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*Prime Minister*  
*To note*

*MS 15/12*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

We had a word yesterday about the problems posed by Norman St John Stevas' Bill; and I circulated last night a paper to serve as the basis for our discussion in Cabinet tomorrow. Before then, you might like to see the attached record of the talk that John Biffen, Patrick Jenkin, Leon Brittan and I had this morning with St John Stevas, Barnett and Du Cann. It shows that:-

- a. on the questions of appointment and status of the C&AG, we made some progress, particularly with St John Stevas and Du Cann. Barnett remains adamant that you should not be involved at all in the appointment of the C&AG, and that he should be open to direction by the Public Accounts Committee; but we have inserted a wedge there.
- b. on the nationalised industries, they gave no ground at all, despite Patrick Jenkin's warning of the damage which E&AD access could do. My judgement is that we shall not make progress on this one; but
- c. on companies, we gave them much food for thought. I had the distinct impression that St John Stevas had not realised quite how sweeping were the powers his Bill envisages, and quite how unpopular they would be in the country at large. I believe that we can make further progress on this one.

/John Biffen

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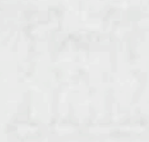
2. John Biffen and I will of course be ready to report all this in Cabinet tomorrow. Copies of this minute go to him and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be the initials "G.H." with a flourish.

G.H.

15 December 1982

CONQUEROR





RECORD OF A MEETING AT NO.11 DOWNING STREET AT 9.30 A.M. ON 15 DECEMBER  
1982 TO DISCUSS THE PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

Present:-

Chancellor	The Rt. Hon. Norman St. John Stevas MP
Lord President	The Rt. Hon. Edward Du Cann MP
Secretary of State for Industry	The Rt. Hon. Joel Barnett MP
Chief Secretary	

(a) Status of the meeting

Mr. St. John Stevas and Mr. Du Cann thanked the Lord President for arranging the meeting. The Lord President made it clear that, while discussions on the issues covered in the draft Bill were important, it would remain a Private Members' Bill. Mr. St. John Stevas agreed, and undertook to circulate a new, and revised, version of the Bill.

(b) Appointment of the Comptroller and Auditor General

The Chancellor recalled that at the last such meeting Mr. Barnett and Mr. Du Cann had agreed to prepare a note setting out their views on the correct future status, and method of appointment, of the C&AG. Mr. Barnett said that the Bill, in its revised form, solved the problem, by providing for appointment by the Crown, on the direct advice of Parliament. Mr. St. John Stevas suggested that this was in line with the precedent of the appointment of the Clerk of the House; but it was pointed out that the Clerk was in fact appointed by the Queen on the advice of the Prime Minister, consulting the Speaker. It was also noted that the Parliamentary Commissioner for Administration was also appointed by the Queen on the advice of the Prime Minister, consulting the Chairman of the Select Committee on the PCA. Mr. St. John Stevas conceded the possibility of amending his draft Bill to provide for consultation with the Prime Minister, and he and Mr. Du Cann thought that there could conceivably be a case for advice to the Crown coming from a joint Commission consisting of the Prime Minister and the Speaker. Mr. Barnett however thought that the Prime Minister should not be involved.

(c) Independence of the Comptroller and Auditor General

The Chancellor thought it essential that the C&AG should not be subject



to direction by either the executive or the legislature. The Treasury's powers of direction under the 1921 Act were a dead letter; and he was prepared to see them repealed. But the draft Bill would give the Public Accounts Committee a new power of direction, which would destroy the valuable independence of the C&AG. Mr. St. John Stevas thought that the PAC should have such a power of direction, but was prepared to envisage amending his Bill to ensure that the priority which the C&AG should give to investigations resulting from a direction should be left to him. Mr. Barnett thought that an amendment to exclude directions to investigate policy issues, as distinct from the propriety, and effectiveness, of expenditure, was conceivable. The Chancellor thought it important to exclude any power of direction.

(d) Staffing of the Exchequer and Audit Department.

The Chancellor said that he assumed that the intention was that the staff of the new National Audit Office would be employed by the C&AG, and would no longer be civil servants. Mr. St. John Stevas said that his Bill provided for the appointment of staff by the House of Commons Commission; but Mr. Barnett said that in practice this could, and should, be delegated to the C&AG. The Chancellor and the Lord President stressed the importance of maintaining a cash limit on the expenditure in question: Mr. Barnett agreed, but foresaw some problems in the House. The Chief Secretary suggested that estimates would have to be presented by the Speaker, but with the consent of the Treasury. Mr. St. John Stevas saw no objection of principle to the idea of a cash limit, but thought that the suggestion of "Treasury consent" would create difficulties. The Chief Secretary did not see how a cash limit could work without this requirement.

(e) Scope of the audit : (i) Non-Departmental public bodies

Mr. Barnett said that he would circulate a note by the C&AG setting out his proposals for the enlargement of the scope of his audit.

Mr. St. John Stevas said that the draft Bill would mean that his writ ran in all non-departmental public bodies where the Government provided more than 50 per cent of the finance. The Chancellor pointed out that this would mean infringing the constitutional independence of the BBC. Mr. Barnett said that in a number of cases, perhaps including the BBC,



it would be sufficient for the C&AG to have right of inspection, but not of audit.

(f) Scope of the Audit: (ii) nationalised industries

The Secretary of State for Industry expressed grave concern at the suggestion of future E&AD access to a nationalised industry accounts. The Government, and the House, were concerned to encourage nationalised industries to act commercially. Ministers were accountable for voted monies made available to the industries; but Whitehall's role should be limited to giving the industries a clear framework in which to operate: they should not be made to feel that their daily business decisions were subject to supervision, and retrospective examination. British Telecom had, for example, been run until recently virtually as a Government department, with full accountability and hence heavy over-centralisation. They had employed not accountants but book-keepers: only now were they being transformed into a truly commercial operation. To insert the C&AG would mean reversing this welcome development. It would also mean vast increases in departmental staff in Whitehall, for sponsor Ministers would be obliged to ensure that their knowledge of the day to day workings of their nationalised industries matched that of the National Audit Office.

Mr Barnett said that he would oppose the Bill, if it would have this effect. But it would not. Value for money audit of nationalised industries would help, rather than hinder, the drive to make the industries act commercially. Mr St John Stevas said that E&AD had ample experience of working co-operatively not only with Government departments but with trading funds, the AEA, the CAA etc. But the Secretary of State for Industry suggested, and Mr Du Cann agreed, that the current E&AD staff, and modus operandi, would be quite inappropriate to investigations of nationalised industries, and it was agreed that any such investigations by E&AD would have to be carried out by specialist trained staff in a self-contained branch of the department.



Mr Du Cann acknowledged that the nationalised industries were concerned about the proposals in the draft Bill. But their concern centred not so much on the insertion of E&AD but on the duplication of supervision, given the involvement of the MMC. The Secretary of State for Industry thought that the least damaging way of allowing greater Parliamentary scrutiny of nationalised industry finances might be not to insert E&AD, but to make the MMC report, on relevant investigations, to the PAC. It was agreed that, if E&AD were inserted, the MMC would have to be withdrawn.

Mr St John Stevas said that nationalised industry fears of the effects of inserting E&AD were misplaced. The PAC, and E&AD, were known to act responsibly. The Secretary of State for Industry pointed out that it was precisely because nationalised industries knew how E&AD worked, and what effect E&AD scrutiny would have on their own working methods, that they opposed the proposals in the Bill. And they were right to do so: E&AD involvement would be inimical to proper commercial management.

(g) Scope of the Audit: (iii) companies Act companies

The Chancellor said that he assumed that the Bill's sponsors envisaged that the writ of the new National Audit Office would not run to companies where the Government's shareholding was less than 50 per cent.

Mr Barnett and Mr Du Cann agreed. It was noted that the Government shareholding in Cable and Wireless was just over 50 per cent, but Mr Barnett indicated that he saw Cable and Wireless as falling outside the NAO ambit.

The Chancellor however pointed out that the Bill appeared to envisage that any company in receipt of money voted by Parliament - eg under Section 8 of the Industry Act - would have to open its books to investigation in respect of the use made of such monies. The effect on potential inward investment by foreign companies could be considerable. And if the Bill's sponsors really meant to "follow public money wherever



it went", they presumably envisaged that every farmer in receipt of a Grant, or every church school wholly or partly financed by Government, would have to open its books. This seemed absurd, and would be very unpopular in the country.

Mr St John Stevas said that, when Parliament voted money, it had a right to ensure that such money was properly used. But though the powers taken in the Bill might be wide, they would be used with discretion. He was asked what changes were in practice envisaged, if the anxieties expressed were, as he said, unreal; and how he envisaged limiting the powers taken in the Bill, in order to set such anxieties at rest. Mr Du Cann agreed that the Bill as at present drafted would open a new, and very wide, door; and Mr St John Stevas said that he would be prepared to consider amendments imposing limits on the National Audit Office's access in respect of private companies. He would consider the matter further.

(h) Further discussions

It was envisaged that a further meeting might be arranged for 20 or 21 December.

*JOK*

J O KERR

15 December 1982

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