

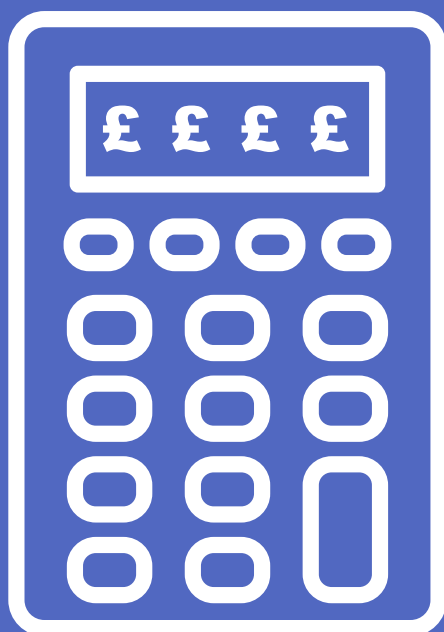
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# PRIZING THE PUBLIC POUND

**THE PROGRESSIVE CASE FOR RIGOROUS  
STEWARDSHIP OF PUBLIC MONEY**

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JOHN TIZARD AND DAVID WALKER  
FOREWORD BY DAME MEG HILLIER MP



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# FOREWORD

BY DAME MEG HILLIER MP

It may seem hard to get the average person excited about audit but David Walker and John Tizard are spot on that part of the legitimacy of government is being clear and transparent about how taxpayers' money is spent. As they say, every pound saved is a pound to spend on a priority.

And yet the ramifications of the 2011 Public Audit Act have been immense. The abolition of the Audit Commission, the public body which oversaw and undertook all council audits and sector wide studies, has led to a situation today where there are only three main auditors left in the market. Add to the fragility of the private market the real risk that as public auditors retire we will not have people with the necessary skills to replace them and there is a lot at stake. Already we have seen delays in audits increasing, leaving councillors and citizens without information about councils' finances as they make decisions about the next year's budget.

The government's response to the crisis in local public audit was to establish the Redmond review. In it,

Tony Redmond made some clear and well-placed recommendations but the government has been reluctant to agree his recommendation for a system leader, instead giving this function to the body that oversees private audit standards. The government is an antipathy to anything seen as returning to this regime. The key is how to ensure that there is overview of the sector, skills to deliver and a greater urgency about ensuring the situation is tackled.

It is not surprising that Walker and Tizard, as two of the key figures in thinking about this subject go beyond the current crisis and highlight that value should take account of their suggested 'five Es' – adding equality and environment to economy, efficiency and effectiveness. And much of this is vital in central government too, as the Public Accounts Committee, which I chair, has highlighted.

Crucially, this report also highlights the need for auditors to see beyond just the bean counting and to assess the risks ahead and the wider public value of investment. This would require a shift

in the public audit appetite of the private companies that now deliver this – when there is a choice between private work and council audits the bigger companies go for the former. And for smaller, potential new entrants the risks and costs are high.

Not every aspect of the authors' suggestions are easy to deliver – training public auditors to look at wider issues for example, on top of filling the gaps already in the market, is a decade-long task. But *Prizing the Public Pound* rightly pushes the debate. Every minister and councillor should read this report. Audit which supports local politicians and citizens to focus on the issues and risks that matter is much needed. And any right-thinking government minister should see that without the

warnings that auditors can flag, there is the perennial risk that good money will follow bad.

We need a greater maturity of thinking about how and what to audit and deeper recognition of its importance. This pamphlet supplies a readable and accessible guide to the discussion. Whether you agree with the proposals or not, this document is an important starting point for the discussion about why audit really matters for delivery of improved public services that will make a measurable difference.

*Dame Meg Hillier is the Labour and Cooperative MP for Hackney South and Shoreditch and chair of the Public Accounts Committee*

# EXECUTIVE SUMMARY

During the pandemic, the way in which spending decisions are made and checked – and contracts are let and monitored – has come under anxious scrutiny. We need to turn that concern into practical reform proposals. Labour should recover and celebrate its strong tradition of innovation in the mechanics of effective spending.

But it is not just about demonstrating competence: old ideas about value for money need updating too. Effective spending should be economical and efficient and should secure policy goals, using the minimum amount to achieve the biggest result. Spending should be environmentally sustainable. Auditors should also ask searching questions about who benefits, whose needs are served and whether spending makes us more or less equal. The pursuit of social justice and rigorous accounting for social spending go hand in hand.

The time is ripe for reform. The audit profession is facing profound change. Confidence in company audit has been badly shaken and professional standards have been called into question. As the public sector has been fragmented, so have arrangements for ensuring

money delivers maximum social value. The audit of NHS foundation trusts, multi-academy trusts and local enterprise partnerships is no longer ‘public’. The audit of councils is in crisis, after the near bankruptcy of several local authorities and central government intervention in Northamptonshire and Liverpool.

We propose that public audit in England be reorganised, revitalised and expanded. And we recommend a robust approach to assessing public expenditure assessment prior to committing the expenditure.

*Locally*, we propose a **new office for auditing spending in places (by a Place Audit Office or PAO)**, which would be responsible for local public bodies and services including councils, combined authorities, NHS trusts, academies, multi-academy trusts, transport authorities, and the police, and also for auditing the overall wellbeing of places. The PAO would work alongside the National Audit Office (NAO) and share resources. But it would have autonomy in recognition of local authorities’ democratic status and the NAO’s responsibility to parliament,

independent from government. We advocate the potential streamlining and better aligning of the roles of the auditors and existing inspectorates such as those in education, health and social care, and police, fire and rescue. There is scope for more collaborative work between the inspectorates and auditors. Local public bodies should collaboratively assess their spending plans.

*At the centre*, government should create a new function, jointly in the Treasury and the Cabinet Office. This **Office for Spending Effectively** should check the deliverability of

departments' spending plans in advance. Do they deploy evidence of previous policies; have departments modelled how they will be experienced on the doorstep, by people, in places, with what environmental consequences and effects on equalities? This office should be an avaricious consumer of value for money studies from the independent NAO and ensure that NAO audits are responded to.

While this pamphlet focuses on revenue expenditure, the same rigour and approaches for assessing and auditing should apply to capital investment.

# INTRODUCTION

## EFFECTIVE STEWARDSHIP OF PUBLIC MONEY IS ESSENTIAL

How we account for and audit spending public money has never been more vital and – a word not often used in this context – exciting. To make a plausible case for more spending demands evidence that money will be spent effectively on services and support for those in need. The notion of value for money asks: whose needs, whose benefit and do these services make a difference?

This requires those responsible for making spending decisions to be clear about what they are seeking to achieve and to assess spending proposals before committing the expenditure.

It also requires penetrating audit of this spending, and for audit reports to be taken seriously and used to improve public service effectiveness and accountability.

Audit in the 21st century has to try to capture sustainability and account for climate change. It has to fit *people* into assessing how a council, government department or police force operates – the people who provide the service as well as those who receive it. Just as economics is emancipating itself from a narrow, distorted focus on price and efficiency,

audit is now embracing equality and environmental sustainability, not just efficiency and effectiveness. There are five Es rather than the traditional three of efficiency, effectiveness and economy. If a health trust underserves people living in low-income areas or if the take-up of council services (or vaccinations) among ethnic minorities is disproportionately low then those social facts say the organisation is failing to deliver all-round value for money.

### The 5 Es of value for money

- Effectiveness.
- Efficiency.
- Equity ensuring fair allocation of resources to meet need.
- Equality – pursuing both equality of opportunity and addressing all forms of inequality.
- Environmental sustainability.

All expenditure proposals should be assessed against the 5 Es.

All expenditure implementation and its impact should be audited against the 5 Es.



In addition to assessing performance against the 5 Es, all public audit should continue to sharpen its focus on financial management, the quality of governance, probity and adherence to the seven standards of public life found in the Nolan principles.

This pamphlet is aimed at progressive politicians especially those in the Labour party. The 5 Es are aligned with the values, aims and policies of the party. Labour in UK government – and indeed in power locally and regionally as well as in devolved administrations – will always wish to deliver its policies to maximise impact and will want to use limited funds (and they will always be limited given the demands for their application) efficiently and effectively. Every pound spent ineffectively or inefficiently is a pound not available for spending on priorities.

The Covid-19 emergency has thrown up instances where public money has been misspent. Following years of austerity, auditors are asking themselves whether they failed to warn of impending problems with contractors or even the solvency of public bodies. Audit is not merely a technical area, best left to dusty professionals. It is an essential public function, and supports all those arguing for higher spending on social services. Without it, we can not know whether spending *works*.

The Labour party, along with all advocates of a more dynamic, interventionist state, should welcome auditors' work. At best they offer evidence of what the state can do. Those who want to constrain government and diminish spending need audit too. Both have

to know, better than we know now, whether spending delivers and to whom.

Audit deserves its place in the political spotlight for the reason that sound management of public spending is vital if the public is to assent to increased spending. If the public lacks confidence that public money is being spent to best purpose, they will withdraw their consent to being taxed. Every public pound must be assessed in terms of its public benefit. That entails both a more rigorous audit of money already spent and new ways of informing spending decisions before they are made. It requires fresh thinking about *time* (so we can model the effects of spending on environmental sustainability) and about *people* (so we can gauge who is left out, which places gain and the effects spending has on the wellbeing of staff and citizens).

This pamphlet focuses on England but many of the issues raised and the proposed solutions would be applicable across the four nations of the UK, and some are directly relevant to the role and opportunities for a UK government.

As would be expected from a Fabian Society publication, this pamphlet is written from a social democratic perspective and whilst it seeks to persuade the Labour party to embrace radical reform as part of its 'build back fairer' programme, most of the proposals should be a platform for good government for all responsible political parties.

### **THE NEED TO PERSUADE**

Labour must make the case for significantly increased public expenditure that meets the needs of communities and places. It has to adopt a programme

for investment in social and physical infrastructure, to create a fairer and more equal society and address regional and social inequalities. It may have to increase taxation progressively to fund some of this expenditure whilst also using borrowing and central bank finance. Such an approach requires public support and confidence in government stewardship of public money. It also requires evidence that, unlike the current Conservative government, a Labour government would have the commitment and policies to ensure effective fiscal stewardship.

To what the Institute for Fiscal Studies calls “substantial and mounting pressures on the NHS, schools and other services” must be added the wider costs of ageing, of infrastructure, of reducing the aching gaps in productivity and life chances within England, the demands of 21st century defence, and preparation for further pandemics, among the many pressing calls on the public purse. That does not immediately necessitate higher taxation; a great lesson of recent years has been that fiscal and public financing policy including the role of the central bank can and has to be far more flexible than traditional textbooks and many economists used to claim. But the people of England, along with citizens of the rest of the UK, must engage with the prospect of paying more tax. As a precondition, citizens have to be supplied with evidence, in the face of media and political attacks on public services. The response to Covid-19 has bathed them in a positive light but scepticism persists.

Audit is an essential strand in that

evidence. Better and wider auditing of spending would not in itself change attitudes but the willingness to pay might increase and negative perceptions of the public sector might soften if we addressed *the quality* of how public money is used and its contribution to the goals of a more equal, fairer and greener economy and society.

### **A NEW ARCHITECTURE FOR PUBLIC AUDIT AND VALUE FOR MONEY**

That means looking afresh at the architecture of how spending is planned, delivered and its effectiveness assessed, both inside central government in Whitehall and Westminster and inside the local bodies with which people have most dealings – councils, clinics, Environment Agency and Department for Work and Pensions offices. Audit is the keystone in the arch. As the NAO says: “Independent auditors have a key role in supporting effective stewardship, governance and accountability. This role is important at any time, but especially so when available resources are scarce.”

Without an accurate and trustworthy record of income and expenditure – without the beans being counted – political and policy talk remains foggy and rhetorical. The circuitry of cost and accounts discussed in this pamphlet exists to serve a purpose – to build and run nurseries and clinics and affordable housing and ensure people get needed benefits. We argue here for the traditional Es of audit to be augmented by the Es of environmental sustainability, equality and equity. It is something the Johnson government seems to accept.

Value for money does not therefore mean simply selecting the lowest price, it means securing the best mix of whole-life quality and effectiveness for the least outlay over the period of use of the goods, works or services bought. Value for money also involves ... assessment ... to provide confidence about its probity, suitability, and economic, social and environmental value over its life cycle.

That commitment was made in the Green Paper, *Transforming Public Procurement*, published in December 2020. It needs to extend to all public spending decisions.

Traditionally, auditors come in after budgets have been set and spending committed. They check whether decisions taken are lawful; they are meant to blow the whistle if the sums do not add up or if the absence of invoices may point to fraud. The importance of that ‘bean counting’ must be emphasised. Public money that is lost or stolen is money that could have been spent on children’s well-being or economic advance. Liverpool is a sad example of what happens when financial discipline goes awry.

But audit needs to do more. Where do the beans come from; are the plantations sustainable; what environmental costs were incurred by transporting them; what does coffee production do to and for the fieldworkers and their families, what is *their* cost schedule? Last, but by no means least, what about the quality of the brew: does it justify the price charged, does it offer in the widest sense *value for money*?

With that list we have moved a considerable distance from the aims and objectives of traditional audit, and perhaps also from the skill set of trained accountants. But their professional bodies are alert. ‘Audit’ should embrace analysis, data collection, organisational design and what might be called sociological imagination – to see how the balance sheet impinges on individuals, their families and their places.

### **REGENERATING PUBLIC AUDIT**

Public auditors check the arithmetic and verify probity and legality on a council’s expenditure. But we cannot just leave it there. Trusts, departments and local authorities exist within a state system but also within an ecosystem of residents, service users and companies. Interactions between these also need to be audited. So too must interactions with the physical ecosystem, atmosphere and climate.

A local authority might have let a contract for rubbish collection and recycling to a company owned by a shell outfit based in a tax haven. The contractor might underpay its staff, leaving them struggling to get by and relying on social security – paid for out of another public purse. Or the company might seek cheap ways of disposing of refuse, causing pollution. Audit should not be confined to a single organisation’s balance sheet. Costs and benefits spill out and over. Spending by a police force on dealing with people with mental health difficulties is not cost-effective if it is inflated by an implicit transfer of cost from the NHS, which has no properly funded night-time crisis services.

The conventional balance sheet in the private sector is being reappraised. The Institute of Chartered Accountants in England and Wales (ICAEW) has challenged its members to reflect on an “unprecedented level of public scrutiny” of what they do and pick up lessons from, for example, the spectacular collapse of the public service contractor Carillion. Issues with private sector audit have consequences for the public sector.

Auditors cannot offer assurance to the public (or indeed to shareholders of private companies) if no account is taken of depleted resources, or carbon released; environmental damage and contributions to climate change must also be deducted or presented from bottom-line earnings. This work is all the more necessary when public bodies have pledged themselves to reach zero-carbon emissions and internationally agreed climate goals.

Audit should go further. Public service depends on staff wellbeing and conditions of employment. It also depends on the staff of contractors and how they are treated, as well as on business suppliers, charities and voluntary organisations. Alongside the direct impact of government run indirect effects. A full audit also has to reckon with what *does not happen* when public bodies fail to exercise their powers. Mapping such unintended consequences for society, culture and economy is no easy task. Do public bodies knowingly or unknowingly contribute to disparities in life chances; does the way they operate sharpen people’s sense of exclusion or unfair

treatment? How well do they, on the other hand, reflect the social and ethnic composition of the areas they serve in their recruitment and promotions; do they pay their female staff fairly; do they make an effort to maximise opportunities for all, including those with disadvantage and disabilities? Accounting for equality is in its early stages. But the modern public auditor should welcome the task of putting numbers on equalities and rolling them on to the balance sheet.

Financial audit tries to be comprehensive – does this statement of accounts include all obligations (and credits). So what if a city council takes no action despite evidence of mounting pollution? Who notates the ensuing costs, visited on children breathing in dirty air or, according to new evidence, a higher incidence of macular degeneration among older residents? Some of those costs are crystallised in other organisations’ balance sheets, those of NHS trusts for example. Auditors’ traditional skills need enhancement. A note on the accounts, or accompanying public interest report, should refer to environmental degradation, and the costs and harms it may generate in future years. Those costs are not all financial. They are social and human; they are about what we *value*.

Citizens at large may be uninterested in the detail of governance, especially financial governance. But electors do sniff out incompetence. We believe that embracing transparent and rigorous means of planning, then assessing spending, would both enhance public confidence and help to dispel the fatal-

ism that is both destructive of democracy and a breeding ground for extremism.

### **AUDIT, SPENDING AND PROGRESSIVE POLITICS**

A century ago, a distinguished member of the Fabian Society railed against auditors. These auditors had certified spending on hungry children by Labour local authorities as ‘excessive’ and so were a menace, said William Robson in a 1925 pamphlet. This was a time when a Labour-led council in Poplar had led a rates rebellion so that the council could address poverty, especially child poverty. Today, as then, audit must address social outcomes not simply costs.

Audit is a tool. To link it with the politics of austerity is a mistake; to leave it to those advocating cuts and spending constraints is to miss a great opportunity. The case for spending *more* is made a lot more convincingly by those who want to ensure public money is spent wisely and well – and that expenditure and its impact are rigorously audited. Labour should not just champion value for money, it should engage with the debate about what constitutes value. By assuring the public that spending offers value, the political left starts addressing a fundamental political question: how to persuade people to pay (more) tax when this is necessary.

When she was Labour’s shadow chancellor Anneliese Dodds MP called for, “an end to poorly targeted public

spending and chaotic, last-minute decision making”. We argue here for a revamping of the entire public spending cycle. Audit findings have to be fed back and become evidence justifying (or not) subsequent spending decisions. A continuum embraces pre-spending planning and a calculus of practicality. Too often, policymakers have assumed implementation will take care of itself. Ministers and senior officials ordain; someone else picks up the pieces. The audit continuum extends through delivery into the assessment of value and effectiveness. Conventional wisdom used to say that audit, evidence, systematic planning of spending are technical matters, best left to experts and we do not want to be ruled by them. A plethora of ineffective policies proves how mistaken that line is.

One of the most dismaying findings in Deborah Mattinson’s account of what people in “Red Wall” constituencies think is how they wait fatalistically for a policy to go wrong, anticipating how they will then blame the politicians.<sup>1</sup>

Polling evidence showed that, despite the popularity of some of Labour’s ambitious spending plans in the 2019 manifesto, there was a credibility problem, with a significant proportion of the electorate concerned that the proposed levels of spending would neither be affordable nor deliverable, and certainly not without increases in taxes for the majority of the population. Labour’s costed analysis of its spending

<sup>1</sup> Deborah Mattinson, *Beyond the Red Wall*, Biteback, 2020

plans was insufficient to overcome this lack of trust. This problem was not new: it had been an electoral issue for Labour since before the 2010 general election.

Labour has to have clear plans and proposals to demonstrate that in government it would be a prudent and effective steward of the public finances, and public expenditure in particular.

As we will argue later in this pamphlet, this does not mean that Labour should lack ambition for increasing public expenditure and public investment. We are concerned that Labour can win power and then maximise the impact of such expenditure for the public good.

# CHAPTER 1

## WHAT'S THE PROBLEM?

Both public and private sector auditors are reflecting on the relevance of their work today, amid mounting alarm over inequality and climate change. A wider definition of audit is now needed, going beyond finance and its traditional concerns with accuracy, legality and honesty in accounting. These concerns remain vital tasks for professionals but need to be absorbed into a more open and civic idea of assurance. Is the public pound being spent to maximum effect; is it being spent fairly? Key concepts such as value for money and effectiveness have to be made fit for the 21st century when organisations must also account for their carbon output and for their contractors' pay rates.

Change is coming in private sector work as well. Accountancy's professional rules try to assure accuracy in calculating earnings, profit and loss and viability. But as PwC's UK head of audit puts it, financial statements must also reflect a 'new reality' in which 'external issues' impact on companies. Auditors have to listen to all those with an interest in the organisation's

present and future, staff, service users, creditors included; in the public sector, audit has to be sensitive to how citizens experience service delivery and how service delivery may, unwittingly or deliberately, discriminate between them. The balance sheet for, say, a local authority and a health trust can no longer be audited in splendid isolation. The audit function has to span public services in places and address how decisions made at one layer of government affect another.

The old concept of stewardship must now extend to other dimensions. In assessing risk, the accounting trail cannot stop today, tomorrow or even in 10 years' time – when the planet will be even warmer and climatic conditions further changed, with all its consequences for profitability, income, for staff, for estates and the bottom line. Organisations, public and private, generate waste and consume irreplaceable natural resources: wider costs and benefits usually go unreported. Meanwhile, the interests of staff must also figure in the accounts. What about

the ratio between lowest paid and chief executive; which people comprise the board's remuneration committee and what are the social costs of employing staff on zero-hours contracts, possibly shifting one organisation's risk to another – or from the company to the state?

### **TRUTHFULNESS**

In recent times auditors' reputation as truth tellers has suffered damage. Reform is urgent. One strand touches the very heart of market capitalism. Lenders and shareholders depend on accounts of profit and loss. To be trusted to draw them up accurately and impartially, auditors have to be independent of the company directors who appoint them because the latter may have an interest in an incomplete picture or even deliberate omissions. Confidence in company audit has been badly shaken in recent years, even leading Grant Thornton's Jonathan Riley to propose that the choice of auditors should be nationalised: the auditors of public limited companies should be chosen not by the directors but by an independent state commission.

Audit reports have become unreliable. The Financial Reporting Council (FRC) said too many company audits were sub-standard; too often auditors were not challenging directors' decisions. But the FRC was part of the problem. Ostensibly a watchdog and supervisor of auditing, its status was ambiguous – it was an unstable amalgam of public and private interests.

The Brydon review in 2019 found the quality and effectiveness of audit

wanting and urged changes in the law to ensure that auditors reported in public, returning to the original intention behind the audit of corporations – to give assurance to shareholders and other users of company accounts that they were a fair and true picture of commitments present and future. Asked to look at the FRC, Sir John Kingman – a former Treasury mandarin – proposed replacing it with a genuinely public body to supervise audit. The Johnson government appears to acknowledge the problem and hesitantly says a new organisation will be created.

The review found the concentrated nature of the market in company audit is part of the problem. The 'big four' accounting and consultancy firms, EY, Deloitte, KPMG and PwC, audit 98 per cent of FTSE 300 index companies. Kingman called for an end to such 'dominance'. The same handful of firms also dominate in public audit and are big providers of consultancy and advisory services to government and the NHS. In the public sector the big four are more like the big five with one firm, Grant Thornton, carrying out 40 per cent of audits for England's councils and police forces.

### **CONTEMPORARY PROBLEMS WITH PUBLIC AUDIT**

Public audit has been in retreat for some years. Over three decades the audit of public bodies outside Whitehall has been broken up and privatised.

And of course the public sector landscape as a whole has changed.

The 1997–2010 Labour government created foundation trusts in the NHS in England and empowered them



to arrange their own audits. The Conservative governments since 2010 have moved most schools out of local authorities into multi-academy trusts which are responsible for their own external audits. The Cameron-led coalition government abolished the Audit Commission, allowing councils to escape a standardised public regime and arrange their own audits. The NAO remains the UK's supreme audit institution and the auditor of central government departments; although it does use private firms, it retains control and assures quality. The NAO now produces codes for the audit of foundation trusts and (since 2015) for councils, but vast amounts of potentially useful data about the 5 Es are kept locked up within fragmented audit arrangements. 'Professional restrictions' inhibit data sharing, the NAO has said. It added that many local public bodies are involved in various partnerships, with other public bodies as well as with the voluntary sector and private companies. "Local auditors, however, are only able to report on arrangements in place at the individual body".<sup>2</sup>

Since 2010, councils, desperate to continue providing services as their grants were cut and they were forbidden from raising council tax, have resorted to desperate measures. Some reduced what they were prepared to spend on internal and external audit and public information. Conservative-controlled Northamptonshire County Council came as near to bankruptcy as the

system allows. Spelthorne Council launched a foray into the property market, trying to secure a stream of future revenues from buying hotels and factories. The London Borough of Croydon, too, sought a way out of the austerity and funding cuts imposed on it by central government by acquiring property for revenue which proved very risky and led to very serious financial problems. Auditors seemed unable or unwilling to blow the whistle in time.

The report from Max Caller on political and financial management in Liverpool City Council has identified that as much as £100m of public money is believed to have been squandered by a 'dysfunctional' council and there are police enquiries relating to alleged corruption. The story poses questions about audit and whether it was muscular, assertive and independent enough.

Although there are different issues involved in cases such as Northamptonshire (poor leadership and stewardship), Liverpool (alleged corruption) and Spelthorne – (questionable investments which came adrift), all of these examples cast doubt on the effectiveness of the external audit.

However, audit is only one element in the system. Much depends on councillors, their powers, probity and the overall financial condition of local government during austerity.

The FRC, which had been given a paradoxical role in monitoring council audits despite having no role in regulating council accounts, found

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<sup>2</sup> Auditing Local Government, March 2020

60 per cent of them did not meet its quality standard. The Kingman report said local audit should be fundamentally rethought, to improve scrutiny, quality and leadership – a conclusion endorsed by the subsequent review led by Sir Tony Redmond. A 2019 inquiry by the House of Commons Public Accounts Committee found a fifth of local public bodies lacked ‘proper arrangements’ to secure value for money, with a dearth of relevant information.

Devolution might have been an opportunity to compare and contrast. In Wales, Northern Ireland and Scotland, new audit offices were established covering both central government and local services. This welcome development seemed to offer a way of following the public pound attentively from decisions made by ministers all the way to how public services were experienced by the public. But few studies have captured the performance of these offices. At UK level, little effort has been made to evaluate the differences between the countries. Audit arrangements cannot be separated from questions of size, the relationship between centre and locality, councils’ autonomy and, critically, how much they have to spend.

### **PRE-SPENDING ASSESSMENT**

Spending totals are set periodically – the latest review is supposed to be starting in autumn 2021 – and the Treasury aims rigorously to enforce the DEL, the departmental expenditure limits. Bids to invest are supposed to fulfil the detailed appraisal criteria set out in the Treasury’s Green Book. But the apparatus

the Treasury has created over the years, including the so-called Magenta Book with its guidance on how spending is to be evaluated, is curiously deficient. How spending is being directed to secure stated outcomes often goes unexplained and the story of how previous spending plans have fared goes untold.

Even statutory requirements to undertake equality assessments have not been universally effective. Similarly consideration of the impact of proposals on the environment and sustainability is patchy and there are many examples of such consideration being pushed aside to make way for short-term political objectives.

Here is the tie-up with audit, in the wider sense. Before spending plans are approved, they need to be examined in the light of what is known about delivery and service design in the past and, often, why they failed. Whitehall departments plan their spending and make allocations without enough knowledge and understanding of the (local) public bodies that actually provide the service. A vast amount of evidence about implementation either goes uncollected – which we discuss later – or is not used by the centre.

This failure fully to assess revenue expenditure proposals can lead to:

- Reducing the impact of proposals.
- Short-term considerations being given preference over fulfilling longer term strategic objectives.
- Unintended consequences within and between departments and agencies including potential additional expenditure pressures.

- Non-alignment between expenditure and policy goals.
- Negative societal, economic and environmental consequences of expenditure decisions.
- Weaker accountability if there are no tangible impact targets.

### **WHITEHALL AUDIT**

Under the leadership of Margaret Hodge MP, chair of the House of Commons Public Accounts Committee (PAC) from 2010-2015, and the comptroller and auditor general, Sir Amyas Morse, the public audit regime in central government was reinigorated and broke new ground in the manner of scrutinising departmental performance and calling senior civil servants retrospectively to account. The work has continued under their respective successors, Meg Hillier MP and Gareth Davies. The NAO retains a strong reputation as a rigorous and genuinely independent scrutineer of value for money in central government and its agencies. But its capacity is limited. Despite forays into following the public pound into the accounts of contractors, the activities of companies largely escape scrutiny even when their balance sheets are heavily dependent on the state.

The effectiveness of the NAO also rests on the willingness and ability of the civil service to collaborate and adopt its value for money recommendations. The Treasury is supposed to oversee this take-up, but its interest is fitful. Often senior civil servants still give the impression of reluctance to make the best of audit. The enthusiasm of MPs to use NAO findings is variable,

too. The PAC picks up only a small proportion of NAO studies; other Commons committees – though they can commission NAO work – make much less use of its capacity.

A glaring absence – regretted in successive reports by the PAC – is that no office, department or function takes responsibility for the system of government as a whole. Money voted by parliament is allocated and disbursed by the Treasury, which often seems to refuse responsibility for how well it is spent, on whom it is spent and – critically – with what consequences for sustainability or equalities. Report after report from both the NAO and the PAC have identified large gaps in core skills, including procurement and contract management. Too many drew attention to the failure to address previous findings, for which neither senior civil servants nor ministers are held accountable. Departmental select committees spend too little if any time on considering NAO reports, leaving this task to the PAC. This is a serious omission.

There is no duty on ministers or senior officials to respond in action rather than simply words to NAO reports. Too often, this can lead to NAO reports referencing earlier reports which have not been adequately addressed. There is no office in Whitehall to check how departments have responded and to hold them to account.

The Blair-Brown Labour government began moving towards trying to examine, analyse and target spending across the “whole of government”. The Treasury now prepares accounts for the entirety of the state’s income and

expenditure, subject to audit by the NAO. Together with the projections regularly made by the Office for Budget Responsibility, Whole of Government Accounts look forward to the state's balance sheet in decades to come – critically important when pension obligations are being stoked and higher education funding rests on loans that, although repayable in principle, will never be redeemed. But this data has not been fully exploited.

### LESSONS FROM COVID-19

During the Covid-19 pandemic, how public spending decisions are taken and checked has come under intense and anxious scrutiny. Something has gone wrong. Both in support packages for households and businesses and the procurement of services and personal protective equipment:

There is evidence that government has not always spent money effectively – both by paying over the odds for the outcomes achieved and by spending money in ways that achieved no clear policy objective.<sup>3</sup>

The Institute for Government found only a small proportion of contracts were let competitively and 2020 saw the highest number of 'ministerial directions' for decades – these are formal instructions to permanent secretaries to go on with a policy or spending decision despite their (financial or other) concerns. Major questions have emerged over

probity, compliance with the Nolan principles of public life, the effectiveness of the goods and services procured, and the competency of procurement and contract management.

### A TRIPLE CHALLENGE

That ministers and their special advisers might be tempted to rush decisions and take shortcuts may be regrettable but is not unprecedented. Unsupervised contracting was how government used to operate – in the 18th century. The modern British state, at least from the middle of the 19th century onwards, was fashioned on the principle of merit. Applied to public procurement, grant-giving and civil service recruitment, competition is supposed to be fair, even-handed and open. Indeed this was the genesis of the audit profession, as merit-based government demanded open assessment of honesty, economy and effectiveness. The word audit used to mean a hearing. Audit was a way of informing the public of how well communal powers were being used. District auditors and, from the mid 19th century, the comptroller and auditor general were invested with wide-ranging powers of investigation (recently supplemented by powers of review).

That old sense of civic mission needs to be reinvigorated. Major reconstruction of audit in English local government is overdue but, as we suggest later, cannot be accomplished without a parallel restructuring of how central government spending decisions

<sup>3</sup> Institute for Government, Whitehall Monitor 2021

are taken and followed. Recently and especially during the pandemic, what Peter Hennessy calls the genetic code of British public administration has been damaged. But strong traditions and

institutions, notably the NAO, remain in place. Fresh thinking is needed about the content and structure of audit, especially on the opposition benches. We hope to offer some pointers.

## CHAPTER 2

### AUDITING AND ASSESSING FOR OUTCOMES IN CENTRAL GOVERNMENT

UK central government has been battered by damaging allegations of cronyism in public appointments. The commissioner for public appointments is alarmed. The civil service has been threatened amid high-profile departures from its senior ranks. But aspects of the state remain in good health, notably three institutions responsible for the collection of vital data. The independence of these data organisations is precious and MPs who value good government should pay the closest attention to whether they are adequately financed and how they are governed.

The most recent, the Office of Budget Responsibility, provides a counterpoint to the politics of the exchequer. The Office for National Statistics proved its worth during the Covid-19 pandemic and will again in delivering the 2021 census in England. But, of vital importance in both counting what the state does and in holding it to account is the NAO.

In addition to its bread-and-butter work as the external auditor of departments, the NAO has amassed a large body of value-for-money studies. For those who care to look, here is a trail of evidence on how well the government is working with multiple pointers to how it could be improved.

The NAO regularly reports high take-up of its work. It claims substantial savings, £1.1bn in 2019–20. The Treasury says it follows up recommendations made when the Commons Public Accounts Committee holds hearings on NAO reports. During 2019–20, the government says it accepted 275 of the PAC's 300 recommendations. Yet successive investigations find similar problems inside departments. Shelves groan under the weight of yesterday's audit reports; they should be read today, before tomorrow's spending decisions are finalised. There is scant evidence that effectiveness and efficiency – let alone attention to environmental sustainability and equality – have

been improving over time in the machinery of state. The problem is one of implementation and application. And that leads to the Treasury – which oversees the separate ‘internal audit’ function within Whitehall – and the paradox of tight financial control and lax oversight over effectiveness in public spending.

The NAO is the UK’s supreme audit institution but there is what professor Patrick Dunleavy of the London School of Economics called a ‘patchwork’ of audit bodies and legislation across both England and the rest of the UK. A recent review of the internal audit of government departments barely mentioned the potential utility of NAO reports. Large sums of public money are funnelled into bodies, some of them quasi-private, where the audit trail goes cold. Examples include housing associations. Some of the 5 Es are invigilated by the powerful inspection bodies that oversee health, social care and education. Sometimes the NAO collaborates with them, for example in joint studies with Her Majesty’s Inspectorate of Constabulary and Fire and Rescue Services (HMICFR); sometimes Ofsted and the Care Quality Commission (CQC) pursue their own agendas regardless. The need to audit and draw a map of effectiveness (shorthand for the 5 Es) seems sometimes to be forgotten. The White Paper on integrating the NHS in England contained not a single mention of audit, despite its consequences for the effectiveness of NHS trusts, for the role of contractors and for the accountability of the proposed integrated care system boards.

In recent years, the NAO expanded thematic studies but they do not encompass the NHS and English local government, at least not in the detail of spending by individual councils and trusts. Comparing the 3 Es between health trusts and councils is very difficult, let alone their record on environmental sustainability or equalities. In the next chapter we look at how this gap might be filled. Another grey area is the oversight of private contractors. Audit should follow the public pound wherever it is spent, including the conditions of employment and the environmental and equalities profile of contracting companies.

#### **WHOLE OF GOVERNMENT**

The Treasury compiles financial statements for the whole of government, audited by the NAO. This provides a rounded but high-level picture of the state and its outlays stretching into the future. The account has yet, as the NAO says, to incorporate the environment and depletion of natural assets. Big questions have yet to be solved around accounting for spending on education and training. This is investment, boosting the capacity of individuals and the economy at large over lifetimes; similarly, some NHS spending helps prevent ill health and enhances life chances, with positive effects on future GDP and tax revenues.

What is often lacking is a more detailed understanding of how spending in one part of government affects – and may diminish the value – of spending in another. In recent years, the NAO has found it hard to audit the Department

of Work and Pensions because data goes missing in the labyrinth of pensions and social security. But an all-round audit means looking in addition at how spending by the DWP may be rendered less effective because of spending (or lack of spending) in other areas. For example, how much of the increased spend on income support in universal credit and other benefits is attributable to the pursuit by the business department of low-wage employment?

### **REWIRING CENTRAL GOVERNMENT**

The Transforming Public Procurement Green Paper says:

The decision to invest public funds into policies, services, projects and programmes is subject to analysis and appraisal to assess the public good that is expected to accrue as a result of the expenditure. For national spending this will have been conducted in accordance with the HM Treasury Green Book guidance and subject to National Audit Office scrutiny.

Unfortunately this statement of intent is not matched by reality. The Green Book purports to be a generic guide to spending effectively but there are large gaps between its precepts and spending decisions. It does not insist as it should on informing those decisions from previous scrutiny, including the efforts of the NAO.

During Brexit and Covid-19, ministers have been accused of centralising power, undermining UK and in particular English devolution,

sidelining and hollowing out local government in England. This amounts to a 'power grab', according to professor Janice Morphet of University College, London. Yet, paradoxically, the centre is weak. The UK government, the Public Accounts Committee was solemnly told by the former cabinet secretary, has 'no corporate centre'. In between the Treasury, Number 10 and the Cabinet Office, policies founder and bright intentions corrode. The removal of a dominant personality, Dominic Cummings, exposed the structural gap. This is not new. Successive administrations have struggled to shape and reshape this triangle. It is no accident that, to review how to make things happen in government after a year in power, Johnson turned to the very man tasked by a Labour prime minister to answer the same question two decades ago, Michael Barber.

UK government is highly centralised but not in the sense of having knowledge of outcomes and effectiveness. The Institute for Government concludes that:

By international standards the Cabinet Office and Number 10 offer limited policy and implementation support to the prime minister, meaning that the UK has the worst of all worlds: a highly centralised system of government without the capacity to organise it from the centre.

A refrain in successive reports from Commons committees is that there is no 'system'. No one takes responsibility for public services as a whole. Data is



still not routinely shared between tiers of government. Citizens have to knock on multiple doors: the local DWP office is separate from that of HMRC with neither willing to share premises with the council or health trust. Contracting out often exemplifies the absence of holistic thinking. Ministers insist companies are brought in to run welfare, housing or public protection, claiming savings will be made. The companies bid low and pay their staff less than before; to survive, staff have to claim universal credit, pushing up aggregate outlays. No one, including remarkably no one in the Treasury, cares to join the dots and paint a rounded picture. There has been no systematic assessment of the all-round impact of outsourcing.

The NAO has powers to seek data and information from contractors, but it should have unfettered access to contractors' financial arrangements including relations with parent companies, executive remuneration policies, tax policies and more.

Assessments of public service outsourcing should include an evaluation of the impact of proposals and actual contracting on employment terms and conditions, the local economy, equality and the environment as well as on other public sector budgets – for example a loss of employment resulting in extra costs for the DWP.

The Treasury says it is in control. The language in its various manuals – the green, magenta and red books – implies coordination. But the UK central government remains a thing of silos, ill-equipped and often oddly uninterested in how services are

managed and experienced outside the confines of a single department. Central coordination of capital spending has proved a lot easier than revenue. Ad hoc units have been created over the years to try to cement the bricks, for example the Infrastructure and Projects Authority.

No mechanism connects political intention, programme and outcome. No one sits astride how policy becomes departmental allocations which are then delivered to people, in surgeries, in schools, in social security receipts and in business support. Better assessment of what spending accomplishes should feed back into robust pre-spending planning. That implies not so much a more powerful centre but a cleverer, better informed one that does not disdain delivery but actively incorporates learning from doing and learning from audit.

### **MAKING THE STATE MORE EFFECTIVE**

Before spending decisions are finalised, government needs, according to the procurement report, “a strong strategic case that sets: a clear objective aligned to government priorities, a rationale for intervention, and/or robust evidence and analysis for how different options for delivery”. But beyond this statement, what we need is a lasting commitment together with fresh thinking about the mechanics through which evidence – especially the evidence from audit – is amassed and applied in advance.

Successive governments have failed to map the routes taken by their own policies. The austerity administrations of Cameron and May made cuts in spending without apparent regard for indirect or unintended consequences.

In pursuit of academy status for English schools, ministers forgot children with special needs and how their education was to be organised; they missed, knowingly or otherwise, the effect of fragmentation on nutritional standards, affecting children's ability to learn and benefit from schooling, and on accountability. Delivery, says Lord Michael Bichard, former chair of the NAO and permanent secretary at education, has never been a strength of the civil service, whose leaders have too often lacked respect for those who toil to deliver welfare, schooling and care at home. The failure of test and trace in 2020 can be attributed, says co-chair of the NHS Assembly professor Sir Chris Ham, to lack of knowledge of local conditions or some 'black box' theory of government in which you hand over an entire function to a private contractor in the spirit of let them get on with it, let's not bother about the detail. When he was head of the civil service, Lord Kerslake once devised 'accountability system statements' offering assurance on value for money and clarifying lines of spending where Whitehall departments were directly responsible and where delivery responsibility belonged locally – but only a handful of departments bothered to write them and the initiative petered out.

Michael Bichard notes that governments have a bias towards a one-shot approach. They rush into a policy for fear their time is limited. But the result is often failure. Targets are missed and the people who are supposed to be helped receive no benefit. Badly targeted policies may have perverse consequences

resulting in higher long-term costs. Meanwhile delivery failure breeds discontent and mistrust and may feed extremist beliefs and politics. The history of policymaking says doing something often leads to perverse results and may even harm the people and groups who are supposed to benefit. A perennial temptation is to apply Elastoplast rather than find and deal with the cause of the wound. It is a mindset evident in the Treasury, under all parties: it is suspicious of arguments about spending now to save later. Yet prevention is more cost effective than palliation, addressing structural causes (of poverty or environmental degradation) is more effective than transient improvement. That may mean postponing action until investment has been planned and longer term effects mapped. Rhetoric does not design a workable policy. What sounds good in a blog or article or in a speech, even in a manifesto, does not amount to a policy, let alone a coordinated programme of action. 'Levelling up' may be an example.

Government machinery in itself guarantees nothing. In politics, personality and culture will always trump structure and procedure. Ministers, said the Commons Public Administration and Constitutional Affairs Committee, are the 'fulcrum of effectiveness'. But if much depends on ministers' capacity (and their desire to deliver, especially the prime minister's), it is important also to recognise that there is a functional gap. It is evident in how dialogue between departments and the Treasury and even budgetary allocations often betray ignorance

or indifference to ‘system’, especially the means of delivery, which usually means through local public bodies. The gap lies in a failure to apply lessons learned, audit feedback and, a besetting sin in British government, to look across departmental boundaries and plot long-term consequences. We try to address the local element in the next chapter. Here we suggest better functioning at the centre.

### **AN OFFICE FOR SPENDING EFFECTIVELY**

Governments deal with problems, which are often defined for them by the media. MPs often fixate on inputs – employing more teachers or nurses. But citizens experience outcomes, their children coming home from school stretched and happy, a visit to a clinic an occasion of wellbeing. Measuring the effectiveness of, say, the police is a complex, subtle business. Officers on patrol is an input. It may be positive – the evidence shows that it can make some people feel safer on the streets and in their communities. But the crude alignment of officer numbers and crime misses an entire dimension of police work. Data shows how some forces are better than others in combining staff numbers, public orderliness, feelings of safety and solidarity on the part of residents and prevention and detection of crime. How that data is generated, shared and put to use should be as much a subject of study and interest as headline commitments to officer numbers, important though those are.

In this policing example, the function that is missing is the voice in the Home Office’s ear. Has it read, marked and

learned what the NAO said? So too Her Majesty’s Inspectorate of Constabulary and Fire and Rescue Services: has it cross-tabulated audit with evidence from opinion and attitude surveys about how the public experience policing and has it modelled impact on equalities? Each department must be required to assess its expenditure decisions, which of course entails looking at inter-departmental effects. The effectiveness of the police depends on councils, on courts and on the NHS.

We propose embedding the effectiveness review function within government itself. We are calling this function the Office for Spending Effectively as a joint office of the Treasury and Cabinet Office. Its tasks would be synthesis, scanning, comparison: taking a large and diverse body of material and making it serviceable. But the crux is authority – to demand that spending departments can show that they have done the work of modelling and assimilation and have managed the risks of delivery, including liaison with local bodies. Such functionality could be said to be implicit in, say, the Treasury’s green book. But it is not followed through.

Historically, the Treasury has insisted on its supremacy over spending. Yet its claim to a monopoly over financial management has paradoxically been married to a curious lack of interest in how programmes were actually delivered, verging on an indifference to how public services were organised. Treasury officials’ lack of knowledge of how the NHS operates is legendary. In his review for the previous shadow chancellor John McDonnell MP, Kerslake found that:

Whilst the Treasury is regarded as good at controlling aggregate public expenditure, it is seen as less good at exercising the associated function of financial management. Oversight of departmental spending, investment appraisal and financial reporting is seen as poor, resulting from lack of financial experience amongst staff and a sense that this work is regarded as less valuable or important within the department.

Rob Whiteman, the chief executive of the public accountants' professional body, CIPFA, says it is no longer possible for finance to be the sole purview of the finance director; the Treasury has to accept that budgeting, spending and audit are government-wide responsibilities. And Sir John Kingman criticises Whitehall's indifference to delivery ('plumbing' in the eyes of too many permanent secretaries). At an Institute for Government event, a former permanent secretary said, without any apparent regret: "I really don't know how delivery in the NHS works."

This points to the need to recreate or create a new office or unit jointly within the Cabinet Office and Treasury. It would share some of the genetic code of the Blair-era Delivery Unit, for which there were precursors in the Thatcher era. Under successive governments, the Cabinet Office has been loose and baggy, with disparate tasks ranging from civil service management to IT and national security. The Institute for Government says the Cabinet Office never had an empire and does not have much of a role. But previous

cabinet secretaries have, as much by accident as design, taken on public sector-wide responsibilities. That makes the Cabinet Office a prime candidate for a 'department of system' but it also needs to be part of the Treasury given the latter's responsibility for finance, public expenditure and fiscal policy. It could bring the two departments and in effect Number 10 closer together on the effectiveness of government.

There would be some parallels and some differences with other Cabinet Office units and responsibilities such as for government procurement (Crown Commercial Service), major infrastructure (the Infrastructure and Projects Authority), digital government (Government Digital Services), and Whitehall human resources. The major difference would be that the Office for Spending Effectively would have the right to intervene and would report on departmental performance.

To ensure that this new office has authority and visibility across government, it should be headed by a senior civil servant and there should be a senior minister with political responsibility for ensuring effective spending across government. This role would complement but not replace the role of chief secretary to the Treasury.

Reorganisation at the 'centre of the centre' might be a facet of a wider refashioning of Whitehall involving higher pay for more expert senior officials, more cross-boundary working and better integration of technical skills. Many argue for the decoupling of permanent secretaries from their courtier role and their transformation

into experts in delivery. One example of many comes from the NAO study underpinning an examination by the PAC of the government's promise to get gigabit broadband to most of the UK by 2025. The policy itself is not in question: the failures have been in delivery, broadening that idea to include legislation and management of the boundary between public and private interests. Broadband policy requires technical expertise, a long-term planning horizon, deep and mutually appreciative relations between central, devolved and local government and a strategic grasp of both the limits and benefits of profit-seeking in delivering technologies with huge social as well as private benefits.

Another example of the potential role of an Office for Spending Effectively is in the provision of services for people with autism and learning disabilities, which is currently inadequate. The role of the new office would be, first, collation and synthesis. During recent years the NAO has conducted half a dozen or more studies on support for people with disabilities, on pupils with special educational needs and institutionalised care. The office could insist on seeing from the Department of Health evidence that it had absorbed lessons from past initiatives and, crucially, had worked through delivery options with the DWP and the Ministry of Housing, Communities and Local Government. Useful comparative material might come from Audit Scotland. The stance of the CQC and Ofsted

would need careful scrutiny. And, not least, the capacity of local authorities in England to deliver new obligations placed on them by the centre would be critical. Too often, ministers and civil servants have assumed local authorities would deliver, without appraising finance or constitutional differences. The office would have to mount surveys and consultations if it lacked input on what parents, families and service users themselves think.

The role of the Treasury in making budget allocations to departments would be both augmented and checked. Over certain thresholds, the office would have to validate the deliverability of spending plans. It would insist on seeing a plan informed by local and regulatory realities before it approved any significant change in spending. The office could guarantee better policy by demanding to see the delivery chain on the basis of a deeper understanding of how policies are experienced by people in places. A key element in that would be identifying the ways in which one department's spending affected another's and the efficacy of other public bodies. Historically, the Treasury has been oddly marginal to the inner life of the state, despite its great powers. Creating the office could help unify the government, both within Whitehall and between the centre and localities and regions. Making government more coherent is a precondition for reconnecting democracy and equipping the state for the policy tasks that lie ahead.

## **How the Office for Spending Effectively could work and its relationships**

### **Office for Spending Effectively would:**

- Establish criteria and processes for assessing the 5 Es and contribution to government objectives for departmental spending proposals prior to commitment and implementation. These assessments would be expected to take a holistic cross government not single departmental view.
- Monitor the application of the processes and criteria by Whitehall departments and central government agencies.
- Have the right to challenge such assessments and require them to be redone.
- Provide advice to departments and provide consultancy support.
- Undertake specific reviews as directed by senior ministers of specific departmental proposals.
- Monitor departmental responses to NAO reports and studies.
- Monitor audit and other reports on spending beyond Whitehall including reports from the Office of Place Audit – see below.
- Drawing on the evidence secured from the above contribute to HMT spending reviews and policy formulation.
- Produce an annual report to the House of Commons on spending effectiveness presented by the prime minister and invigilated by the liaison committee of select committee chairs.

### **Spending departments and agencies would:**

- Be responsible for undertaking assessments of all significant expenditure proposals including outsourcing proposals prior to commitment to spending in accordance with the standards designed by the Office for Spending Effectively (OSE).
- Take a holistic cross-government not single departmental view in these assessments.
- Report on such assessments to the OSE.
- Have a duty to respond to NAO reports with action plans and to report on these to the OSE.
- Ensure that their agencies comply with the requirements.

# CHAPTER 3

## PLACE

People are finding it harder than ever to grasp what the local public sector is and does, let alone the effectiveness of local spending. Advocates of more and better public services lack the tools and evidence to convince citizens how well they work. The public realm in local areas is fragmented and it has been further broken up since 2010. Schools in England have been compulsorily transferred into unaccountable trusts; meaning parents, teachers and students are befogged about who is responsible for what, especially when direct interventions by the Department of Education on the curriculum and school organisation have grown in number.

Services overlap, making the picture more tangled. Policing and its effectiveness are influenced by the adequacy of mental health services, youth services, schools, employment and much more. Good health is influenced by housing, education, employment, and environmental conditions and, ultimately the distribution of wealth and income. Among minority communities, health links to fair treatment

and non-discrimination. Community wellbeing is systemic. It is increasingly impossible and wrong to treat (or fund) each service separately.

A whole system approach to assess and monitor public expenditure in place is required.

Yet audit sticks to silos. Take the government's expansion of its towns fund making ad hoc grants to areas. The NAO can in principle examine how the Ministry of Housing, Communities and Local Government makes decisions on who gets what and why; it also concerns itself with local authority spending in the round (about which it has become increasingly concerned). But its remit stops short of the town hall; how effectively the money gets spent locally may not be audited at all.

How we account for the local state has failed to keep up. Action by authority A often has consequences – positive and negative, intended, and unintended – for trust B or DWP office C. Their boundaries, however, are unlikely to be coterminous with each other: NHS geography does not wholly map that

of councils; police, education, fire and ambulance services operate across wider areas and accountability has been confused by the introduction of elected police and crime commissioners, whose interest in performance data is random and often slight. This fragmentation disconnects services, confuses the public and makes it hard to tackle interconnected problems such as school under-attainment and social immobility.

In local areas, spending assessment fails to join up: for example changes in spending on council youth services may fail to address the impact on the police or the NHS.

As for the accounts of private companies providing public services, the gap is profound. If a privately owned water company allows raw sewage to escape into the watercourse, no cross accounting takes in the impact on the public bodies left to clean up, let alone the effect of environmental degradation or stinking shorelines on public welfare. The NAO attempts reconciliation of gross spending for the purposes of Whole of Government Accounts but no one compares the performance of different parts of the public sector or, increasingly necessary, the quasi-public sector represented by contracting firms.

As well as being underfunded, social care is under-audited. Councils may know how much they spend but what do we really know about value for money in the care which is provided privately, let alone that carried out by the millions of families who look after older relatives and those with disabilities without necessarily claiming social benefits or seeking assistance from

the local authority or the NHS? Data estimates are unreliable, says the Office for Statistics Regulation. Scarce funding “has led to underinvestment in data and analysis, making it harder to make informed decisions”. Proper audit would criss-cross place, central government and the accounts of councils and NHS trusts. Researchers for the King’s Fund, not usually given to conspiracy theories, remarked that ministers might actually quite like data confusion and absence of value for money studies.

Audit needs to look across services and, within them, to follow the pound. Who does what locally has become a confusing patchwork as services have been contracted out. Spending by councils on third parties rose by more than the rate of inflation during the three years to 2020 – to a total of £63bn a year. Yet auditors usually have limited access to a contractor’s accounts, even those relating to specific public contracts; most outsourcing performance is not subject to independent audit. This weakens public accountability by shrinking the scope of value for money testing. The all-round consequences of outsourcing, on society, economy and environment are left unexplored.

A standardised framework for assessing spending proposals is required for councils and other place-based public bodies. This should be based on the proposed approach for Whitehall but should allow for some local discretion to meet local circumstances.

There should be a duty on councils, the police, multi-academy trusts, NHS trusts and other place-based bodies to undertake such assessments and where



appropriate to do so jointly on a place basis, and to share relevant spending proposals, data and assessments. This could lead to more efficient and effective use of resources and help to eliminate or at least reduce the chance for intended or unintended consequences of the actions of one public body on another.

### **AUDITING PLACES**

Assessing the effectiveness of government locally – which goes much broader than just looking at councils – demands a new approach. Testing value for money in English local government, the NHS and the police is disjointed, partial and often disconnected from audit work on central government departments and agencies and their ecosystems. Audit has to look across authorities and agencies. This is recognised, in principle, by the NAO Code of Audit Practice, which notes that local public bodies increasingly operate and commission services in a range of partnerships and joint working, with the private and voluntary sectors as well as with other public bodies: “In meeting their statutory duties, auditors should consider how best to obtain assurance over such arrangements.”

Audit of NHS trusts and local authorities, now undertaken by private accountancy firms, has a ‘use of resources’ category but fails to ask central questions (such as “what does this spending accomplish?”) or to link with the qualitative assessment of services undertaken by the Care Quality Commission, Ofsted or other inspectors. The introduction of new integrated care systems in the NHS could further

complicate lines of sight. The latest White Paper on NHS integration says nothing about audit and regulation. The overlap between regulation and audit leads to confusion. Ofsted and HMICFR and the other regulators look at staff and processes and governance but do less on efficiency, the use of resources and collaboration with other agencies; the CQC has so far made only tentative steps towards reviewing services provided by different organisations in the same place even though many health and social care outcomes require collaboration between agencies.

The practical question is how to audit *places*. The last Labour government introduced the ‘total place’ initiative and promoted ‘comprehensive area assessments’, which brought together auditors’ judgements with the judgements of the respective regulators of schools, adult and children’s social services and police. This embryonic scheme was abandoned by the Cameron coalition in 2010, despite its advocacy of ‘whole place community’ budgets. In some areas, joint decision making by public bodies has lived on with some service budgets pooled, for example between councils and the NHS. But austerity and central government indifference have taken their toll. Through the Local Government Association ‘peer reviews’, councillors and officers from different areas offer their judgements on others’ services and there has been some cooperation with the NHS. Though useful and instructive, these voluntary exercises have been limited, both in the areas involved and the services considered.

## PLACE AUDIT OFFICE

Audit is not the same as performance management. We can learn from the approach of the last Labour governments. While Blair and Brown secured service improvements, they overfocused on quantitative targets, demanding voluminous reporting against hundreds of key performance indicators. This became self-defeating. Public bodies spent their time gaming the system rather than improving services. Trust was undermined. Instead of performance targets for household bin collections we need evidence of outcomes – of less waste, public engagement, less use of landfill.

We need new audit and oversight of local services. Let us call it ‘place audit’. To oversee it, we propose a Place Audit Office.

### Task 1

The Place Audit Office would organise whole place audits. These would tell the story about all public services in an area, about friction and divergence as well as joins and collaboration. How much is being spent, for what purpose, with what outcomes? Audit would go on inside organisations to ensure money was being spent lawfully and to check on effective governance. But the audit of effectiveness and efficiency has to use a wider lens and evaluate wellbeing based on equity, equality and environmental sustainability in a place.

Most audit projects would be undertaken by multi-disciplinary teams, matching core accountancy with other analytic skills. Their remit would include environmental sustainability

and equalities as well as efficiency, effectiveness and economy. The Place Audit Office would have a duty to assess outsourcing along the lines we propose for the NAO and would have similar powers to access contractor data and other relevant information.

It would look, for example, at sharing space. For more than two decades councils, the NHS and government agencies have talked about ‘one place’ initiatives for sharing office space (and making data systems mutually intelligible). The auditors’ first question might be: why separate accommodation? What inhibits closer collaboration; are the purposes of these bodies so separate that their offices can’t be better shared and rationalised – not for the sake of cost-cutting but to ensure residents do not have to apply unnecessarily to more than one of them?

Task 1 must involve aligning the work of the inspectorates and ‘quality’ regulators, especially Ofsted and the CQC, under a single audit framework. There may be scope here for rationalisation and reduction but certainly for greater collaborative work drawing on respective expertise and focus. Without common frameworks and consistent assessment criteria how can – for example – the lives of children in a given area be evaluated? The government says that the CQC will assess the integrated care systems being established across England. But how can they properly be judged unless all local partners are involved, including those services (housing and policing among them) over which the CQC has no oversight?

**Task 2**

The key to improving public service is data showing ‘unexplained variation’. This requires benchmarking of costs and outcomes across areas. That local authorities and NHS bodies, schools, academy trusts and the police in poorer areas, blighted by economic restructuring, find the going hard means that direct comparison between them and councils serving the wealthier areas says little. Abdool Kara of the NAO notes some variation is entirely right and proper, driven by differing political cultures and indeed local choices. But if the data shows that children from poor backgrounds in one area are enjoying school more or are getting better results than similar children elsewhere, then there is reason for concern. The lower performing area needs to ask why, find answers and then drive change. But the assessment demands consistency across space and that requires a national framework for data and comparison.

Place audit and data are vital for fair and effective allocation of resources and to identify actual or potential failure to ensure residents are well served. The Office for Spending Effectively described above would be an avid recipient, student, and user of the work of the Place Audit Office.

**Task 3**

Audit strengthens accountability and helps regenerate citizens’ connection with government by providing assurance and data. Benchmarking and robust external audit should be an important tool in the toolkits of council leaders,

as for leaders and managers across the public sector. The Place Audit Office would inform citizens’ groups, oversight and scrutiny bodies in councils (which could be strengthened), and the apparatus of ‘governance’ within the NHS. Better evaluation of performance on the 5 Es could revivify councillors’ interest in audit and scrutiny. It could also provide material for enhanced local accountability – of mayors and council leaders to backbench councillors and to citizens’ and community groups – who might well insist on seeing action taken in the wake of place audits or unflattering comparisons of one area against another.

The all-party parliamentary group on levelling up proposed that local leaders could hold central government departments to account through local public accounts committees or regional select committees – though it did not explore why previous efforts in this direction have not prospered. Accountability depends on data and analysis and, critically, on comparison. A Place Audit Office could supply evaluation of central programmes and grants from, as it were, the worm’s eye view.

**Task 4**

Audit across entire places would push public bodies into involving neighbours and partners before making expenditure decisions. We advocate the introduction of a duty on public bodies – local, regional and national – to undertake assessments of spending proposals for their impact on place prior to decisions being finalised.

### Task 5

The Place Audit Office confronts the urgent task of sustaining and reorganising the audit function within local government and the NHS. As well as its focus on places, it would ensure that financial audit is properly carried out. The Place Audit Office would run the external auditor function in the area for local authorities, NHS trusts, academies and multi-academy trusts, the police, etc.

Repair and rescue are urgent. External audit of NHS trusts is in a sorry state. Trusts find it hard to appoint private companies; the quality of the work is questionable, especially value for money analysis. Meanwhile in local government the Municipal Journal has reported that “the quality of local government auditing has been brought sharply into question by the financial collapse of several councils”. Arrangements after the abolition of the Audit Commission have not worked as well as was claimed. Full scale privatisation has resulted in, as in health, a sluggish market and lowered standards.

Sir Tony Redmond’s review recommended a new supervisory function and the restoration of public audit standards – with auditors more willing to produce public interest reports and blow the whistle when they see viability threatened and services on the brink of collapse. But with the same problems evident in the NHS, audit supervision needs to be joined up in a single Place Audit Office, which would probably have to employ its own public auditors, helping to make public audit once again an attractive option for young accounting talent.

### CONSTITUTION

The design and status of the Place Audit Office needs careful thought. Given the strength of its reputation and to ensure seamlessness in audit, the most obvious step would be to nest it within the NAO. But the NAO is headed by the comptroller and auditor general who is a Crown appointment and ‘officer of parliament’ and therefore constitutional issues loom. Councillors are elected and have independent civic standing. If their spending fell under the oversight of a parliamentary body many would feel their autonomy was threatened. The focus of the NAO must not be lost or its culture pulled out of shape. Yet, in recent years, it has necessarily become involved in following the public pound into individual councils and NHS trusts. Recently, the comptroller and auditor general singled out the adverse performance of an NHS trust. Its reports on local government are already extensive, while remaining at aggregate level.

Councillors have to accept being compared and contrasted on their outcomes – which requires a national body able to extract lessons from their success and from failure. Councils are already inspected by the CQC and Ofsted, which report to parliament. Verifiable and uniform data is vital for the effective management of all public bodies. Could the Place Audit Office be configured as a semi-autonomous agency within the NAO, making clear it is not answerable to ministers or parliament? It would have to have its own board comprising local authority and other representatives. The comptroller and auditor general could guarantee

its standards while councillors and other local service providers could play some part in how it is run; their involvement would be vital in scoping and designing whole place auditing.

The Place Audit Office could be a critical friend of councils and NHS trusts in arguing for resources and against the local impact of central spending decisions. The Place Audit Office should develop its own capacity for undertaking these tasks in order to be able better secure consistent standards.

It should be clear about the standards required, insist that there were no conflicts and adopt standard contract terms.

The office could draw on secondees from public bodies, public service regulators and inspectorates, civil society organisations including trade unions and the voluntary sector, and the business sector to enhance its audit teams and their range of expertise and experience.

### **Place Audit Office: key features**

- PAO would be responsible for the audit of local authorities, combined authorities, NHS trusts, integrated care, multi-academy trusts and academies, police, fire, etc.
  - But it is not about performance management on behalf of central government.
  - The PAO would undertake whole place audits based on local authority areas, combined authority and city region areas, and other geographical areas relevant to services and place identification.
- PAO would be an office of the NAO with its own board and a statutorily defined role.
  - It will adhere to common audit standards/professional standards.
  - The PAO would feed into NAO audits on government departments and agencies operating locally (evidence from whole place audits).
  - It undertakes joint studies and systematic reviews.
- PAO and the Office for Spending Effectively:
  - PAO would audit the application of the pre-assessment duty on councils and other local public bodies.
  - The PAO also feeds system-wide findings and analysis to the OSE.
  - It produces an annual report on impact of government spending and related decisions on place based services and specifically records the impact of one Whitehall departments actions and spending on those of other departments.
- The PAO and the Ministry of Housing, Communities and Local Government:
  - PAO provides evidence on issues in specific authorities as a precursor to ministerial intervention.

- PAO also provides evidence on system-wide issues.
- It would produce an annual report on state of local government finance and impact of government policy regarding local government finance.
- The PAO curates benchmarking data and analysis to benefit local agencies.
- PAO does not performance manage local agencies on behalf of central government.
- PAO relationship with inspectorates such as QCC, Ofsted, HMIFRS, etc:
  - There would be joint audits/inspections to assess impact and value for money.
  - There would also be joint projects for whole place-based audits.
  - The PAO would be responsible for financial elements of such inspections and audits.
  - Opportunities will arise to align inspections and audit regimes and programmes, as well as agencies.

### **ACCOUNTING FOR AUTONOMY**

The trick is to combine accountability – for policy and spending – with maximum autonomy for councils and other local service providers to respond to an area’s specific socio-economic circumstances and to the expressed preferences of the people who live there. We believe that audit for place supervised by a new office or NAO function offers a way forward. A revised audit regime might even be a precondition of greater freedom.

Councils cannot pursue local wellbeing alone. Much of what the NHS does is specific to place, through GPs’ surgeries and community clinics. Similarly, much of the work of national bodies, including the Environment and Highways Agencies and the Arts Council, have a geographical focus

and many dimensions of Whitehall departments, notably the DWP are specific to areas. What they all do has to be examined in the round.

What has gone missing in recent times is the sense of reciprocity between the local and central elements of the state. Whitehall civil servants have aided and abetted ministers in dumping duties on councils without adequate funding, then blamed them for sub-standard performance. Advocates of localism in turn sometimes ignore the reality that what councils have to spend, especially in poorer areas, depends on central grants. There will always be a national stake in how resources are spent locally and the public interest demands a better mechanism for assuring its fairness, effectiveness and sustainability.

### **Accountability for place-based institutions and outcomes**

- There should be a duty on local agencies including local authorities to produce an action plan in response to PAO audits within six months and to report progress against these publicly six monthly thereafter.
- PAO should undertake audits of action plans when serious issues have been identified and review progress against these plans at least annually and to publish reports.
- Local authority audit committees should be strengthened, with their performance subject to regular audit by PAO (may be biannually unless there are serious issues).
  - Local authorities would be required to publish an annual auditable performance report.
  - There will be annual public examinations of leader/mayor and chief executive/finance director.
- Local authority audit committees should publish annual reports which must be debated by whole council along with responses from council leaders/senior officers.
- Local authority scrutiny and audit committees should be reviewed and strengthened, ensuring they have access to dedicated executive support and independent advice. They should use PAO data and studies to shape their work.
- Consideration should be given to introducing arrangements for democratic scrutiny of total public expenditure and assessing whole place audits in places including city regions and combined authority areas.

## CHAPTER 4

### AN OPPORTUNITY AND NECESSITY FOR LABOUR

Excellent public services organised by the state – both locally and nationally – and paid for through progressive taxation are core to the values and traditions of social democracy and democratic socialism.

Collectivism, as exemplified by the National Health Service, good state education, decent social care, Sure Start, public housing, effective policing and so much more, is core to the tradition of the Labour party – and indeed the Fabian Society. Such collectivism built on a popular consensus and implemented by democratic national and local government has been at the heart of Labour programmes in government from the Attlee government between 1945 and 1951 to Labour under Blair and Brown.

The next Labour government will look to build on the record of previous Labour administrations, which recognised the importance of public services to address individual and collective social and economic need, tackle inequality including inequality of opportunity, build a fairer and sustainable economy, and to foster solidarity and community.

The case for spending is unassailable; the case for spending more is strong. Poverty and inequalities are on the rise and the public tell pollsters they believe services are underfunded. There is universal agreement that the way in which adult social care is financed and organised needs urgent attention. Tackling the climate emergency is a priority, with all its implications for expenditure, services, and programmes. A decade of austerity has eroded the capacity and quality of services wide swathe of state activity. Life chances – and the chances of life – vary vertiginously between parts of England, as within the rest of the UK. They cannot be addressed by new investment schemes alone, however essential they are for jobs and economic prosperity. Extra resources are required to level up in welfare, education, training and basic local authority and local service budgets. Outlays during the Covid-19 emergency by NHS trusts and local authorities have barely kept up with the demands generated during the pandemic. And the Conservative government is now planning further cuts to many public



services. A successor government will inherit seriously underfunded public services, an economy which will have only recently experienced the worst recession for more than 300 years. It will face some hard choices.

Keir Starmer MP has spoken about a 1945 opportunity. Whatever the pledges Labour takes into the next election, if the party wants to tackle inequality, create quality jobs, rebuild and improve public services, and pursue a radical programme to address the climate emergency, it will require significant additional public spending and investment.

Whatever balance is struck between borrowing, central bank interventions and taxation, there will be pressure on spending ambitions. What that means is that maximum value must be extracted from every available pound. Every pound not spent optimally is a pound not available for spending on a priority. Given this context, Labour should be a party that advocates more and better auditing of public spending. Under Starmer, it has been moving in this direction. Anneliese Dodds MP pledged Labour “would introduce a cast-iron commitment to delivering value for money for the British people”, with the NAO preparing an annual report on the effectiveness of state spending and the government obliged to follow its recommendations.

### **LABOUR AND VALUE FOR MONEY**

Public audit and value for money are rarely mentioned in Labour party – or indeed any left of centre – manifestos or policy conferences. These issues

have traditionally failed to attract much political interest and have not been core to social democratic programmes. This is a mistake. For whilst there may be little reference to audit and value for money, there are always strong commitments to public expenditure, investment in the public realm, and to equity, equality, and sustainability.

If a Labour government is to deliver on this agenda and ensure that public expenditure maximises outcomes it will need a robust assessment of expenditure decisions and their implementation.

The current lack of comprehensive assessment systems and an audit system which primarily focuses on accountancy practice, probity and more limited assessment of value for money provides a great opportunity for a future government to introduce reform and promote a values-based assessment and public audit system.

The Conservatives’ claim to be responsible stewards of public money has, as we have discussed earlier in this pamphlet, been blown away by their response to the Covid-19 pandemic. Labour should seek to claim this mantle. But it will require more than rhetoric. It will require comprehensive proposals, practical policies and changed behaviours.

### **LABOUR TRADITION**

Balancing priorities and living with fiscal reality are deeply embedded in Labour party history. The party has associated itself with detailed attention to the mechanics and effectiveness of spending. Before he became prime minister, Harold Wilson was a doughty

chair of the Commons Public Accounts Committee. Under his premiership, innovative controls on public spending were deployed and his examination of civil service capacity through the Fulton review focused on how well-equipped officials were, especially in terms of financial management. Financial reform continued under Labour's chief secretary Joel Barnett, another effective PAC chair along with Robert Sheldon. The 1997-2010 governments spent considerable time and energy on tightening the chain linking plans, pre-spending deliberation and follow-up audit of outcomes. Capability reviews of Whitehall departments were instigated in 2005. But they were left incomplete, lacking benchmarking, according to the NAO; they did not extend outside Whitehall to the rest of the service delivery chain.

The Delivery Unit created by Tony Blair was effective until, as the Institute for Government judged, it became obsessed by a surfeit of performance targets. Blair sought to draw in the expertise of public service professionals in a version of the proposed Office for Spending Effectively we have outlined earlier. Comprehensive area assessment, another innovation of that era, for the first time matched the judgement of health, schools and police inspectors with the financial data collected by auditors as the basis for comparing one place against another, allowing for different socio-economic characteristics. Councils and business came together in local strategic partnerships, sharing budgets and planning programmes jointly.

The approach and new architecture proposed in this pamphlet build on initiatives by Labour governments but are different because they would:

- Make a direct link between expenditure and outcomes.
- Introduce consistent approaches across the public sector including local government, Whitehall, the NHS and all public bodies.
- Assess and audit proposals and their impact holistically.
- Be driven by the pursuit of the 5 Es and not simply efficiency and effectiveness.
- Improve political accountability at Westminster and in town halls.

Labour sought to distinguish the hot pursuit of value for money from penny pinching and over concentration on economy at the expense of effectiveness, let alone environmental sustainability and equalities. Although it championed outsourcing while in office, it has become critical of what we have called the mindless transfer of services to private companies, leading to fragmentation and often a paradoxical *increase* in public spending.

#### **POLITICAL CREDIBILITY**

Over the last decade from 2010 onwards, public opinion polling and surveying, as well as analysis of general election results, have shown a lack of public confidence in Labour's ability to be prudent with public expenditure. This is a serious handicap for any party of the left faced with the social, economic, and environmental challenges that Labour will face at the next general election.

In the 2017 and 2019 general elections whilst there was support, and in some cases very strong support, for individual Labour manifesto policies and spending commitments the overall package was deemed to lack credibility. People were concerned that Labour would either increase taxes significantly beyond the stated manifesto commitments to only restore higher income tax rates and modestly increase corporation taxes, or that there would be a massive increase in borrowing with a consequential increase in the deficit and the national debt.

In 2017 and 2019, the Labour manifestos were accompanied by detailed analysis of the expenditure commitments and how these would be funded but this failed to thwart attacks on Labour's fiscal credibility. It might be the case that the introduction of some chunky additional expenditure commitments during the 2019 general election campaign made it harder to build the necessary public confidence.

It is ironic, now, that the party once accused of micro-management and excessive interest in performance and outcomes should bear a dismaying reputation for profligacy, waste, and poor management. Polling suggests Labour has a deep problem. Electors may credit Labour's stated intentions to improve services but dispute its capacity to deliver and to stretch available resources.

Yet the necessity of increased taxation of income, transactions and assets is now commonplace in serious political conversation. Labour's challenge is, first and foremost, to regain the confidence

of the public in its fiscal credibility. That means focusing on how well public money is spent. Labour should seek to be seen as the party of effective public spending.

We believe that the adoption of the proposals outlined in this pamphlet would contribute to Labour rebuilding its electoral credibility and enable it to most effectively in government.

### **LABOUR'S OPPORTUNITY**

Labour has to promote its spending plans for welfare, social policy, health and education whilst demonstrating its commitment to effective stewardship of public expenditure and fiscal credibility.

Whether a programme matches the ambition set out in a manifesto is a political judgement. But whether a programme is deliverable; has absorbed the available evidence (especially the findings of previous audit); and whether a credible path has been charted from allocation through to implementation and evaluation each demands patience and a heightened understanding of the state's delivery capacities from Labour's shadow ministers.

Spending plans must be backed up with practical measures to demonstrate the shift in Labour's approach. Policies that improve poor children's life chances, that expand green employment, minimise household emissions, rebalance opportunity and productivity between the regions are by their nature going to be complex to prescribe, fund and organise. How they are implemented will depend on organisations, councils, charities, voluntary groups, businesses as well as households and

individuals that are not controlled directly by central government.

Many are the previous ministers, Blair included, who came to realise that the handle in their office apparently connected to service delivery was illusory. The patient construction of the means of delivering a policy that ‘works’ necessarily takes time and compromise.

Knowing what does work requires a much-improved scheme for audit and assessment. What we have described here is a sketch that Labour’s shadow ministers – along with Labour mayors, councillors and representatives in Wales and Scotland – would need to fill out with their practical experience. Labour local government leaders must be involved in the development and design of any arrangements for pre-spending assessment and for any reforms of audit and related interventions of the public service inspectorates.

Shadow ministers often exhibit selflessness and unity. Once in office, history shows they may squabble and fight their corners. That perpetuates government in silos, citizens continuing daily to experience the offices and agencies of the state as fragmented and even competitive, hitting their confidence in government and potentially reducing their support for progressive policies. The Labour front bench would need to be clear about the respective roles of the Treasury, the Cabinet Office and Number 10 and ensure shadow portfolios reflect a joined-up approach and then enforce real discipline on those making spending proposals, insisting on evidence, modelling of outcomes and commitment to proper audit and assessment.

Making the Office for Spending Effectively work and enforcing responses to and take-up of NAO studies and reports will require a new degree of selflessness among ministers and stronger bipartisanship among MPs. Government in Westminster is biased in favour of mindless immediacy – ‘action this day’ demanded by columnists and shock jocks as well as by MPs and interest groups. A government committed to effective policymaking and delivery needs to be more reflective and hence a considered evidence-based approach.

#### **NO NEED TO WAIT UNTIL 2024**

Keir Starmer has talked enthusiastically about devolving power from Westminster and Whitehall. English local government requires central government financial support. Those areas with the greatest social needs are the places with the least ability to raise taxes locally in the shape of council and business taxes. A Labour government would need to increase such support, but it should do so based on evidence, so that the introduction of proposals described in this pamphlet, or similar measures, would enable the allocation of such funding to be based on firmer evidence than is the case currently.

Where Labour is in power, in the Cardiff Senedd, in town, and county halls and in mayors’ offices across England, its ministers and cabinet members should join in seeking new ways of sharpening their performance and subjecting themselves to new tests of probity and effectiveness. Such an approach, across the tiers of government,

offers Labour an immediate opportunity to shift perceptions.

Labour council leaders and mayors could begin to construct new frameworks before they go ahead with those programmes over which they have some control, as opposed to those where they are required to passport central grants through, for example to schools. They could also begin constructing new audit arrangements. Labour councillors in England should take up the conclusions of the Redmond review and expand them along the lines we have suggested into place-based audit, just as many are already taking a place-based approach on spending. They are struggling to maintain critical public services after a decade of austerity and budget cuts and have to try to maximise the impact of their limited funding. They are collaborating with and seeking to influence the spending decisions of the other public bodies active in their areas.

There are similar opportunities for the government of Wales. In Wales the architecture for joining pre-assessment of spending and audit is already in place. The Welsh Audit Office is responsible for scrutinising the spending of the executive as well as councils and the NHS. It could, encouraged by the Welsh government, step up into pre-spending assessment of plans and follow through with more audit of outcomes.

A constitutional convention headed by Gordon Brown has now been established. It might consider the decayed relationship between central and local government in England, powers of intervention and perhaps look at how services are best delivered in places. It should look at how local spending can be best scrutinised in the context of wider constitutional reform. The reform and regeneration of audit in place is, we believe, a precondition of devolution.

## CONCLUSION

Labour has much to gain from championing public audit and value for money based on the 5 Es as proposed in this pamphlet. This could help restore trust and credibility in Labour as the custodian of public money and sharpen its parliamentary function as the opposition by highlighting shortcomings in the government's approach. Labour stewardship must demonstrate financial credibility if it is to win support; the ideas

in this pamphlet are offered as a way of underpinning the bold reform and spending programme the country needs.

Labour could consider introducing some of the measures proposed in this pamphlet in shadow form ahead of the general election. This would both offer an opportunity to test them but also to demonstrate that Labour is now taking the stewardship of public money seriously.

# RECOMMENDATIONS

There is an urgent need for major increases in public spending and investment in public services, and social and physical infrastructure.

Every public pound spent must maximise value and contribute to the pursuit of equity, equality and sustainability.

Whitehall has to be focused on outcomes and securing value for money in a holistic manner rather than through a silo approach. It must take a long-term strategic approach and move on from short-term tactics – especially those driven by short-term political goals.

Public bodies including councils should similarly maximise community wellbeing and do so in a coordinated way. They must ensure that their spending complements those of all their partners and collectively maximise their positive impact.

These objectives require a fresh approach to public audit and to assessing planned public spending.

Audit should be regarded as the friend of progressive policy not, as sometimes thought in the past, a tool for clamping down on social spending.

Audit is in the throes of institutional and intellectual change, in both private

and public sectors. A major effort is needed to rethink the auditing of sustainability and to introduce, in public audit, notions of fairness and a new awareness of the impact of spending on equalities.

There is no consistent and certainly no effective approach to assessing pre-spending decisions across government and the wider public sector.

- **Public audit** should be accompanied by systematic assessment of spending proposals to spending being committed – and these assessments and public audit should be based on the 5 Es:
  - Efficiency.
  - Effectiveness.
  - Equity.
  - Equality.
  - Environmental sustainability.
- **Public sector auditors** should be empowered to examine outsourced public services, procurement processes and contract performance – financial and operational – and have full access to contractor data and other relevant information including ownership and internal company

money transfers; and undertake an audit of the holistic social, economic and environmental impact of outsourcing contracts. They should assess standards of employment and staff wellbeing as part of their audit process of all public services directly delivered in the public sector and through outsourcing. They should take into account the experience of citizens, staff and service users in their auditing.

- Public sector auditors should also assess the quality of governance, probity and adherence to the seven standards of public life.
- A new **Office for Spending Effectively** should be created within the Treasury and Cabinet Office and overseen by a senior minister. The Office for Spending Effectively would ensure that all expenditure proposals are assessed in advance, using evidence from previous audit and assessment and testing programmes against criteria of effectiveness, environmental sustainability and their impact on equalities. The Treasury, retaining overall responsibility for financial management, would cede oversight of departmental delivery and service outcomes. The OSE should cultivate warm, collaborative relations with the National Audit Office and take responsibility for the quality of data, in close collaboration with the Office of National Statistics and the Office for Budget Responsibility. It would feed into Treasury-led spending reviews.
- The **National Audit Office**, in its capacity as the public sector's supreme audit institution, should be given a new duty to monitor and report on how well spending is assessed, across government; it would acquire the right to 'follow the pound' into the accounts of contractors. Now is the time for the parliamentary opposition to be thinking hard about the conduct of government, both in anticipation and to sharpen its criticism of incumbents.
- There should be a statutory duty on government departments to respond to NAO reports and parliamentary select committees should consider NAO reports. And this should be monitored and overseen by the Office for Spending Effectively.
- A new **Place Audit Office** should be established. Building on suggestions in the Redmond Review, it would remodel audit of councils in England, regenerating the public interest test for their spending and accounts and encouraging councils to review their scrutiny and oversight arrangements. The detailed work of supervising audit and assessment of local spending would be carried out by the Place Audit Office (PAO) within the NAO. It would have its own board drawn from local government and other public bodies as well as independent directors.
- The PAO would monitor how well councils, the local NHS, the police, multi-academy trusts, colleges, and Whitehall departments and



agencies come together to assess the impact of spending and their collective impact on wellbeing in local areas – through a programme of whole place audits – and itself conduct a programme of studies of the efficiency, effectiveness and environmental sustainability and impact on wellbeing including equalities of spending. It would supervise the audit arrangements of constituent organisations.

- The PAO would not answer to ministers and nor would they be able to use to performance manage local government or other placed based local services and agencies.
- More benchmarking data would be made available, querying ‘unexplained variation’ (unexplained by socio-economic differences or deliberate choice). Further devolution of power to local bodies should be accompanied by strenuous efforts to learn from variations in outcome.
- Overlaps and duplication between the new audit structure and the professional regulators, the Care Quality Commission, Ofsted and HM Inspectorate of Constabulary and Fire and Rescue Services should be examined. There is scope for more collaborative work between the inspectorates and auditors drawing on their specialist expertise.
- **Government departments** should focus on delivery, using the skills of professionals and paying more attention to the lived experience of citizens, service users and public

service employees. Much more use should be made of Whole of Government Accounts in planning spending and seeing policies in the round. Changing government machinery will not cure problems arising from the rivalries of individuals and departmental autarky: the behaviour of ministers would have to change too.

- **Local public bodies** should be under duty to pre-assess their spending programmes and together with national public bodies operating in the same place to share data and coordinate spending and assessments, subjecting them to the same kind of evidence-led evaluation as the proposed Office for Spending Effectively in central government.
- Local authority audit committee and scrutiny and overview committees should be properly resourced and strengthened; and consideration should be given to developing mechanisms for democratic local scrutiny of all public spending and its impact in places both based on local authority areas, city regions and combined authority areas, and across the various public service footprints.

Where **the Labour party** is in power, in Wales and in local government, steps should be taken to implement the approach set out in this pamphlet wherever possible in advance of the next general election.

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**FABIAN**  
SOCIETY

# PRIZING THE PUBLIC POUND

JOHN TIZARD AND DAVID WALKER

If we are to make a plausible case for more public investment, we must show that that money will be spent effectively on services. But it is not just about competence: we must demonstrate that spending furthers social justice and is environmentally sustainable too.

In this pamphlet, John Tizard and David Walker make the case for fundamental reform of the way spending decisions are made and checked. They argue that Labour should recover and celebrate its strong tradition of innovation in the mechanics of effective spending.

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