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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

AN ACCOUNTS COMMISSION FOR LOCAL GOVERNMENT

Memorandum by the Secretary of State for the Environment

1. In E(81)52 and E(81)53 I discuss the measures on local authority expenditure and on the future of the rating system which I propose that I should announce at the Consultative Council for Local Government Finance on 2 June.
2. I think it essential that at the same time I should also announce the Government's decision to establish an Accounts Commission for local government in England (and Wales, if the Secretary of State for Wales decides that this would be the right course for Wales.) If we are to secure our public expenditure objectives there is a long overdue need for more value-for-money auditing and better comparative information locally presented in local government. The present arrangements do not achieve this and any attempt to make them do so would be seen as so closely associated with our policies as to be a threat to the independence of the auditing arrangements.
3. The importance of the Accounts Commission is that, as an independent, apolitical and authoritative body with executive responsibility for the work of local government audit, it would be charged with the responsibility to
 - (i) bring the work of the audit under increased public scrutiny at both local and national levels, thus enhancing the accountability of local authorities;
 - (ii) promote and undertake much more value-for-money work in local government, leading to substantially improved use of resources;
 - (iii) bring about a substantial increase in the amount of private sector audit effort deployed in this field.

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4. The only practicable alternatives to the Accounts Commission are either the status quo or the PAC proposal of putting local government audit under the C & AG. Both are unsatisfactory. Local audit of local authorities lies with me, and the staff of the District Audit Service are my civil servants (though of course their powers and duties are statutory and they do not take instructions from me on their exercise of them). But the District Audit Service is not equipped to perform the functions that the scale of our problem demands. It is too close to the attitudes of local government and its whole training and ethos in the ways of the public sector. The PAC proposal would bring local authorities into a relationship with Parliament which is inconsistent with their constitutional status as separately elected bodies not responsible to it, and is in my view fundamentally and decisively objectionable on that ground. Equally there is no evidence to suggest that a National Audit office as proposed by the PAC would be any better suited or experienced than the DAS to achieve what I have in mind. There is scope enough in the rest of the central public sector for the C & AG to pursue the quest for value-for-money.

5. The PAC's argument is that the C & AG cannot properly carry out his audit of central government departments which have responsibilities for local government services or expenditure unless he has not only his present access to all departmental papers but also access to the work of local government auditors; and that those auditors ought therefore to be under his ultimate supervision, as the E & AD auditors are now. The Committee argue that this would not compromise local authorities' independence of Parliament because the C & AG would not report on the affairs of individual local authorities but only on general issues. But local authorities would - rightly in my view - see this distinction as an unreal one and as quite insignificant compared with the fact that their auditors would be under a chain of command the other end of which was in Parliament. Moreover, under their proposal Departments would be liable to PAC questioning based on information to which they themselves had no access.

6. The Accounts Commission would be appointed by the Secretary of State for Wales and me (if there is a joint Commission) and would be answerable generally to us for its performance of its functions. It would have an independent chairman and a membership drawn partly from outsiders with relevant financial and management expertise and partly from local government itself. I attach great importance to this. We are going to ask local authorities to accept a degree of scrutiny and accountability unknown to them. To secure their albeit unwilling acceptance I believe it important to offer them a real influence through membership of the Commission. They should not comprise more than half its membership; I would therefore start by offering a majority of outsiders to allow room for concessions. In addition I propose the ending of the existing

quango, the Advisory Committee on Local Government Audit (The Maynard Committee), on which local government is represented; and I intend to offer local government a merger of its own management body, LAMSAC (Local Authorities' Management Services and Computer Committee), with the Commission. All this indicates the need for a local government presence in the single new body. I also believe that there are people in local government with a very real contribution to make.

7. The Commission would take over from my Department responsibility for the existing District Audit Service, whose members would thus cease to be civil servants, and also the responsibility for approving private firms to act as auditors to local authorities. And it would have one important new power: it would appoint the auditors to each authority, either from its own staff or from private firms, and the authorities' freedom to choose between the two would be abolished. (The Scottish Commission already operates in this way). The Commission would be financed - as the audit is now - from fees. It would be required to publish an annual report, which I might lay before Parliament, and empowered to publish such other reports as it thought fit. If, as is likely, the Associations do not accept the offer of a merger with LAMSAC I would expect the Commission itself to produce a better standard of value-for-money work than LAMSAC's. Certainly I would not continue my Department's grant to LAMSAC of some £450,000 per annum.

8. The Commission would take over from me all my present powers over the audit service, including the power to direct extraordinary audits. However, I have in mind that, in certain cases where the expenditure performance of a particular authority seemed to me to justify it, I should be able to require the Commission to direct an extraordinary audit. The decision in this kind of case would be an essentially political one which it would be inappropriate for the Commission to take. In addition I would want a general power to give the Commission directions; the Secretary of State for Scotland has such a power in relation to the Scottish Commission, though I understand he has not used it. The object would be to enable me to ensure, if the need arose, that the commission pursued its duties vigorously; and to do so without going to the lengths of dismissing it or its chairman.

My only other powers in relation to the Commission would be those required for appointing (and removing) its Chairman and members and approving their remuneration, approving its appointment of a Head of Audit, and funding its initial operations, and a default power to prescribe audit fees in the event of a disagreement between the Commission and a local authority. The recruitment, pay and numbers of the Commission's staff would be a matter for the Commission itself. If Wales was covered these powers would, of course, be operated jointly by the two Secretaries of State.

9. This proposal has been previously considered by the Home and Social Affairs Committee, but consideration was deferred pending receipt of the PAC's report. (H(80)19th meeting minutes item 3). With the Committee's agreement I subsequently gave evidence to the PAC, and the further inter-departmental discussions which I was invited to undertake then have also been completed.

10. The PAC's proposal to transfer the staff of the District Audit Service to the C & AG was only one of various recommendations in their report on the role of the C & AG, and some of these recommendations are linked. Thus in announcing a decision in principle to set up an Accounts Commission, we should in effect be rejecting one of the PAC's main proposals. I understand that some of the other proposals, notably that on nationalised industries audit, have not yet been fully considered, so that we could not give the PAC a complete response. But we should need to explain to them (and in our public statements) our decision on the local authority aspect, and make it clear that it would still be open to Parliament and PAC to examine Ministers and Accounting Officers on government policy in relation to local authorities to the same extent as now, and drawing on reports by the Accounts Commission. Thus Parliamentary accountability would not be hindered, and might indeed be helped, by a more effective external audit of local authorities.

Costs

11. Some additional on-going annual costs will arise due mainly to the extra audit effort and increased private sector participation needed to achieve the Commission's objectives, and to the remuneration of members of the Commission and of a small secretariat. I estimate that these additional costs might add something like £1.1m to the 1980-81 cost of external audit to local government of £8.4m. There would also be some non-recurring start-up costs including those involved in transferring staff.

12. The additional annual costs would be borne by the local authorities through the audit fees. This would represent an insignificant increase in their expenditure; the total audit cost of £9.5m would represent only 0.05% of total local government expenditure (at c £20bn). But I am confident that the increased impact of audit, and particularly of value-for-money work, would pay for itself many times over; even if it achieved a reduction of only 0.1% in local government expenditure this would save £20m in a full year.

Conclusion

13. I invite my colleagues to agree

(i) that an Accounts Commission for local authorities in England and, if the Welsh Secretary so decides, Wales, should be established on the lines set out in this memorandum;

(ii) that I should announce the Government's decision in principle on this matter at the Consultative Council on 2 June, and open consultations on the detailed arrangements immediately thereafter.

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M.H.

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