

PRIME MINISTER

I attach a paper by Mr. Heseltine which is to be taken at H next week. His proposal to establish an Accounts Commission for local government seems to have come out of the blue. *→ / yes,*

You had a discussion scheduled on efficiency and waste in local government a few weeks ago, but we eventually postponed this until the Rate Support Grant decisions were out of the way. You might prefer Mr. Heseltine to defer establishing a new Quango, even with the best intentions, until you have had a chance to consider how you want the Government as a whole to tackle resources management in local government.

Would you like to have a small meeting of Ministers early next month, for which the Cabinet Office could prepare a paper in consultation with Sir Derek Rayner? If so, H Committee could take a look at Mr. Heseltine's paper, but could defer a final decision until you have had a chance to look at the suggestions which came from the Cabinet Office and Sir Derek Rayner earlier.

Not likely we have enough to do.

yes.

This is a bit of a... The entire paper... We can't do anything... We can't do anything like this... before a study, and consultation scheme is announced... MAF... D.T.

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31 October 1979

HOME AND SOCIAL AFFAIRS COMMITTEE

AN ACCOUNTS COMMISSION FOR LOCAL GOVERNMENT

Memorandum by the Secretary of State for the Environment

1. I propose the establishment of a Commission for Local Authority Accounts in England and Wales. — Why? — what complaints represented have been received?
2. This proposal has four objectives. First, to reduce the number of bodies operating in this area. The new body, which would absorb the District Audit Service, the management services work of the Local Authority Management Services and Computer Committee (LAMSAC) and the Advisory Committee on Local Government Audit (ACLGA) would have a role somewhat broader than that of the Commission for Local Authority Accounts in Scotland. Secondly, to move a substantial proportion of audit work from the public to the private sector. Thirdly to enhance professional standards by a greater cross-fertilisation of expertise between the two sectors. Fourthly, to encourage the spread of best practice and the expansion of value for money auditing. What is the need? To be.

Functions of the Commission

3. The Commission would:-

- (i) arrange for the audit of the accounts of those public bodies covered by the audit provisions of the Local Government Act 1972 (a list of the main groups of bodies audited by District Audit is at the Annex.) This would be achieved by the Commission appointing auditors to all these bodies (about 90% of local authority audit work is done by the district auditors (civil servants). The Commission would bring more private auditors into this field).
- (ii) ensure audit standards were maintained;
- (iii) advise local authorities and myself on general matters arising from the audits; and
- (iv) encourage means of securing greater efficiency in local government including ensuring that information relevant to the performance of local authorities is presented in such a way as to facilitate comparison of performance one authority with another. Further consideration would need to be given to the residual powers I should retain as Secretary of State.

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4. Local authorities may object to the loss of their freedom to choose their own auditors. However, they are not on very strong ground here since it is fundamental to general principles of audit in other fields that auditors of a body should be appointed from outside rather than by the body itself. We would moreover expect to offer the local authorities strong representation on the Commission.

5. The staff of the District Audit would be transferred to the Commission. Their numbers (about 600) would be reduced as the private sector involvement builds up. But a strong core of the present staff would be retained to undertake a good share of the basic audit work (perhaps ultimately about 50%) to supervise and maintain standards, to co-ordinate work on value for money etc. Some 40 staff might need to be retained to examine and certify grant claims on behalf of Government Departments.

Constitution of the Commission

6. The Secretary of State for Wales and I should appoint the Commission. The Chairman and half the members would be drawn from people with experience in such fields as accountancy, commerce, industry or the universities. The remaining seats would go to nominees of the local authority associations. It might also be helpful to have the Comptroller and Auditor General participate in the meetings of the Commission.

Inclusion of the Local Authority Management Services and Computer Committee

7. The Commission would have functions overlapping in part with those of LAMSAC, a body set up by the local authorities to do advisory and consultancy work for local government in the management services, value for money and computer fields. In order to avoid duplication I intend to propose to the Associations the transfer to the new Commission of the relevant areas of LAMSAC's work. This will of course require careful handling with the Associations, and it is possible that they will wish to retain at least some capability of their own in this area; but if we can negotiate a reasonable transfer it should bring about a significant rationalisation of effort.

The Advisory Committee on Local Government Audit (ACLGA)

8. This Committee (established in March), which advises central and local government on general audit matters has now got off to a good start, but its work will overlap with that of the Commission, and it could be wound up when the new body is established. It will be likely that some of its members will be amongst the representatives on the new body.

Manpower and Costs

9. The transfer of the professional "field staff" of the District Audit Service to an Accounts Commission would reduce the number of civil servants but not the cost of Government administration since the Service's costs are defrayed from fees levied on local authorities (in fact the Service makes a small profit). The cost: benefit ratio of the new arrangements will depend on a number of factors: the start-up costs falling on the private sector; the allocation of audits to private firms so that they would form an economic package; and the extent to which the work currently done by external auditors could be transferred to internal audit. If officers from LAMSAC transferred to the Commission they could be paid for partly by diverting the present grant LAMSAC receives from my Department. The shortfall might be made up in part from consultancy income. For the transitional phase the results of these factors may lead to a small increase in costs. In the medium term the changes should result in better value for money, and significant savings for local authorities.

Consultations

Consultations with A.M.S.

10. If the Committee agree these proposals I plan to make an early public announcement of the scheme, followed by a speedy consultation, with the local authority associations, the relevant unions, the accountancy profession and others.

Timing

11. The consultations should be completed early in the new year. I would aim to introduce the necessary legislation as soon as a suitable legislative opportunity can be found. This might either mean a separate Bill, or amendments to the Local Government, Planning and Land Bill. If we chose the latter we should aim to have the clauses ready for tabling soon after Christmas before Report Stage in the Lords, before the Bill comes to the Commons. The Audit Commission would come into operation soon after Royal Assent and we would aim to build up to a significantly greater involvement of private auditors by 1 April 1981.

12. Accordingly, I seek the agreement of H Committee colleagues to:-

There isn't any money in this proposal. It would be a disaster. We have seen through reorganising local gov't report just such as this. It means higher

(i) the principle of establishing an Accounts Commission for England and Wales with the duties outlined in paragraph 3 above;

(ii) proceed with the necessary consultations with all the interested parties (paragraph 10);

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(iii) introduce the necessary legislation at the earliest opportunity and in time for the Commission to be fully operational by 1 April 1981 (paragraph 11).

MH

Department of the Environment
2 Marsham Street
London SW1

31 October 1979

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LIST OF THE MAIN GROUPS OF BODIES AUDITED BY DISTRICT AUDIT

Local Authorities

Local Councils

Water Authorities

Drainage Authorities

Joint Police Authorities

Port Health Authorities

Airport Management Committees

Harbour Authorities

Sea Fisheries Committees

Passenger Transport Executives

Numerous local authority joint committees covering such fields as sport, historic buildings, crematoria, education, child care, docks, airports, derelict land, computers and so on.