

MCS has seen



Treasury Chambers, Parliament Street, SW1P 3AG

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Dear Michael,

ROLE OF THE C & AG

I enclose a note as requested.

Paragraph 6 records that Treasury Ministers are considering what response the Government can make in the light of the Adjournment Debate. This of course covers the debate generally, not just the nationalised industries. This is the main point the Prime Minister might like to make to Mr Du Cann. She might acknowledge the strength of feeling of certain Members on this matter but not commit herself to substantial or early legislation.

Yours sincerely
Terry Matthews

T F MATHEWS
Private Secretary

ROLE OF THE C & AG

The Government's position is set out in a White Paper of July 1981 (Cmnd 8323). There was an Adjournment Debate about it on 30 November. The Financial Secretary was practically friendless - though this was not surprising as the other speakers were, naturally, those from the Select Committees whose reports were being answered by the White Paper. There were no new arguments.

2. There is, however, now an Early Day motion on the Order Paper, sponsored by Mr Du Cann and Mr Barnett, which has over 200 signatures calling for "legislation to allow proper accountability".

THE WHITE PAPER

3. This based itself mainly on the principle that the role of the C & AG should be limited to the area where there was ministerial responsibility to Parliament for the expenditure concerned.

THE MAIN ARGUMENT

4. The real substance of the argument is about the nationalised industries, and local authorities to whom of course very large amounts of public money go. The PAC seeks agreement to the principle that the C & AG ought to be able to "follow public money wherever it goes". But this fails to distinguish between cases where the money is voted for a specific purpose and cases where Parliament actually intends the detail of its spending to be at the discretion of the organisation to which it goes. In the first case it will be a Minister's responsibility to answer to Parliament for the expenditure in detail and it is perfectly reasonable and logical that the C & AG should follow it right through. In the second case a Minister will only be responsible for handing it over on proper terms and conditions, for seeing that these terms and conditions are complied with. It is reasonable for the C & AG to follow these processes; but irrelevant for him, in the cause of accountability, to pursue the detailed expenditure for which there is deliberately not accountability to Parliament.

LOCAL AUTHORITIES

5. In the local authorities' case the Government has published its proposals for an Audit Commission for England and Wales as part of its reform of local government finance. This will be able to look at any general issues including efficiency arising out of the audit of local authorities. Local authority auditors will continue to report to local authorities and through them to their electorates.

NATIONALISED INDUSTRIES

6. In the nationalised industries' case the Government has announced its proposals for more systematic use of the Monopolies and Mergers Commission for efficiency audits. It would be unreasonable, in the context of their being run as businesses - without ministerial answerability for day to day decisions - to superimpose C & AG's efficiency audits on top of this. Treasury Ministers are considering whether anything can be conceded in this field.

THE STATUS QUO

7. This gives the C & AG full audit of all expenditure (and revenue collection) by the Government, and by a large number of quasi-government bodies such as the Manpower Services Commission, Research Councils, Arts Council and the Scottish and Welsh Development Agencies. He also has full access to the books of over 500 grant-aided bodies of a non-commercial kind, including the universities and health authorities. He, of course, has full access to all departmental papers relating to the issue of public funds, the terms and conditions on which issues are made, and the monitoring and follow-up by departments.

8. The PAC is thus already in a position to do all that the old Select Committee on Nationalised Industries used to do - with the C & AG to help as well. It has not so far attempted to do this.

STATUS OF THE C & AG

8. The PAC has also sought to make the C & AG an Officer of the House, and E & AD a "National Audit Office" under a Public Accounts Commission of the House of Commons. They have also sought the power to direct him in the conduct of his audit, on behalf of the House.

9. Apart from the latter, which would compromise the C & AG's independence, there might be scope for some concessions on these second order questions if there was legislation to amend the Exchequer and Audit Acts.

10. There would also be scope for a technical concession on a power in the 1921 Exchequer and Audit Departments Act which appears to allow the Treasury to direct the C & AG - though it has never been used for such a purpose.