He agreed that the consultation on changes could have been better. He intended to put this right now. His packages of legislative and administrative changes would pull Whitehall out of a great deal of detailed control. A MISC group of Ministers, chaired by the Home Secretary, was meeting tomorrow to finalise arrangements. He was confident that he had now reached agreement with the Treasury, although his colleagues in spending departments had not yet had a chance to take a final view of the proposals. Overall, the new arrangements would provide the most exciting deal local authorities had ever had. He intended to have only a single capital block for each authority, with the exception of services supervised by the Home Office. Each central spending department would allocate funds for its services, and the local authority could handle the total allocations as one block. There would be powers to vire, to transfer funds between different authorities in some circumstances, to roll over between years, and to use receipts at local discretion. The one significant control would be a rigid overall ceiling. Taking housing as an example, authorities would now prepare submissions for their councils in a common form, and this would be more informative for the elected representatives, would be published to the public benefit, and would be copied to his regional office, who could intervene in extremis, but who would normally take no part in the decision. Cost yard sticks would go. But in cases where the prepared figures showed that there would be no return on the investment, the Department would enter the discussion, and would have formidable back-up powers.

/ Mr. Carlisle

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Mr. Carlisle said that he and the Minister of Transport had not accepted the single block arrangement. He would argue for a guaranteed core of education expenditure, allowing the authority scope to vire to or from education only on a very limited scale. He could not accept that the police and courts should get their own block of funds whilst education did not.

In further discussion, the Prime Minister observed that the local education authorities differed in law from other local authorities, and had statutory duties to fulfil. For this reason, she felt that Mr. Carlisle had a strong case. But even with five sub blocks, local authorities would have much greater freedom than before.

The Prime Minister was concerned that the reduction in regulation of local authorities would not be accompanied by compensating manpower reductions. Sir Frank Marshall wanted to know how capital expenditure would be defined. Mr. Heseltine said that there would be de minimis provisions, but he had not yet cleared final proposals. Sir Frank Marshall was encouraged by the discussion, much of which had not been made clear previously. Nevertheless the ultra vires rules of capital over-spending were still a personal threat to individual councillors. Mr. Biffen confirmed that the Treasury were broadly content with the new proposals, and that the remaining difficulties were those outlined by Mr. Carlisle. Mr. Heseltine drew attention to the fundamental democratic issue of whether local authorities made decisions or were effectively branch offices of Government. Mr. Carlisle acknowledged that Mr. Heseltine's paper now went a long way to meet his difficulties. Mr. Jenkin thought that the real issue was when sanctions would become operative on authorities. The system should include a warning shot. Mr. Heseltine confirmed that he would reserve the right to impose the full disciplines of project control if a local authority became unacceptably extravagant.

The Prime Minister hoped that this discussion had been helpful to the Home Secretary in clarifying the issues to be taken at the MISC group on 10 January.

/ Lord Thorneycroft

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Lord Thorneycroft stressed the political dimension of these problems. The Conservative Party was losing half the seats it fought at local level. They would lose control of the AMA in May. The Department of the Environment paper on capital controls had worried the local authorities, perhaps unnecessarily. Mr. Heseltine was now making a tremendous effort to retrieve the situation - only recently he had been told that convention prevented Mr. Heseltine speaking on local election platforms, although this had now been overturned. Central government had to work with the local authorities. The Government still had some pluses to use for local elections, such as the Housing Bill, manpower savings in some areas and perhaps the Local Government Bill. All these must be used to the full to help the Party hold on to a few more seats. The Prime Minister stressed that housing, mortgage costs, and rates would determine elections.

The Prime Minister asked what could be done to control and reduce local authority manpower. Sir Frank Marshall saw this as the only true means to reduce public expenditure at local level. But many authorities had inherited "no redundancy" agreements from their Labour predecessors. There were success stories which he had passed to Mr. Heseltine. Mr. Heseltine disagreed with Sir Frank Marshall's analysis. He was advised that the 1½% cut back sought the previous year would not be achieved. Local officials continued to run rings around local politicians. Sir Frank's figures showed no manpower saving in a great many authorities. Sir Frank said that financial arrangements for redundancy would have to be considered. Mr. Heseltine said that central government had achieved reductions without redundancies. But during the freeze on local government manpower, 30,000 had left whilst 29,000 had been recruited. Conservative Governments in the recent past had a poor record on local authority manning levels. Sir Frank Marshall argued that central government tended to leave much of its policy to be implemented at local level. Mr. Heseltine outlined the difficulties in getting accurate figures on manning in individual authorities. Lord Thorneycroft confirmed the lack of facts. Part of Mr. Heseltine's Bill was intended to counter this. Mr. Carlisle found current trends in his field more encouraging. The Shire counties would achieve up to 1½% against the

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In Order

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3% saving sought this year. For next year, having longer notice, they would probably reach the 5% target.

Mr. Whitelaw drew attention to the attitude of some local Conservative Party organisations to their links with national politicians. In the distant Shires, the local authorities did not see themselves as the arm of Conservative central government. They preferred to regard themselves as divorced from the dirty business of politics. Lord Thorneycroft accepted this, but stressed that the only real options were either to work with local government as it existed, or slowly to eliminate it. He pleaded that, in all decisions in a difficult period, Cabinet Ministers should keep firmly in mind electoral opinion - especially at local level - as they reached decisions. The Prime Minister emphasised the need to ensure that the best local authority practice was made widely known.

The meeting concluded at 1815.

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9 January 1980

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PERSONAL

PRIME MINISTER

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

1. We attach a note on the possibilities for effective and feasible action in the field of efficiency and waste in local government. Our recommendations are numbered in the margin of the text and summarised in paragraph 39.
2. We believe that there are three key issues, the power of the central government's purse; the power of public opinion; and the will of local government itself.
3. The first of these is the subject of other papers before you. Decisions on the central funding of local government (the block grant, the future of the rating system) and on the pattern of accountability are of critical importance to the behaviour of both central and local government. The attached note is concerned primarily with the "value for money" aspect of local government expenditure. It complements the Government's central strategy on the amount of money to be made available and on control over expenditure. It is about making the best use of the resources available. We have addressed the Government's central financial strategy only sparingly, but we should emphasise that we see it and the "campaign" we recommend in the attached note as companion pieces.
4. The power of public opinion we regard as of massive importance. At the moment many of the public are frustrated at their impotence in the face of inefficiency and waste by their local councils. We think that it would be dangerous to allow them to remain thus frustrated. Opinion needs to be better informed so that local electors can themselves hold their representatives more readily to account. But it should not all happen at the local level; Central

Government has a necessary role as custodian of the public interest in the general cost effectiveness as well as the quality of services. We envisage Ministers, putting it in rather old-fashioned terms, as champions of the anonymous taxpayer.

5. The main point, as we see it, is how to provide the two paymasters of local government, the local ratepayer and Central Government itself, with consistent information about the way in which local authorities spend and the cost-effectiveness with which they do so. The aim should be to build on what already exists, including the work of the District Audit Service and the Chartered Institute of Public Finance and Accountancy, but also to use the central knowledge and resources of Ministers and their Departments so as to leave local authorities with less excuse for inefficiency.

6. We are fully aware of the dangers of an approach which would turn the will of local government against Ministers. Elected members have the responsibility for local services. Some of them and some managements are very good indeed. We therefore suggest an approach which recognises that both Whitehall and Town Hall are greatly reformable; that both need a revolutionary change in their attitudes to the husbandry and use of resources; and that both have the talent and the determination to outface and solve their problems, including restrictive practices if these are properly exposed.

7. We would not expect universal support from the local authority world for our proposals. But we think that mobilising the good authorities to show what can be done; spreading the word; and a better informed public opinion would make life increasingly more difficult for the malingerers.

K.B.

Kenneth Berrill

4 January 1980


Derek Rayner

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

Finance and financial accountability

1 The fundamental issue of accountability is not dealt with in this note, but it cannot be totally ignored. The effectiveness of any campaign to improve efficiency and reduce waste will depend to an important extent on the framework of financial accountability within which it has to operate, which is just as important as the tightness or easiness of the availability of resources.

2 Our proposals for the campaign assume that

a. PESC allocations in the local government field are tightly drawn, providing for little or no growth;

b. current expenditure provision is tightly related to need, with penalties for overspenders and cash limits rigidly adhered to; and

c. capital expenditure is similarly constrained, with a ceiling on total capital expenditure by each authority.

3 On the more basic issue of changing the pattern of accountability the options appear to be:

a. to withdraw central funding and to make local government wholly responsible for financing itself;

- b. to make local authorities account to Ministers for the way they spend on particular services;
- c. to persuade Parliament to assume a monitoring role by extending the remit of the Public Accounts Committee and of the Comptroller and Auditor General to local expenditure;
- d. to rely on the provisions of the Local Government, Planning and Land Bill.

4 These questions are large and controversial. We raise them here for two reasons. First, they are relevant to the Secretary of State for the Environment's proposal to set up an "Accounts Commission for Local Government in England and Wales". Broadly speaking, the proposal envisages leaving central and local government in the same relationship of financial accountability as before, but taking away from local government a certain measure of independence in the appointment of auditors and the common service contained in the Local Authorities Management Services and Computer Committee (LAMSAC). The Commission would also absorb the District Audit Service and the Advisory Committee on Local Government Audit. It would involve the Comptroller and Auditor General, thus apparently bringing in Parliament, on a basis not clearly indicated.

5 It is not obvious to us that the local authorities can be expected to agree with the proposals for an Accounts Commission nor, if it meant a quarrel, how it could avoid reducing opportunities for other and possibly better steps later on. The proposal seems to us to import an awkward mixture of encouragement to and audit of local authorities but, perhaps more important it raises the question whether it is right to respond to worries about the efficiency and the accountability of local government by reducing its capacity to reform itself by taking away some of its functions and giving them to a non-elected body appointed by central Government.

6 Secondly, there is the future of the District Audit Service. We doubt the merits of the "Accounts Commission" proposed, but we do believe that the DAS is potentially a very important weapon in the campaign we recommend. We think that it should be strongly encouraged to spend more time on "value for money" as opposed to financial auditing, and to give more publicity to its audit reports. District Audit might be made compulsory for all local authorities (about 1 in 10 local authorities choose their own private auditors) or strengthened by bringing in outsiders on secondment (as in Canada). Local authorities who do not have Audit Committees should be put under pressure to set them up so as to consider audit reports seriously.

Recn 1 7 We recommend that the constitutional implications of the "Accounts Commission" proposed should be set out so as to enable Ministers to consider whether, if adopted, it might work against rather than for more substantial change and that the Government should consider further, in this context, how best to develop and deploy the District Audit Service.

Broad principles

Recn 2

8 Against that background of tightness of local authority money generally and strengthened local audit, we recommend an approach to a campaign on efficiency and waste in local government along the following lines:

a. The country expects that government, nationally and locally, must not only work for greater cost-effectiveness of services, but be seen to be doing so. This means that elected members must take their management role more seriously and that public opinion must be mobilised to see that they do.

b. Common sense suggests that as the central Government parcels out a lot of the taxpayer's money to local Government, it shares the responsibility for seeing that it is well spent.

c. But the Whitehall pot should not call the Town Hall kettle black. Central Government should acknowledge that it is itself imperfect and that example is better than precept. Ministers would be more persuasive if they could show that they were putting their own house in order. "Do what I say, not what I do", is never an inspiring battle cry.

d. At the local level the best hope of reform lies in the hands of those responsible for managing resources, ie elected members, provided they are properly stimulated and kept up to the mark. The best messages about good management would derive from the good practice of those authorities which are already doing much to improve management and services.

e. The practical substance of the Government's approach should be three pronged: the close examination of particular services and the use of manpower; the management and financial regime; and the use of such instruments as Inspection which lie in its own hands. These three are considered below.

Prong I. The examination of particular services ✓

9 "Local Government" and "Central Government" are large, unhelpful terms. To give drive to a practical programme, we need to think in terms of relationships between local authorities for particular services (eg education, fire, housing, planning, police etc) and the relevant Whitehall departments (eg DES, Home Office, DOE etc). We also need to be conscious that each service is "defended" by a thick cluster of vocal and sometimes potent lobbies and pressure groups, national and local.

Recn 3

10 We recommend that the drive should be given force and sustenance by mobilising local public opinion. Local Government claims that it sets great store by local accountability, but we fear this is all too often a dead letter. Let central Government stimulate the appetite of the local people and the local press and build up the expectations that local authorities should be (and need to show themselves to be) cost-conscious and that the services provided are concerned with cost effectiveness as well as with quality.

11 One of your correspondents, Mrs Isobel Spencer of Leicester, has caught the point well, arguing that the opponents of "cuts" are getting the headlines:

"Would it be possible.....to examine in some detail one or two areas of public expenditure and publicise examples of how money could be saved other than by cutting services. It seems to me that no public bodies are taking a long positive look at their accounts and saying 'this or that is extravagant and the money would be better spent in another way'. Many of the people I talked to have the hopeless feeling that they cannot have any influence on the stupidities that go on. Please could you not really 'hammer home' in some practical way that it is wastage that should be cut, not services."
(Letter of 18 October.)

12 We think that it should be readily possible for central and local Government to prepare collaboratively a "do it yourself" guide for those responsible for particular services on how to appraise their costs and their effectiveness. This would be supplemented by examples of cost-conscious (and perhaps un-cost-conscious) management, getting down to the detail of running, say, a school or a residential establishment and doing so in vivid and direct

language. One should also look at such "business-type" undertakings as public transport. It would be desirable to get particular authorities to prepare the examples, and indeed to put their names to them, but that might be asking too much of human nature.

May I see the bus's reputation London transport?

13 It would be necessary to publish the guides and to ensure that the examples, even if pseudonymous, were authentic.

14 It would also be important to persuade local authorities themselves to review services, or some characteristic part of them, following the guidance given and then to publish the results.

15 The coverage of guides and of reviews might include:

✓ a. Questioning the need for and cost-effectiveness of services or parts of services. (This would obviously be much assisted by a detailed examination of particular services, especially in respect of manning (see para. 34 below).)

b. Questioning incremental budgeting and set rates of increase of expenditure; planning resource allocation by reference to proved need.

c. Measuring performance by achievement, not by expenditure level, and by reference to external standards and comparisons as well as to internal criteria (see para. 20 below).

✓ d. Finding money within existing budgets for services by savings and sale of assets.

e. Breaking down barriers between services, especially in respect of such assets and equipment as premises and vehicles (see para. 18c below).

Recn 4

16 We therefore recommend the publication of a guide containing observations and suggestions, supported by examples of good (and possibly bad) practice and subsequently the publication of a series of detailed pieces on particular services. Both the examples in the first paper and the subsequent examinations should be the product of particular local authorities, although published by central Government. Getting local authority co-operation might be difficult, but should not be impossible. We deal below (paras. 35 and 36 and Annex) with the question of Ministerial responsibility for this work.

Prong II. The management role of local representatives

17 We referred above to the "family connection" in services as between Town Hall and Whitehall (para. 9). The local reflections of this are "departmentalism" and the comparative weakness of the full Council and of its central controls over finance and manpower as compared with the strength of departmental Chairmen and Chief Officers. (This has been compounded since re-organisation by a certain lack of clarity in specifying

the respective responsibilities of different tiers in the structure of local Government.)

18 We believe that the main targets in this area are these:

a. Obscurity about the respective responsibilities of members in their different capacities as Councillors and members of "service" committees and about those of the Chief Executive (where he exists) and of Chief Officers.

b. Inertia, including the reluctance of members to have their administration looked over by outsiders, to find the time and energy to review the delivery and quality of services and to upset the unions.

c. The ineffectiveness of control at the centre of a local authority over finance and manning (in overseeing the use of resources by departments and in combating the tendency towards incrementalism in financial planning and allocation, towards spending unnecessarily to use up the annual budget and towards loading administration and ancillary services on top of main services for no obvious advantage).

d. Weak control over capital projects, because of lack of managerial experience and forethought.

e. Lack of intelligible management information for members.

19 Our suggestions here centre on clarifying the management role of elected members and their staffs and strengthening their capacity to carry it out.

Recn 5

20 We recommend as follows:

- M. Reed*
- a. There should be guidance prepared by central and local government collaboratively on the nature and performance of elected members' role as managers, again based on good local authority practice.
 - b. This should include guidance for Committee Chairmen and Chief Officers on setting expenditure objectives; clarifying the respective roles of leader, Chief Executive, Chairmen and Chief Officers in resource planning, management and control; and the type of information required to enable members to become good managers.
 - c. There should also be guidance on the management of such particular services and institutions as large comprehensive schools (see also para. 29 below).
 - d. The Government should either arrange itself or stimulate others to arrange courses and conferences for local representatives on their "value for money" role. (Lord Bellwin recently told a local authority gathering, "There is an enormous number of Conferences..... for members and officers, covering every functional activity

in local government and yet never have I heard of an open national Conference of members, specifically to examine ways of doing things better".)

e. Both guidance and conferences should be specific.
Some examples which occur to us are these:

i. Members should be encouraged (and a corresponding public expectation should be stimulated) to look at such transdepartmental issues as heating, lighting, cleaning, transport, premises, invoicing and printing.

ii. The machinery for this should be specified, with an explanation of the use of Performance Review Committees and Audit Committees, neither of which is by any means universal but of each of which there is, we understand, some encouraging experience to tap.

iii. Members might also be encouraged to consider whether it is true, as many people believe, that public expenditure cuts tend to fall most heavily on service provision, leaving administration relatively unscathed and if so, to examine the organisational forces that lead to this and how they might be neutralised.

21 Mr Ian Coutts, the Conservative Leader in Norfolk, has recently drawn attention to such differences between unit costs as these:

- Northumberland spends nearly twice as much on fire cover per thousand people as Northamptonshire.

There should be reference to the relevant authorities over published or no expected in for the coming

Use a figure

- Bedfordshire educates primary school children at a cost per pupil 30 per cent higher than in Lancashire; Surrey educates secondary children at a cost per head 20 per cent higher than in Suffolk.
- Buckinghamshire produces school meals at a cost 20 per cent higher than in Hereford and Worcester.
- Derbyshire pays 40 per cent more than Salop to keep a child in a community home.

22 One of the most important tasks is for central and local government collaboratively to ensure the provision of information which will enable elected members to compare expenditures between local authorities. This means providing a common basis of information which can be of service to local authorities and their two paymasters, the local elector and the central government. What is spent? What is bought for the expenditure? Much useful work is already done in this field by the Chartered Institute of Public Finance and Accountancy, but we do not believe that the results are used as extensively by local authorities as they should be. There is also LAMSAC, but not all local authorities use it. We would want to see local self-help strengthened but because much of the present organisation and methods work in local authorities is feeble and inadequate a powerful external impetus is required in the shape of regularly published information on spending on different services. ^{by different authorities} We think that the Government should set this information in context by such central analysis as local authorities cannot manage for themselves.

Recn 6

Done

Prong III. The use of instruments in the Government's own hands,
notably inspection

Recn 7

23 Apart from the District Audit Service on which we have already commented, we believe that the Government should consider what instruments it can itself bring to bear on local authorities without overbearing. We recommend in particular that the purposes and methods of relevant inspectorates should be reviewed urgently.

24 In the case of the Fire and Police Inspectorates this would mean considering the extent to which they are at present concerned with resource allocation, rather than with the maintenance and improvement of professional standards. (For instance it has been put to us that their effect is to drive up the costs of services because of their insistence on the best equipment; and the Fire Inspectorate have certainly been unsuccessful in preventing many local authorities from exceeding by a long way the Home Office Standards on Fire cover.) Similar questions could be asked of the Career Service Inspectorate.

25 In the case of the Schools and Further Education Inspectorate (which deals with by far the largest single local authority expenditure) we think that there is a truly fundamental issue about the role of central Government. The old view was that because Parliament made parents send their children to school, it should guarantee that the education given was worth having. We are bound to say that in our view we still fail to preserve many of our children from being made into second rate people by second rate education and that, far from being the taxpayers' and

parents' friend, the Inspector has become part of the educational stage army and defence mechanism.

26 It is doubtful whether the Inspectorate performs a local inspectorial role of real value: it appears to have become another "research and development" organisation. The issues are, "What standards do we wish to promote? What is the best policy (taking cost-effectiveness into account) for promoting and monitoring the achievement of these standards? What part should the Inspectorate play in this process? What information should be made available to the public about the performance of particular institutions as a result of inspection?"

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27 We see this as a key issue in determining whether such a service as education is run by the professional establishment mainly by reference to criteria powerfully modulated by the interplay of pressure groups or whether the Government plays that central part which no other national institution can play, namely asserting and defending standards on behalf of the people as a whole.

28 A storm of protest from the profession would be likely to meet moves by Government to assert a greater central lead on standards, to increase the inspectorial role of the Inspectorate, and to strengthen the responsiveness of local authorities to inspections (backed up by publication). It is, however, our clear impression that such moves would be welcomed by many in the practice and administration of education and by a multitude of parents.

29 We also recommend that the Education Departments should urgently review their contribution to the managerial competence of senior teachers and administrators. Being head of a large school, or a polytechnic or a college is taxing and difficult, but our understanding is that the training available to Principals, Heads and Deputy Heads is limited in extent and value.

Manpower

30 The Lord Mayor of Plymouth's correspondence with you and Sir Derek Rayner's Office during the summer showed that the growth of local authority manpower seems inexorable, even to those at the local level.

31 However, the consumption of manpower can be attacked by reference to some fairly simple questions and by exposing the answers to the public gaze:

- How many people are needed in order to provide the service that is needed?
- What are the effects of having more people than are needed, eg in administration and ancillary services?
- How much double-banking is there between services?

32 It is no use having a "Manpower Watch" if one does not get behind the figures and explain in as much detail and as vividly as possible what staff actually do and what value they add.

33 This is also a minefield. But we believe that it calls for radical measures to expose the nature and cost of both over-manning and of such restrictive practices as constraints on the redeployment of labour, staffing levels and phoney bonus schemes.

Recn 9

Agreed

34 We recommend that central and local government should collaborate in preparing for publication descriptions of the use of manpower as part of the series of appraisals outlined in paragraphs 12 - 15 above; that they should describe the model staffing regimes for particular services and institutions; and that Central Government should also publish data enabling levels of staffing to be contrasted as between different local authorities. Again, as much as possible of the descriptive work should be done by local authorities themselves, but we believe that the Government should become in effect a "consumer association" for the taxpayer.

Ministerial action

35 Several Ministers and departments are involved in our recommendations. We must say frankly that an early need will be to get departments to commit themselves to helping the local taxpayer get value for money, even if it harms the traditional supportive relationships between central departments and their local government opposites. We should therefore raise with you the question of leadership and co-ordination.

Recn 10

Agreed

36 Our view is that you might ask the Secretary of State for the Environment to take the lead on your behalf, to prepare rapidly a plan of action for agreement by you and your colleagues and subsequently to report back to you at regular intervals. On the other hand, of course, you might prefer to keep the reins in your own hands for the time being.

37 We offer in the Annex the outline of a strategy, which we invite you to consider.

38 May we also say a word on Sir Derek Rayner's role? There are many problems of political and tactical relationships in all that we have said. To the extent that it would help to present and tackle the issues as ones of good management, common to both central and local Government, we think that his services might be used, for example in giving his name to a paper drawing on existing experience to show that reducing actual and anticipated levels of expenditure can produce more cost-effective services. Another example would be contributing to the preparation of guides and supplements (see paragraphs 15, 20 and 34 above).

Summary of recommendations

39 Our recommendations are as follows:

Recn 1 The constitutional implications of the "Accounts Commission for Local Government in England and Wales" proposal should be set out so as to enable Ministers to consider whether, if adopted, it might work against rather than for more substantial change and the Government should consider further, in this context, how best to develop and deploy the District Audit Service (paragraph 7).

Recn 2 The approach should be as in paragraph 8.

Recn 3 Given the existing distribution of responsibilities between central and local government, public opinion should be mobilised and the Government should regard itself as a "consumer association" for the taxpayer (paragraphs 10 and 34).

- Recn 4 ✓ The Government should publish a series of guides and papers on value for money, preferably incorporating the work of local authorities (paragraphs 12-16).
- Recn 5 ✓ The Government should publish guidance on the management role of elected members and of those responsible for providing services (paragraph 20).
- Recn 6 ✓ The Government should publish data on local authorities' spending on different services (paragraph 22).
- Recn 7 The purposes and methods of Government Inspectorates should be reviewed urgently, with particular reference to education (paragraphs 23-28).
- Recn 8 The Education Departments should review urgently their contribution to the management competence of senior teachers and administrators (paragraph 29).
- Recn 9 ✓ The Government should publish descriptions of the use of manpower, model staffing regimes and comparisons of staffing levels (paragraph 34).
- Recn 10 ✓ A plan of action on the lines of the Annex should be adopted (paragraph 36).
- Recn 11 ✓ Sir Derek Rayner might be able to play a part if so wished. (paragraph 38).

Kenneth Berrill
Derek Rayner

4 January 1980

ANNEX

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT: OUTLINE OF A PLAN OF CAMPAIGN

A What are the targets?

1 Targets are likely to be both general and particular.

2 General targets might include elected members' indifference to value for money; poor central control over the allocation and use of resources by departments; poor control over capital projects; and general weakness of the management structure and arrangements.

3 In sum, the main general target would be devising a pattern of managerial practice appropriate to the rest of the century.

4 Particular targets might include both individual local authorities which are inefficient or prodigal and, more commonly, given the nature and thrust of this exercise, the various services for which local authorities are responsible or some particular aspect of them.

5 Manning can be tackled as a general target to some degree, but it would be better dealt with as a characteristic of particular services. (The important general point about it is that over-manning is proof of weak central management control.)

6 In the case of each service, there are such questions as:

- Establishing the nature and extent of the function which must be carried out.
- Discarding bye-functions which need not be carried out.
- Establishing levels of staffing and equipment appropriate to the function and the economic circumstances.
- Establishing the correct balance between the staffing and equipment actually needed for the service and for administrative and ancillary services in support of it.

- Establishing the nature and extent of the information needed for effective management by elected members and others.
- Establishing the cost of such inhibitions as those of restrictive practices.
- Establishing the cost of "departmentalism".

B What needs to be done next?

7 The opportunities for effective action need to be judged by reference to intended action on other fronts (E' below).

8 The character, timing and presentation of an initiative then need to be worked out by reference to, inter alia:

- Ministerial leadership and co-ordination
- Identification of targets (A above)
- The contribution to be made by Ministers fronting onto particular services (Home, Environment, Scotland, Wales, Social Services and Education) and by some central point, if any
- Presentation and co-operation: winning the support and help of particular local authorities, the local authority associations and staff associations, and the public.
- Doing the fieldwork
- Publishing the results

C How should it be done?

9 We suggest that you should first call together the relevant Ministers and take their advice on the issues and the possibilities, on the basis of a draft plan of campaign.

10 The aim should be to get agreement to the draft plan and then

some rapid work by individual Ministers to give it substance in respect of the contribution to be made by each Department.

11 These contributions would be mainly in terms of getting local authorities to do exercises themselves, but Departments would have to work themselves on such issues as the contribution of Inspection to securing value for money and pulling together separate experiences of separate local authorities.

12 Ministers' contributions to the plan should be brought together by a Minister nominated by you, or by a central point nominated by you, and presented to Cabinet for agreement by, say, mid-February.

D Who are those in or near local government already attacking the targets?

13 It would be necessary to specify both particular elected members and authorities with a view to enlisting potential allies and co-workers.

14 Similarly, it would be helpful to specify those tendencies which are already working in the direction desired by the Government, to analyse their effects and to consider how they should be boosted. These include:

- The development of the managerial role of the full Council and such central committees as the Finance Committee
- The employment of Chief Executives
- The use of Performance Review and Audit Committees; the work of the District Audit Service
- The information work of the Chartered Institute of Public Finance and Accountancy
- The (slow) development of such collective services as those of LAMSAC

15 Again, there should be good practice in the management of particular services locally which should be identified by Departments.

E What are the relevant changes the Government has in hand or in prospect and the instruments which it might use already in its hands?

16 Relevant prospective changes are as set out briefly in other papers and are:

Reduction of central controls and circulars.

Reduction of central control over the allocation of capital expenditure, but increased control over total capital expenditure.

Proposed reform of RSG from 1981/82.

Review of statutory duties.

Review of scope for privatisation/contracting out.

Proposals to require publication of cost statistics.

DOE proposal for an "Accounts Commission for Local Government".

17. The "instruments" include Inspection; influence; exhortation and guidance. It would be necessary to review them quickly to see what contribution they should make, in effect the policy behind them.

PERSONAL

Local Government

✓ *MA*
Mr PATTISON

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

1. We had a quick word about this last night. I attach a copy of a draft minute from Sir Kenneth Berrill and Sir Derek Rayner, together with a draft note containing proposals and the outline of a plan of campaign.
2. On reflection, given the onset of the Christmas period, I am submitting the drafts to the knights, but with the modest thoughts that they may represent neither what they would want to put in nor what the Prime Minister would find helpful. I would find it helpful to have a word with you about the papers as you suggested yesterday.
3. On present plans I intend to close this office completely next week. But I shall be at home most of the time. If we cannot meet tomorrow and you want a word next week, you can reach me on 624 8691. As I live in NW8, I can get in easily.

cp
C PRIESTLEY
20 December 1979

Encs: Draft minute to Prime Minister, plus note of suggestions and outline of a plan of campaign

COPY TO EACH

Sir Kenneth Berrill
Sir Derek Rayner

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

1. I attach a draft minute to the PM and a draft note, both for joint signature by you. Annexed to the note is the outline of a plan of campaign, with a particular emphasis on the opening moves.
2. Not having seen the other relevant papers by Lord Thorneycroft and Mr Heseltine, I do not know how well the draft proposals front onto them. I hope to have a chance to discuss this with Mr Pattison before the end of this week.
3. Needless to say, I do not assume that these drafts necessarily reflect the sort of thing you want to say or what the PM wants to hear.
4. The time at which the PM wishes to receive your note has not been indicated. The proposed meeting of Ministers is on Tuesday 8 January, so I think that we should aim at a discussion of the draft, if it is needed, on 31 December or 2 January and submission no later than close of play on Friday 4 January.


C PRIESTLEY
20 December 1979

Encs: Draft minute to Prime Minister, plus note of suggestions
and outline of a plan of campaign

DRAFT OF 20 DECEMBER 1979

PERSONAL

PRIME MINISTER

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

1 The attached note on the possibilities for effective and feasible action in this field is by Sir Derek Rayner and me. Our recommendations are numbered in the margin of the text and summarised in para 36.

2 We believe that there are three key issues, the power of the purse; the power of public opinion; and the will of local government itself.

3 The first of these is the subject of other papers before you. Decisions on the central funding of local government and on the pattern of accountability are of critical importance to the behaviour of both central and local government. But we have addressed this issue only insofar as it bears on the Secretary of State for the Environment's current proposal for an "Accounts Commission for Local Government" (paras 27 - 31) and insofar as it affects the composition and timing of the "plan of campaign" which we annex to our note.

4 We regard the power of public opinion as of massive importance. First, we think that it would be dangerous to allow it to remain frustrated. Secondly, we should like to see opinion better informed so that local electors can themselves hold their representatives

more readily to account. Thirdly, we think that central government has a necessary role as custodian of the public interest in the general quality of services. We envisage Ministers, putting it in rather old-fashioned terms, as the champions of the anonymous taxpayer.

5 Finally, we do not recommend an approach which would turn the will of local government against Ministers. Elected members have the responsibility for local services. Some of them and some managements are very good indeed. We therefore suggest an approach which recognises that both Whitehall and Town Hall are greatly reformable; that both need a revolutionary change in their attitudes to the husbandry and use of resources; and that both have the talent and the determination to outface and solve their problems, including restrictive practices if these are properly exposed.

6 We would not expect universal support from the local authority world for our proposals. But we think that mobilising the good authorities to show what can be done; spreading the word; and a better informed public opinion would make life increasingly difficult for the malignant.

Kenneth Berrill

Derek Rayner

December 1979

DRAFT OF 19 DECEMBER 1979

EFFICIENCY AND WASTE IN CENTRAL GOVERNMENT

Broad principles

Recn 1

1. We recommend an approach on this footing:
 - a. The country expects that Government, nationally and locally, must not only work for greater cost-effectiveness of services, but be seen to do so. This means that elected members must take their management role more seriously and that public opinion must be mobilised to see that they do.
 - b. Commonsense suggests that as the central Government parcels out a lot of the taxpayer's money to local Government, it is responsible for seeing that it is well spent.
 - c. But the Whitehall pot should not call the Town Hall kettle black. Central Government should acknowledge that it is itself imperfect and that example is better than precept. Ministers would be more persuasive if they could show that they were putting their own house in order. "Do what I say, not what I do", is not an inspiring battle cry.
 - d. The best hope of reform lies in the hands of those responsible for managing resources, ie elected members, provided they are properly stimulated and kept up to the mark. The best messages about good management would derive from the good practice of

those authorities which are already doing much to improve management and services.

e. The practical substance of the Government's approach should be broadly threefold, being addressed to the close examination of particular services and the use of manpower, the management and financial regime and the use of such instruments as Inspection which lie in its own hands.

The examination of particular services

2. "Local Government" and "Central Government" are misleadingly simple terms. To give a practical programme drive, we need to think in terms of relationships between local authorities for particular services (eg education, fire, housing, planning, police etc) and the relevant Whitehall departments (eg DES, Home Office, DOE etc). We also need to be conscious that each service is "defended" by a thick cluster of vocal and sometimes potent lobbies and pressure groups.

Recn 2

3. To keep up the drive, we recommend that public opinion should be mobilised. Local Government sets great store by local accountability, which we fear is all too often a dead letter. Let central Government stimulate the appetite of the people and the press and build up the expectations that local authorities should be, are and show themselves to be cost-conscious and that the services provided are manifestly of good quality.

4. One of your correspondents, Mrs Isobel Spencer of Leicester, has caught the point well, arguing that the opponents of "cuts" are getting the headlines:

"Would it not be possible to examine in some detail one or two areas of public expenditure and publicise examples of how money could be saved other than by cutting services. It seems to me that no public bodies are taking a long positive look at their accounts and saying 'this or that is extravagant and the money would be better spent in another way'. Many of the people I talked to have the hopeless feeling that they cannot have any influence on the stupidities that go on. Please could you not really 'hammer home' in some practical way that it is wastage that should be cut, not services." (Letter of 18 October).

5. We think that it should be comparatively simple to prepare a "do it yourself" guide for those responsible for particular services on the appraisal of their costs and their effectiveness. This would be supplemented by examples of cost-conscious (and perhaps uncost-conscious) management, getting down to the detail of running, say, a school or a residential establishment and doing so in vivid and direct language. One should also look at such "business-type" undertakings as public transport. It would of course be preferable to get particular authorities to put names to the examples, and indeed to prepare them, but that may be asking too much of human nature.

6. It would be necessary to publish the guides and to ensure that the examples, even if pseudonymous, were authentic.

7. It would be important to persuade local authorities themselves to review services, or some characteristic part of them, following the guidance given and publishing the results.

8. The coverage of guides and of reviews might include:
 - a. Questioning the need for and cost-effectiveness of services or parts of services. (This would obviously be much assisted by a detailed examination of particular services, especially in respect of manning (see para. 25 below).)

 - b. Questioning incremental budgeting and set rates of increase of expenditure; planning resource allocation by reference to prove need.

 - c. Measuring performance by achievement, not by expenditure level, and by reference to external standards and comparisons as well as to internal criteria (see para. 13 below).

 - d. Finding money within existing budgets for services by savings and sale of assets.

 - e. Breaking down necessary barriers between services, especially in respect of such assets and equipment as premises and vehicles (see para. 12d below).

9. We therefore recommend the publication of an opening guide containing observations and suggestions, supported by examples of good (and possibly bad) practice and subsequently the publication of a series of detailed pieces on particular services. Both the examples in the first paper and the subsequent examinations should be the product of particular local authorities, although published by central Government. Getting local authority co-operation might be difficult, but should not be impossible. We deal below (para. 32 and Annex) with the question of Ministerial responsibility for this work.

The management role of local representatives

10. We referred above to the "verticality" of services as between Town Hall and Whitehall (para. 2). The local reflections of this are "departmentalism" and the comparative weakness of the full Council and of central controls over finance and manpower as compared with the strength of departmental Chairmen and Chief Officers. This has been compounded since re-organisation by a certain lack of clarity in specifying the respective responsibilities of different tiers in the structure of local Government.

11. We believe that the main targets in this area are these:

- a. Obscurity about the respective responsibilities of members in their different capacities as

Councillors and members of "service" committees and about those of the Chief Executive (where he exists) and of Chief Officers.

b. Inertia, including the reluctance of members to have their administration looked over by outsiders, to find the time and energy to review the delivery and quality of services and to upset the unions.

c. The ineffectiveness of central control over finance and manning in overseeing the use of resources by departments and in combating the tendency towards incrementalism in financial planning and allocation, spending unnecessarily to use up the annual budget and loading administration and ancillary services on top of main services for no obvious advantage.

d. Weak control over capital projects, because of lack of managerial experience and forethought.

e. Lack of intelligible management information for members.

12. Our suggestions here centre on clarifying the management role of elected members and their staffs and strengthening their capacity to carry it out.

13. We recommend as follows:

a. There should be guidance from the Government on the nature and performance of elected members' role as managers, again based so far as possible on good local authority practice.

b. This should include guidance for Committee Chairmen and Chief Officers on setting expenditure objectives; clarifying the respective roles of leader, Chief Executive, Chairmen and Chief Officers in resource planning, management and control; and the type of information required to enable members to become good managers.

c. There should also be guidance on the management of such particular services and institutions as large comprehensive schools (see also para. 20 below).

d. The Government should either arrange itself or stimulate others to arrange courses and conferences for local representatives on their management role. (Lord Bellwin recently told a local authority gathering, "[There is an] enormous number of Conferences for members and officers, covering every functional activity in local government and yet never have I heard of an open national Conference of members, specifically to examine ways of doing things better".)

e. Both guidance and conferences should be as specific as possible. Some examples which occur to us are these:

i. Members should be encouraged (and a corresponding public expectation should be stimulated) to look at such trans-departmental issues as heating, lighting, cleaning, transport, premises, invoicing and printing.

ii. The machinery for looking should be specified, with an explanation of the use of Performance Review Committees and Audit Committees, neither of which is by any means universal but of each of which there is, we understand, some encouraging experience to tap.

14. Mr Ian Coutts, the Conservative Leader in Norfolk, has recently drawn attention to such differences between unit costs as these:

- Northumberland spends nearly twice as much on fire cover per thousand people as Northamptonshire.
- Bedfordshire educates primary school children at a cost per pupil 30% higher than in Lancashire; Surrey educates secondary children at a cost per head 20% higher than in Suffolk.

- Buckinghamshire produces school meals at a cost 20% higher than in Hereford and Worcester.
- Derbyshire pays 40% more than Salop to keep a child in a community home.

One of the most important tasks for Government is to ensure the provision of information which will enable elected members to compare expenditures between local authorities, but we think that the Government itself should set this information in context by such central analysis as local authorities cannot manage for themselves. There is LAMSAC, of course, but not all local authorities use it and the Secretary of State for the Environment proposes to incorporate it in his "Accounts Commission for Local Government", on which we comment below. We would want to see local self-help strengthened but we think that much of the present organisation and methods work going on is feeble, inadequate and unknown to the public and that what is needed is a powerful impetus by Government in the shape of regularly published information on spending on different services.

Recn 5

The use of instruments in the Government's own hands,
notably inspection

Recn 6

15. We believe that the Government should consider what instruments it itself can bring to bear on

local authorities without overbearing, but we recommend that the purposes and methods of relevant inspectorates should be reviewed urgently.

16. We doubt whether there is a substantial issue in the case of the Fire and Police Inspectorates, although it has been put to us that their effect is to drive up the cost of services because of their insistence on the best equipment.

17. In the case of the Schools and Further Education Inspectorate, we think that there is a truly fundamental issue about the role of central Government. The old view was that because Parliament made parents send their children to school, it should guarantee that the education given was worth having. We are bound to say that in our view we still fail to preserve many of our children from being made into second rate people by second rate education and that, far from being the taxpayers' and parents' friend, the Inspector has become part of the educational stage army.

18. It is doubtful whether the Inspectorate has a local inspectorial role at all or whether it has become another "research and development" organisation. The issues are, "What standards do we wish to promote? What is the best policy for promoting and monitoring the achievement of these

standards? What information should be made available to the public about the performance of particular institutions as a result of inspection?"

19. We see this as a key issue in determining whether such a service as education is run by the professional establishment mainly by reference to criteria powerfully modulated by the interplay of pressure groups or whether the Government plays that central part which no other national institution can play, namely asserting and defending standards.

20. We should add that it is our impression that such a move by the Government would be very much welcomed by many in the practice and administration of education and by a multitude of parents.

Recn 7

21. We also recommend that the Education Departments should urgently review their contribution to the managerial competence of senior teachers and administrators. Being head of a large school, or a polytechnic or a college is taxing and difficult, but our understanding is that the training available to Principals, Heads and Deputy Heads is limited in extent and value.

Manpower

22. The Lord Mayor of Plymouth's personal contribution during the summer showed that the growth

of local authority manpower seems inexorable.
even at the local level.

23. However, the consumption of manpower can be attacked by reference to some fairly simple questions and by exposing the answers to the public gaze:

- How many people are really needed in order to provide the due service?
- What are the effects of having more people than you need, eg in administration and ancillary services?
- How much double-banking is there between services?

24. The main point is that it is no use having a "Manpower Watch" if one does not get behind the figures and explain in as much detail and as vividly as possible what staff actually do and what value they add.

25. This is a minefield, of course, but we believe that it calls for radical measures to expose the nature and cost of both overmanning and of such restricted practices as constraints on the redeployment of labour, staffing levels and phoney bonus schemes.

26. We recommend that the Government should publish descriptions of the use of manpower as part of the series of appraisals outlined in paras. 5 - 8 above; that it should describe the model staffing regimes for particular services and institutions; and that it should contrast levels of staffing as between different local authorities. Again, as much of the descriptive work should be done by local authorities themselves as possible, but we believe that the Government should become in effect a "consumer association" for the taxpayer.

Changing the pattern of accountability

27. There remains the fundamental issue of accountability, described in other papers.

28. The options appear to be these:

a. to withdraw central funding and to make local government wholly responsible for financing itself;

b. to make local authorities account to Ministers for the way they spend on particular services;

c. to persuade Parliament to assume a monitoring role by extending the remit of the Public Accounts Committee and of

the Comptroller and Auditor General to local expenditure;

d. to rely on the provisions of the Local Government, Planning and Land Bill.

29. These questions are large and controversial. We raise them here only because they are relevant to the Secretary of State for the Environment's proposal to set up an "Accounts Commission for Local Government in England and Wales". Broadly speaking, the proposal envisages leaving central and local government in the same relationship of financial accountability as before, but taking away from local government a certain measure of independence in the appointment of auditors and the common service contained in LAMSAC. The Commission would also absorb the District Audit Service and the Advisory Committee on Local Government Audit. It would involve the Comptroller and Auditor General, thus apparently bring in Parliament, on a basis not clearly indicated.

30. It is not obvious to us why the local authorities should be expected to agree with this nor, if it means a row, how it can avoid reducing opportunities for other and possibly better steps later on. The proposal seems to us to mean an awkward mixture of encouragement to and audit of local authorities but, perhaps more importantly,

it raises the question whether it is right to respond to worries about the efficiency and the accountability of local government by reducing its capacity to reform itself by taking away some of its functions and giving them to a non-elected body appointed by central Government.

Recn 9

31. We recommend that the constitutional implications of this proposal should be set out so as to enable Ministers to consider whether, if adopted, it would tend to work against rather than for substantial change, should this be in prospect.

Ministerial action

32. Several Ministers and departments are involved in our recommendations. We must say frankly that an early need will be to get across to departments the need to commit themselves to helping the taxpayer get value for money, in substitution for a commitment to the maintenance of their relationships with their stage armies at all costs. We should therefore raise with you the question of leadership and co-ordination.

Recn 10

33. Our view is that you might ask one Secretary of State to take the lead on your behalf, to prepare rapidly a plan of action for agreement by you and your colleagues and subsequently to

report back to you at regular intervals. On the other hand, of course, you might prefer to keep the reins in your own hands for the time being.

34. We offer in the Annex the outline of a strategy, which we invite you to consider.

Recn 11

35. May we also say a word on Sir Derek Rayner's role? There are many problems of political and tactical relationships in all that we have said. To the extent that it would help to present and tackle the issues as ones of good management, common to both central and local Government, we think that his services might be used, for example in giving his name to a paper drawing on existing experience to show that reducing actual and antipated levels of expenditure can produce more cost-effective services. Another example would be contributing to the preparation of guides and supplements (see paras. 8, 12 and 26 above).

Summary of recommendations

36. Our recommendations are as follows:

Recn 1

The approach should be as in paragraph 1.

Recn 2

Given the existing distribution of responsibilities between central and local government, public opinion should be mobilised and the Government should regard itself as a "consumer association"

- for the taxpayer (paras. 3 and 26).
- Recn 3 The Government should publish a series of guides and papers on value for money, preferably incorporating the work of local authorities (paras. 5 - 8).
- Recn 4 The Government should publish guidance on the management role of elected members and of those responsible for providing services (para. 13).
- Recn 5 The Government should publish data on local authorities' spending on different services (para. 14).
- Recn 6 The purposes and methods of Government Inspectors should be reviewed urgently, with particular reference to education (paras. 15 - 20.)
- Recn 7 The Education Departments should review urgently their contribution to the management competence of senior teachers and administrators (para. 21).
- Recn 8 The Government should publish descriptions of the use of manpower, model staffing regimes and comparisons of staffing levels (para. 26).
- Recn 9 The constitutional implications of the proposed "Accounts Commission" should be set out for Ministers (para. 31).
- Recn 10 A plan of action on the lines of the Annex should be adopted (para. 33).
- Recn 11 Sir Derek Rayner might be able to play a part if so wished (para. 35).

Kenneth Berrill

Derek Rayner

December 1979

ANNEX

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT: OUTLINE OF A PLAN OF CAMPAIGN

A What are the targets?

- 1 Targets are likely to be both general and particular.
- 2 General targets might include elected members' indifference to value for money; poor central control over the allocation and use of resources by departments; poor control over capital projects; and general weakness of the management structure and arrangements.
- 3 In sum, the main general target would be devising a pattern of managerial practice appropriate to the rest of the century.
- 4 Particular targets might include both individual local authorities which are inefficient or prodigal and, more commonly, given the nature and thrust of this exercise, the various services for which local authorities are responsible or some particular aspect of them.
- 5 Manning can be tackled as a general target to some degree, but it would be better dealt with as a characteristic of particular services. (The important general point about it is that over-manning is proof of weak central management control.)
- 6 In the case of each service, there are such questions as:
 - Establishing the nature and extent of the function which must be carried out.
 - Discarding bye-functions which need not be carried out.
 - Establishing levels of staffing and equipment appropriate to the function and the economic circumstances.
 - Establishing the correct balance between the staffing and equipment actually needed for the service and for administrative and ancillary services in support of it.

- Establishing the nature and extent of the information needed for effective management by elected members and others.
- Establishing the cost of such inhibitions as those of restrictive practices.
- Establishing the cost of "departmentalism".

B What needs to be done next?

7 The opportunities for effective action need to be judged by reference to intended action on other fronts (E below).

8 The character, timing and presentation of an initiative then need to be worked out by reference to, inter alia:

- Ministerial leadership and co-ordination
 - Identification of targets (A above)
 - The contribution to be made by Ministers fronting onto particular services (Home, Environment, Scotland, Wales, Social Services and Education) and by some central point, if any
 - Presentation and co-operation: winning the support and help of particular local authorities, the local authority associations and staff associations (?), and the public.
- Doing the fieldwork
- Publishing the results

C How should it be done?

9 We suggest that you should first call together the relevant Ministers and take their advice on the issues and the possibilities, on the basis of a draft plan of campaign.

10 The aim should be to get agreement to the draft plan and then

some rapid work by individual Ministers to give it substance in respect of the contribution to be made by each Department.

11 These contributions would be mainly in terms of getting local authorities to do exercises themselves, but Departments would have to work themselves on such issues as the contribution of Inspection to securing value for money and pulling together separate experiences of separate local authorities.

12 Ministers' contributions to the plan should be brought together by a Minister nominated by you, or by a central point nominated by you, and presented to Cabinet for agreement by, say, mid-February.

D Who are those in local government already attacking the targets?

13 It would be necessary to specify both particular elected members and authorities with a view to enlisting potential allies and co-workers.

14 Similarly, it would be helpful to specify those tendencies which are already working in the direction desired by the Government, to analyse their effects and to consider how they should be boosted. These include:

- The development of the managerial role of the full Council and such central committees as the Finance Committee
- The employment of Chief Executives
- The use of Performance Review and Audit Committees; the work of the District Audit Service
- The (slow) development of such collective services as those of LAMSAC

15 Again, there should be good practice in the management of particular services locally which should be identified by Departments.

E What are the relevant changes the Government has in hand or in prospect and the instruments which it might use already in its hands?

16 Relevant prospective changes are as set out briefly in other papers and are:

Reduction of central controls and circulars.

Reduction of central control over the allocation of capital expenditure, but increased control over total capital expenditure.

Proposed reform of RSG from 1981/82.

Review of statutory duties.

Review of scope for privatisation/contracting out.

Proposals to require publication of cost statistics.

DOE proposal for an "Accounts Commission for Local Government".

17 The "instruments" include Inspection; influence; exhortation and guidance. It would be necessary to review them quickly to see what contribution they should make, in effect the policy behind them.

Mr PATTISON

Local Govt.
cc for information

Sir Derek Rayner o/r
Mr Allen

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

We have agreed to have a word this week, at your convenience.

2. There are two points which I should like to raise with you. First, there is the question of the nature and timing of the "Government's wider examination of waste and efficiency in local government (para. 3 of Home Secretary's minute to the PM of 8 November, last two lines) and what part Sir Derek Rayner will be expected to play in it. Sir DR's two minutes to the PM of 28 September and mine to him of 2 October, copied to you, are relevant. (Of more immediate concern is that this office is coming under pressure from the DOE on the proposed "Accounts Commission for Local Government", as DOE not unnaturally wants to know what our view of the "wider examination" is.)

3. Second, I see that there should be a Green Paper on Exchequer and Audit early in the New Year. I would have thought it sensible for Sir DR to see this in draft and to have an opportunity to comment on it.

Sp
C PRIESTLEY
19 November 1979



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Miss Sullivan

Copies, please:

- Mr. Pattison *
- Mr. Butler
- Mr. Russell
- Mr. Crowley

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Cabinet Office
70 Whitehall
LONDON SW1A 2AS

* Note following

16 November 1979

Dear Clive

EFFICIENCY AND WASTE IN CENTRAL GOVERNMENT: THE SCRUTINY PROGRAMME

I am replying to your letter of 1 November to John Chilcot in which you asked Private Secretaries to give you advance warning of the subjects proposed for examination under the Scrutiny Programme.

The subjects for the DE Group are as follows:

DE (Jointly with DHSS)

✓ A study of whether the organisation and methods by which unemployment benefit and supplementary benefit for unemployed people are delivered can be further simplified.

MSC

May not be acceptable. || A study of present practices in relation to energy conservation throughout the MSC.

HSE

✓ A study of the ways of estimating the costs and benefits of new proposals for health and safety regulations, approved Codes of Practice, etc.

Yours sincerely

I A W FAIR

Private Secretary



6/16/1979 ADN/GHE

BF 30/x1 MAD

cc for information

Mr PATTISON

Sir Derek Rayner
Mr Downey (CPRS)

EFFICIENCY & WASTE IN LOCAL GOVERNMENT: EDUCATION

Sir Derek Rayner's longer minute on local government mentioned two head teachers, Mr and Mrs Willsher. The Prime Minister might like to see the attached short papers by these two young heads. The papers are quite short; I have side- or underlined the main points.

2. The papers numbered 1 and 2 deal with themes sympathetic to Sir Derek Rayner's way of thinking:
 - a. Let it be established clearly what any institution is to do.
 - b. Let the line of accountability within it and from it be clearly established.
 - c. Let the criteria for judging its success be established clearly.
 - d. Let accountability be real.
 - e. Let the quality of the public services delivered, especially to simple people who deserve most of the State, be such as to command their support and respect. (Why is it that so many of our children and their parents still do not see secondary education to the age of sixteen as a natural and fruitful part of their lives?)
 - f. Let the Government provide strong leadership in making the purposes of national services locally administered both sound and clear and in getting the quality of service delivered monitored.
3. Paper 3 is in respect of Mrs Willsher's school only. This is a large comprehensive school in Sandwell. It has 1,600 boys and girls from all the races to be found in the West Midlands and 90 staff. The paper deals with a visit by HM Inspectors in preparation for which the school did a lot of work and from which much benefit was hoped for. This is not to damn to the Inspectorate, but is worrying evidence of the failure of a central body to give the sort of help that only a central body can. It should also be seen against the reference to the COSMOS courses in paragraph 2.0 of paper 1 and the suggestion that there should be a national training centre to prepare people to manage institutions of the size of the modern comprehensive school. Both points underscore Sir Derek Rayner's reference to establishing what the policy for inspection is.

4. It is an interesting fact, by the way, that Mr Willsher's school has the same number of staff as his wife's (90) although it has 500 fewer pupils. They work for different local authorities, needless to say.

5. I should add that Sir Derek Rayner has met the Willshers, who have been friends of mine for many years, and was favourably impressed by them.

SP

C PRIESTLEY
9 November 1979

- Encs: 1 Report on strategies needed
- 2 Strategies needed to cope with imminent cutbacks
- 3 Visit of an HMI team to George Salter High School

12 NOV 1979

12 NOV 1979

REPORT ON STRATEGIES NEEDED TO COPE WITH SOME OF THE PRESENT
IMAGINATIVE USE OF RESOURCES IN EDUCATION AND ENCOURAGE GROWTH
AT A TIME OF ECONOMIC DIFFICULTY AND FALLING ROLLS.

This is the personal report from the Headteachers of two large S.P.S. Comprehensive Schools which should on any criteria be "seriously difficult" to run. They are not - and we therefore put the following ideas forward because we feel strongly that if sound management techniques have solved many of the problems we have faced then any school should be able to achieve more and cope with impending cuts, micro-technology and falling rolls/roles.

THE AIM:- to point up the present un-imaginative use of resources in Education and to emphasise strategies which may be brought to bear to shed such ineffectual use, thus leaving time, energy and space for further achievement at all levels.

- I.1 The Aims of every school should be clearly defined (and agreed upon) in an explicit School Management document.
- I.2 The Objectives included therein should be clear cut criteria with Education taking prime place de facto and other aspects of the school community taking a necessarily subsidiary role.
- I.3 The quality of the Education provided depends upon sound teaching supported by the effective management of resources; teachers and pupils being the prime resource.
- I.4 Sound teaching may only occur within a clearly defined framework of order and control.
- I.5 The pastoral and academic aspects of schools should NOW be integrated. This may be done by careful assessment of academic standards together with social inter-relationships completed by the CLASS TEACHER. Once specialist needs have been identified then the relevant external agency should be involved as teachers are unable per se to influence some social factors over which they have little control.

I.6

Education at Primary level should concentrate its resources on numeracy, literacy and oracy and thus prevent unnecessary underachievement at II+.

I.7

Considerable rationalization of post I6+ education should take place immediately to prevent additional wastage of resources.

I.8

With such rationalization, middle schools will no longer be a viable proposition.

I.9

If schools are to be managed well then Headteachers and Deputies should have basic training in management. Is there any Company that would put in a Managing Director who had never directed? In addition, without the re-establishment of acceptable salary differentials one of the prime motivators of incentive will remain inactive, particularly with Scale IV post holders and above.

2.0

The D.E.S. should be i/c such management training yet appear to be insufficiently geared to management techniques (for example, Cosmos^{*} N.6I - October 1978, outmoded, outdated and irrelevant material was used at a cost of some £25,000 in salaries and time)

2.1

As Secondary Education has no central training centre of its own to compare with the Scottish Centre for Studies in School Administration at Moray House then until such a national establishment is set up institutions such as the Anglian Regional Management Centre and Brighton Polytechnic should be utilized further (although some of their courses are already outdated).

2.2

When the D.E.S. carry out "special projects" they should be significantly followed up. On a recent exercise one school completed 500 man-hours of statistics for a particular project. This was followed by a totally inadequate and superficial (in the opinion of both staff and pupils of the school) visitation by four H.M.I.'s. The exercise concluded with an apology personally delivered by a fifth H.M.I. from a chief Inspector. The school still awaits the return of the statistics some seven months[^] later.

* Courses on the Staffing and Management of Schools.

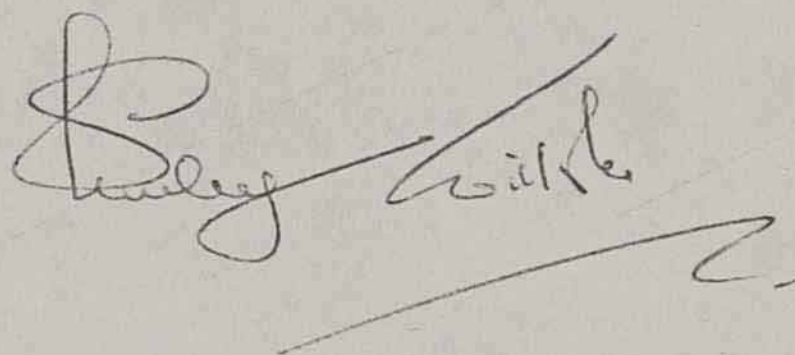
- 2.3 Likewise courses and projects mounted by L.E.A.'s should be relevant and significant. Frequently they prove to have neither of these qualities.
- 2.4 Schools should be trained and encouraged to mount their own Staff Development programmes (see occasional paper 10 on Staff Development by Trotter and Willsher).
- 2.5 By such internal programmes attitudes of the pupils and curriculum innovation benefit enormously, q.v. the schools of the present writers.
- 2.6 When Staff are encouraged to develop, certain vulnerabilities are reduced and hitherto unknown and unrealized potential is fulfilled.
- 2.7 A basic principle here concerning appointments is that every job above scale one should have a detailed specific job specification.
- 2.8 Agreed methods of decision-making (taken at the lowest appropriate level) should be instituted in all schools, thereby giving security, responsibility and accountability to every member of staff.
- 2.9 The expected and normal aggression and conflict may then be faced openly and dealt with so that unhealthy characteristics are minimized. Staff, pupils and parents should all have their due place for decision-making within the school.
- 3.0 Entry to schools should have a substantial element of parental choice. This acts both as a stimulus and a moderator on standards and increases the public accountability of schools.
- 3.1 L.E.A.'s likewise must show greater evidence of public accountability in the control systems operated by public works.
- 3.2 With micro-technology, the silicon chip and huge non-unemployment at I6+, I8+ and 2I+, massive curricula changes will need to be made for the 1980's and 1990's. This will NOT be possible unless attitudes begin to change now by sound in-service-training both at initial and later levels.

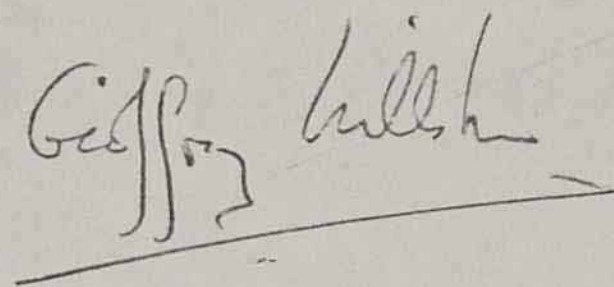
3 Concerning Initial Teacher Training, students are "licensed to practise" but at times little else. We would suggest that to improve this situation staff in the Universities and Colleges exchange with Secondary teaching staff on a regular basis.

3.4 The D.E.S. could and should provide a framework for these changes by the close monitoring of schools and the dissemination of good practice more quickly and effectively.

In conclusion, if such techniques work (and they do) in OUR SITUATIONS then they can and will in any situation. What we need is better training for Management; the ability to use the resources we already have well and the ruthless cutting out of waste space, energy and manpower. In the longer term Unions and Management must agree on a code of professional standards and procedures to monitor these. Meanwhile we would suggest that the recommendations of this report should be implemented with all possible speed.

Shirley & Geoffrey Willsher. 7.6.1979.





REPORT NUMBER TWO ON STRATEGIES NEEDED TO COPE WITH
THE IMMINENT CUTBACKS IN RESOURCES IN EDUCATION

AIM: To develop the theme of the cutting out of waste space, energy and manpower referred to in the conclusion of Paper One (7.6.1979).

OBJECTIVE: To highlight areas where financial cutbacks may be implemented so that all pupils retain a sound basic education with equal opportunities for children to realize their potentiality.

- I.1 Further control by Central Government would seem to be a logical step forward.
- I.2 Yet is there a body which at present shows the ACCOUNTABILITY let alone the ABILITY to undertake the assiduous and careful monitoring that such central control might impose?
- I.3 In the long term any such body must be ACCOUNTABLE to the Secretary of State for Education and to a code of professional standards to be established by the professional educationalists.
- I.4 The fact that such a code is not at present in existence is a matter for the professionals themselves to take up urgently. Further control by Central Government would provide the impetus for this work to go forward.
- I.5 The effect of financial cutbacks has to be seen on each individual area and in particular upon those areas which for historical and social reasons have undergone severe problems of deprivation.
- I.6 In the last five years financial constraints have meant that the luxuries have already been pruned from such areas and where the clientele is from a predominantly working class background, then the inadequacy of some parents to allow their children to realize the potentiality of the "equality of opportunity" of the 1944 Act has to be faced realistically.

I.7 If they are not then many of our pupils will be discriminated against because they will lose out not only at home but also at school.

I.8 We would propose the following strategies so that children throughout the country really do have equal opportunity.

- i) a larger proportion of holiday time should be imposed nationally during the winter months to reduce fuel bills
- ii) schools should offer a hot snack to reduce the cost of food subsidies
- iii) ancillary help in schools should be reduced to the absolute minimum
- iv) elder teaching statesmen should be encouraged to take up early retirement
- v) schools with vastly falling rolls should NOT be given artificial respiration but should be quickly and decently buried
- vi) inevitably this gives way to the law of the market place - which is no bad thing at a time when professionals are establishing their code of conduct
- vii) thus professionals both within the schools, colleges and universities must deliver the goods or go; the same law of course would apply to members of Her Majesty's Inspectorate.

In Conclusion

Only by the setting up of the machinery to implement such drastic measures will L.E.A.'s be able to cut out the waste space, energy and manpower already in existence.

S. & G.C. Willsher.

November 1st 1979.

Geo. S.

Chin Bentley
Confidential

3

REPORT ON VISIT OF A TEAM OF H.M.I. TO
GEORGE SALTER HIGH SCHOOL IN MARCH 1979.

- I.1 On behalf of the staff and pupils of George Salter High School we would wish to thank the members of the team who gave us, as one member of the team pointed out, "twenty years of Inspectorate time", which they managed magnificently to put into the seventy hours of time spent with us in March.
- I.2 The preliminary visit in September proved helpful all round. At our request it was agreed that the tabulation concerning Caribbean grouping might be graded more finely; otherwise it is rather like making generalized statements about the Irish, the Welsh and the Scots put together!
- I.3 Having done our statistical work (some 500 - 600 working hours of it which included the finer distinctions) it was somewhat disappointing to find that the D.E.S. had not taken these into account on their tabulations. Thus essential information upon performance and provision was not able to be computerized.
- I.4 We had sent a detailed report to the D.E.S. on the work being carried out at George Salter High School and looked forward to a stimulating dialogue with the Team throughout their visit. In preparation for such a dialogue we submitted well in advance, a request for advice in certain areas of our work.
- I.5 To highlight our needs we included a report on 'West Indian need and provision'; we also looked to help with the question of high aspiring Asians who had high-lighted for us the problem of the under-achievement

of some of our indigenous white pupils living in a low aspiring neighbourhood. Essentially this comes down to the question, (if our Asian pupils can be well motivated in spite of impoverished living conditions) how may we motivate our under-achieving white pupils living in similar circumstances?

I.6 Consequently we felt keenly the loss of H.M.I. Mr. Singh and H.M.I. Mrs. Sapora when the Team was changed and the visit foreshortened four weeks prior to the March visit.

I.7 We nevertheless had high hopes that certain aspects of our work here might be developed further because of the impending visit and copies of all the relevant syllabae were made available to the Team.

The areas where particular ^{advice} ~~achieve~~ would have been appreciated are as follows:-

- Advice from
H.M.I. looked for.*
- i) our multi-ethnic syllabus in History needed radical revision
 - ii) the Language Project we had developed frankly needed totally re-thinking following our initial tenuous findings
 - iii) our Social/Education/Transition syllabus needed restructuring
 - iv) B.B.C. 2 used George Salter High School as a basis for its educational ~~input~~ in its series of programmes on Multi-Racial Britain. The producer and his unit filmed totally unrehearsed pupil participation where pupils brought up such issues as the National Front and colour prejudice. The producer felt it was important to show pupils speaking uninhibitedly between themselves on major issues.

The pupils were disappointed when they were not approached by the Team to make their views on the multi-ethnic aspect of education known.

I.8 It was the pupils who voiced their disappointment again concerning the Team's visit to the Department of Home Economics. The work of this department had extended as far as an article on "Miss likes rice and peas" in the Jamaican weekly Gleaner; the department had been very largely responsible for the hospitality for our Sangam Asian night where only Asian food was served to an audience of 800 - (and incidentally where no word of English was spoken throughout the evening) - and for preparing the West Indian dishes for our Caribbean Evening.

Regularly the department entertains visitors with Caribbean and Asian food, chosen, shopped for, cooked and served by the pupils themselves.

*Advice from 1991
looked for.*

I.9 We had discovered (by chance!) an unusual element in the structuring of our 2nd phase language work; help and advice in this direction would have been invaluable. In particular with the tricky problem of identifying the Asian pupil whose problem is that of being E.S.N. rather than having E.S.L. difficulties.

— do —

I.10 Likewise with the current shortage of teachers of Science and of Mathematics we feel that advice on how to capitalise upon Asian potential here might have furthered our thinking into our current "Mathematics across the curriculum" work.

— do —

I.11 Again by chance we discovered that sending our literature to Asian homes in the mother tongue language may be counter-productive at times. Discussion upon this topic would have been valued.

I.12 We have a member of staff whose job it is to analyse our Multi-ethnic material in the English department; advice here on how to avoid the multi-ethnic rubbish that some publishers peddle had been eagerly looked forward to.

Advice from Hill
looked for.

I.13 Statistics upon the dual use of our premises might well have proved useful had they been requested.

I.14 Being at the receiving end of Initial Teacher Training we are very keen to influence the Colleges of Education and the Universities upon the aspect of having a multi-ethnic input in the courses provided. One member of staff has served on the boards of two C.N.A.A. in service B.Ed. courses in Multi-cultural education and her views and experience might have proved useful to the Team.

~~do~~ I.15 We had certainly hoped for, in depth, advice upon our forthcoming Mode III examination based on the use of Creole. [CSE]

~~do~~ I.16 The keenest disappointment of all came from the staff both as a body and as individuals who had confidently expected and waited for an in-depth approach to Multi-ethnicity in spite of all our problems of fuel shortages, snow-bound staff and industrial action by N.U.P.E. members.

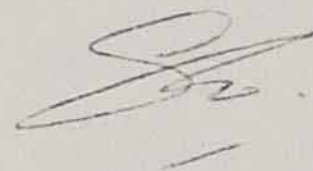
According to many criteria George Salter High School should be a seriously difficult school to work in and to run. That it is not, is due to the individual commitment of the Staff, the Governors and the vast majority of the pupils.

It is clear from our work and relationships with external agencies that we are making a major contribution to the field of multi-ethnic education. It is equally clear that we are very steadily reaching out into our community and

proving to be an enabling factor in the understanding of the needs of our multi-ethnic community.

In conclusion therefore, we would hope that following the Team's visit in March a dialogue might be established between specialist members of the D.E.S. and the school so that the in-depth for approach might take place to the benefit of all concerned.

S. Willsher.





10 DOWNING STREET

From the Private Secretary

MR. PRIESTLEY

Efficiency and Waste in Local Government

As you know, discussion did not reach the local authority topic when the Prime Minister met Sir Derek Rayner and Sir John Hunt on 2 October.

The Prime Minister has now concluded that further discussion on this topic could usefully be left until early December. At that time, issues surrounding the Rate Support Grant will have been clarified, and the timing may then be more appropriate for the consideration of a campaign on efficiency and waste at local authority level.

I am sending a copy of this minute to Martin Vile in the Cabinet Office.

M. A. PATTISON

8 October 1979

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Local Govt.

Original filed
Econ Pol (Pub Ex) Pt 4.

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VB



10 DOWNING STREET

From the Private Secretary

8 October 1979

Dear Mr. Hunt,

Pay and RSG: The Next Steps

The Prime Minister was grateful for Sir John Hunt's minute of 5 October on the above subject. She has noted the various points in the minute, including the tight timetable for the setting of the RSG and the related cash limit; she proposes to discuss the Treasury forecast with the Chancellor as soon as possible after this week's Party Conference; and she is content to postpone her meeting with Sir Derek Rayner and the local authority Ministers until early in December.

Am

T. Hunt

Martin Vile, Esq.,
Cabinet Office

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Econ File (Sub Ex) A4

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Ref. A0374

MR. LANKESTER

See last Para

Pay and RSG: The Next Steps

Following the discussion in E on Tuesday, you may like to know about our follow-up talks with the Treasury, DOE and other Departments, and about the timetable we have provisionally arranged.

2. There are three external constraints. First, the local authorities need to make a start on next year's rating. For this, they need decisions, confirmed by Parliament in an affirmative resolution before Christmas, about the size of the Rate Support Grant for 1980-81. The key dates for this purpose are the 'statutory meetings' with the local authorities, which are 16th November (Scotland) and 20th November (England and Wales). Because of the lead-time, this requires Cabinet decisions by 25th October.

3. Second, the local authority pay negotiations for the manuals group begin on 20th October, and the settlement date is, nominally, 4th November. In practice, the local authorities will not settle until they know the size of the Rate Support Grant, but they will come under increasing pressure from the unions from 4th November onwards.

4. Third, the Chancellor is required to publish the 'Industry Act' forecast before the end of November.

5. The position has been greatly simplified by the decision at E to go for a single cash limit for the Rate Support Grant next year. The Prime Minister asked us how this would work. Two separate figures will be announced in November. The first will be the Rate Support Grant for 1980-81 which Parliament will be asked to approve in December. This will be in November 1979 prices and will be expressed both in cash terms and as a percentage of relevant expenditure. It will also reveal the distribution formula which determines how much individual authorities get. It will take account of pay increases agreed up to November this year, but not beyond. Second will be

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the cash limit for 1980-81 incorporating the Government's assumptions about pay and price movements next year. This, coupled with the agreed RSG percentage figure, effectively puts the upper ceiling on the amount of any increase order in November 1980. The 1980 increase order can be for a sum smaller than that derived from the total cash limit, but it cannot exceed that without the Government being seen to retreat. It is therefore important that, as E agreed, the cash limit should be 'realistic but not extravagant'. It is the cash limit figure which will be taken seriously by local authorities, in setting their rate demands and in pay negotiations with the unions.

6. It may be possible, within the total cash limit, to tailor the distribution of the November 1980 increase order, so as to penalise the most extravagant authorities. This could be done as part of the transitional arrangements to the new unitary grant system and will be considered in MISC 21 (under the Home Secretary) shortly. (The remainder of the unitary grant proposals are likely to be approved, either in correspondence or by H, well before the Cabinet discussions on 25th October: so that problem disappears.) Provided sufficient progress has been made with the transitional arrangements it should be possible to foreshadow at least the principle of penalising the extravagant in this November's RSG negotiations. Given the decision to go for a single cash limit next year this aspect of the arrangements will be very important presentationally.

7. In terms of work this means that, in addition to the transitional arrangements, MISC 21 has got to consider two quite difficult political issues: the RSG percentage, and the distribution formula. On the first at least, there is likely to be disagreement with the Treasury. There is a general political consensus on the second, but the details remain to be sorted out.

8. MISC 21 has also to consider how to translate the Cabinet's 'volume' decision in July into a cash limit. The 'pay and price' assumptions used to do this are absolutely crucial. The Chancellor will not have a chance to form a view on this until he sees the Treasury forecast on 8th October - just before the Party Conference. He is not likely to reach a final decision until he gets

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back on 15th October. His decisions on the forecast, of course, go a lot wider than the immediate RSG question. But, because of the Industry Act deadline, he has got to bring forward proposals about publication of the forecast to Cabinet on 25th October. This will be the same meeting which considers the Rate Support Grant (and also, incidentally, the question of cash limits for the nationalised industries).

9. In constructing the forecast as it affects RSG the Treasury ought to take account of two quite separate elements: the as yet unknown outcome of the various comparability studies now under way (especially Clegg on Teachers and the local authority/union study of the APTC grades) and the uprating of these pay scales for 1980. On the first we have asked them to consult with the other Departments: Education, Environment, etc. to get as clear an indication as they can about the likely outcome. This would meet the substance of the point Mr. Carlisle made at E on Tuesday. The second depends more closely on the general economic forecasts for next year. There may also be some very informal soundings of the local authorities too: but that is for Ministers to do privately. The object would be to reach a 'realistic' estimate of the likely movement in pay in the public sector on which decisions can be based.

10. MISC 21 will have to start its work before the Chancellor's views on the forecast are known. They will meet first on 15th October. They will meet again on 22nd October, by which time they should know the Chancellor's view on the assumptions to be built in for pay and price movements. They will then make recommendations, which I hope will be unanimous, to Cabinet for 25th October.

11. This is a very tight timetable. It could come badly unstuck if the Chancellor does not like the forecast; or if the forecast points to the need for further reductions in public expenditure next year; or if the Cabinet does not believe that the resulting cash limits can be sold to the local authorities or imposed on the unions. We shall have to face up to these problems as and when they arise. Meanwhile the Prime Minister might like to know that this is the provisional game plan. I think it would be useful if she were to discuss with the Chancellor of the Exchequer, immediately after the Party Conference, his

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ideas about the forecast generally and about public sector pay in particular. Ideally, this should be somewhere between 15th and 22nd October, so that MISC 21 can take account of any points she wishes to put in at that stage.

12. By way of postscript, I think that all this activity on the local authority front points to some postponement of the 'Rayner' initiatives as they affect local authorities which did not actually get discussed when Sir Derek Rayner and I saw the Prime Minister later on Tuesday. My own provisional view is that, given Sir Derek Rayner's absence through most of November, the Prime Minister should aim at a meeting with him and with the local authority Ministers early in December. By then we shall have some feel for the local authority financial position next year, and be better able to judge how to launch a fresh drive on 'efficiency' in that area.

JOHN HUNT

(John Hunt)

5th October, 1979

H. R. Original on Govt. Mach. Pt 3
Elimination of Waste,
Central Govt.

Loc Govt.

PRIME MINISTER

You are seeing Sir Derek Rayner, with Mr. Mountfield of the Cabinet Office, at 1530 on Tuesday 2 October.

This meeting was arranged some weeks ago, with the intention of discussing problems of waste at local authority level. Sir Derek has now offered some further thoughts as a basis for that discussion.

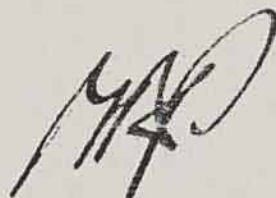
However, he has also suggested that the meeting be used as briefing for the Cabinet discussion of his minute to you on central government efficiency. For this purpose, he proposes to bring Mr. Priestley from his office, and Mr. N.R. Warner of DHSS and Mr. C.S. Ponting of MOD: he will ask them to make brief presentations on the "Rayner Projects" which they have been pursuing in their departments.

As the Cabinet discussion is now set for Thursday, it might be sensible to deal with this subject first. I therefore attach at Flag A Sir Derek's minute proposing to turn the meeting into an oral briefing: this includes a note on each of the two projects which will be used to illustrate Sir Derek's work. Flag B is the paper on efficiency and waste in central government which Cabinet will take on Thursday.

✓ This could well take most of the hour. If there is time left to discuss efficiency and waste in local government, a possible agenda is provided by Sir Derek's note at Flag C, summarising his longer paper at Flag D. The latter would have been more useful if we had received it in time for you to look at it over the weekend. Given its length, and the need to use some of the time to prepare for the Cabinet discussion on central government waste, you may want to suggest that the local authority matters could be taken up again in a few days time. Flag E covers the papers which originally led to this meeting. You had particularly wanted the Cabinet Office to be represented at the discussion, as you agreed with the final section of the minute submitted over Mr. Vile's signature. This has now largely been overtaken by Sir Derek's more detailed note on how waste in local government might be tackled. In summary,

/ his advice

his advice is that there seems to be scope for major reforms to achieve value for money at the local level, that central government needs to be cautious in accusing local government of wastefulness before the Whitehall house has been put in order, and that Sir Derek is ready to play a part in work on the local problems, but does not feel competent to take the lead. You will therefore need to consider whether you want to give a specific remit to one of the Ministers at the Department of the Environment, or to a group of Ministers in the departments with the most direct links with local authorities - Environment, DHSS, Education, and possibly the Welsh and Scottish Offices, as a minimum.



1 October 1979

PRIME MINISTER

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

1. You told me in July that while you did not want to initiate a further independent exercise at that stage, you wished me to tackle waste in local authorities to the extent possible within my present terms of reference. As I understand it, this was because you were disappointed with the advice you had received from DOE, DHSS, the Scottish and Welsh Offices in response to your request for views on the best way of attacking waste in the public sector outside central government, which you saw as an important subject for study in its own right and as a way of helping local authorities and the NHS to absorb the cost of recent pay increases whilst still living within their cash limits.

Action to date

2. What I have done so far is limited by the time available to me and my staff, by our comparative ignorance of local government and by my wish to avoid causing extra work for Ministers until I had a clearer view of what I might be able to do. My aim has been to make myself more familiar with the issues in local government, on which I have so far concentrated.

3. I have invited notes on some fundamental questions from three local government departments, DOE, DES and Transport, which I have just received but have not discussed with the Ministers concerned. Between us, Mr Priestley and I have had talks, mainly on a personal footing, with Lord Bellwin and later with him and Mr K Potts the former Chief Executive of Leeds; Sir Desmond Plummer; the Lord Mayor of Plymouth, Councillor G J Jinks, who sent you a personal and confidential letter in July; the Director of Education for Devon, Mr J G Owen; the heads of two comprehensive schools in the West Midlands, Mr and Mrs G Willsher, who had sent me a useful memorandum; Mr Ian Hancock of Cooper & Lybrand, management consultants, who have recently done some work for Hereford and Worcester; and Mr R W Rose, a retired local government officer, who had also written to me.

4. The most useful papers I have seen are Value for Money, a report on Cheshire CC, carried out by PA Management Consultants on behalf of the CBI; the report of the Chief Inspector of Audit on The Local Government Audit Service (November 1978); and the recent white paper, Central Government Controls over Local Authorities.

The issues and their context

5. The central issues, as I see them, are how local government can help itself and be helped to deliver more cost-effective services to its electors and what part the central government has to play in this.

6. The context in which these issues have to be considered is very subtle and complex, but seems to me to consist in five main points, as follows:

a. Local authorities as the White Paper on Central Government Controls states are "Democratically elected wholly responsible bodies" (paragraph 4). The Government wants them to be "free to get on with the tasks entrusted to them by Parliament without constant interference in matters of detail by the Government of the day". Some of them are already active on the efficiency/waste front, but others are strongly committed to the view that spending is the shortest road to the millennium.

b. Local authorities would certainly respond to a central government "attack" on local waste with fierce references to the beam in Whitehall's eye and to the inconsistency between an attack and the thrust of the White Paper. So would some of the unions, which in some authorities appear to have a firm grip on the elected representatives and their managers.

c. An attack could damage the working relationships which departments have with the local government associations and with individual local authorities, relationships which they rightly value but which, I suspect, can be rather incestuous and somewhat overlook the interests of the rate-payer (see below).

d. A very substantial part of the money which pays for local services is provided by central government on behalf of the taxpayer in block grant. Ministers are not accountable to Parliament for the detailed ways in which this is spent by local authorities, but it is argued by respectable opinion that the financial relationship between central and local government went wrong when specific grant was abandoned. The Government itself argues that it has an "ultimate responsibility to Parliament and the public", for example in respect of "certain national policies which it is the Government's duty to

pursue even though they may be administered locally" (White Paper, paragraphs 4 and 6).

e. The argument that local authorities are directly accountable because democratically elected and that central government should therefore keep off is somewhat specious, I think. No-one could reasonably assert that all good things come from the centre, nor indeed that enabling the centre to lord it over local authorities would be an unmixed blessing. On the other hand, the proportion of the local electorate which turns out to vote is usually low and I doubt whether it can be argued that, generally, councillors are turned out of office because they are bad managers of resources. Whatever the constitutional position, I suspect that local electors think mainly in terms of quality of service delivered, expect standards to be consistent across the country, often do not like what they see and have a strong if vague belief that Parliament and Ministers are the ultimate guarantors of quality. I do not think it too much to say that there is a lack of public confidence in government institutions and that, given the Government's commitment to efficiency and the economical use of resources, it would be damaging if it did not protect consumers of local services as far as it reasonably could and be seen to be standing up for them against vested interests. In saying this, I am struck by Sir Desmond Plummer's reference to the need for a "Public Accounts Committee" to act on behalf of the electorate in a way which it cannot do for itself; to the need for a strengthened District Audit Service to act in support of this; and to the time and energy which are required of local councillors if they are determined to promote cost-effectiveness. His view was that it would require two terms of office to get it right, one to lay the foundations and the second to build on them.

7. Bringing my impressions so far together, I would want to advise an approach to the problem on this basis:

a. An acknowledgment that central government is not perfect and that example is better than precept.

b. An acknowledgment that local government has wide responsibilities directly to its electorate and that some authorities are already doing much to improve their own services (see below).

c. An argument that central and local government are at a stage in the economic life of the country when they must both work for greater cost-effectiveness, be seen to do so and share experience.

d. An argument that, as also in respect of my recommendations for central government, there is no substitute for the close examination of the costs of services and for the detailed scrutiny of particular services in order to arrive at sound principles and practices for management. Thus, once again, I would argue that the best hope of reform lies in the hands of those responsible for managing resources, provided they are properly stimulated and kept up to the mark.

e. Finally, because the electorate is disgruntled but somewhat inert in its suspicions, there is the argument that the central government has a role of "guarantor" of the quality of services. This is already very specific in respect of certain services, notably fire and police, less so in respect of others, notably education. It will be in the interests of the nation as a whole to play this role to the fullest extent possible.

8. I now briefly describe what is happening already on the efficiency/waste front and then go on to offer some detailed suggestions for further work.

What is already happening and what more might be done

9. Many people feel that the dead hand of institutionalised pressure groups will stifle a radical approach to local efficiency, that is to the questions why local services are delivered as they are, at what cost and whether they provide value for money. Against that background, I now try to identify the main actors and to see what they are doing and what more they could do.

10. The actors are three, local authorities, in their individual and collective capacities; the District Audit Service; and central government. I leave out a fourth actor, the local electorate, because I regard it as inarticulate. Its voting behaviour is as already described and its ability and willingness to challenge local authorities are limited; as the Chief Inspector of Audit shows, for example, only 199 electors exercised their right to question the auditor about the accounts in 1977 - 1978.

11. It may be most helpful to begin with central government, one of whose functions is to help create the conditions in which local authorities can work more efficiently. Here the main activity as set in hand by

your Administration consists of:

- a. the review of controls of local government;
- b. the review of central government's role in relation to local by-laws;
- c. the proposal to reduce the number of circulars and other communications and the review of the need for statistical returns from local government;
- d. the review of control over capital expenditure;
- e. the review of the statutory duties placed on local authorities;
- f. consideration of different options for the block grant and cash limits system;
- g. the intention to make available more information about local authority costs and to develop comparisons between local authorities as a counterpart to the relaxation of detailed controls.

12. As the Secretary of State for the Environment has explained, the key point here is that the quid pro quo for greater freedom should be a clarification and strengthening of the accountability of local authorities to their electorate. I agree with his proposals here, which are to legislate to require authorities to publish more information in the Rate Demand Note and the Abstract of Accounts, and with his wish to see the quarterly "Manpower Watch" figures published to show the trends for each authority as well as the aggregate trends (as at present).

13. What local authorities could do for themselves is substantial. There have been several reports by government departments, professional and local authority bodies and others in the recent past, emphasising the importance of "value for money" and performance reviews. As the Chief Inspector of Audit has said, it is very difficult to assess the impact of the various reports issued. The main landmarks which he discerns through the mist are these:

- a. Some authorities have set up cost reduction units or performance review committees and/or have commissioned work by consultants.
- b. Most larger authorities and some smaller ones have established their own organisation and methods units and work study sections.

c. The monitoring of manpower numbers is commonplace.

d. The Local Authority Management Services and Computer Committee (LAMSAC) has made special studies and has compiled work measurement data. It also keeps an index of all value for money exercises undertaken by local authorities notified to it and will inform authorities wishing to study a particular problem of others who have already done work on it. LAMSAC now also covers local authority purchasing.

e. The Royal Institute of Public Administration's Local Government Operational Research Unit is substantially funded by fees for investigations on behalf of local authorities and others. The varied problems it tackles are generally those capable of solution by an OR approach.

14. I understand that DOE Ministers believe that local authorities make too little use of the services which LAMSAC offers; they intend to discuss with the local authority associations what might be done about this, including publishing more widely the comparative studies already undertaken by LAMSAC.

15. The Local Government Audit Service audits the accounts of most local authorities. It totals about 650 staff, distributed throughout England and Wales in 59 small units; it is appointed by Secretary of State for the Environment, who also appoints auditors other than the District Auditor when local authorities choose to go outside. The Audit Inspectorate at DOE HQ provides inspection and advice, but is not staffed to collect and process a lot of information about local authority performance.

16. There has been an important development in local audit practice in recent years. Auditors are now meant to consider whether the accounts "disclose any significant loss arising from waste, extravagance, inefficient financial administration, poor value for money, mistake or other cause". Auditors are supposed to get after some fundamental questions: Are the authority's accounting and information systems adequate? Can job be done more cheaply? Can goods or services of the some quality be bought more cheaply?

17. The auditor may choose to select particular aspects of local administration for a detailed investigation. Subjects studied include the administration of a social services department; comparing the cost of external painting

of councils houses by direct labour and contractors; and vehicle hire.

18. Given Sir Desmond Plummer's views as reported in paragraph 6 above, it is interesting that the Layfield Committee proposed making the Audit Service independent of both central and local government under an official with a status like that of the C&AG, while the Expenditure Committee in July 1977 proposed that C&AG should actually take over responsibility for it. The last Government instead set up the Advisory Committee on Local Government Audit (the Maynard Committee), to consider general questions of efficiency and value for money, whose reports should "attract a measure of public attention" (Command 7117, March 1978, paragraph 97). The key to the success of this Committee, and indeed of the Audit Service, lies in the degree to which local authorities feel they are under pressure to reform their behaviour. As long as the Auditor lacks a power of surcharge and does not find a local authority in technical error and as long as there is no external body like the PAC to put a local authority over the jumps, it is unlikely to feel threatened. Mr Potts told us that he would favour restoring the power of surcharge, in order to give the Audit Service teeth.

19. We come now to the issues needing treatment. Some of the main points at the local end seem to be these:

a. Lack of clarity in specifying the respective responsibilities of different tiers in the structure of local government.

b. The inertia of the system, including the reluctance of local councillors to have their administration looked over; to find the time and effort to review the delivery of services; and to upset the unions.

c. Lack of clarity within a local authority about respective responsibilities, for example, of the Chief Executive (where they exist and they are not universal) and of Chief Officers.

d. A strong tendency to "departmentalism", especially on the part of education.

e. Control over finance and manning may be relatively weak. It may be ineffective in combating a strong tendency towards incrementalism in financial planning and allocation, in spending unnecessarily to use up the annual budget and in over-seeing the use of resources of all kinds by departments.

f. Lack of clarity within a particular department, as to the balance of responsibility between

those who provide a service and those who administer it. This is, I suspect, particularly evident in education, but is not exclusive to that service.

g. A tendency to load administration and ancillary support on top of services for no obvious advantage. The Lord Mayor of Plymouth's personal estimate was that one-third of the city's staff were carried on the backs of the other two-thirds.

h. There is now a mass of "management information" and planning material available to councillors, but it is too complex for them to cope with.

i. Control over capital projects may be weak, because of lack of managerial experience and forethought.

20. At the national end, I see as the crux of the issue two fundamental but implausible relationships. First, although constitutionally independent of Ministers, local government receives much of its income from them. But it is not thereby anymore amenable to central initiatives since it is not accountable for how it spends what it gets.

21. Secondly, the argument that local democracy secures accountability for the use of resources seems to me largely lip service for reasons I have already touched on. The emphasis your Administration places on efficiency and waste is profoundly welcomed, I suspect, by numerous voters who, not well up in constitutional matters, look to the national government as the promotor and guarantor of good standards of service and as a court of appeal.

22. It seems to me that the response to these problems is a choice between a very radical challenge to the accepted financial modus vivendi on the one hand and making the most of the instruments which already lie to hand on the other.

23. The present financial relationship is not defensible logically. One course would be to withdraw central funding and to make local government wholly responsible for financing its services. Resourcing and accountability would then be wholly local. If the abolition of central funding is not acceptable on the grounds that the nation has an interest in the local pursuit of national policies, in the broad equalisation of provision and thus in the broad application of common standards, the corollary seems to be that local authorities should be accountable to Ministers for the subventions they receive. The principle would be that Ministers should satisfy themselves, as in the case of bodies which receive grant-in-aid direct from their departments, that local authorities have the appropriate management

systems, adopt the appropriate standards of service and apply the funds to the intended purposes. But practice would need to be firmer and clearer than I understand it sometimes is in the case of grant-in-aid.

24. The first course is simpler conceptually and probably more viable than the second, which would require much resolution of purpose to give it a sustainable force while avoiding bureaucracy. Both courses would be highly controversial.

25. Apart from these changes, and from any lesser plans for stiffening financial control, there are instruments now to hand in the shape of statutory control, inspection, influence and exhortation.

26. I leave statutory control out of account, as your Administration is seeking to reduce that to reasonable minimum.

27. Where inspection is retained, I think it essential to be certain what it is for. I have not enquired about the inspection of Fire and Police Services, where the Home Secretary prescribes minimum standards. My impression of the inspection of Schools and Further Education is that it has not been concerned with value for money, except in respect of equipment purchases in FE, for many years. References to the Inspectorate's local work by those whom I have consulted, other than DES, have not on the whole been favourable, but there is endorsement of its "national survey" work.

28. The main issues here are whether the Inspectorate still has a local inspectorial role at all, as opposed to an administrative one, whether it should be deployed locally and thus whether it is really a national research and development body. The old view was that because Parliament made parents send their children to school, it should guarantee that the education given was worth having. There is indeed a massive issue here. As an employer, and one who compares what happens here with Canada, I fear that too many of our children are made into second rate people by second rate education.

29. Of all professions, education is one of the most clique-ish. It was put to us strongly that the education establishment presented a united front to the rest of the local authority, to the parent and the taxpayer and that the Inspectorate is "part of the educational Mafia". I believe that the Inspectorate should be the friend of the

taxpayer. So the issues boil down to the questions, "What standards do we wish to promote? What is the best policy for inspection to promote and monitor the achievement of these standards? What information should be made available to the rate paying public about the performance of its institutions?"

30. I should perhaps note in passing that the Inspectorate, despite what is often said to the contrary, is plainly an instrument of Government and has no separate place of its own in the constitution. As for influence and exhortation, I think one should be clear that one is trying to influence both local authorities and the local electorate. And I should say, first, that in seeking to influence and exhort, Ministers would do well to be able to show that their own house was in order: "Do what I say, not what I do" is never an inspiring battle cry.

31. Secondly, Lord Bellwin had, I think, some excellent suggestions for things that local authorities can do to absorb cuts in expenditure without extensive reduction in services. In discussion we have canvassed the idea of a paper, perhaps prepared by me, which could draw on existing experience to show that reducing anticipated and actual levels of expenditure can produce more cost effective services. In the main, such demonstrations would relate to particular services and to the ongoing masses of current expenditure, although I think that there is plainly a need for advice on the management of capital projects. The demonstrations would also need to refer to some of the practices which either impede or promote effective management.

32. Possible subjects for inclusion in demonstrations might be:

a. Questioning the need for and cost-effectiveness of services. This would obviously be much assisted by a detailed scrutiny of particular services, especially in respect of manning.

b. Moving away from incremental budgeting and a set rate of increase of expenditure; planning resource allocation by reference to proved need.

c. Setting expenditure objectives for committee chairmen and chief officers; clarifying the respective roles of leader, chief executive, chairmen and chief officers in resource planning, control and management.

d. Measuring performance by achievement, not by expenditure level, and by reference to external

standards and comparisons as well as to internal criteria. Making appraisal a regular feature of management, eg by performance review committees.

e. Finding money within existing budgets for services by savings and the sale of assets.

f. Breaking down unnecessary departmental barriers, especially in respect of assets and equipment and the wider community use of land and premises.

g. A good relationship with unions based on a promise of "no compulsory redundancy" and showing that economies can benefit services as well as the ratepayer.

33. This suggestion is thus for an opening paper of observations and suggestions, perhaps supported by annexes describing good and bad practice, and subsequently for a series of detailed pieces on particular services or practices. Both the examples in the first paper and the subsequent scrutinies should for preference be the product of particular local authorities. Getting local authority co-operation might be difficult, but should not be impossible.

34. Thirdly, I think there is a general issue about the use of manpower. On the one hand, there is the question whether the number of operatives or executants employed is needed to provide the service. Second, there is the question whether the back-up administration gets in the way. This field is of course crammed with holy cows. Nor is it unique to local government. It is no use having a "Manpower Watch" unless it helps with discipline over the use of people. I have not yet been able to give this much thought, but I certainly see it as an excellent area for exemplary work on staffing standards and the use of the staff, all around the theme of "value added" by labour.

Conclusion

35. I conclude that there is a good deal going on but that it is critically dependent upon the willingness of local government to look at itself seriously. The measures of reform your Administration has in hand are very much in the right direction, but I think they leave open the fundamental question of the financial relationship between local authorities and central government.

36. If the question of the financial relationship is untimely, I think that the Government nonetheless has instruments to hand which it can use. These are inspection, influence and exhortation as briefly outlined above. Putting it crudely, I think that the ratepayer expects Ministers to stand up on his account and, while listening to the pressure groups, to put his interest first.

37. I have offered a number of suggestions, but I am very conscious still that I am a newcomer to this field and I should be glad to see whether they coincide at all with your thinking.



Derek Rayner
28 September 1979

iii. The Whitehall pot should not call the town hall kettle black, but attention can be drawn to good and bad practice in respect of some of the key points (eg financial management, organisation, manning, use of assets and control of capital projects) and to some of the questions which should be asked. It seems to me that Lord Bellwin has some particularly good thoughts here. The means of drawing attention might be a publication followed later by publications on some of the good work that local authorities have been doing themselves.

3. I describe those thoughts as interim, because I suspect that the main need is for Ministers to decide on a strategy on local value for money. The issues are substantial and I feel in my bones that they call for a well thought out plan of action. The obvious point is that local government is not the delegate of central government and that it is most likely to reform itself if it comes under a strong financial regime and under strong psychological and moral pressure to put the interest of the rate-payer first.

4. I sense that there is an opportunity for major reforms if one can find the right combination of sticks and carrots and if central government stands up firmly for the local consumer where it can do so. As I say in the attached minute, education seems to me a prime area for dishing the pressure groups. If my unit and I can contribute to defining this opportunity and getting it taken, we will do so gladly. I do not feel qualified by experience, or indeed by availability, to play a leading role. But we might be able to help keep up the momentum and challenge some of the fixed ideas and comfortable liaisons which are so plentiful in this area.


Derek Rayner
28 September 1979

Prime Minister.

I think Sir Derek Rayner's approach, as outlined in his minute, offers a hopeful way of tackling the problem of cutting the cost of central government.

As regards the handling of Sir Derek's proposals, I very much agree with what Mr Pattison says at X below. If they are to receive adequate Ministerial backing, there should be an initial, 'second reading' discussion of them in Cabinet. This will commit Ministers to

1. MR. WHITMORE
2. PRIME MINISTER taking the exercise seriously from the outset. If, on the other hand, we leave over the Cabinet discussion until the end of the year (when there is always a press of urgent business anyway), there is a risk that the exercise will get off to an indifferent start.

PS. I have delayed this to await the arrival of the Chancellor's minute at flag G. He favours kicking off with a Cabinet discussion. *JAH 11ix*

I attach at Flag A Sir Derek Rayner's recommendations for

further action through the life of this administration. He has

included a short summary of his recommendations.

We should have a Cabinet discussion with Sir Derek present, His theme is that Departmental Ministers must see themselves as managers as well as policy-makers, and he offers specific means to this end.

If you are satisfied with his recommendations, you will need to consider how to promulgate them. When you saw Sir Derek on 16 July, you had it in mind that his submission to you should be taken to Cabinet. In the note at Flag B, Sir John Hunt argues that this would not be timely. He suggests that you might circulate his paper to Cabinet under a covering minute of your own (Sir John's draft is at Flag C) with a view to Cabinet discussion much later in the year.

You have been reluctant to issue circular written instructions from No.10 on management questions, given the frequency with which such instructions leak. As in the case of the Quangos exercise, I think that there is much to be said for your stating to Cabinet at a meeting your endorsement of Sir Derek's programme, to ensure that Ministers actually take on board your firm belief in action along these lines. If the paper has been circulated a few days in advance, as with any other Cabinet paper, this will allow a short discussion if Ministers have doubts about particular aspects of the recommendations. (The Chancellor and the Lord President already have copies of the paper, as their senior officials have been in touch with Sir Derek during its preparation.)

Original filed on Quangos Pt 2.

/There is

There is a second reason for favouring Cabinet discussion sooner rather than later. Ministers have now been in office long enough to have got to know their Departments. They have had a summer break away from day-to-day issues. This is a good moment to reinforce the message that they must act as managers. It will be much more difficult to get people to focus on this once the pressure of day-to-day business has built up again as we get into the Parliamentary Session and the winter.

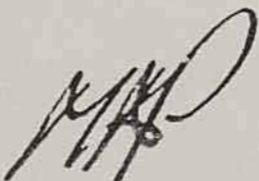
If you are content with Sir Derek's proposals, do you therefore wish to have a Cabinet item on this before the end of the Recess, or would you prefer to adopt Sir John Hunt's suggestions for the handling?

Whilst you are looking at Sir Derek's work, you might like to see papers illustrating some of the other points which he has been following up:

Flag D reports Mr. Priestley's discussions with the Lord Mayor of Plymouth, after Councillor Jinks wrote to you about waste in his Authority;

Flag E covers some further work on local government waste; and Flag F reports on a conference which Sir Derek is holding with those working on his projects on 17 and 18 September.

He had asked whether you would be interested in looking in on this, or meeting some of those involved. This might be interesting, but I doubt whether it is a priority call on your time at present.



7 September 1979

The Cabinet Office will now consider Sir D. Rayner's minutes to Cabinet in accordance with the Home Minister's instructions on Cabinet procedure.

J.H.H.
14/9/79

PERSONAL AND CONFIDENTIAL

cc Sir Derek Rayner

MR PATTISON

LORD MAYOR OF PLYMOUTH

The Lord Mayor of Plymouth has now cleared the note of my meeting with him on 9 August and I attach a copy for you to show to the Prime Minister, together with a copy of a letter from him to me dated 24 August - you will see that he is now taking a rather more positive and helpful line.

2. I must confess that I found the interview with the Lord Mayor, although interesting on points of detail, somewhat disappointing as to ideas for making local government more efficient and effective. To save the Prime Minister reading the whole note, I have sidelined the more interesting bits. I think that the essential points are these:

(a) It is difficult for a local authority to appraise a major project adequately and dispassionately. We know from other evidence that once such projects are entered upon, there may also be a problem of effective cost and project control.

(b) Since the main discipline in planning a controlling expenditure must lie within the local authority, it has a particular responsibility for devising and using a strong financial control, transcending the boundaries between services and their committees. Central government has a clear interest in helping local authorities achieve such control.

(c) The central government occupies an awkward position with regard to rate support grant. Its contribution comes from Votes of the relevant Secretaries of State, but they are unable to exercise control over the direction of expenditure and the quality of service given commensurate with their apparent position as paymaster.

(d) It is apparent that local government, if Plymouth is anything to go by, is over-manned. But you will see (paragraph 13) that the Lord Mayor is, not unnaturally, unwilling to see his authority joining with others and with central government to appraise its services. This is for the obvious reason that no one wants to unlock his cupboard and let the skeletons fall out. This leads me towards two provisional conclusions.

First, that just as an authority needs a strong financial centre, it needs a strong central control over manning. Second, that in order to help guarantee to the public good quality and cost effective services, the central government will need to develop the role it is perceived to have generally of inspecting and monitoring local provision against a standard of national application.

Sp

C PRIESTLEY
28 August 1979

ENCS: Meeting note 9 August
Copy of Councillor Jinks's letter of 24 August

PERSONAL AND CONFIDENTIAL

NOTE OF MAIN POINTS MADE BY COUNCILLOR G J JINKS, FCA, LORD MAYOR
OF PLYMOUTH ON 9 AUGUST 1979

Background

1. The background is contained in the letters exchanged by Cllr Jinks and the Prime Minister on 24 and 30 July and in my letter to him of 1 August.

Civic Theatre

2. Cllr Jinks said that all but one of Plymouth's five theatres had been destroyed during the war. The remaining one, the Palace Theatre, had been operated by Mecca as a bingo hall but had recently been sold and could, if used as a theatre, be of the same size as the one now intended by Plymouth County Council.

3. When it had first considered the question of a Civic Theatre many years ago, Plymouth CC had concluded that the question of size was all important, but no-one could advise on optimum size, and that it was unlikely that a Theatre could be profitable. There had been a period of research extending over some fifteen years, leading to a decision by the CC in January 1979, by 36 to 25, to award a contract at an estimated cost of £6.7m; he himself guessed that it would cost at least £10m to build the Theatre and that it would involve CC in high running costs. At the moment, the Theatre was no more than a hole in the ground and a few walls, but it would be expensive to stop the project.

4. The project was controversial locally. The January decision had gone through on a split vote, with the Labour Councillors voting en bloc, the Conservatives being split. There had been a public outcry against the Theatre, which was the biggest project ever undertaken in Plymouth; it had actually created a Ratepayers Association. He himself had believed that the Conservative Party would lose the local election held last May on that issue alone, but in fact the simultaneous General Election seemed to have influenced the electorate and the Party had held on to its majority, although a reduced one. It had then been argued within the Party that, regardless of the Theatre, it could hold on to power.

5. It remained true however that people at large were concerned about the Theatre. He himself thought it would be crazy to go ahead with the venture and that it made nonsense of national policy on public expenditure. He had been hoping for an intervention by the Prime Minister, but was now resigned to defeat; the CC was not in default of its duty and there were no formal grounds which would enable the central Government to interfere. This left him with a strong sense of unease about public expenditure. It was no

good central Government making all the right noises if local Government did not come to heel; moreover, while he disagreed with his Party colleagues on this issue, he believed that in general Conservative-controlled local authorities were more responsible in the use of resources than some Labour-controlled authorities and he did not want his CC branded as profligate in respect of the Theatre project.

6. I suggested that the local battle might not yet be lost if the analysis of estimated income and expenditure over, say, the next five years showed that the capital and current outlay on the Theatre could be met only at the cost of reducing facilities and services which might be regarded as having a higher social value. Cllr Jinks said that the CC had already called for forecasts of expenditure over the next five years and that discussion might provide a further opportunity to vet the project again. I added that another case that had been brought to Sir Derek Rayner's attention showed the importance of tight project control and providing within the contract for the local authority to review its position at regular intervals.

7. Cllr Jinks added that the Arts Council had originally agreed to help with the capital cost of the Theatre to the extent of £400,000. He had been astonished that after the election AC had, on its own initiative, increased this to £500,000. The latest idea was that the CC might be able to benefit from EEC funds. I could make no comment of substance on either of these points.

Drake 400 celebrations

8. We had a brief discussion of the reference in Cllr Jinks's letter to this, which we agreed was also a matter for local decision. Cllr Jinks said that the main point was that there seemed to be no real appreciation locally of what was intended to be achieved by the expenditure of some £180,000. He did not think that expenditure was needed in terms of Plymouth's commercial success.

General comments on efficiency and waste in local Government

a. Finance

9. Cllr Jinks explained that Plymouth CC had operated a "target budget" system since 1975. This system depended on the Finance Sub-Committee formulating a "target budget" broken down by committee areas and on reactions to it from each of the six "structure" committees. The process ended with the presentation of a revised Estimate to the full CC. The system was reasonably faultless, but Cllr Jinks disputed the wisdom of doing it on an incremental basis from year to year.

10. Turning to the national picture, Cllr Jinks said that in the days when he (and Mrs Thatcher) had first been associated with local Government, there had been a completely different rates

support grant structure, involving grants in aid of specific services. This had been open to some abuse; grant aid to education was very high, for example, so as many expenditures as possible were called "educational" to attract high grants. Then the "block grant" was introduced, very much restricting the opportunity for central Government to influence the direction of local expenditure. Now the central Government was really committed to what local Government did, so that central support for extravagant local authorities was much greater than it was for frugal ones. There would be merit in considering whether one could achieve a half-way house between the old and the new systems so as to restore to the central Government the ability to indicate where expenditure was desirable or essential. It would be impossible to change the system from the local level only since it was natural for local authorities to profit as best they could by the rules of the game.

b. Comments on particular services

11. Asked whether there were particular services in respect of which the grant arrangements should be varied, Cllr Jinks made the following points:

a. The picture might be changing somewhat as he understood that it was intended to transfer some powers from County to District Councils; he was not certain how this would turn out, for example it might be that social services would be kept at County level although he himself thought that they would be much better deployed at a more local level.

b. People should perhaps be charged for planning applications. The question who should receive the fees, central or local Government, depended on the view one took as to the source of the statutory requirement.

c. Similarly, it was arguable whether health and safety inspectors, required under central legislation, should be paid for by central or local government.

d. He estimated that one-third of Plymouth CC's employees were vetting the other two-thirds to see if they were doing their job properly, eg internal audit, finance, planning inspectors overlooking the public. The point here was that there seemed to be numerous officers standing between the ratepayer and the delivery to him of the services he wanted. He quoted as an example of this a complaint from a constituent of his who had had a blocked drain. She sought the help of the Rent Officer, who doubled as Housing Welfare Officer. The Engineer's Department then sent someone to see whether the drain was blocked. After that a foreman had come to see how much work was involved. Eventually someone had come to unblock the drain. All this had taken 11 days.

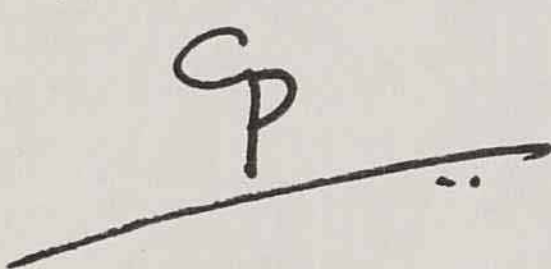
e. Asked about education, Cllr Jinks said that it was the costliest service and therefore the biggest element in the RSG. He himself favoured paying for education as a national service since it was meeting national as well as local needs

and it was, in his view, unfair to make ratepayers who are not directly benefiting from it pay for it. It was clear that, provided one retained local safeguards, one could remove many of the present anomalies by treating education as national, enabling the central Government to dictate certain requirements in order to achieve a service of a more uniform quality.

c. Promoting reform

12. Cllr Jinks said that if locally elected representatives got their officials to produce reports asking fundamental questions of a "zero base" kind, they would realise that services were provided less efficiently than they could be. However, he did not feel able to comment in any detail on the questions set out on page 2 of my letter. He had sought the personal comments on these, and on my other papers, from the City Treasurer, Mr B J Weston. These he handed to me.

13. I asked Cllr Jinks whether he thought that Plymouth CC would be willing, if asked, to join with a few other local authorities and with the central Government in making a radical appraisal of its services. He said that he was sure that it would not.


C PRIESTLEY
21 August 1979

Graham Jinks & Co.

GRAHAM J. JINKS, F.C.A.

CHARTERED ACCOUNTANTS

VAT Reg. No. 143 3720 91

OUR REF: GJJ/AH

YOUR REF:

MAXWELL HOUSE
167 ARMADA WAY
PLYMOUTH PL1 1JH

TELEPHONE 0752 - 266225

24th August, 1979

PRIVATE, PERSONAL AND CONFIDENTIAL

Clive Priestley, Esq.,
Cabinet Office,
70 Whitehall,
London.
SW1A 2AS

Dear Mr. Priestley,

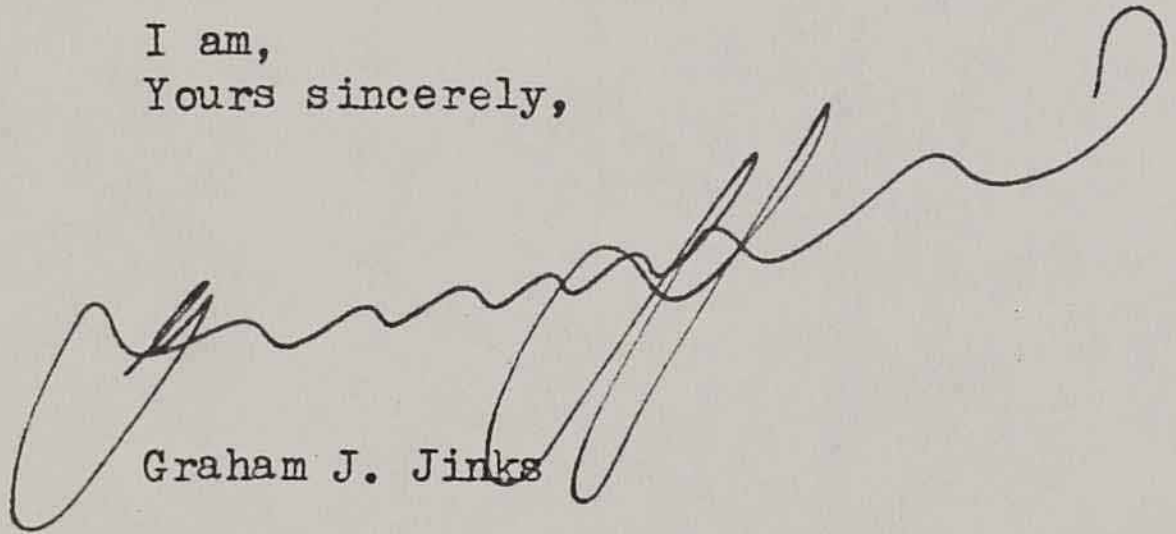
Thank you for your letter of the 21st instant and for the notes of the main points made at our interview on the 9th August. I think there is little I can add or comment I would like to make on the notes which I think are a very fair summary of our discussions. There is only one small error in paragraph number nine on page two, where you refer to ten structure committees, whereas in fact, this is six structure committees.

No I assumed that you intended me to keep the copy of the notes but if you need them returned to you please let me know. I felt that the meeting with you was extremely interesting and from the notes that you have now produced, for onward transmission to the Prime Minister and presumably with notes of other interviews that you may have had with other people, I think some very useful purpose may emanate from the collective thoughts of a few people such as myself and certainly, I will contact Mr. Weston to ask him if he would have any objection to your following up with him some of his observations later on.

I confess I am full of admiration for the pronouncements presently being made from "the centre" and I am encouraged by the mere fact that you have gone to so much trouble to come and see me. Certainly, if I can be of any further assistance to you please do not hesitate to call upon me and perhaps on the next occasion I could travel to London to meet you to save you, what I know, is a tedious journey down to and back from the West Country. For my part, I am frequently in London on business in any event and it would be simple to call on you with one of these trips.

Thank you once again and I wish you well,

I am,
Yours sincerely,


Graham J. Jinks

P.S. Subsequent to dictating this letter I have spoken to Mr. Weston who would be only too pleased if you wish to follow up any of his observations but would prefer you to do it either through me or through his private address as opposed to his office address which of course was

on the letter he wrote to me, for the very good reason that the views he expressed in that letter were personal views and not necessarily the views of his employing authority. You may be interested to know that he is presently our City Treasurer but has actually been accepted by the Devon County Council to become their Treasurer at such time as his notice to Plymouth City Council expires. This will therefore be in something like three months time.

cc for information

Mr Pattison

Sir Derek Rayner

EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

I attach a copy of a letter to the Director of Education for Devon, whom I am seeing here next Thursday.

2. I hope that it may provide a sufficient aide-memoire if the Prime Minister refers to the question of local government on Tuesday and also for your meeting over lunch with Lord Bellwin next Wednesday.
3. You may like to be reminded that action taken by us so far consists of your two letters to Mr Heseltine and your one letter to Mr Carlisle; my letter to Mr Fowler's Private Secretary; and my encounters with Mr Hancock (Cooper & Lybrand), Mr Rose (ex Chief Officer) and the Lord Mayor of Plymouth.
4. We shall need to approach other local government Ministers shortly, but I would first like to pull together the results of your meeting with Lord Bellwin and mine with those noted above and touch hands with the Treasury and CPRS to see whether we can make the points to be put to them more precise.
5. I think that it is important to put as much effort as we reasonably can into this because you are uniquely well placed to advise on the issues, being a prisoner of no-one's stage army.
6. I am copying this to Mr Pattison in case he has views which he would like to inject at this stage.

Sp
C PRIESTLEY
24 August 1979

Enc: Copy letter to Mr Owen



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-~~930 5422 ext~~ 233 8224

24 August 1979

J G Owen Esq CBE
Director of Education
County Hall
Topsham Road
Exeter EX2 4QD

Dear Sir,

I look forward to seeing you again at 10 15 next Thursday, 29 August. I do not think our paths have crossed since the curriculum conference in Oxford in 1967, so it will be a long hoped-for chance to meet and, happily to offer you congratulations on your recent honour.

As I explained on the phone, the Prime Minister has asked Sir Derek Rayner for advice on what can be done to help local as well as central government to improve its efficiency. She is well aware of the "motes and beams" aspect of this, but she is also very conscious of the large head of feeling in the country that Whitehall and town hall are not cost-effective enough and that they are over-manned. I envisage advice on four things.

First, there is the relatively simple business of describing what happens now, both locally and, as far as the centre is involved, centrally to provide local services which are cost-effective and of a good quality. I provisionally see us providing information on:

- What local authorities do individually and collectively, eg through their own services (internal audit, management services and in your case inspectors/advisers); through national services (LAMSAC, LGORU, LGTB); and through the use of management consultants.
- What central government knows about the comparative frugality or extravagance of local authorities, through eg DOE and other regional offices; HM Inspectorates (Schools, Fire, Police).
- What central government does to encourage the frugal and discourage the extravagant authority.

- What central government does to influence, help or control local authority practice in general through, for example, the RSG negotiations and calculations.

4. Secondly, there is the question whether - bearing in mind Ministers' desire to reduce the level of statutory control - the arrangements outlined in paragraph 3 appeared adequate for the purpose of securing value for money.

5. Thirdly, if the answer to the question just posed was "No", there would be the question of how to improve local resource management on the one hand and of the means available to the Secretary of State for the Environment on the other to account for the central government contribution in support of rate income which comes from Votes for which he is responsible.

6. I would put more emphasis on the former point, since if you have autonomous, statutory authorities to run local services with a direct accountability to their electorates it is obviously for them to make sure that services are provided properly. Perhaps the easiest way - on paper - of approaching this is for a local authority to go back to first principles and determine from a zero base what it is trying to do with the resources placed in its charge by its electorate. That is of course much easier said than done but might prove a useful discipline in some cases. It has been suggested to me, from outside Whitehall, that some very useful second order questions are these:

Are the services now delivered fully justified?

Can the services which are necessary be delivered more efficiently?

Can the departments of a local authority collaborate better in delivering services, eg in making better use of common services?

Is property used to the full?

Is there sufficient virement between departmental resources?

7. It seems to go without saying that, apart from whatever external stimulus may be necessary, an authority is going to need a strong centre* to promote the effective use of resources, including staff, right across the board.

8. Finally, there is a question which is different from the question of central government's role in financial control/management, namely whether it has a "guarantor" role about the quality of the services delivered which it could exercise more effectively. Wherever Ministers retain the right to inspect, they appear to be saying that they are doing so in order to help guarantee good

good service at an acceptable price. But this right is more clearly stated and established in respect of the Police and Fire services than Education. Again bearing in mind the intention to reduce statutory control, I wonder whether some different and more direct uses can be made of inspection so that local people are helped to see how local provision measures up against a "national standard". The answer to this must depend in part on what one thinks local and national inspectors are for.

9. It would be helpful to have your comments on all this, however board they have to be given the time available to you - I am sure that they will be trenchant!

Yours sincerely,

C. C. Priestley

C PRIESTLEY

PERSONAL

Mr PATTISON ✓

*File with Jinks papers on
Rayner file MAP*

LORD MAYOR OF PLYMOUTH

Thank you for sending me a copy of Councillor Jinks's letter to the PM of 14 August. I rang him up and made the following points:

- a. As to "great ignorance at the centre", I recalled that he had told me that he had not met the PM. I had said that I had a clear, personal impression of her conviction that as a nation we must make less and better use of the tax-and ratepayer's money.
- b. I shared that conviction. I had given up a day's leave to motor from North Devon to see him; I regarded this and the expense of doing so as a small personal contribution to the common good.
- c. As for ignorance of the local scene, I had explained in my letter to him of 1 August that I was a newcomer to it and that one purpose of the interview was to help Sir DR to help the PM by putting me in the picture.
- d. I did not readily understand his reference to the VAT inspection, on which you had already commented in your letter of 16 August. Happily, he did not seem to suggest that I was responsible for the inspector's calling!
- e. It was intended that the note of our meeting which I sent him on 21 August should go to the PM, so it would be helpful to have his comments as soon as possible.

2. Councillor Jinks responded to this by saying that he thought we had had a good exchange on 9 August; that he appreciated the fact that I had used part of my leave for it; that he had been intensely annoyed by the VAT visitation, because the inspector had had the audacity to say that, despite advice given four years ago that he could retain his old VAT number on breaking his partnership, it must now be changed, which would cause him to change his letterheads and so put him to needless expense. He felt that his action in writing to the PM had been premature but this reflected his "volatile" nature; he offered me his apology, which I accepted.

3. This means, I hope, that the Jinks-Priestley relationship is back on an even keel. But his two letters to the PM are not very sensible and while he is basically a well-meaning and well-disposed character, he obviously needs handling with some care.

4. I will forward the note of my meeting with him once he has agreed it.

CP
C PRIESTLEY

23 August 1979



ra
MAD
1/11/11

CABINET OFFICE

With the compliments of

C PRIESTLEY

70 Whitehall, London SW1A 2AS

Telephone 01 233 8224

G. L. Garty

NOTE OF A MEETING WITH MR I C W HANCOCK, MESSRS COOPER & LYBRAND,
MANAGEMENT CONSULTANTS, ON EFFICIENCY AND WASTE IN LOCAL GOVERNMENT

1. I visited Mr Hancock this morning, at my request, to talk about the above, the reason being that his firm has recently completed an assignment with Hereford and Worcester and that he has other relevant experience of local services. He is a senior man of great common sense and personal success in his organisation.
2. Mr Hancock said that there was a good deal of waste in local administration but it would need plenty of imagination and hard thinking on the part of central and local government to clarify the targets to go for and to avoid missing substantial long-term benefits. His basic thought was that local authorities should consider all their services and resources as a whole with a view to determining whether the services which had to be provided were delivered to the consumer in the most cost-effective way. He saw waste as being reducible under the following heads.

Are services as at present delivered justified?

3. Mr Hancock sees the biggest scope for savings lying in this area. His point is that the planning and management of services has so far been on an incremental basis with only marginal cuts being made in response to external pressures. The question in a nutshell is whether it is right to go on providing the same services in the same way and whether the opportunity cost of doing so can be tolerated. Examples of areas which should now be looked at are the provision of school meals, putting old people into homes rather than trying to support them in the community and structure planning. He commented interestingly on the last of these examples that structure planning represented a role which no longer existed but that it was very difficult for the local bureaucracy to cut itself back.

Can the services which are necessary be delivered more efficiently?

4. Where services are rationalised, curtailed or withdrawn, the staff complement should be brought into line with the new need. He quoted an architects' department in a particular local authority as being over-manned to the extent of 20% on present commitment; with a cut in programmes, over-manning will be gross. Similarly, the Personal Social Services organisation was planned on the assumption that there would be infinite growth, producing one tier too many in the structure. Here of course one ran into one of the main constraints, the interests of the staff associations. Local government is very labour intensive, with manpower accounting for 60% of the costs; particular savings are achievable in middle management and in local grade administrative and clerical jobs, but the atmosphere is such that the staff associations close ranks and refuse to discuss anything which smacks of redundancy.

5. What would help in reducing manpower to match the reduced scale of services would be to make greater use of outside contractors as and when necessary and to use the voluntary sector to the full in support of social services.

Can departments in a local authority be obliged to use common services more effectively?

6. Transport is a good example. Departments tend to have separate arrangements for transport; for example, the Education and Personal Social Services Departments will both use private contractors but will not rationalise this, preferring to have quite separate arrangements for separate services.

7. Other examples are stores and maintenance but probably the biggest potential for rationalisation is in the use of property, notably but not exclusively school and college buildings and educational playing fields. Where schools are being closed down in rural areas it should be possible to use them for a number of purposes but "ownership" being vested in the LEA there seem to be obstacles.

8. He thought that there was enormous duplication of effort and of resources in the administrative and clerical areas, eg separate offices for separate departments.

Can departments collaborate better in delivering services?

9. He thought that there were organisational constraints to the effective delivery of services, eg between district and county councils and, within an authority, between one department and another. He cited as an example the boundary between housing and personal social services departments, who should work together to exploit the resources of the community rather than work against each other as they often could. One area for improvement was getting elderly people out of high cost residential accommodation and into the community. Another was making far more joint use of the resources available (playing fields, play centres etc).

Is property sufficiently exploited?

10. Many local authorities are sitting on very valuable land and property and the question is whether retaining these can be justified at the opportunity cost involved. Local authorities would do well to look "entrepreneurially" at the use of resources and plan it on a multi-purpose basis. It did not help in this of course that separate departments in the town hall dealt with separate departments in Whitehall which tended to stamp "departmental ownership" onto particular pieces of land and property.

Are there desirable trade-offs between different types of expenditure?

11. The main points here are that local authority expenditures are subject to different forms of central control and that the annuality rule leads people to the conviction that they must spend their allocation in the year. There is far too little sensible virement between departmental resources.

The foundation of a new approach to the management of resources locally

12. The fundamental problem is that conventionally the approach to budgeting has been incremental and that the response to public expenditure cuts is not radical (for understandable reasons). The essential point is that we are now playing a new game and that the provision of services by a local authority should be regularly reviewed from a "zero base". The danger about the "cuts" technique is either that local authorities and their staffs think that the pressure will go away or that they become very defensive whereas the real need is for a willingness to go back to first principles and determine what it is that a local authority is trying to do with the resources placed in its charge by its electorate.

13. Mr Hancock was not confident that local government left to itself would achieve this radical approach. It needed good leadership which was all too rarely available locally. He thought that generally it was very underpowered in the crucial central areas of Finance, Personnel and Management Services. In general the Finance Department did not see it as its role to take the initiative in planning the use of resources. Management Services were generally dreadful, being mainly concerned with work study and productivity schemes and employing too low level people. They would not be missed if they were abolished; because MS staff lacked the right cutting edge, LAMSAC was also very ineffective. Local authorities had been very slow to develop their use of computers and to use outside computer agencies; they seemed to prefer to struggle to use people of their own although the salaries they could offer were hardly competitive.

14. All this being so, Mr Hancock believed that the initiative for reform must come from the elected members or the Chief Executive.

15. I asked about the performance of the central government's "guarantor" role, bearing in mind that local authorities were statutory, autonomous bodies and that the present Government wished to reduce the level of statutory control anyway. Was it possible to make more use of the inspection function, to produce objective reports on particular services which could be made available to both the authority and its electorate and to the central government as a stimulant to reform? Mr Hancock thought that central inspectors would always be conned and that, being professionals themselves, they did not have a sufficient interest in

criticising fellow professionals. For example, HM Inspectorate of Schools was, in his view, part of the "educational Mafia" and did not want to rock the boat; he had no confidence at all in the objectivity of the Inspectorate.

16. He thought that there were some hopeful elements which should be encouraged, however. He thought that the strongly "departmental" tradition could be built on in a new way, although it would not be easy; corporate management had had difficulty in establishing itself because it was difficult to withstand the sort of pressures exerted by alliances between chairmen of departmental committees and the chief officers. There were two ways of dealing with this. Looking from the top down, one could move very deliberately to build up corporate management and strengthen the centre against departments. Looking at it from below, one could move in a somewhat different direction and de-centralise administration so that one locality was looked after by a particular officer who had subordinate staff from each of the departments working for him.

17. I asked how one might stimulate reform. Mr Hancock thought that one might build on expenditure control, to bring out the fact that we were in a new position which had to be understood and which must influence the way resources were managed locally, and provide examples. He did not have a great deal of confidence in central control per se although he thought that it should be possible to carry out certain checks, for example whether the decline in the emphasis based on planning was accompanied by a decline in the number of people employed in it.

18. Although he had no ready answers himself, he thought that the thing to concentrate on was the points of leverage. Apart from expenditure control he thought that one should concentrate on particular elected representatives and Chief Executives who would understand that the name of the game had changed and were already trying or would be willing to try new methods of management. Among Chief Executives, he thought that Hender (West Midlands), Ward (Hereford/Worcester), Barrett (Cambridge) would be willing to help and that Hender, who ran a tough corporate management team, would be particularly interesting and helpful. Another good contact would be Professor Stewart of INLOGOV. He thought that some of the processes to be examined were budgetary control by local authorities and inter-departmental working where very substantial savings could be achieved although there were vested interests in the way. It was also important to realise that re-organisation had messed up succession to the higher posts and that there were now frustrated middle managers about to whose ears "reform" would not be a very welcome sound.

Water

19. Mr Hancock concluded by saying he thought there was more waste in the Water Industry than in local government. The authorities had been set up extravagantly and he thought from experience and hearsay were seriously over-manned.

Sp

C PRIESTLEY
26 July 1979

Circulation

Sir Derek Rayner
✓ Mr Pattison (No 10)
D Allen



26 JUL 1979



11



Loc
Govt

i. ~~MAP~~ to see
2. PA MS
2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

31 July 1979

De Jh

Thank you for your letter of 25 June about my comment in Cabinet concerning the monitoring and control of local authority expenditure. A considerable framework exists for monitoring local authority current and capital expenditure of which I see from your letter you are now aware.

However, I have now agreed with my Permanent Secretary and Sir Derek Rayner to carry out a project with the objective of making the monitoring of our activities more effective. We are also to seek a cooperative local authority in order to see if we can achieve a similar exercise there.

Perhaps you will leave this in my hands now until I feel I have something constructive to report.

I am copying this letter to the recipients of yours.

*Yes see
MHC*

MICHAEL HESELTINE

cc Local Authority Contacts File.

The Rt Hon John Biffen MP



Local Govt. LPO
cc Sir D Rayner

10 DOWNING STREET

THE PRIME MINISTER

30 July 1979

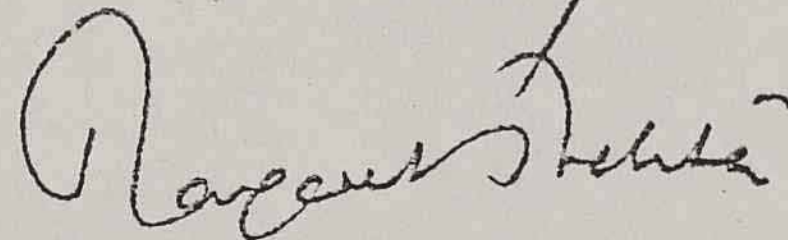
Personal & Confidential

Dear Councillor Jinks

I am grateful to you for writing to me on 24 July with your frank comments about examples of local government extravagance within Plymouth City Council.

I recognise that you will want this treated as private correspondence at this stage, given your position as Lord Mayor. I will of course respect this. But I would like you to know that I, too, am most seriously concerned by extravagance and waste at all levels of Government. You will know that I have asked Sir Derek Rayner to do some work on this. Initially, he is looking at specific functions of Central Government where there may be scope for greater efficiency and less waste. Within a few months he will also be helping Ministers to look at some of the activities of local government which fall within their responsibility. I hope you will not mind my drawing his attention to your letter.

Yours sincerely



Councillor Graham J. Jinks, F.C.A.

tw



10 DOWNING STREET

Mr. Patten.

meeting confirmed
for Wednesday 29th
August at 16.30.
Rayne & Montfeld
accepted. any
extra brief required?
D

25/7.

3/7 20
August

Not now: but
by August 20 to
consider MAP

spoke to Mr P.
re YAP

cc for information

Mr Mountfield
Mr Allen

Mr PATTISON

EFFICIENCY AND WASTE IN LOCAL ADMINISTRATION

I attach a copy of Sir DR's letter to the SS/
Environment, leading to a meeting between them
on Thursday, together with Mr King and
Lord Bellwin. If you have a chance to let me
have any comments you might want to offer before-
hand, I shall be glad to have them.

CP

C PRIESTLEY

Enc: Copy letter to Mr Heseltine

Ray/h/79



Local Govt.

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-930-3444 ext 233 8224

24 July 1979

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
London SW1

Yes Michael.

EFFICIENCY AND WASTE IN CENTRAL AND LOCAL ADMINISTRATION

I am due to meet you at 5 pm on Thursday, together with Mr King, Lord Bellwin and Sir John Garlick. Apart from points which you and your colleagues would like to raise with me, I should be grateful if we could discuss those set out below.

The "Rayner project" in the Department of the Environment

2. I understand from the conversation between Mr King and Mr Priestley of my office last week that you do not favour the idea of studying the way in which regional strategies are prepared and their relevance to the statutory land use control system, in particular structure plans, and that you would prefer a study of the flow of information, relevant to policy and management decisions, to you and your colleagues.

3. I shall look forward to hearing more about this, although I am a bit disappointed to see regional strategies fade out of the exercise initiated by the Prime Minister's Minute of 4 June. (It may, incidentally, be relevant to the final choice of subject that the Prime Minister is keen that as many subjects as possible should be of functions or activities which involve substantial numbers of staff.)

Circulars to and statutory controls over local government

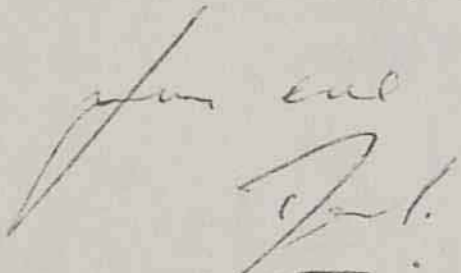
4. I should be grateful if you would kindly bring me up to date with the progress made on these two exercises.

Efficiency and waste in local government

5. The Prime Minister has asked me for advice on these matters and I should like, with your help and that of the other Ministers

mainly concerned, to offer her some preliminary thoughts in the near future. To do this, it would seem that I should cover the ground outlined on the attached appendix.

6. I am copying this to Mr King, Lord Bellwin, Sir John Garlick and Mr Bradley in Marsham Street and to Mr Priestley in my office, who will be accompanying me on Thursday.


Derek Rayner

APPENDIX to Sir Derek Rayner's letter to the Secretary of State
for the Environment of 24 July 1979

1. The relative positions of central and local government with regard to the quality and cost-effectiveness of the services which the latter delivers to the citizen seem slightly odd to me. The statutory responsibilities of Ministers and local authorities seem to vary between services with, it appears fire and police at one extreme and education and personal social services at the other; the effect of this appears to be that the centre stands as guarantor, or inspector, of some services and not of others, but nonetheless underpins all services to the extent of some 60% through the rate support grant.

2. Considerable emphasis appears to be laid on the accountability of local authorities to their electorates for the money they spend, but I am unclear how Ministers can be fully accountable for the RSG element of local finance if, in substantial areas of local services, the degree to which they can influence the quality of service is limited. The existence of the Commissions for Local Administration seem to me, as an outsider, an interesting reflection on the degree of confidence which Parliament appears to think people can have in the existing machinery of accountability.

3. In seeking to advise the Prime Minister on the effectiveness of the existing means for securing for the public good quality and value for money in local services, I should like to explore the question how the central government, local government and the citizen inform themselves (and, as appropriate, act upon the information) about such matters as comparative use of manpower and other resources. I recognise, of course, the great difficulty of establishing realistic yardsticks for and measuring performance in many services. My preliminary view is that my advice should cover the following:

a. How much central government knows about the comparative frugality and prodigality of local government, through eg

- MPs' and other correspondence
- DOE (and other) regional offices
- HM Inspectorates (Education, Fire, Police)
- reports of the Commissions for Local Administration.

b. The means open to central government to encourage or reward the frugal and admonish or punish the prodigal local authority.

c. The relevance, if any, to b. above of the Rate Support Grant calculations and negotiations; of the Consultative Council on Local Government Finance; and of the District Audit Service.

d. What local authorities do, individually and collectively, to help themselves, through eg

- own services, notably internal audit and management services
- Local Authority Management Services and Computer Committee
- Local Government Operational Research Unit
- Local Government Training Board
- use of management consultants or such figures as Mr Leslie Chapman.

e. What central government does to control or help local authorities, individually or collectively, through eg

- HM Inspectorates (Education, Fire, Police)
- other advice and guidance
- statutory controls.

f. Whether (bearing in mind Ministers' desire to reduce the level of statutory control), the arrangements under b, c, d and e are adequate for the purpose of securing value for money and if not what could be done to improve or extend existing arrangements, eg in respect of

- i. efficiency audit; value for money; and sanctions available to Ministers;
- ii. persuading LAs to mount radical appraisals of specific services;
- iii. enhancing the inspection function and, by this and other means, making available data to enable people to judge the quality of services provided.

4. I realise that action on any or all of this might cause trouble in the relationship between central and local government (not least of the motes and beams variety), but the local authority service is very much larger than the Civil Service and it is hard to believe that there is no scope for beneficial change. Some of the letters I have had - including two which Lord Bellwin has seen, those from Councillor Margolis on project appraisal and control and from Mr Rose on staffing and cost consciousness - seem to indicate well-informed and well-authenticated cause for anxiety.



1974 JUL 20

6 11 1974

PRIME MINISTER

Caroline

We need a meeting

with Sir D Rayner +

Mr Mountfield (C.O.)

could we do after Lusaka?

You asked to "have a word with Mr. Vile" before we reply to these insipid Ministerial offerings on local authority waste. You touched on these in your meeting with Sir Derek Rayner yesterday.

Mr. Vile signed the submission in his capacity of Private Secretary to Sir John Hunt. The submission is in fact a delicate compromise between views of Cabinet Office officials and views of Sir Derek Rayner's office. If you want to discuss them, we will certainly need to invite one representative from each. It will not be easy to fit this in before you go to Lusaka, and you already made it clear yesterday that you would like Sir Derek Rayner to move into this area to the extent that time allows.

Do you want us to hold up our response to the Departments until you can have a further meeting with Sir Derek Rayner and the Cabinet Office?

17 July 1979

MAJ

yes me

PRIME MINISTER

When you considered Sir John Hunt's initial briefing on pay and cash limits, you agreed that the Government's attack on waste should be extended to cover local authority expenditure. We therefore invited the views of the Secretaries of State for the Environment, Health and Social Security, Scotland and Wales on the best way of tackling this. Their replies are flaged below.

Health paper
Filed on
Nat. Health
May 79 Waste
in NHS.

The Cabinet Office have considered these responses, and, in the attached minute, advise that several points raised might best be tackled in the coming public expenditure exercise (charging, house maintenance, school meals) in particular). Cabinet Office further advise that Sir Derek Rayner could help in these areas, perhaps especially in the Health Service in which he has already expressed some interest, but also in the general area of local authority expenditure. You now have several exercises on waste and efficiency in hand, and Clive Whitmore will shortly be putting to you Sir Derek Rayner's initial report on his subject, together with related papers. It is important to keep the various waste and efficiency exercises co-ordinated if they are to retain momentum. Are you therefore content that we should not pursue the NHS and local authority points separately for the present, but should take care of them partly within public expenditure work, and partly through Sir Derek Rayner's work with individual Ministers?

I agree very much with the last para of Dr. Vid's minute. I am chagrined d. the content of some of the letters. There is no real interest to get a grip with some of the matters. Good, have a word with Dr. Vid before my own

9 July 1979

MD

Not yet completed.

Ref. A09849

MR. LANKESTER

Waste: Local Authorities and National Health Service

This correspondence was originally prompted by a point made in Sir John Hunt's brief of 3rd May to the Prime Minister about Pay and Cash Limits. He said in passing that there was little doubt of real room for economy in the administration of local authorities and of the National Health Service, as well as of central Government Departments. This was in the early days, before the lines of the Rayner exercise had been laid down clearly. You therefore asked us for a letter which you sent to DOE and DHSS, and to the Welsh and Scottish Offices, on 16th May, calling for the personal suggestions of their Ministers about the elimination of waste in these two main areas. All their replies have now been received. (Mr. Edmonds' letter of 24th May for DOE; Mr. Craig's letter of 1st June for the Welsh Office; Mr. MacKenzie's letter of 11th June for the Scottish Office; and Mr. Brereton's letter of 7th June for DHSS.) You had some interim comments from the CPRS in Sir Kenneth Berrill's minute of 8th June about the DOE letter. We have also consulted Sir Derek Rayner's team.

2. The Secretary of State for the Environment agrees with the diagnosis, but recommends leaving the remedy primarily to the local authorities, with what help and encouragement central Government can give them. The Secretary of State for Scotland broadly agrees. The Secretary of State for Wales lays more emphasis on the use of cash limits and expenditure cuts to force local authorities to examine their own priorities. All three Secretaries of State point to the reduction in controls over local authorities as a means of reducing the administrative burden in the Town Hall as well as in Whitehall. Sir Kenneth Berrill's comments add some other points: the need for a Government push on efficiency audit and value-for-money studies; a new approach to charging policy; a shift in the responsibility for housing maintenance from the local authority to the tenant; and the re-examination of school meals policy. The last three are likely to be covered, in greater or less depth, in the course of the public expenditure cuts exercise, and it

may be best to wait now for the Cabinet discussion on this on 12th July. The more general question of value for money and efficiency and audit comes up in another way too. Sir Derek Rayner, although concentrating on central Government administration to begin with, is available to advise any Minister who wishes to consult him. (He has already had suggestions from former local government officers, including the proposition that local authorities should themselves set up project teams to investigate specific services. In this context, it is significant that some local authorities including, I believe, Berkshire, Buckinghamshire and Norfolk, have invited Mr. Leslie Chapman ("Your Disobedient Servant") to assist them.

3. At this stage, it is important not to close too many doors. The Secretary of State for the Environment understandably wants to rely on self-help by the authorities (reinforced by public expenditure pressure). There may be a case for some outside assistance and some gentle prodding: it is too early to be sure. In due course Sir Derek Rayner may be able to help. The right line to take at this stage would be to agree with Mr. Heseltine on the need for self-help, but to ask him to discuss the issues with Sir Derek Rayner, whom he has not yet met, but not to rule out central Government involvement at some stage.

4. Turning to the NHS, the letter from Mr. Jenkin's Private Secretary is only an interim report; the Secretary of State for Social Services intends to mount a major exercise later in the year. It says that there is only anecdotal evidence of sheer waste. This is significant. DHSS does not have this kind of evidence because it is not organised to manage the NHS directly itself. Management responsibility is diffused to regional and area level, and it is there that information resides. The Department has responsibility without power. This also indicates that the DHSS has adopted a narrow definition of waste. There is considerable scope (we believe, as does the CPRS) for improving the efficiency of the NHS by persuading doctors and others to adopt best practice (e.g. in prescribing, and hospital lengths of stay). A lot needs to be done to improve productivity on a broad front. Some machinery already exists. O & M in its wider sense, has always flourished in the NHS. Perhaps it even counts for a high proportion of administrative costs. Measurement of results is more difficult, though the letter from Mr. Brereton does quote some quite impressive victories.

As in the case of local authorities, cash limits are likely to be a particularly important instrument of waste reduction. But as with any monopoly service, there is a danger that their effect will be to penalise the customer, rather than to induce efficiency in the service. Quite apart from the ethics and politics of this, there is an economic penalty attached to this kind of false efficiency. The sheer loss of man-hours of productive time spent by patients in hospital and surgery waiting-rooms, for lack of efficient appointment systems, must be very high. This is one of the areas of waste which no conventional approach to cost-saving will touch. Another, mentioned in the letter, is of course the structure of the NHS. Streamlining could save manpower and improve lines of management communications. The Secretary of State proposes to await the report of the Royal Commission, and this is obviously sensible before tackling this major problem.

5. Sir Derek Rayner hopes to be able to tackle some of the NHS problems too. He has had a preliminary talk with Mr. Jenkin, and with his Permanent Secretary. He was assured that they would welcome his help. But there are some signs of resistance elsewhere. It would therefore be useful if the Prime Minister were to make it clear that she supports his entry into this area.

6. Our advice is therefore:

- (a) to round-off the present exercise with letters of acknowledgment to the various Departments concerned;
- (b) that you specifically ask DOE and DES to ensure that the points about charging house maintenance and school meals are covered in the public expenditure exercise. (Our information is that they are, but no harm in reinforcing it).
- (c) That your letters of acknowledgement should make it clear that Sir Derek Rayner is available for consultation on any of these subjects, and hopes to be able to have time to spare to move outside the immediate area of central Government early next year. If the Prime Minister agrees, you might add that she personally attaches great importance to Sir Derek's involvement in both the Health Service and the local authority area.

(M.J. Vile)



The in the name of the Government of the State of New York, Department of Education, Office of the State Superintendent of Education, Albany, New York.

Reference is made to the letterhead memorandum of the State Superintendent of Education, dated July 1, 1979, and captioned as above.

It is noted that the letterhead memorandum of the State Superintendent of Education, dated July 1, 1979, and captioned as above, was received by the Office of the State Superintendent of Education on July 1, 1979.

The letterhead memorandum of the State Superintendent of Education, dated July 1, 1979, and captioned as above, contains the following information:

1. The letterhead memorandum of the State Superintendent of Education, dated July 1, 1979, and captioned as above, contains the following information:

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2. The letterhead memorandum of the State Superintendent of Education, dated July 1, 1979, and captioned as above, contains the following information:

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The letterhead memorandum of the State Superintendent of Education, dated July 1, 1979, and captioned as above, contains the following information:

(M...)

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Top Copy: Econ Pol,
Public Expenditure
Pt 2
cc Local Authority
Controls file

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

25th June 1979

RW

Dear Michael,

PUBLIC EXPENDITURE INFORMATION

At Cabinet on 24 May I was asked to look into certain aspects of public expenditure presentation and information and to report back after the Budget. You expressed some concern about the standard of information available to you on expenditure and in particular on under and overspending in certain programmes in the local authority field.

I imagine that you will have taken action already to satisfy yourself about the availability of detailed figures on the progress of spending on the programmes of your department. But I would welcome any views you might have about how the aggregate figures of spending by local authorities might be kept more up-to-date and otherwise made more relevant to our decisions about public expenditure.

My Department's main interest is of course in the aggregate figures for local authority capital and current expenditure by public expenditure programmes and the financing figures used in economic analysis and for the PSBR and also in discussion about the Rate Support Grant. For these purposes basic sources of data are the capital payments and revenue expenditure returns, the revenue and capital outturn returns and the borrowing enquiries all of which we use after they have been processed and aggregated by your Department, which compiles the statistics from returns submitted by individual authorities. I am advised that while there are still some inconsistencies and gaps in the data, and while it is often later than one would like, it is broadly speaking of the right kind and has been much improved in recent years. The inhibition which stems from central government's unwillingness to appear to be interfering in matters which are within local discretion has applied particularly in relation to current expenditure - and there is room for improvement here.

A wide range of judgements about prospects can legitimately be made from the data submitted by local authorities on what has actually been spent. In the housing field, for example, the judgement may be affected by such factors as the extent to which a shortfall on approvals represents a permanent decline in investment; the extent to which such a decline could be reversed by government action; and the extent to which leads and lags or variations in unit costs affect the spend implied by a given level of approvals. And then again, although lead times on new house-building make forecasting reasonably easy, local authorities have extensive discretion to switch expenditure into areas with much shorter lead times such as improvements and mortgage lending and a judgement is also required on the extent to which this is possible.

The shortfall of "at least £230 million" in capital expenditure for 1978-79 forecast in Cmnd 7439 explicitly reflected the judgement of housing departments that the rate of spending might increase in the second part of the year. Likewise, the housing investment allocations issued to local authorities for 1979-80 reflected a similarly explicit judgement by housing departments that the 1978-79 figures represented a trough.

Another area where it has also been necessary to make difficult judgements has been expenditure on Other Environmental Services. Paragraph 8 of Cmnd 7439 stated that "in 1977-78 their (ie local authorities) spending exceeded the planned level by £177 million and in 1978-79 first estimates suggest that the overspend will be of a similar order". We now know that this statement was broadly correct and are in the position of having to make similar judgements about the prospect for overspending this year. On this we are very dependent on your Department for advice, although obviously the Treasury can also draw its own conclusions from the trend in past years and from such information as is available on the outturn for the current year. If any enquiries you may have made suggest possible ways in which a more reliable and precise judgement might be found, it would of course be very interesting to know of them.

I am sending copies of this letter to the Prime Minister and to Sir John Hunt.

7-8
John Biffen
JOHN BIFFEN



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Local Govt

Tim Lankester Esq
Private Secretary
10 Downing Street
LONDON

CF
①
② SF
Very important
gets to Cabinet Office
11 June 1979
Thursday 14/6/79
R

Dear Jim,

WASTE IN THE PUBLIC SECTOR OUTSIDE CENTRAL GOVERNMENT

Your letter of 16 May asked my Secretary of State, along with other colleagues, to give his views on the best way of attacking the problem of waste in the public sector outside central government.

As regards local government, Mr Younger has seen Mr Heseltine's views as given in David Edmonds' letter of 24 May, and he is in close agreement. He would particularly like to emphasise that in his view it would be counter-productive to approach the local authorities on the basis that there is without question waste on a large scale. This would simply make them reply that as **prudent** managers they have their own means for reviewing the staffing resources they need to carry out their functions, and that their duties are laid upon them by Parliament and the central government. For this reason my Secretary of State thinks that the approach to Scottish local authorities should be on the basis that we wish to co-operate with them to identify if and where waste occurs, and how far the removal of unnecessary central controls will contribute towards reducing it. Mr Younger also intends to see what improvements can be agreed in the present arrangements for exchanging information about manpower and unit and comparative costings. In the discussions which are taking place with the Convention of Scottish Local Authorities on the general question of local government finance that they have proved very much opposed to anything of the kind, but in the new Commission for Local Authority Accounts in Scotland there is a powerful independent authority working in this direction. However, some comparative studies can be made from published statistics of costs, and once local authorities have fully realised the effects on them of our public expenditure policy we hope to have more constructive exchanges with them.

My Secretary of State will pursue a similar line with Government-appointed bodies which are more directly under his control. Precisely because they are under control they will say that substantial economies will require Government decisions on what functions can be dispensed with. Action leading to such decisions is, of course, already in hand.

In respect of the National Health Service, the reductions of forecast public expenditure 1976 very greatly reduced the planned revenue growth rate for the Service at a time when a number of large capital projects were coming to fruition, and under the constraint of cash limits, the Health Boards have been continuously examining areas in which economies can be made. The success of their measures is reflected in such things as savings in management and catering costs, coupled with the funding of new patient care units and extensions to existing units from savings made in this way and by the reduction of other activities.

Health Boards were recently asked to report on the measures which had been successful in containing expenditure and reducing waste, and these reports are being collated for distribution to all Boards so that they may learn from each others' experience. We already make available to Boards and to individual managers including clinicians a good deal of information about comparative performances; we are endeavouring to improve the financial information we provide, particularly to those directly managing the services; and we shall press the Boards to make use of all the means at their disposal to achieve savings and apply their resources to the maximum benefit of patients. In the climate created by the Government's policies, my Secretary of State is confident the Boards will co-operate fully in this effort.

I am copying this letter to David Edmonds (DOE), Don Brereton (DHSS) and George Craig (Welsh Office).

Yours sincerely,
Kenneth Mackenzie

K J MACKENZIE
Private Secretary

cc Cab off



11 JUN 1979

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Qa 04146

To: MR LANKESTER

From: SIR KENNETH BERRILL

Waste

1. You may like to have some CPRS comments on the Department of the Environment's letter of 24 May - your minute to Mr Vile of 29 May refers.
2. We agree with the Department that much can be done to encourage the local authorities themselves to re-assess priorities and cut out waste through a combination of financial restraint (through the Rate Support Grant) and the withdrawal of unnecessary central Government controls.
3. In addition, however, we believe that there are a number of specific areas which ought to be examined. They include the following:
 - (i) The question of efficiency audits and value-for-money studies alluded to in the Department of the Environment's letter. The Layfield Committee attached a good deal of importance to this and we know that the Advisory Committee on Local Government Audit is considering the problems. We would hope that some progress could be made in this area and that comparisons between local authorities could be prepared in a way which exposed them to public scrutiny. This would give the electorate the opportunity of bringing some influence to bear.
 - (ii) Another area worth exploring and dealt with in some detail by Layfield is that of charging policies. If the public attitudes survey done for Layfield is anything to go by, a move towards greater charging for some services (e.g. swimming pools, adult education classes) would not be unpopular. The financial returns would not be great but it could be a better way of determining some priorities.

(iii) Major direct and indirect savings might be made if more attention were given to the question of the maintenance of public housing; and, in particular, to devising schemes for making the tenant more responsible for making good (or preventing) damage and wear and tear.

(iv) School meals. These are an area where reducing controls on local Government could go hand in hand with cost saving. The present regulations force local authorities to provide a type of service (a traditional hot two-course meal) which is expensive and not necessarily appropriate to modern conditions. The case for a full review (taking in the nutritional, family support, administrative and financial aspects of school meals) is set out in the Annex.

4. I am sending a copy of this minute to Martin Vile.

K.B.

8 June 1979

Att

SCHOOL MEALS

1. Local authorities are at present required to provide for their school children a mid-day meal, on demand, which is 'suitable in all respects as the main meal of the day'. In England and Wales this is interpreted as requiring the provision of a traditional two-course meal. Pricing and subsidy levels are decided by central Government and there is always great political difficulty in raising charges. The result has been a substantial rising burden on public expenditure. In the present year, 1979/80, the cost in England and Wales alone is expected to be £390m. net of school meal charges - some 6 per cent of the total educational budget. This £390m. was made up of £116m. in free meals for some children, £56m. in free meals for teachers and other staff, and £218m. in subsidy for the remainder.

2. The school meals service was created when incomes and family support programmes were very different from today. The need to continue to offer a traditional two-course meal every day and in all circumstances to all school children in England and Wales can be questioned. Local authorities in Scotland have more discretion in what they provide and a snack type meal (which need not be less nutritious than the traditional two courses of carbohydrates and fats) could mean less preparation and supervision. It also might be more what many children want (36 per cent do not take up the present traditional two-course meal).

3. Given the need to cut public expenditure and the many pressing social priorities, a review of the objectives and cost effectiveness of the school meal service, in the light of present day eating habits and family support programmes, seems called for. Such a review should cover, as one issue, giving more flexibility to local authorities in England and Wales on the type of meal they provide.



F 8 JUN 1979

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Mr. Vile
Mr. Wolfson
Mr. Heskins

LOCAL
GOVT



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

WELSH OFFICE
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WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

1 June 1979

Dear Tim:

WASTE

In your letter of 16 May you seek my Secretary of State's views on the best way of tackling the problem of waste in the public sector outside central government, particularly as a means of helping local authorities and the NHS to absorb the costs of recent pay increases.

Local Authorities

Plus this
is not
necessary
line.

My Secretary of State's view is that the best means of encouraging efficient use of resources by local authorities is, first, by a combination of action on cash limits and expenditure reduction in volume terms which will force local authorities to examine their priorities carefully and get value for money. This will involve a relative shift in the burden of financing local authority expenditure from the tax-payer to the rate-payer which will encourage ratepayers to be more vigilant in their scrutiny of local authority expenditure. As the general management of local authority expenditure and RSG are on an England and Wales basis, my Secretary of State cannot proceed to exert the above pressures on his own account in respect of Welsh authorities. The proposed Welsh RSG would have enabled this. However, Welsh local authorities will, of course, be affected by the policies we adopt for England and Wales as a whole.

Second, the Government's intention to reduce central interference with local authorities, by lessening the number of circulars and removing any unnecessary controls over their operations, will help to avoid duplication of staff

/and

T P Lankester Esq
10 Downing Street
LONDON SW1



and other resources and should encourage a frugal approach to local administration.

Third, efficiency will be encouraged by the activities of the Advisory Committee on Local Government Audit. Its reports, which will include comparability studies will give the rate-payer guidance and information on which he can assess the performance of an individual authority. At present the Committee has no legal status but Mr Edwards thinks the Government should see how it operates for a year or so and then, if necessary, be prepared to move to give it legal powers and duties.

My Secretary of State will of course take every opportunity of urging on Welsh local authorities generally the importance of getting value for money but he does not believe it would be consistent with the general policy of disengagement from local authorities to single out individual authorities. The watchdog over the individual authority must, in the last resort, be its electorate.

The Health Service

Mr Edwards met Chairmen of the eight Health Authorities in Wales on 25 May and told them that it was a prime duty of each Authority to achieve the greatest possible economy in administration. All the Authorities accept this and are putting pressure on their individual spending departments. In the Health Service, too, tight cash limits are the surest way of cutting back wasteful practices. The Health Service is labour-intensive and, of course, waste arises from over-generous manning, the excessive recourse to overtime and so on.

Significant savings have been achieved over the last 2-3 years by requiring the Health Authorities to cut the size of their administrative "tail": administrative costs as a proportion of revenue expenditure have now been reduced from 5.8% to below 5.25%. Further savings could come from structural change, and Mr Edwards is examining the case for this: but change will take time. Pressure on Authorities to cut administrative staff can, of course, be self-defeating if it leads them to economise on Treasury staff, internal auditors, work study officers etc. whose number is at present probably inadequate for effective cost/efficiency control.

/Mr Edwards



Mr Edwards proposes to maintain pressure on GPs for economy in prescribing, though the problem has proved very intractable over many years. In the field of hospital supplies, the recommendation of the Salmon Committee (that more systematised purchasing would make best use of the buying power of the NHS) could yield big savings: so could improved storage systems. It is the intention to press on with action on the lines recommended. Pressure is also being put on health authorities to take specific measures to reduce energy consumption and this of course means money savings too. A meeting on this takes place this month.

Mr Edwards believes that opportunities for economies can also arise by pressing on with sensible rationalisations of the pattern of service, notwithstanding local opposition to hospital closures; and by supporting AHAs in moves towards tighter manning of the service despite the risks of industrial action. Health Authorities are looking at a number of proposals - for example last winter's experience puts in question the extent to which ambulance transport for routine hospital visits is really necessary - but there will clearly be stiff resistance from groups of staff to streamlining the Service.

/ I am copying this letter to the other recipients of yours.

Yours sincerely

Bob Williams
for G C G CRAIG

cc Lab Off

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JUN 14 1979

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c.c. (w. attachments)

Mr. Wolfson
Mr. Hoskyns



10 DOWNING STREET

From the Private Secretary

Mr. Vile

Waste

I wrote to the Department of the Environment on 16 May (and also to other Departments) asking for advice on how the question of waste could be tackled in the local authorities and in the NHS. - see copy attached. The Department of the Environment have now replied (copy attached), and I would be grateful for any Cabinet Office comments.

T. P. LANKESTER

29 May, 1979.

Local Govt.

BF

8-6-79

R



2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/12383/79

Your ref:

24 May 1979

Daw Tim,

You wrote on 16 May seeking my Secretary of State's views on the best way of attacking the problem of waste in the public sector outside ~~local~~ ^{central} government.

The Secretary of State has of course already given local authorities a firm lead on the ways in which the new administration will help and encourage them in eradicating duplication and waste. In the debate on the Address he referred to the abolition of unnecessary bureaucratic controls, the reduction in the number of Government circulars and the Government's intention to ensure that proper comparisons are made between authorities of the cost of the services they provide. These measures will save both money and manpower at local level.

← There is also the prospect of examining the duplication that results from the Local Government Act 1972 with a view to making essential though limited modifications to the allocation of functions; and putting direct labour organisation on a proper commercial footing will provide yet another way in which local authorities can make significant savings.

The Secretary of State has already urged on the Local Authority Associations and the unions the need for a freeze on recruitment and an urgent review of management requirements to pave the way for reductions in public expenditure. The rate support grant will provide a potent weapon in securing general compliance with this intention and in encouraging local authorities to eliminate waste.

My Secretary of State believes that these policies will do much to deal with the problem of waste in local government. He will, of course, be looking for other opportunities, but as the Government's general philosophy is to let local authorities stand on their own feet without undue interference he does not propose to give them guidance of a specific kind. They are not unaware of the need for economy and efficiency and have their own organisations (for example, the Local Authority Management Services and Computer Committee) which pursue active programmes of study. There is also the Advisory Committee on Local Government Audit which is considering the problems of value for money studies and comparisons between local authorities. He feels that we should encourage this self-help on the part of local government and use the Consultative Council as a form in which he and his colleagues can use vigorous persuasion to bring the message home to local government as a whole.

/ ...

There is also the critical question of land release. The Secretary of State will be writing to the Prime Minister about this separately.

The structure of local government finance will also have to be tackled if we are going to deal with spendthrift authorities which disregard the exhortations of national government and the interests of local ratepayers. The Secretary of State is considering how he can deal with this problem and will report later.

Yours sincerely

David Edmunds

D A EDMONDS
Private Secretary

Copies of this go to the other recipients of yours.

cc Curb Off

Tim Lankester Esq
10 Downing Street



10 DOWNING STREET

From the Private Secretary

16 May 1979

Waste

The Prime Minister has been considering the problem of waste in the public sector outside central government. She regards this as an important area for study, in its own right, and as a way of helping the local authorities and the NHS to absorb the costs of recent pay increases while still living within their cash limits. As you know, she has appointed Sir Derek Rayner to adviser her on the general question of 'waste': but he intends to concentrate initially at any rate on central government. The Prime Minister would therefore be glad to have your Secretary of State's own views on the best way of attacking the problem.

I am sending copies of this letter, with a similar request, to Don Brereton (Department of Health and Social Security), Kenneth MacKenzie (Scottish Office) and George Craig (Welsh Office).

T. P. LANKESTER

K.E.C. Sorensen, Esq.,
Department of the Environment.

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Copied to
NAT HEAVEN:
May 79: Waste

B/F 23.5.79.

JS

Ref: A09553

MR. LANKESTER

Pay and Cash Limits

In your minute to me of 8th May in which you conveyed the Prime Minister's comments on Sir John Hunt's brief of 4th May on pay and cash limits, you asked for draft letters to the Departments of the Environment and of Health and Social Security commissioning reports on ways in which the problem of waste in local authority and NHS expenditure might be tackled.

I attach a draft herewith.

MJV.

(M. J. Vile)

14th May 1979

*G.R. Ms type
attached
letter
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DRAFT LETTER FROM TIM LANKESTER TO
ERIC SORENSEN, DOE

Waste

The Prime Minister has been considering the problem of waste in the public sector outside central government. She regards this as an important area for study, in its own right, and as a way of helping the local authorities and the NHS to absorb the costs of recent pay increases while still living within their cash limits. As you know, she has appointed Sir Derek Rayner to advise her on the general question of 'waste': but he intends to concentrate initially at any rate on central government. The Prime Minister would therefore be glad to have your Secretary of State's own views on the best way of attacking the problem.

I am sending copies of this letter, with a similar request, to Don Brereton (DHSS) Kenneth Mackenzie (Scottish Office) and George Craig (Welsh Office).

SECRET

b.c: Mr. Stowe
Mr. Wolfson
Mr. Ridley
Mr. Ryder

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Five



Original on: Economic
Policy

Strategy
May 79

10 DOWNING STREET

From the Private Secretary

MR. VILE

PAY AND CASH LIMITS

The Prime Minister has now read Sir John Hunt's brief of 4 May on the above subject. She has made the following comments:

- (i) On teachers' pay, she thinks the previous Administration were quite right to oppose the teachers' request that their comparability study should be no more than an up-date of Houghton. She thinks the previous Administration were quite right to insist on "an honest comparability study done with full weight given to the non-pay terms and conditions of teachers service".
- (ii) On PAR, she has commented that the PAR studies were well nigh useless and took up a lot of time.
- (iii) On paragraph 7, the Prime Minister agrees that it would be highly desirable to conduct early reviews of local authority expenditure and NHS expenditure with a view to identifying - and getting rid of - waste. I will be commissioning reports from DOE and DHSS respectively on these; but no doubt Sir Derek Rayner will also have an important role to play here.
- (iv) On comparability, the Prime Minister cannot confirm that comparability is the key to establishing public service pay. (She has of course already commented on this - see my note of 6 May.)

See separate files
under Local
Govt & Nat
Health.

/The Prime Minister

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- 2 -

The Prime Minister agrees with Sir John Hunt's conclusion - that Ministers or Ministerial Committees will need to be asked at an early stage to produce papers and proposals on the various issues touched on in the brief, but she would first like to have a general discussion in Cabinet, and with this in mind she would be grateful for an annotated agenda which could be circulated to colleagues.

7.

P.S.

As regards the reports from DOE and DHSS ((iii) above) I would be grateful if you would let me have drafts of the commissioning letters for me to send.

8 May 1979

SECRET

