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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

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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).

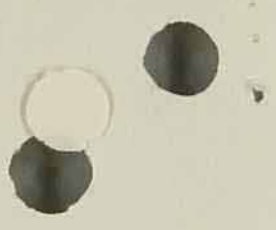
C. Inspectorates.

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.

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27 March 1980



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