

Dying to Improve

The Demise of the Audit Commission and
Other Improvement Agencies

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Two views of the world

Eric Pickles, interview in *The Daily Telegraph*: 'Asked what he would like his greatest legacy to be on leaving office, he says: "I would like, when the space ship arrives from Alpha Centura [sic] and lands in the middle of Barnsley and goes up to No 23 Acacia Ave, and the spaceling says to the lady that answers the door: 'take me to your leader,' she would say 'I'm in charge'. Localism is in charge.'"¹

Eric Pickles: 'I fully accept that I have had great fun abolishing lots of stuff. It's been nice to see the steam coming out of the Labour Party's ears, but I wasn't doing it just to get steamy.'²

Margaret Hodge, chair of the Commons Public Accounts Committee, to Lord Heseltine, the Audit Commission's creator: 'So in your view, the Audit Commission has not necessarily outlived its effectiveness?' **Lord Heseltine**: 'I have not seen any argument to suggest it has.'³

Eric Pickles: 'It had become a top-down regulator of local government, micro-managing local services and imposing excessive and questionable red tape.'⁴

Richard Bacon MP, member of the pre-legislative scrutiny committee: 'The central criticism of the Audit Commission seems to be that it was a very good idea, but it got top heavy, burdensome and bureaucratic. There was, I think, a quite widespread view that it had started to lose its way. On its value-for-money reports, the quantity had increased and the quality had declined. What is the way of making sure that you get all the things you want from a central capacity without it bloating and becoming burdensome?' **Lord Heseltine**: 'Change the chairman. It is no more complicated than that.'⁵

1 Interview, *The Daily Telegraph*, 14 August 2010.

2 *Ibid.*

3 Oral evidence to pre-legislative scrutiny committee of the draft Local Audit Bill, 20 November 2012, HC 696-iii, Q478.

4 Opening Commons second reading of Local Audit and Accountability Bill, Hansard, 28 October 2013, col. 678.

5 *Ibid.*, Q499.

Contents

Two views of the world	i
<hr/>	
1. Prologue	1
<hr/>	
2. The Audit Commission	4
Origins and history	6
May to August 2010	10
September 2010 to December 2013	20
Discussion	24
<hr/>	
3. The National Policing Improvement Agency	29
Impact	33
<hr/>	
4. The NHS Modernisation Agency	34
<hr/>	
5. Conclusions	38
Creation and maintenance	44
Lessons for change	47
Finale	49
<hr/>	
Appendix: Where did NPIA functions go?	50
<hr/>	
Acknowledgements	53
<hr/>	

1. Prologue

At 10am on 13 August 2010 – a day that proved to be a Long Bad Friday for the Audit Commission – Michael O’Higgins, the commission’s chair, took a phone call at his Docklands home in east London from Eric Pickles.

Pickles was the Conservative Secretary of State for Local Government in the new coalition Government. He had taken office in May, a mere 14 weeks earlier. He was calling to tell O’Higgins that the Audit Commission was to be abolished.

The decision, O’Higgins says, came as a shock, ‘a total surprise to me’.⁶ By any standard – and, indeed, in the eyes of many of those involved in the decision to get rid of it⁷ – the Audit Commission had been one of the most successful regulators, inspectors and improvement agencies in the recent history of British government.

It had been set up in 1983 by Michael (now Lord) Heseltine at a time of deep concern about the quality of public services in general and of local authorities in particular. Margaret Thatcher’s government was embroiled in brutal political battles with a number of so-called ‘loony left’ councils in Liverpool, Lambeth and elsewhere. Over the succeeding 25 years, the commission had played a key part in raising the quality of local government. It also had a significant impact in other areas of public life – in, for example, the health, police, probation and fire services.

Its job, in the title of an official – though independently written – history published in 2008,⁸ was to ‘follow the money’, to assess the ‘economy, efficiency and effectiveness’ with which taxpayers’ cash was being spent.

It was to do so without fear and favour. And it did just that, on occasions biting hard the hand that had created it as it criticised the effects of central government policy on local services – for example, focusing on the complexity of local government finance, or publishing a report on care in the community that eventually helped transform government policy.

It produced, over the years, value-for-money and national studies that highlighted best practice, revealed poor performance and provided tools councils and others could use to improve. It had a hat stuffed full of feathers.

On the health side, its studies were still highly regarded. In local government, there was a sense that its greatest hits in terms of national studies were behind it. But it still played some good tunes – spelling out rapidly and clearly how local government was responding to the new world of austerity, for example. Its ability to spotlight misdemeanour was undimmed. In the run-up to the 2010 election it had helped expose the political and operational ineffectiveness of Doncaster Council, a local authority that had proved a spectacular exception to the general rule of improving local government. That led to ministerial intervention.

Abolition appeared to most people to come out of the blue, announced in the middle of the August

6 Interview.

7 Interviews and views expressed at Institute for Government roundtable on the commission’s abolition, 9 July 2013.

8 Duncan Campbell-Smith, *Follow the Money: The Audit Commission, Public Money and the Management of Public Services, 1983–2008*, Allen Lane, 2008.

holiday period, with Parliament in recess, and with a government-wide review of quangos under way, which was not due to report until October.

The announcement landed like a bombshell. Yet it proved to be a silent explosion. Almost no one leapt to the commission's defence. For all its track record, its 2,000 staff and £200m turnover, it appeared to have no friends. The commission's value-for-money work and its national studies seemed to count for nothing, despite the country facing massive spending reductions in order to deal with the deficit – a time when getting value for money out of what was still being spent might have been seen to be crucial.

Labour was locked in a leadership election that was distracting it from almost anything else – and the Labour government, as this study shows, had anyway had its own run-in with the Audit Commission just ahead of the election. For the Conservatives and the Liberal Democrats in the Coalition, abolition was a joint decision. It is true that a small number of academics, and some professional bodies, did fret publicly about the independence of audit, given Pickles's decision that councils should be allowed to appoint their own auditors once the commission was gone.

But audit does not set the public fires burning. It excites not a lot of MPs and even less of the media. Pickles had announced that the commission was going. And in effect – slowly, painfully, and at some expense, though with considerable concomitant savings – it was gone. It disappeared (or to be more accurate, at the time of writing, it is disappearing) with remarkably little public debate, even though Parliament did eventually engage with the issues and there are at least some who believe that, in some incarnation or other, something like the Audit Commission will eventually return.

This study aims to explain – not entirely satisfactorily – how and why the Audit Commission got abolished. It is the core of this report.

But as the work was being done it raised wider questions. Why do so many of the improvement agencies set up by central government seem to come and go so swiftly? High hopes, followed by dashed ones. That in turn – and it is part of the Audit Commission's history – raises broader questions about improvement methods in the public sector, including the distinctions between standard-setting, information, inspection and regulation in the drive to improve services. So the section on the Audit Commission is followed by two progressively briefer and less detailed studies on the disappearance of the National Policing Improvement Agency and the NHS Modernisation Agency, and then by a wider discussion involving the history of some other improvement agencies, and the issues that the case studies raise.

To undertake this work we are immensely grateful for the time given up by participants in two roundtables that were held at the Institute for Government on the Audit Commission and the National Policing Improvement Agency. We are indebted to them and to a considerable number of others who found time for interviews – about those two bodies, about the life of the NHS Modernisation Agency, and more broadly on questions of improvement in the public sector. That work was buttressed by the results of Freedom of Information requests made by ourselves and others, plus the authors' own observations from their experience over the years of what has happened in the drive to improve the quality and cost effectiveness of public services.

All of that, however, leaves this as a far from comprehensive survey of the field. It is hoped, nonetheless, that there is enough here to raise some questions and draw out at least some possible lessons.

The Audit Commission

Origins and history

This is not the place for a detailed history of the Audit Commission. A fine one already exists: *Follow the Money*, written for its 25th anniversary in 2008 by Duncan Campbell-Smith.⁹ Some grasp of its past, however, is essential to understand the events of May to August 2010.

Back in 1983, Michael Heseltine founded the commission at his second attempt – he had had an unsuccessful go at the idea during Edward Heath's 1970-74 Conservative government. Heseltine was one of those relatively rare ministers who are deeply interested in the machinery of government and in governance. And in Campbell-Smith's felicitous phrase, he gave the Audit Commission three 'magic powers'.

First, the public bodies within its franchise were to be audited by genuinely autonomous auditors. They were to be appointed by the commission, and answerable only to it, the public and the courts, rather than to its client bodies.

The principle of independent audit of local government stretches back to 1868 when Parliament decided that district auditors would be civil servants, appointed by central government. No longer would they be local government employees, or gain their post by election. That in turn created the District Audit Service. It had a high reputation for ensuring probity. But its individual auditors were at times seen by critics as being less rigorous than they might have been over value for money – still, in a sense, too close to their clients.¹⁰ The arrival, and the structure, of the Audit Commission significantly boosted that independence. Not only did its staff do the audits, they had the power to issue 'public interest' reports. These were published, for example, where the auditor's advice was being persistently ignored, or where a council was failing to comply with its financial duties, or otherwise acting improperly.

The second magic power was that, a little like a private-sector consultancy, the commission could conduct analyses of public services beyond Westminster that might lead to their better management. Out of the audit data – which the commission was able both to standardise and to require – came the ability to compare and contrast council performance on a huge range of services.

Third, the commission was set up as a public corporation, one of the most independent of the UK government's many versions of an arm's-length body. Its chair and the commission members were to be appointed by ministers. But its members were not to be regarded as crown servants, and ministers were given relatively limited powers of direction over its activities – although, as we shall see, a public corporation can be dumb if it seeks seriously to go against ministerial wishes.

As part of that independence from Whitehall it also had the power to publish critiques of the impact of any statute, or any ministerial direction or guidance on economy, efficiency and effectiveness. This gave the commission the power to bite the hand that had created it by pointing out that what central government was doing was a key cause of the difficulties that public services were facing on the ground.

⁹ *Ibid.*

¹⁰ This section draws heavily on Campbell-Smith, *op. cit.*

A fourth element in its creation that some see as essential to its success was that for much of its history the commission was entirely self-funding. This became less true when it got into inspection and started to take some central government grant. But for its core service, the provision and oversight of audit, it charged its clients, using a mark-up on the costs to fund the value-for-money and national studies that it then conducted. That too underlined its independence. It did not necessarily have to please a central government paymaster in order to do its job.

It was the Audit Commission's national and value-for-money studies, the results of inspection, and the famous decade-long war over Westminster's gerrymandering scandal – the 'homes for votes' saga – which most often gave the commission its national headlines and public profile.

Almost all of that, however, was built on the bedrock of not just the probity audit that typically applies in the private sector – Are the accounts accurate? Has there been fraud, or wilful misapplication of public money? Is the body a going concern? – but on the deeper dig involved in value-for-money audit, which also examined economy, efficiency and effectiveness. Throughout its history, this was the Audit Commission's essential, core business. Only at times, and then relatively rarely, did it consume less than 75 to 80% of its expenditure.

The commission's creation was controversial in all sorts of way – not least among left-leaning councils, who saw it as 'Thatcher's hammer' for local government. It rapidly, however, established credibility for rigour, independence and results.

Over time the commission's reach expanded – into health, the fire service, social landlords and elsewhere. But so did its role. By the mid-1990s and prompted by John Major's Citizen's Charter, the commission was publishing a yet greater range of key performance indicators for councils as part of a wider government drive to produce league tables of performance in public services.

When Labour took office in 1997, it scrapped the Conservative policy of compulsory competitive tendering (CCT) for local services. This, in the interests of driving value for money – and, *sotto voce*, as a tool for breaking up some old working practices – involved an absolute requirement to put services out to tender even if the policy still allowed an in-house team to win.

Labour instead introduced the concept of Best Value, under which compulsory tendering would go but councils would still be required to obtain best value from their services, with the Audit Commission inspecting their actions and plans, the results, and the potential for improvement in services.

This was a crucial shift. Up to the mid-1990s the commission's role, beyond its purely audit function, had been, in the words of Howard Davies, its second controller, to publish data and reports that 'illuminated choices' for both local and central government. Best Value not only acquired capital letters, it turned the commission into an inspectorate as well as an audit body. In the eyes of some this was a fateful decision. As George Jones and John Stewart of Birmingham University put it: 'It turned the Audit Commission in effect into an agent of central government.'¹¹

Best Value was conceived as a less onerous regime than CCT. Those involved in its design, however, remember going to officials to offer three potential levels of inspection – a substantial one, a middle regime and a low-cost one. Their implicit assumption was that ministers would want the middling option.

11 George Jones and John Stewart, 'Local audit – can we learn from the past?', in Clive Grace (ed.), *The Future of Public Audit*, Solace Foundation Imprint, 2012, p. 17.

'The regime they wanted us to implement was *twice* the size of our big regime and at least three times the size of what we'd felt confident of agreeing,' one of those involved says.¹² The result was that Best Value rapidly became a costly, bureaucratic nightmare. The charge to councils for the commission's inspection fees reached almost £50m a year at its peak, aside from local authorities' own expenses in compiling the information, doing whatever tendering was still involved, and complying. The process was epitomised at its most extreme by the inspection of Scarborough Council's best-value plan for its public toilets.

Out of the ashes of Best Value – an inspection regime that was widely seen to have gone mad – came the Comprehensive Performance Assessment, or CPA. Crucially, it pulled together the findings of the commission's auditors and inspectors, and the findings of other inspectorates in so far as they touched on local government – Ofsted for schools, and the social services inspectorates, for example. CPA included a self-assessment by each council, and the findings of a peer group of councillors and officers from other authorities. The result was a single assessment of each local authority – classifying it as excellent, good, fair, poor or weak.

CPA, first published in 2002, was a step change. It focused not just on the quality of services but on the corporate governance of a council – the overall performance of its elected leaders and members, as well as its officers – while making a judgement about the authority's capacity to improve. Putting all that in the public domain proved mighty powerful.

The annual publication could be highly embarrassing on the day in the local media for councils at the bottom of these league tables. But its real impact came from the peer pressure the exercise generated. Neither elected members nor officers wanted to be in the bottom categories, particularly when their peers could see, transparently, that was where they were. A tool for genuinely driving improvement – indeed, self-improvement – had been found.

The combination of CPA and the commission's previous role in publishing comparative data, manuals and guides had progressively, in Lord Heseltine's phrase, 'elevated the practice of the best to a standard that others could copy'.¹³

By the mid-2000s, however, a tide was turning.

There was growing concern – across government and across parties – about the impact of Labour's heavily target-driven approach to the reform of public services and the distortions that could bring. Concerns were also mounting about the concomitant cost of inspection – not just in the Audit Commission's area but more generally – and about the wider cost of regulation in both the public and private sectors.¹⁴

In 2006, the National Audit Office produced a crude estimate that the cost to local government of all of central government's monitoring of its activities – a definition that stretched far wider than the Audit Commission's demands for information, including demands from the local government department itself as well as from those responsible for, for example, health, education, the criminal justice system and social services – amounted to something in the region of £2bn a year on

12 Peter Wilkinson, managing director, policy research and studies, at the Audit Commission, quoted in *Follow the Money*, op. cit., p. 437.

13 Evidence to pre-legislative scrutiny committee for the draft Local Audit Bill, HC 696-iii, Q485.

14 E.g., see the Hampton Review, *Reducing Administrative Burdens: Effective Inspection and Enforcement*, March 2005.

expenditure of just over £140bn – a sum that nobody would regard as chicken feed.¹⁵

The rhetoric of ‘light touch’ regulation, which, with awesome consequences, was being applied to banking and the City, entered the public sector discourse. A quango cull saw a bunch of health and social care regulators painfully – indeed, damagingly – amalgamated, while the Audit Commission itself was cutting inspectorial numbers, promising to halve the cost of its inspection work.¹⁶

Local government, its performance much improved – and arguably more improved than the performance of central government – was developing a new confidence. From across the political spectrum there were calls for a renewal of its role after three decades and more of increasing centralisation.

Labour started talking of a ‘new localism’, although for some time that remained a lot more rhetoric than reality. By 2007 it was promising to cut the number of targets local authorities would face from hundreds to a maximum of 35 and to slash the number of performance indicators that still existed from 1,200 to a maximum of 200 or so. And the burden of inspection was falling, at least on the Audit Commission’s own figures – down, the commission calculated, from 650 inspections for the bigger authorities in 2002 to 67 by 2009-10, with its own inspection fees reduced by 72%.¹⁷

Sir Michael Lyons, a former deputy chair and acting chair of the Audit Commission, was commissioned by the Labour government to review the local government settlement. He produced a series of reports between 2005 and 2007 that called for local authorities to be ‘place shapers’ – an ugly phrase that translated into engaging with and influencing other public services, from health to transport to the criminal justice system and much else, in order to set local priorities and investment and encourage economic development. It was acknowledged that this might indeed lead to more local variation in services around the country, but it would also lead, it was argued, to more local responsiveness.

This could be done, Lyons declared, because of ‘clear evidence of improvement in local authorities across the country, resurgent and self-assured cities, and an acceptance across the political spectrum of the need once again to empower our communities’.¹⁸

The idea of Total Place emerged – an exercise in which all the public money spent locally, from benefits to the NHS to the criminal justice system, education, council services and much else, was added up. The figures amounted to £7bn in Cumbria, £7.5bn in Birmingham and £8bn in Kent; these were some of the first authorities to try the exercise.

Sir Michael Bichard, a former council chief executive, former Permanent Secretary at the Department for Education and Employment, and at the time head of the Design Council, took a look at this as part of a government efficiency review. He summed the idea up neatly: ‘Once you have that information, surely to God we can find a way of using it more effectively locally, reducing overlaps and overheads and transaction costs, and designing services around the way people actually want to use them.’¹⁹

15 [Lyons Inquiry into Local Government](#), final report, TSO, March 2007, par 3.7, p. 79. and NAO response. See also [National Audit Office Response](#).

16 *Financial Times*, 9 February 2005.

17 Briefing note by Audit Commission prepared for the Institute for Government.

18 *Lyons Inquiry into Local Government: Place-shaping, a shared ambition for the future of local government*, TSO, March 2007, p. ii.

19 *Financial Times*, 24 April 2009.

Total Place was anything but a party political issue. Tory-controlled Kent, Labour-led Manchester and no-overall-control Birmingham and Cumbria, for example, became big advocates. Thirteen relatively small pilot projects for Total Place were launched, coming to a conclusion just a month or two before the 2010 general election.

The Audit Commission was inevitably drawn into this. In part to support the idea of Total Place, it was asked by government to replace its Comprehensive *Performance Assessment* – now in its sixth and seventh year and in need of a further refresh – with a Comprehensive *Area Assessment* (CAA).

This took the judgement about whether a council was doing well on to a wider canvas – assessing how well all major public services in an area, including the council, were performing. It brought together on a single website – Oneplace²⁰ – the findings of six different inspectorates: the Audit Commission, Ofsted, the Care Quality Commission (health and social care) and the prison, police and probation inspectorates. Innovative services were highlighted by a green flag for others to learn from; failing services by a red one. The idea was that citizens as well as councillors and officers could see in detail not just how their area was doing but how it compared with others, and then drill down into the differences on the website. Oneplace was firmly aligned with the idea of Total Place.

The website and the work behind it, according to the commission, cost some £22m. Local government's own contribution, it said, was £6.7m. But there were bitter complaints from some councils, whether justified or not, about the cost and burden of the new exercise, with some claiming it cost vastly more than the Audit Commission's figures. On the day it was launched, the leaders of two Tory councils who had come extremely well out of the exercise – Wandsworth, and Hammersmith and Fulham – condemned it as a waste of money. It had cost them £100,000 each to put the information together, Edward Lister, leader of Wandsworth, declared, and the assessments were 'too bland and superficial' to be meaningful. Steve Bundred, the commission's chief executive, insisted that as councils and citizens used the website over time, it would prove to be 'a really powerful tool for improvement'.²¹

CPA in its various versions had always earned, at the very least, a grudging respect from local authorities, while winning a decidedly warm regard from some. CAA had far fewer friends. Indeed, it had fewer friends within the commission.

Advocates of CAA²² believed that, like CPA, its impact would come in the second and third years as councils, other services and, perhaps, citizens reacted to the pictures that Oneplace painted.

CAA was, of course, a request from the Labour government, not something that the commission dreamt up for itself. But at least some within the commission felt it to be a bridge too far. 'It was overkill,' says one figure from the audit side. 'You would have 40 or 50 people in a room trying to figure out how to make this work, how to make a judgement on an area, with lots of judgement involved – on red flags and green flags and the like. Local authorities were having to battle with Ofsted and CQC and all these people coming in to make a judgement. It was all too much. Those of us from the audit side said, "This has gone mad."' Some of the Audit Commission's board shared the view – at least in retrospect – that CAA was overkill. Too ambitious.²³

20 [Archived website](#).

21 *Financial Times*, 9 December 2009.

22 *Ibid.*

23 Unattributable interviews.

Local government's view, in fact, was mixed. A survey of council leaders and officials conducted by the Local Government Association in the summer of 2009, in the run-up to publication of CAA, declared that 'generally speaking there has always been support for the vision of an area and outcomes-focused assessment – and some of the benefits of this approach are beginning to be glimpsed'. But only 11% believed CAA had reduced the burden of inspection and 66% felt it had not. Nearly 40% felt they were spending more time, not less, on inspection-related activities. Only a quarter felt that the various inspectorates had coordinated their activity better. Furthermore there was a distinct minority view (34%) that elected members, as opposed to officers, had not been sufficiently engaged in the exercise – a significant finding given that politicians ultimately decide the fate of bodies such as the Audit Commission.²⁴

Within the Conservative Party – or within its national leadership – deeper currents were running.

As David Cameron declared himself in favour of 'Big Society, not Big Government', Oliver Letwin, the policy co-ordinator in chief, was developing his proposals for 'government in a post-bureaucratic age'. The phrase lit no one's candle. But it opened up a vast agenda that included using more market-like mechanisms to run public services, encouraging local democracy – through elected mayors, elected police and crime commissioners, for example – encouraging social enterprise, devolving more to local government, and indeed devolving power to a level below that by, for example, equipping voters with the ability to trigger local referendums. Other elements included publishing vastly more central and local government data on expenditure and much else – 'open data' – in the hope of creating 'armchair auditors'.

'The ambition is to liberate the energies and reinforce the social bonds of our people so that they can achieve what has not been achieved and will never be achieved by the mechanisms of centralised bureaucratic micro-management,' Letwin declared.²⁵

For the Audit Commission, this was plainly going to mean a reduction in inspection.

By 2008, the Conservatives – well ahead of its first publication at the end of 2009 – had announced that they were going to abolish CAA and, by implication, its public face, the Oneplace website. The aim was to 'end the micro-management of local governments through centralised bureaucratic processes', liberating them 'from intrusive central inspection regimes'.²⁶

The final election manifesto was less specific on CAA, promising only to scrap the hundreds of process targets that local government still faced while ending the 'bureaucratic inspection regime that stops councils focusing on residents' main concerns'.²⁷ It was, however, clear that CAA was going to go.

At no point did this imply total abolition of the Audit Commission. The 2008 paper specifically stated that 'the Audit Commission's role will be to ensure the propriety of local government's spending and to investigate complaints'.²⁸

24 Local Government Association, *Comprehensive Area Assessment: How is it measuring up so far?*, September 2009.

25 Oliver Letwin, 'Tories have no lack of policies', *Standpoint*, October 2009 (accessed 17 October 2013).

26 *Control Shift: Returning Power to Local Communities*, policy green paper no. 9, section 2.6, www.conservatives.com, October 2008.

27 Conservative Party manifesto, 2010.

28 *Control Shift*, op. cit.

Neither CAA nor the Audit Commission got a direct mention in the Liberal Democrat manifesto. But with the Liberal Democrats having always been the party of local government, it did promise to 'scrap nearly £1bn of central government inspection regimes on local councils',²⁹ a sum, whether credible or not, that would pretty clearly include CAA. Vince Cable, the Liberal Democrat shadow Chancellor and deputy leader, had made a speech decidedly critical of the new assessment regime at the annual conference of the Local Government Association in 2009. One of Eric Pickles's very first acts when he became secretary of state after the election was to scrap it.

May to August 2010

The appointment of Pickles had come as something of a surprise, despite his background as leader of the flagship Tory borough of Bradford in the 1980s, and his previous role shadowing the local government portfolio. In the run-up to the election, he had been party chairman. As such he had had his contacts with the Audit Commission, as he had throughout his political life.

'I had good contacts with Pickles in his role as party chairman,' says Steve Bundred, chief executive of the Audit Commission until March 2010, 'because occasionally when we had concerns about Conservative councils it was helpful to allow the party to try to resolve them in its own way. So there were good discussions between ourselves, and him, and the LGA improvement board along those lines. I had a good relationship with him.

'He said to me once that "if I lob the odd grenade over the garden fence to keep you on your toes, don't take it personally". I just do not believe it was their intention to abolish the Audit Commission before the election.'

With the benefit of hindsight, were there in fact warning signs? A conspiracy theorist would see some. For a considerable period, and particularly in the six months or so ahead of the general election, the Audit Commission had faced a large number of hostile parliamentary questions from Conservative MPs, with some from Pickles himself, focused on its expenditure and expenses and on what the MPs dubbed its 'political activities'.

That last had been triggered by a decidedly damaging story in *The Sunday Times* at the end of January 2010. The Audit Commission, the paper said, had spent £60,000 in order to gain political intelligence ahead of the election with Connect, a public relations firm that had done much work for Labour. Its leaked report advised the commission on how to 'combat the activities of Eric Pickles' and other Tories who wanted to dispose of CAA.

The report may in the Audit Commission's eyes have had its inaccuracies. But the Conservative reaction was significant. Pickles himself went on the offensive and Caroline Spelman, the party's shadow Communities Secretary, declared: 'This is a complete abuse of taxpayers' money by a body which is supposed to be standing up for taxpayers' interests. We can no longer have confidence in the Audit Commission if it has become such a creature of the state that it bankrolls lobbyists to save its own skin and call for more red tape.'

The row had added spice as Labour itself was expressing concerns about public bodies' spending on various forms of public relations³⁰ – not least asking the Audit Commission to examine councils' use

29 Liberal Democrat manifesto, 2010, p. 90.

30 *Putting the Frontline First: Smarter Government*, Cm 7753, December 2009.

of their own freesheet newspapers to promote their activities in ways that some saw as political.

David Walker, the former Guardian journalist who was the commission's managing director for communications and public reporting at the time, acknowledges the impact of the Connect study. 'It was not an explicit piece of work. It was part of an ongoing contract, and the report looked at Labour and the Lib Dems as well.' The episode, he says, 'does raise questions about whether arm's-length bodies should be doing political intelligence. And the answer in that particular pre-election context turned out to be "no" because of the negative publicity it generated.

'I should have been much more aware of the downside risk. It was one element in empowering Eric Pickles and others to identify the Audit Commission as a bad thing, from the abolition of which political credit could be derived.'

Such rumpuses, however, usually come and go. An incident like that hardly sounds like the sole justification for abolishing a body. More serious, post the election – but against that background – was a bitter public row about the appointment of a new chief executive after the departure of Bundred from the Audit Commission in March 2010. The row took on a symbolic significance larger than the actual issue.

One unintended side effect of CPA had been to bid up the pay of local authority chief executives. Those in successful authorities found themselves head-hunted by other councils as local authorities sought to buy in the talent to climb the league table of performance. The same applied to senior officers in successful authorities, who could move on to chief executive posts elsewhere. Buttressed by the advice of head-hunters that to get talent you had to pay for it, remuneration rose sharply. By 2009-10 salaries of £200,000 and more for a council chief executive were common. Some were clearing £250,000 and even £280,000.

Local government was far from unique in this salary inflation. The heads of the biggest NHS hospitals, particularly when they became free-standing foundation trusts, also enjoyed significant pay rises, some topping the £200,000 mark, the pay being justified by the argument that they were running businesses with a £1bn-a-year turnover. Chief constables' pay was also on the up, on similar grounds. Whitehall was recruiting private-sector expertise in IT, procurement and other skills. This did not come cheap, even when the individuals concerned took big cuts on their previous private-sector salaries. Partly in acknowledgement of that, permanent secretaries too began to be paid significantly more, some clearing the £200,000 barrier. By 2009, more than 170 civil servants were earning north of £150,000.³¹ The numbers involved were small, but the impact in headlines was large.

These increases generated a determined campaign by the TaxPayers' Alliance and plenty of stories about 'fat cats' in the public sector. The worm had started to turn even before the financial crisis made it clear that a huge period of austerity was on the way. Indeed, in December 2009, Gordon Brown had stolen some Conservative clothes, announcing as part of a 'smarter government' white paper that new salaries above £150,000 would require Treasury approval.³²

After the election, Cameron took a £50,000 cut in prime ministerial pay and made it formal government policy that Treasury approval would be needed for any new recruits to be paid more than his own £142,500 – despite the fact that his total package, if allowances and living

31 *Financial Times*, 1 June 2010.

32 'Gordon Brown announces plans to name and shame public sector excessive earners', *The Guardian*, 7 December 2009.

arrangements at Number 10 and Chequers were taken into account, was more like £580,000.³³

Bundred had been on £217,000, plus a generous pension package that was worth £63,000 a year and had a transfer value of £1.5m at the time of his departure.³⁴ The Audit Commission had advertised the job. 'We had recruited a very able leading local government chief exec who was willing to take a significant reduction on their then salary and package, and who would also have been paid less than Steve Bundred,' says Michael O'Higgins chair of the commission until 2012.

But at O'Higgins's first and only formal meeting with Pickles – who had already taken an instant spending axe to his own department – the Communities Secretary made it clear that the base salary being offered of around £200,000 was not acceptable.

'He indicated that he could possibly live with a number of £160,000 or £170,000. It didn't have to come right down to the prime minister's alleged salary. I indicated I thought it was unlikely that the candidate would accept such a large reduction but would check it out. And it indeed turned out that the larger reduction was not palatable,' says Michael O'Higgins, chair of the commission until 2012.

A day or two later, on 30 May, Pickles told *The Sunday Telegraph* that he had 'vetoed' a package he put at £240,000. 'The spiralling level of pay and perks for town hall bosses stops here. By blocking this massive salary for the Audit Commission, I want to send a signal to councils across the country that they too can stop paying ridiculous sums to chief executives.'³⁵ There were enough details in the story to signal to other candidates that they were not the favoured one, O'Higgins says. He continued to argue privately that, as a public corporation, the commission could make its own decisions on pay, regardless of ministerial views, and the story of the pay row between Pickles and the commission continued to bounce around the newspapers. But in mid-June the commission's board threw in the towel. O'Higgins announced that it was suspending its search for a chief executive 'until decisions can be made on its structure and remit'. Pickles crowed.³⁶

Was the row over the chief executive's pay a tipping point in the decision to abolish the commission? 'I don't know,' O'Higgins says. 'You could hypothesise that it caused something to snap.' There were two other signs, he says, that, with hindsight, suggested that the commission might be in trouble. Sometime in May or early June, the department 'asked us some questions about our pension scheme. If you were a conspiracy theorist you could assume that any question like that is a prelude to something,' O'Higgins says. The questions, unsurprisingly, did not register on the commission's Richter scale. Equally, in July, Irene Lucas, acting Permanent Secretary at the Department for Communities and Local Government and a former council chief executive on Tyneside, had accepted an invitation to the commission's annual lecture, but had withdrawn at the last minute.

In fact, the roots of the row over the chief executive's pay ran far deeper than was publicly known at the time. O'Higgins had first approached the then Labour Communities Secretary John Denham about hiring a new chief executive back in November 2009, when Bundred had announced he was going.

In early December the Government published the already mentioned 'smarter government' white paper promising 'radical reform to senior pay across the public sector' along with the stipulation

33 Hutton review of fair pay in the public sector, interim report, December 2010.

34 Audit Commission, *Annual Report and Accounts*, 2009-10, p 24-5.

35 'Eric Pickles vetoes £240,000 salary for Audit Commission chief executive', *The Sunday Telegraph*, 30 May 2010.

36 *The Daily Telegraph*, *Financial Times*, 16 June 2010.

that salaries above £150,000 would require Treasury approval.³⁷

At Denham's instigation, Peter Housden, the department's then Permanent Secretary, wrote to O'Higgins on 17 December making all that plain, underlining that the days of big public-sector salaries were meant to be over.

O'Higgins's reply on 20 January could not have been blunter – the commission would make its own decision. 'The board is unanimous', he wrote, 'that (as specified in the Audit Commission Act) it will determine the terms and conditions of appointment.' The recruitment consultant's view was that 'it is very unlikely there would be any credible candidates for a post advertised at £140K-£150K. This view was shared by all civil servants at director-general level to whom they spoke.' He enquired about 'the process' for getting Treasury clearance, while adding, just to make the point crystal clear: 'I am not, of course, suggesting that the board will necessarily agree to waive its authority under the Audit Commission Act.'³⁸

Denham's response was swift. He too could not have been clearer. On 5 February he wrote personally to O'Higgins to say the pay package 'should sit alongside the principles for public-sector pay set out in our Smarter Government White Paper and the Prime Minister's expectations on the pay of senior public-sector posts. That is to say that salaries in excess of £150,000 cannot be easily defended and if exceptionally offered we will require rigorous and transparent justification.

'The Audit Commission must be an exemplar and leader among public bodies both in propriety and delivering value for money. This is imperative if the commission is to maintain credibility.'

Denham asked for confirmation that 'the Government's position will be made clear to all prospective candidates', and drove the point home yet again for the fifth time in a four-paragraph letter by concluding that 'getting the pay for this post right is critical to the Audit Commission being able to command confidence and respect from those it serves'.

O'Higgins replied that the advertisement for the job – just published – had 'set no particular salary at this stage'. The board had decided that it should 'seek the best possible field of candidates, and then, at the point of getting to a shortlist, consider salary as one of the issues, around determining the final appointment'.

He would indeed make sure that Denham's views were conveyed to the candidates. But without specifically mentioning figures, he repeated the recruitment consultants' view that there would be no credible candidates at the £140K-£150K mark. And he ended by enquiring again about 'the process of seeking the consent of the Chief Secretary [to the Treasury] to a salary of over £150,000'.

Denham says that, as secretary of state, he found the commission 'was not the easiest of organisations to deal with'.³⁹ The issue of the chief executive's pay was, he says, symbolic. 'You could not really have sent a more explicit letter than the one that I sent, and it was, so to speak, a two-fingers response back from the Audit Commission. We will appoint who we want.' They appeared not to feel that 'they had any responsibility whatsoever to reflect the public sentiment about extremely high salaries in the public sector, even when they were expressed twice in the strongest possible terms by the secretary of state.

37 'Gordon Brown announces plans to name and shame public sector excessive earners', *The Guardian*, 7 December 2009. *Putting the Frontline First: Smarter Government*, Cm 7753, December 2009.

38 O'Higgins to Housden, FoI release, 20 January 2010.

39 Interview.

'There had been a complete change of mood and it seemed quite extraordinary that the Audit Commission did not feel that any of this applied to them, particularly when they were meant to be the watchdog on the way other people used public money.

'That gives the sense that the Audit Commission, far from being a creature of ministers [the charge the Conservatives were making and were to make], had taken on a view of its own role in the system that was quite difficult.'

Denham says that had Labour won the election and the commission stood its ground, O'Higgins would have been dismissed. 'He would have gone. Had I been secretary of state my position would have been untenable in defending a [large] salary for the chief executive after specifically saying they should not be appointed on that salary. It was so close to the election that we moved on to other things, but there is no doubt he would have been removed.'⁴⁰

And, as Denham observes, the part of the row over the chief executive's pay that did become public 'didn't help make the Audit Commission's case after the election'.

The Audit Commission's decision to suspend its search for a new chief executive, announced on 16 June 2010, was seen as a cause of public celebration by Pickles as he declared that he had put a stop to the 'spiralling level of pay and perks for town hall bosses'.⁴¹

But by then – unknown to almost anyone outside his department – he was already proposing the commission's abolition. On 18 June, just two days after the search for a chief executive was suspended, Paul Rowsell, the deputy director for local democracy at the department, sent a memo to Pickles setting out options for the future of the commission's various functions, on the grounds that 'we understand you are considering its abolition'.

The memo is one of a string of heavily redacted documents released under the Freedom of Information Act which allow at least part of the process within the department to be understood. At this point, however, a formal decision to abolish had not been taken.

Bob Neill, local government minister in the new coalition, says: 'We did not start from a premise that the Audit Commission was a dead duck from day one. We wanted to see if it was capable of adapting to a new, much more localised regime.'

Neill's take is that the commission 'had lost its way. It had become so much of an improvement agency that it had moved away from its core function, which was to regulate local audit. It was turned by the Blair government into an improvement agency. It was also both the regulator of audit and a key provider. It had two-thirds of the audit market that it was regulating. So in that sense it was slightly odd body.

'It had become the vehicle for the delivery of centrally driven targets through a bureaucratic approach which micro-managed local government and diverted energy away from local improvement.

'And it started to behave too much like a corporate, with its own expenditure. As a provider of two-thirds of the audit market it had acquired quite a lot of the trappings of a big audit practice.'

40 *Ibid.*

41 *The Daily Telegraph, Financial Times*, 16 June 2010.

Yet at the same time it was talking about value for money and improvement for local authorities. It wasn't actually demonstrating that lean, mean approach itself. And it wasn't taking local government with it.

'There had been a shift in philosophy towards sector-led improvement, moving away from the old days of inspection. Local government itself had got better at the self-improvement game. And it hadn't kept pace with that. So it lost its constituency. It was less relevant, and its own behaviour didn't engender respect in the way it previously had. And this shift towards localism and self-improvement within the Conservative Party put us into closer alignment with the Lib Dems on this issue – that we should be looking to the sector to drive improvement much more. So we [the Conservatives] were not convinced that the measures which we had been prepared to go with 13 years ago [when the Blair government moved the Audit Commission further into inspection and improvement] were the right way forward.'⁴²

Some of that view needs a bit of explanation. From the commission's foundation, there had been a question about how much of the audit should be provided by the commission itself and how much should be provided by the private sector, under contract and supervision from the commission.

Heseltine had been keen for the private sector to do more, but had left it to the commission to work out the proportions. It had settled on a 70/30 split – 70% of audits provided by its own District Audit staff, 30% let to the private sector. The District Audit Service was long established, and in the commission's early days there was no desire to create huge disruption by privatising it. There was also a view that it was a good idea for the commission to know its own business inside out, so that it would know if it was getting good value from the audit contracts it put out to tender. A similar business model was far from unknown in the private sector in the 1980s – the supermarket chain Sainsbury's, for example, ran some model farms itself in order to understand better the business of its suppliers and what it could reasonably demand from them.

The commission – as we shall see – did from time to time think about altering the public/private split on the audit side. But it had also started to underline its own scale. Its 2007-08 annual report stated – or, as some saw it, boasted – that its audit practice was the sixth largest in the country. The annual report for the succeeding year pointed out that it was now the fifth largest. The sheer size of it was one reason the commission cited in its argument for a large pay package for the new chief executive. Pickles, when he heard about it, was taken aback. What was the fifth-largest audit practice in the country doing in the public sector?

There was also pressure from some councils for them to be allowed to appoint their own auditors – overturning what many saw, and still see, as a 150-year history of independent appointment of auditors that provided the bedrock guarantee of independence. Partly councils just wanted the power. Partly some – mainly larger ones – believed that they could get better value for money by avoiding the fees the Audit Commission was charging them for the use either of its own auditors or for the private-sector auditors that the commission provided.

There was a precedent of sorts for what these councils wanted. When NHS foundation trusts were created in the mid-2000s, they were allowed to appoint their own auditors, rather than the Audit Commission providing them, as it had for all NHS bodies up to then.

42 Interview.

The commission protested at the time. But with the Blair government struggling to get the foundation trust bill through the Commons at all – and with audit not being a subject that set the pulses racing – the issue never became central.

Steve Bundred, the commission's former chief executive, says that once FTs were allowed to appoint their own auditors 'in relation to the principles of public audit, the pass had been sold. Why should the London Borough of Camden not have the same freedom as University College Hospital in relation to the appointment of its auditor?

'The answer is that it shouldn't. Allowing FTs to appoint their own auditors was a mistake, but once that had been done ...'

Much was to be made during the subsequent debate on the abolition of the commission that not a single public-interest report has been issued by an auditor on a foundation trust – despite some hitting significant financial difficulties and one or two, notably Mid Staffordshire, and Basildon and Thurrock, getting into deeply serious trouble.

There is a different view, however. Andy McKeon, head of health at the Audit Commission, says: 'I don't think a public-interest report is relevant to foundation trusts. Because if you look at their total control environment they have the Care Quality Commission inspecting them and they have Monitor [the foundation trust regulator] sitting on top of them. They have to submit quarterly plans to Monitor, and their performance against plans is monitored and they get rated, with Monitor intervening, including sacking chairs and boards. There is a regulatory accountability that does not exist in local government.'

Whichever argument is right, there was a groundswell of opinion among local authorities – though not, on the published evidence available, a very strong one – that councils should be able to appoint their own auditors.

As June 2010 turned to July, the abolition case was proceeding apace within the department. Rowsell's 18 June paper had argued that abolishing the Audit Commission would be 'a significant decentralisation, creating genuine local choice to be exercised by councils and other bodies about their auditors'.

Abolition had the potential to lower costs as the private sector competed for audit contracts, his memo argued. And there would be 'significant savings' from the disappearance of the commission's corporate core and its centralised functions.

By 8 July – just 20 days later – the decision had in effect been taken, subject to cabinet approval. A further Rowsell memo attached 'an outline narrative for the announcement, and the proposed approach to securing collective agreement', the aim being to get that approval at the Home Affairs Committee of the Cabinet by 21 July.

Only 'a limited number of officials' and special advisers had been involved to date on a 'need to know' basis, Rowsell said, and Pickles's agreement was sought 'to widen the engagement and start to establish a project team'.

That was granted. The 21 July deadline was not met. But by 28 July discussions had taken place with the other affected departments – notably the Treasury, the Home Office and the Department of Health. Officials in the last of those were far from keen about the idea.⁴³ But they had been locked in the maelstrom of preparing Andrew Lansley's 'really, really revolutionary' NHS white paper ahead of its publication on 12 July,⁴⁴ and Lansley himself appears to have raised no objection. The same appears to have applied at the Home Office.

The issue did not go far up the Treasury hierarchy. The Treasury and its ministers were preoccupied with drawing up the biggest spending cuts in living memory. And despite Michael O'Higgins being a non-executive on the management board of the Treasury and chair of its audit committee, he got no word of what was about to happen.

The 28 July memo says the consultations suggest 'there is no resistance to the proposal' within government, and adds that the National Audit Office (NAO), which is in effect Parliament's rather than the government's overseer of central government value for money, had also been consulted. The NAO, the memo states, is 'very supportive of the proposals' – although that is not everyone's recollection.

Within the Audit Commission there is a strong suspicion that Amyas Morse, the controller of the NAO, was decidedly keen on this piece of empire expansion.⁴⁵ Others recall conversations in which he said he did not really like the idea, but if that was what government wanted, it was not something he could resist. Some in the communities department confirm that, whatever the memo said, 'he didn't really want to do it'.⁴⁶

The Treasury did not formally object, although it raised a number of issues. It queried how the communities department had reached an estimate that abolition would save £70m. It raised the constitutional question of the NAO's role (as a parliamentary watchdog answerable to MPs) in relation to elected local authorities. It noted that the announcement would affect the future arrangements for audit, 'but we also have a strong interest in the assessment/inspection side of things, and more broadly on how we retain a focus on value for money in departmental spending, including through local government'. And it noted the commission's specific power to refer councils such as Doncaster to the secretary of state for intervention, underlining that 'it is key that we have a clear story on this' for the future. None of that, however, amounted to a veto.

Bob Neill says that what follows 'is speculation. But they [the Treasury] were busy as hell doing other things. And it is fair to say that Eric had acquired the department a very considerable bank of credit with the Treasury because he had moved quickly to identify areas for his own cuts, both within the department and in local government. He was not adopting a protectionist attitude to his own spend, and therefore there was trust at the ministerial level that DCLG probably knew what it was doing. So I think, if the Treasury had concerns, which it did, in a perfectly proper way, we were able to lay them to rest quite swiftly'.⁴⁷

The 28 July memo set out what turned out to be a hopelessly optimistic timetable for the commission's abolition. Legislation would be introduced in the September. Royal assent would

43 Unattributable interview.

44 See *Never Again? The Story of the Health and Social Care Act 2012*, Institute for Government and the King's Fund, 2013.

45 Unattributable interviews.

46 Unattributable conversations.

47 Interview.

be achieved by autumn 2011. And the new dispensation would be up and operating by summer 2012. In practice, the legislation to abolish the commission did not even enter Parliament until August 2013, two years later than planned. Full implementation remains some years away, if it ever happens.

The memo also notes that there was pressure for an announcement in August as the terms of office of four commissioners were to end on 31 August. If at least two appointments were not made, the commission would have too few commissioners legally to operate. Prior to appointment, however, the memo notes, 'we wish to be clear on the future plans for the commission'.

A fortnight later, on 13 August, Pickles put his call through to O'Higgins. The Audit Commission chair had returned from holiday on the afternoon of Wednesday 11 August to be told the next day by his private office that the secretary of state wanted to speak to him on the Friday.

'Quite unusually, no indication was given by officials about the topic of conversation,' O'Higgins says. He presumed the call would be about the appointment and reappointment of commissioners. The conversation did indeed include that – but only after Pickles had dropped his bombshell by telling O'Higgins that the commission was to be abolished. It was, O'Higgins says, 'a total surprise'.

Pickles had lined up an interview with *The Daily Telegraph* to run on the Saturday morning as his way of announcing the decision, alongside a departmental press release. The *Telegraph*, however, trailed the interview and the decision online on the Friday afternoon. It was picked up by the BBC and others. As a result the whole world was able to know before many of the Audit Commission's staff. A fair proportion were on holiday, and considerable numbers heard the news from the BBC, or through calls from anxious relatives and friends, asking did they know that their job was going.

The briefing by Pickles and his special advisers, Giles Kenningham and Sheridan Westlake, pulled no punches. The commission had been abolished following 'a decade of shocking excess which culminated in staff enjoying days out at the races and life coaching at public expense', the online version declared. 'Officials are also accused of allowing a nanny state culture to foster, which saw local government being forced to abide by an unnecessarily bureaucratic tick box culture.' Pickles was quoted as saying that he considered the commission 'no longer fit for purpose', and blamed it for 'rigging' the system to force the introduction of unpopular fortnightly bin collections across Britain.

'The corporate centre of the Audit Commission has lost its way,' Pickles said. 'Rather than being a watchdog that champions taxpayers' interests, it has become a creature of the Whitehall state. We need to redress this balance.' Abolition would 'replace bureaucratic accountability with democratic accountability' while saving £50m a year.

In the Saturday piece, the *Telegraph* interviewers noted that 'of all the ministers in the coalition government, it is Mr Pickles, one senses, who is almost enjoying the radical programme of cuts required as part of the austerity drive to balance the books. Unlike his colleagues, he actually looks cheerful when describing his meetings at the Treasury ... where he has been discussing plans to cut between 25 and 40% from his annual budget.'

The responsibility for national studies would pass to the NAO. Private companies would be invited to bid to run the audits, and councils would choose their own auditors. 'These proposed changes

go hand in hand with plans to create an army of armchair auditors – local people able to hold local bodies to account for the way their tax pounds are spent and what that money is delivering,’ Pickles said.

He added of the Audit Commission: ‘They are the fifth-largest accountancy firm in the country. Are you kidding me? There is absolutely no reason why they should be in the public sector.’⁴⁸

The *Telegraph’s* online version had also been picked up by *The Guardian* and on the Saturday it quoted John Denham, now shadow Communities Secretary, as admitting that he had been trying to reform the quango, but stating that it should not be abolished.

He described the move as ‘a determined attempt to ensure that taxpayers have no coherent information about the value for money of local services.

‘The commission doesn’t just look at the cost, but the quality. Without the function of the Audit Commission there will be no one to step in when a council is failing, as Doncaster was recently. This move by the Government shows they are only interested in the cost of everything and value of nothing.’⁴⁹

But in terms of initial outcry that, more or less, was it. The commission was on its way – the way being out.

September 2010 to December 2013

Having announced the abolition of the Audit Commission in suitably colourful language, Pickles let the attack dogs loose. A string of stories were planted by his special advisers over the next few days accusing the commission of spending £8,000 on a day at the races for its staff, of refusing to publish details of its own expenditure when government policy was requiring councils to publish data on anything costing more than £500, and of ‘forcing’ councils to adopt fortnightly bin collections – allegations that O’Higgins regards simply as ‘lies’.

These followed a drip, drip of other stories since the election about large London hotel bills for staff attending meetings from outside the capital, and about the commission spending too much on chairs, or on flowers in its foyers. One of the commissioners Pickles did not reappoint was Jenny Watson, the chair of the Electoral Commission. *The Times* ran a story in early September quoting a Whitehall source as saying: ‘We are not having someone who built their career on incompetence continuing to milk the taxpayer.

‘She is not fit for the role. The Audit Commission has lost its way and the last thing we need is someone like her on board. She has no previous experience outside the public sector. We have had a bonfire of the quangos; now we are having a bonfire of the quangocrats.’

That smear produced shockwaves, and a formal complaint from Sir Gus O’Donnell, the Cabinet Secretary, to David Cameron, the Prime Minister, over ‘unacceptable’ behaviour from, it was assumed, special advisers.⁵⁰

48 *The Daily Telegraph*, 14 August 2010.

49 *The Guardian*, 14 August 2010.

50 *PR Week*, 3 March 2011.

The commission was left reeling, seeking to rebut the stories as best it could, not least pointing out that it had hired Newmarket racecourse on a non-race day as the cheapest convenient venue for three training days for 90 local authority and NHS officers at £67 a head, with 'not a horse in sight'.⁵¹

The commission, however, turned out to have very few friends. Almost no one externally leapt to the defence of its national studies or value-for-money activity. CAA was already gone. The one issue on which voices were gradually raised was over its core role – audit, and the disappearance of the principle of independent appointment of auditors to public bodies.

David Heald, professor of accountancy at the University of Aberdeen Business School, whose many public appointments included being an adviser on accounting to the Treasury and to some of the Commons' most senior select committees, described that as 'an extremely bad idea'.

He warned costs would rise. In the wake of private-sector accounting scandals – for example, Enron, and the failure to warn over the derivatives and sub-prime mortgage packages that had caused the financial crash – he said that 'at a time when there are doubts about the private sector's role in appointing its own auditors' it did not seem sensible 'that the public sector should move off in the opposite direction of its own choosing'. Auditors would be less willing to expose malpractice or issue public-interest reports when, without an independent body to appoint them and stand behind them, they would risk dismissal. Firms needed reassurance that they would not be dismissed if they challenged councils.⁵²

Pickles, by contrast, was telling MPs that audit would become 'a lot cheaper' as councils were set free 'to appoint their own independent external auditors from a more competitive and open market'.⁵³

The Chartered Institute of Public Finance and Accountancy voiced similar concerns to Heald's, though in a rather more muted way, while the Association of Chartered Certified Accountants, which has 13,000 members working in public-sector finance, was decidedly more forceful.

'At a time of unprecedented cuts in public services, and when you need public audit to be strong, it has been thrown into disarray,' Gillian Fawcett, its head of public sector, said. The decision risked turning the clock back 150 years. 'It cannot be in the public interest to have those responsible for decision-making also influencing the choice of auditor and setting their terms of appointment.' Transferring what was to remain of the value-for-money work to the National Audit Office also risked overloading the stretched Commons Public Accounts Committee to which the NAO reported, she said.⁵⁴

That the decision to abolish the commission was rushed was clear in all sorts of ways. Pickles had meant to phone Margaret Hodge, the newly appointed chair of the PAC. The committee would be affected, as whatever limited studies of local government remained were to be moved to the NAO, the spending watchdog for the PAC. The call never materialised. Hodge says she learnt of the decision while on holiday the day before the announcement, in a call from Amyas Morse, the head of the NAO. He, she judges, was not wildly keen on the idea, but was unwilling to resist it.⁵⁵

51 [Letter from O'Higgins to Pickles](#), 16 August 2010 (accessed 22 October 2013).

52 *Financial Times*, 26 September 2010.

53 *Ibid.*

54 *Financial Times*, 29 September 2010.

55 Interview with Margaret Hodge.

Other signs of haste were in the department's press release, which stated confidently that the new arrangements for audit would be in place for the April 2012 financial year. It noted that 'protections will be developed to ensure independence, competence and quality' in auditing – without being able to say what they would be.

The rush to announcement became even clearer when the department wrote to the commission on 16 August, asking for its input into 'the design and future regime for audit' – including how to transfer the commission's audit practice to the private sector.

There was a long and ultimately fruitless dance aimed at turning the audit practice into a mutual – the creation of mutuals formed by public-sector workers in order to sell their services back to the state being one of the Conservatives' big ideas to contribute to the Big Society. Eventually, the rump of the audit practice became a subsidiary of Mazars, the 12th-largest accountancy firm. As such, that new partnership was able to bid for some of the 70% of the overall audit work that the commission had always done – but under tendering rules which meant that, at most, it could win only 40% of its previous work. It did rather less well than that.

The commission accepted its abolition as a *fait accompli*. But it continued to defend rigorously the principle of independent appointment of auditors. In response to the department's request it produced a 43-page report on the principles of public audit and the issues that needed to be addressed, including what should happen to the National Fraud Initiative, which the commission also ran.⁵⁶ This initiative used data-matching techniques to spot fraud in the public sector, whether by claimants for benefits and services or by staff.

But as the debate ran on over how the 'protections' to ensure independent audit would be preserved, leading figures in the commission say that they discovered that the department no longer had any real grasp of what public-sector audit – as opposed to private-sector audit – involved.

The Department for Communities and Local Government 'simply did not know and understand the regulatory system for audit', Andy McKeon, the commission's head of health, says. The department was having its numbers cut heavily as part of the Government's austerity drive, and O'Higgins says the lead official on the abolition changed three times in short order 'and we had to continually educate others as they were replaced'.

The case here is that because audit had been going so well and so quietly for so long – as opposed to the recurrent bouts of debate about the commission's role as an inspector – the department had forgotten about what was, in effect, the Audit Commission's core business. This loss of understanding – and the struggle to answer the questions about the nature of public audit and its independence that were raised by the commission, by Professor Heald and by others, and which were then pursued by MPs on Commons committees – helps explain at least some of the huge delay in moving to the new, post-Audit Commission world.

To cut a very long story short, it took the Government until March 2011 to produce a consultation on the future of local audit – when, on the department's original timetable, legislation had been planned for the previous September.⁵⁷ The Commons Select Committee for Communities and Local Government produced a report in July 2011 that stopped well short of calling for a halt to abolition

⁵⁶ Audit Commission, *The Future of Local Audit: Issues for Consideration*, September 2010.

⁵⁷ FoI release.

and challenged the claimed savings. It made a brief nod to the opportunity for local government to produce audit arrangements 'better attuned to local needs'. But then it chiefly pointed to the risks – 'that the audit market will not be sufficiently competitive, that some councils will struggle to establish robust independent audit committees, and that accountability for public money will be reduced'.

The risk of corporate failure in local authorities might well rise, the committee said, and 'the abolition of the Audit Commission will leave a substantial hole in the system of audit and inspection in local government, and ministers must not assume that freedoms and market forces will automatically fill it.'

Devolving power to local government and to communities, the committee added, 'does not absolve the Government of the responsibility to construct a system which continues to provide accountability for public money and which results in better value for money.'⁵⁸

The failure to provide clear-cut answers on how the independence of public audit would be guaranteed meant it took until July 2012 to produce a draft bill – a bill that then went into pre-legislative scrutiny because so many of the issues were still not fully resolved.

It took until November 2012 for the health department to come up with its proposals for how audit would work in future in those parts of the NHS that were not foundation trusts. And when the cross-party scrutiny committee, comprised of some of Parliament's most experienced backbenchers, reported in January 2013, its verdict was damning: 'The draft bill fails to provide adequate safeguards to guarantee the independence of audit; it falls short in addressing many of the technical aspects of audit and is silent on how high-quality statutory local audit will be obtained and reviewed in the new regime.

'The vast majority of our witnesses expressed strong support for the retention of a [central] procurement capacity and we recommend that should be included in the bill when it is presented to Parliament.'⁵⁹

Save for the acceptance of some of the more minor recommendations, the Government's response was to listen but not to hear. The desire for 'localism' – local decisions made by local councils voted in by local electors – trumped all concerns. There was simply a huge difference in political philosophy here.

The vast bulk of local-authority spending – around 80% – comes from central government taxation and grant, not local taxation. The committee's desire was to ensure absolute accountability and oversight of that, along with some assurance that it was being spent well – value for money. In the Government's view, all of that could be done locally, via armchair auditors, and the local electorate's ability to scrutinise and vote – despite the fact that, in significant parts of the country, local-authority political control rarely, or only slowly, changes hands.

In its reply, the Government said that, sure, councils could get together voluntarily to jointly procure audit, if they so chose. But ministers were not going to retain a mandated central procurement agency – a rump Audit Commission. No, it was not going to publish a central register for the

58 Commons Communities and Local Government Committee, *Audit and Inspection of Local Authorities*, 4th report, session 2010-12.

59 Draft Local Audit Bill: pre-legislative scrutiny, HC 696, January 2013.

outcome of audits. They would be published locally, and 'it is for the audited body and local residents to act on any issues raised.' No, it was not going to give the NAO the power to instruct auditors to provide benchmarking data. That would cut across the Single Data List the Government was attempting to create, and the need to reduce the burden of data reporting. 'Furthermore, the Government believes that it is primarily for the local government sector – not central government – to lead on the provision of comparable local performance data.' It acknowledged that public-interest reports were important. But the Government was not going to replicate the indemnity scheme the Audit Commission provided to cover private-sector auditors for taking or defending legal action. It was appropriate for private companies to 'bear the risks and costs for any consequences resulting from the exercise of their functions'. And anyway, the Government said, the Audit Commission had only rarely had to do that, as in the Westminster case – seeming to ignore the possibility that the commission only rarely had to indemnify auditors because councils knew that if they took on the auditor, they would also be taking on the commission, which would stand behind him or her.

The response from a Conservative secretary of state could not have been further from the view of another Conservative secretary of state, who created the commission. Lord Heseltine had told the scrutiny committee: 'It is unrealistic in this society of ours to think that there is a body of people with sufficient power and influence in each locality to burrow into every local-authority account to come up with every set of statistics that will enable them to exert political pressure. You only have to take it step by step to realise that is not a concept that has any teeth in it ... comparative studies of value for money [which depend on standardised data] are absolutely an essential part of what the public sector should always be on its guard to do.'⁶⁰

The Government and its critics were like ships passing in the night, sending signals which either went unseen or were unregarded. With some minor amendments the bill went to the House of Lords. Despite the strictures of the scrutiny committee, no hostile amendments were passed. In the Commons, some concessions were made, including provision for public-sector bodies to club together to purchase audit if they so chose.

Discussion

At the time of writing – December 2013 – the bill to abolish the commission has yet to get royal assent, and the eventual fate of all the things that the commission did is still not finally decided.

Eric Pickles originally claimed that abolishing the Audit Commission would save £50m a year. By the time the bill to abolish it finally reached the House of Commons – three years later than on the original timetable – he was estimating the savings at £1.2bn over 10 years.

The vast bulk of that impressive sum came not from abolishing the Audit Commission per se, but from changing what it did – in order of ascending importance, massively scaling back the value-for-money and national studies, abolishing the Comprehensive Area Assessment, and privatising the in-house audit practice, which accounted for 70% of the audit work.

The last of these produced the really big savings. The commission was able to offer five-year contracts with a potential three-year extension. They involved around £100m worth of work a year and, along with internal efficiencies within the Audit Commission, generated savings to audited bodies of around £250m over five years. In total, audit fees fell by around 40%.

⁶⁰ *Ibid.*, Q486 (my insertion in brackets).

Marcine Waterman, who led the tendering exercise and is now controller of the slimmed-down Audit Commission, says the prices were so keen because this was a large new market. Not only were the contracts big in annual terms, they were long. Firms wanted to be in the market to have credibility before it was liberalised to allow councils to appoint their own auditors. And with the economy in recession, and the audit firms as a result under pressure in their private-sector business, the contracts were even more attractive than they would normally have been. The firms wanted to be in. 'Could those prices have been achieved anyway, without abolishing the Audit Commission?' Waterman asks. 'Absolutely they could.'

Enthusiasts for abolition saw these reductions in audit fees as a justification for doing away with the commission. In reality they look rather to be evidence of the ability of centralised procurement to deliver lower prices – the very thing that the bill was going to scrap, as councillors were allowed to appoint their own auditors. And centralisation, incidentally, was the approach being adopted in other key areas of government procurement by the Cabinet Office minister Francis Maude in order to increase value for money.

The commission had, over the years, itself considered outsourcing more of its audit practice to alter the 70/30 in-house versus private split. Some on the commission – and some working within the audit practice⁶¹ – had for some time felt the balance was no longer right, favouring a 70/30 split the other way around, or even complete outsourcing. Each time the idea was raised it foundered on worries about whether the commission would lose a full understanding of the market if it were to outsource the whole of its audit work – a mistake central government had repeatedly made in outsourcing over the years, notably in IT.⁶² If a less extreme version were adopted – say 70% private, 30% in-house – worries remained about how far TUPE would apply, and what the redundancy costs would be if that went ahead. In practice, to set against the savings from the abolition of the in-house practice, there was indeed a redundancy cost of some £50m.

One commission member says it failed to bite that bullet because 'auditors are excellent at spotting the mice in the room. But they can sometimes miss the elephant. If we made a mistake it was not moving all of, or more of, the audit out into the private sector.'⁶³

According to Michael O'Higgins, the board did in fact again consider privatising its remaining audit function after the impasse had been reached over the appointment of a chief executive. 'We did not feel we could simply assume that we could lumber on with an acting chief executive for ever,' he says. 'So I discussed privatising the audit practice with the board, and I had conversations with the senior partners of a number of the large firms about whether they would be interested in either acquiring part of the commission business as a capital purchase, or in other forms of outsourcing. There was clear interest.

'In terms of lessons learnt, maybe a mistake I made was not documenting that we were doing that. Our intention was to produce for the secretary of state a plan in September of what the options were – but by then abolition had been announced.'

61 Unattributable interviews.

62 Gash, T., et al., *Making Public Service Markets Work*, Institute for Government, 2013.

63 Unattributable interview.

O'Higgins says that from his discussions, and from his past experience in professional services acquisitions, the commission might well have raised between £90m and £130m as a capital sum for the Government by selling the service off.

Aside from what might or might not have been saved from privatising more of the audit, a more fundamental question remains about whether abolishing the commission was the right decision. At the heart of that lies the issue of whether it is right for councils to appoint their own auditors. For Pickles and others, this appears to be simply a question of localism. The private sector does. Universities appoint their own auditors, and so do NHS foundation trusts. So why not councils?

But, as has been pointed out earlier,⁶⁴ foundation trusts are subject to strong regulatory oversight in terms of both their finances and quality. Universities get their funding through the Higher Education Funding Council, and part of its role includes oversight of their finances. And the private-sector experience that Professor Heald and others cited hardly makes a powerful case for self-appointment. Indeed, it might be said that in a perfect world the private sector should probably not appoint its own auditors, save for the fact that the bureaucracy needed to run an independent appointments panel across the whole of the private sector is unthinkable.

In local government, and in much of the public sector, the principle of independent appointment has underpinned the honesty with which public money is spent.

In addition, it turns out that at the end of the day councils won't literally be appointing their own auditors. A complex structure of council-appointed auditor panels and audit committees has had to be created to try to ensure independence. So, in its own terms, the ambition for councillors to appoint their own auditors will not in fact be fulfilled. Yet as repeated witnesses told Parliament during select committee and bill committee hearings, the new arrangements feel less independent, and more cumbersome, than the Audit Commission arrangements. Even under the now entirely outsourced contracts, it is still the commission that makes the appointment to individual councils.

Furthermore, the commission not only hands out audit contracts to the private sector, it monitors them. It stands behind the auditor if a council seeks to prevent one undertaking a public-interest report or investigation, but it also ensures fair play when auditors seek additional fees for 'extra' work from local authorities.

'Every quarter I get a list of where the auditors have had to do more work because the body in question has performed poorly in producing accounts or supporting the audit, or has had governance issues,' Waterman says. 'The firms say, "We can't complete our audit unless we do this extra piece of work", and we have to decide whether the amount requested is a reasonable additional charge or not. We are very nervous about fee creep. There is a risk that fees will go up, and we genuinely fear they will rise significantly when we are gone. When a firm goes to a local authority and says, "We need to do this extra piece of work to give you an opinion", what is the council going to do? They aren't as well placed to judge as we are, because we have oversight of all the audits. We can say, "No, that's part of the scale fee" – or "yes" if it clearly is extra work. We do fear fees will rise once we are gone.'

64 See p. 15.

As for the commission standing behind auditors when they challenge councils, the reason that has rarely had to happen in practice must in part be due to the fact that councils know the Audit Commission will stand behind the auditor – it is not just the audit firm that they will be taking on.

All of that will disappear with the disappearance of the Audit Commission.

Then there is the criticism of the Comprehensive Area Assessment and of the general scale and reach of the Audit Commission – that it had become, in Pickles's words 'a creature of the Whitehall state ... a top-down regulator of local government, micro-managing local services and imposing excessive and questionable red tape'.

John Denham, who was Communities Secretary in the run-up to the 2010 election, says that when he took office in 2009, 'there was a perception in local government that the Audit Commission was too expensive, and that it did not itself have enough good people going round telling people that they were not good enough. But I think there were still plenty of people in local government who thought its role was legitimate. In Hampshire, I had a Conservative council that prided itself in always coming top in the Audit Commission ratings, so there was not total hostility, as some people have suggested.

'The drive was primarily about lightening the burden and improving the quality of the commission's staff – because it took a lot to comply with, and some of it was not very relevant. So the drive was to make it better, rather than the minority view that people wanted to get rid of it altogether.'⁶⁵

It is equally true that the Comprehensive Area Assessment was, in some people's eyes at least, a bridge too far – although it fitted with the idea of Total Place, which has been abolished as a title but which lives on as the Coalition and councils seek to develop community budgets.

The point here, however, is that the Audit Commission clearly was 'a creature of the Whitehall state' in the strict and narrow sense that it did what the government of the day asked it to do. Ministers, not the Audit Commission itself, turned it into an inspectorate – rather than it just being an audit body that held up the mirror to local government by publishing swaths of data on its performance. It was ministers who ordered the switch from the Comprehensive Performance Assessment to a comprehensive 'area' one. And new ministers, equally, could simply have undone that – telling the Audit Commission that it would no longer be an inspectorate, while taking a narrower view of the value-for-money work it wanted the commission to undertake.

None of that required the commission's abolition. And if the chair and the commission itself had been resistant to pursuing that course, they could have been replaced.

Steve Bundred, chief executive until 2010, says: 'You could have made a credible case for the abolition of much of what the Audit Commission did. You could have argued that when it was created there was serious concern about the quality of local government services, and local government was itself divided into several different organisations with none of them showing much interest in the improvement agenda. The commission had played a significant role in reversing that, and local government itself is now much more interested in ownership of the improvement agenda.

65 Interview.

'Equally, no one was doing national studies back in 1983, whereas now there are a large number of think-tanks doing similar sorts of things, but not doing it at the public expense. So the need for them has diminished. So you could have argued that in those areas it was "mission accomplished".

'But that was not the argument that was made. The argument has been that it had become "a creature of government". But the commission is a public body and public bodies are always under a duty to comply with the policy of the government of the day. If a Labour government had asked us to stop doing CAA, we would have stopped doing CAA.

'The argument that has been made – that the commission had somehow become "a creature of government" – I just don't think washes.'

The timetable for the commission's abolition has proved insanely ambitious. Originally the new dispensation was meant to be operating by summer 2012. It will be at least five years later than that, and possibly longer, before it is fully in effect.

The existing audit contracts for 70% of local audit run to 2017, with both the Local Government Association and the NHS Confederation asking government to exercise the option to extend them to 2020, given the value for money they represent. The remaining 30% that were always in the private sector are being retendered on contracts that at a minimum will run to 2016 and quite likely to 2019.

So it will be 2017 at the earliest before councils appoint their own auditors and quite possibly 2020 – if ever they do, as local authorities' enthusiasm for the idea has waned when confronted with the complex machinery involved.

On the current timetable, the commission itself will finally be abolished in March 2015, with an interim body set up to handle the remainder of the contracts, when it would seem to make much more sense to let the commission – a body now with a £7m-a-year turnover, not a £200m one – carry on doing that.

In practice, most if not all of the commission's remaining functions will continue, though scattered, probably less effectively – and more expensively – around the place. The Audit Code and guidance will go to the National Audit Office. Corporate governance inspections will go to the communities department. The contracts for audit, which run up to 2017 or 2020, will go to a transitional body. Bulk procurement, if it takes place, will be organised voluntarily across public bodies. The Local Government Association will lead sector-led improvement within its membership, although whether the councils with the deepest problems will volunteer for that has to be in question. The National Fraud Initiative is being hived off to the Cabinet Office. And ministers have made verbal promises in Parliament that a home will be found for at least some value-for-money studies and the commission's other counter-fraud activities, although where those will be located has at the time of writing yet to be decided.

The continuance of the audit contracts beyond 2015, the appointed date for the abolition of the commission, does provide an incoming government with the opportunity to have second thoughts about getting rid of the commission's role in audit – without the current Government being accused of a U-turn. For, at the end of this saga, it is hard to escape the sense that at some point in the future, probably under a different name and after another scandal or three, the commission's role

in audit and data standardisation, if in nothing else, will have to be reinvented. The standardisation of data that the commission can command is still needed if really high-quality value-for-money studies are to be undertaken – whether done by an armchair auditor, the NAO, or by anybody else.

As Lord Heseltine put it during the pre-legislative scrutiny of the bill: 'This is not the private sector; there is a vast range of different and complex services. There is no common means of evaluation and if you want to make comparisons authority by authority, you have to prescribe the information that you want to collect, and that can only be done centrally.'

Finally there is the probably unanswerable question of precisely why Pickles decided to abolish the commission when he did – ahead of the Government's wider cull of quangos. One answer might be simply to be ahead of the game, demonstrating his radical commitment to the Government's austerity drive. Another is what Pickles sees as a genuine commitment to localism. It is hard to avoid the charge that at least one element of the timing was a degree of pique – that the row over the chief executive's pay was the final straw, and to hell with them.

Bob Neill denies the charge of pique. But he does say: 'I think probably that [the row over the chief executive's pay] was the straw that broke the camel's back. The camel's back was probably broken anyway. Eric was probably always more inclined than some of his predecessors to get rid of the commission unless there was a really compelling reason not to. But if there was any doubt, that finished it off. It was a serious tactical error. It was a complete failure to read the runes.'

3. The National Policing Improvement Agency

In the run-up to the general election of May 2010, the National Policing Improvement Agency was considering its future. Austerity loomed. Labour had promised to halve the deficit over four years. The Conservatives were planning to eliminate it over the same period.

Nick Gargan, the former assistant chief constable at Thames Valley who had joined the NPIA in January as its chief operating officer and deputy chief executive and who was to become chief executive in the September, found himself in a slightly surreal world.

Cuts were clearly on the way. The NPIA had a £550m budget and had grown to have more than 2,200 staff, he says. 'People were considering whether to offer 1%, 5% or 8% cuts, with some saying if you offer 1% they will ask for 2.'

It was an organisation, he says, that knew its existence was under threat, but that also 'felt sorry for itself'.

The NPIA began operations in April 2007. Like so many 'improvement agencies' – compare the NHS Modernisation Agency – it was the result of a merger of a bunch of pre-existing functions. It brought together the Police Information Technology Organisation (PITO), which managed crucial parts of police IT, including the Police National Computer and the national fingerprint and DNA databases. It absorbed Centrex, the in-house police training provider, along with the National Centre for Policing Excellence, which provided operational guidance. It trained and accredited financial investigators after the Assets Recovery Agency was merged into the Serious Organised Crime Agency (SOCA), which also began operations in early 2007. It was charged with completing Airwave, the national police radio system. But there was much else besides, including taking over parts of the Home Office policy department for policing. In all, Peter Neyroud, its first chief executive, calculated that the NPIA took over more than 500 programmes and projects, employing some 1,850 staff in its first year.⁶⁶

As Neyroud put it: 'For the first time, all the national support for the service is now in one organisation and is being run alongside the programmes that are designed to develop the service.'

That was its goal. But in the continuing tension between national and local in the police service, it never gained many friends. The reason it felt sorry for itself in 2010 was, Gargan says, because 'it felt it had done everything it had been asked to – issued a lot of doctrine, got the police national database on track, forensics and procurement organised, and operational units working well. Yet it didn't seem to be getting any recognition.'

It had suffered from mission creep – additional functions being added, with staff numbers growing as its budget was either frozen or cut in real terms – and the perception had developed that it was a 'Christmas tree quango' that lacked focus.⁶⁷

66 NPIA Annual Report and Accounts, 2007-08.

67 Home Affairs Select Committee, *New Landscape of Policing*, [oral evidence from Nick Herbert, 28 June 2011], retrieved 28 February 2014

Like other parts of the public sector, it had been hit by criticism of its pay and expenses and the growth in its staff numbers. In 2009, *Personnel Today* reported 'National Policing Improvement Agency spends £70m on consultants' while mainstream broadsheets ran a range of exposés on NPIA expense claims. Staff numbers grew, in part due to additional responsibilities. But Chris Grayling, the Conservative shadow Home Secretary, took a critical stance. 'What Britain needs', he said, 'is more police on the beat and not more officials behind the scenes.'⁶⁸ Many officials in the NPIA concur that spending on expenses was not sufficiently controlled but some believed this simply reflected the wider culture in the police service and the Home Office at the time. They argue that cost control had improved greatly since public finances came under pressure in 2008-09.

So at the time of the election, the NPIA knew its existence was under threat. But when in July 2010 – just three years after it had become operational – the Home Secretary, Theresa May, announced its demise 'it was an overnight humbling experience', Gargan says.

Nick Herbert, the Conservative MP who was minister of state for policing and criminal justice from 2010-12, insists that the NPIA did not go simply as part of a quango cull. 'It is not true to say I never liked it. I had been shadow police spokesman when it was established and I had not opposed its creation. I didn't have a view of the NPIA when I became minister,' he says.

His prime concern on taking office was the creation of police and crime commissioners (PCCs) and police pay, a subject being examined by the Winsor review of police remuneration and conditions. Nonetheless, he says, by the time of the election, the 'tectonic plates' were moving away from top-down bureaucracy and centralism to the Coalition's mantra of 'localism'. 'I remember asking for advice, trying to look at what the NPIA was doing, and how it fitted into our landscape where we were trying to localise where possible.'

Nobody, he says, was coming out in support of the NPIA. The police service may have been initially supportive of the agency's creation but by the time of the election it had lost most of its friends. Chris Sims, chief constable of West Midlands Police, says it had become 'a home for orphan projects' – for example, feeling morally obliged to take on new projects such as witness protection. And in some circles it had earned the nickname 'No Point in Asking'.

The Home Office advised abolition and neither police chiefs nor the Association of Police Authorities fought for the NPIA's continued existence – partly because they were focusing on minimising and managing their own budget reductions and partly because they were distracted by heated debates on the introduction of PCCs and the police pay review.

In the view of Lord Wasserman, one of the Prime Minister's advisers on policing, the NPIA 'had a branding problem'. As Wasserman puts it: 'Its name was terrible. It was a vital support service and not an improvement body.' Others echoed the view that the NPIA's purpose had become unclear – or that it was at least insufficiently focused.

Within the NPIA, some felt the agency had in practice become more focused as it developed. That, however, was not the external view, and Sean Byrne, the NPIA's Director of Strategy, says there was an unhelpful lack of clarity about who the NPIA's main 'customer' was. Some in the police saw

68 Cited in Whitehead, T., '[Police efficiency quango spent £70m on consultants in a year](#)' in *The Daily Telegraph* online, 26 May 2009.

the NPIA as too close to the Home Office, while it was also seen as neglecting police authorities, according to Mark Castle, chief executive of the Association of Police and Crime Commissioners.

For much of its life, the agency answered to the National Policing Board, which represented the collective interests of the Association of Chief Police Officers, the Home Office and the Association of Police Authorities. But as PCCs were being developed and as the board was scrapped, the NPIA was left hanging.

Given all its difficulties, Herbert reached the conclusion that 'simply slimming it down and changing behaviour wasn't going to be enough'. Other options, such as a refocusing of the organisation or leadership changes, were considered only briefly. As a senior Home Office official put it, the NPIA 'ended up being a basket for everyone to lob in their frustrations ... I didn't hear anyone say anything good about it when its close-down was announced.'

The abolition announcement may have brought closure. It did not bring certainty. While it was clear that the NPIA was going, it was not clear what would come in its place. It was rapidly recognised that the vast majority of its core functions – essential crime-fighting support for the police – would have to continue, while a continued role for training and improvement remained. The question was where all this would migrate to.

Herbert and others were reluctant to force through decisions about new structures, partly because it was felt that the police service needed to help develop the successor solutions and thus 'buy in' to new institutions. Matters were complicated by the fact that a major interest group – the police and crime commissioners – did not even exist, meaning it was difficult to understand their likely preferences or objections.

Decisions about which functions would sit where were therefore made gradually. For some, the result was genuine collective support. An official explained that the decision to set up the College of Policing in its current form 'evolved out of six to nine months of quiet, interesting, collective debate between government and interested parties'.

For others, the results were more mixed. As Sara Thornton, chief constable of Thames Valley Police, assessed it: 'In terms of the College of Policing, there has been a tremendous amount of discussion around this, and it has the makings of something very exciting. But PCCs were not keen on the IT company and there were real concerns about the levels of engagement and energy on forensics.'

Others we spoke to were more scathing about the consequences of uncertainty. At the very least, what was described as 'an organic approach' to locating successor functions made life more complicated. As Gargan puts it: 'If you're setting off on a journey and you don't have a clear destination in mind, it's really hard.'

Other senior NPIA figures say the decision to close the agency far in advance of any detailed analysis of what might replace it not only triggered a long period of planning blight, it distorted the assessment of the case for the change.

Difficulties were exacerbated by three further factors: first, the need to continue to provide critical police support services, such as forensic support and IT infrastructure; second, to do this with much reduced budgets; and third, to learn by doing. The Home Office close-down team contained

plenty of high-performing staff. But it was not selected on the basis of experience of previous restructurings or similar close-down processes. NPIA staff likewise had little comparable experience on which to draw, and the budget for external advice was limited. Senior officers, meanwhile, had been through similar debates about national policing structures in the past. But amid dealing with their own budget restrictions, the creation of PCCs, changes to police terms and conditions, and serious riots in the summer of 2011, there was, despite the lengthy transition period, little time for senior officers to grapple with the complex array of issues – illustrated by the mighty table in the appendix to this report, detailing which of the NPIA's functions have gone where.

Leadership throughout this period was dispersed. The Home Office saw itself as 'working in partnership' with the NPIA and the police service. But the lead Home Office official working on the transition changed three times in 14 months. The NPIA, for its part, felt that it took on the bulk of the detailed work. Within the NPIA, those leading strategy, HR and finance functions played a particularly important role, while Gargan focused on providing overall leadership and actively and visibly communicating with staff, including through social media platforms.

The Home Office and NPIA relationship occasionally became strained. Joint teams were formed to handle the wind-down, and while they worked well together individually, each side saw the other as a problem. The NPIA felt that in practice it was having to make the running, while finding it very hard to get decisions out of the Home Office. Home Office officials, meanwhile, were sometimes frustrated by the pace of change once they they had secured ministerial approval on an issue. They wanted to move quickly but the NPIA wanted plenty of notice of changes.

The exercise also remained hampered by the structural weakness of the long-standing and still unresolved debate about what should be national and what should be local when it comes to policing. Lord Wasserman's view is that 'the whole thing was mismanaged' and that the year or so that it took to reach key decisions was far too long.

The result from the NPIA's point of view was that 'we rolled up our sleeves and did it', according to Rob Beckley, deputy chief constable at Avon and Somerset, who was on the NPIA's dissolution board, even though that 'didn't always feel a very sophisticated approach'.

In June 2011, nearly a year after closure was announced, the decision was made to share IT functions between a new 'ICT company' and SOCA – which has now been transformed into the National Crime Agency. In December 2011, nearly 18 months after the abolition decision, the Home Secretary announced the creation of the new College of Policing to take on the NPIA's standard-setting, research, training and training-accreditation roles. And in March 2012, decisions were made on where to house the remaining NPIA functions (see appendix for details). The bulk of staff transfers started in December 2011 and were mostly finalised by December 2012, leaving the NPIA to run as a skeleton body until its final board meeting in October 2013.

Impact

The NPIA's close-down had tangible consequences. Money was saved. Around 800 of the agency's 2,300 staff left because their jobs no longer existed, mostly in areas such as workforce development and career services. Others ended up working in different organisations, though often doing the same job. The Home Office, the College of Policing and the National Crime Agency all absorbed a significant number of staff.

During the close-down, critical functions were protected and ran reasonably smoothly, despite some behind-the-scenes anxiety. Indeed, the NPIA even delivered a number of new projects, including the new crime mapping website, launched with some fanfare, and the inevitable day-one glitches, in February 2011. However, many feel that vital opportunities were lost during the long transition period. 'We kept the show on the road but missed chances to really lead police transformation, particularly through better use of technology,' said one NPIA insider.

Impressively, staff morale did not collapse. In fact, it rose to far above government averages – an astounding achievement given the degree of uncertainty in the close-down period.

In terms of the long-term impact on police effectiveness, it is, of course, far too early to draw firm conclusions. Even now, three years on, few of the successor organisations have completely finalised their operating models, and changes will take time to have their effect. As Sara Thornton puts it: 'The crucial question is whether the organisation was right or not. Its functions existed before and continue now. The actual question is about what politics and structure are best to deliver them.'

For some, the splitting up of the NPIA is seen as having increased focus. Nick Herbert, for example, argues that splitting police IT and professional development roles is essential for ensuring sufficient focus on transforming police skills and culture. Others, however, fear potential perverse consequences from dividing the two. As one chief constable points out: 'They are both enablers of change across policing.'

Views abound on the merits of specific solutions. All of the new governance models could be seen as having strengths and weaknesses in terms of clarity about purpose, 'customers' and funding models. At present, the fledgling College of Policing is seen to have significant goodwill, although there are questions about how far the police and crime commissioners support it. There are more questions around the solutions arrived at for the forensics and IT services. Indeed, at the time of writing, the exact role, purpose and form of a long-promised national 'police ICT company' is still undecided, with police and crime commissioners considering their preferred models for ensuring forces have effective ICT support.

If history is anything to go by, national policing institutions are almost inherently vulnerable. The NPIA's abolition was announced just three years after the agency itself was formed out of two institutions that were seen as failing, PITO and Centrex. SOCA, now restructured and branded as the National Crime Agency, was itself a successor to an array of other bodies, including the National Crime Intelligence Service and the National Crime Squad.

There is also, of course, the question of how much could have been achieved without the disruption of the NPIA's dissolution. Some are convinced the agency had to go. Though few said so at the time, others now wonder whether the new leadership the NPIA had acquired just ahead of the decision to abolish it might have seen through the changes in culture and performance that ministers were seeking.

4. The NHS Modernisation Agency

For a brief moment in the sun – between 2001 and 2005 – and to mix horribly two metaphors, the Modernisation Agency (MA) was the apple of ministers' eyes.

It had been created in the wake of the NHS Plan in 2000, which was itself the result of Tony Blair's announcement that, all being well economically, spending on the NHS was to be doubled in real terms to bring it up to the European average.

The money was flowing into the NHS. But the mantra was 'no money without modernisation'. The agency was one of the key tools that Alan Milburn, the Health Secretary, devised to achieve that.

In the spectrum of British public bodies, the agency was at the opposite end to the Audit Commission in terms of independence. The Audit Commission was a public corporation. The MA was an executive agency of the Department of Health, directly answerable to ministers.

Its task was to understand 'what worked', to use another New Labour mantra, and to develop the leadership capacity locally to implement that. The idea was to spread the tools for changing ways of working throughout the NHS. In an early statement of intent, in the words of David Fillingham, its director, it aimed to involve 'all one million staff who work in the service' in the improvement of services for patients.

'What we are engaged in is the most ambitious healthcare improvement programme anywhere in the world, involving fundamental change at every level in the largest employer in Europe,' he declared as the agency got under way. 'It is not surprising that at times it feels a little difficult!'⁶⁹

The agency was itself a five-way merger of existing organisations – the National Patient Access Team, which was tasked with cutting waiting times; collaboratives aimed at redesigning cancer and cardiac services; a 'clinical governance' team; and a primary care development team – each already run by strong personalities. They were brought into the Modernisation Agency along with a new entity, the NHS Leadership Centre, which was a redevelopment of a previous NHS leadership programme.

'What I inherited,' Fillingham says, 'was an organisation of close on 300 people. And it grew. And it grew too big. It grew in an uncontrolled way.'

'It was a creature of central government. And what happens is you get a new minister who says, "We need a new programme. Where can we house it? Ah, we will house it in the Modernisation Agency!" I do remember having been away for a few days and coming back and saying, "Who are these people?" To which the answer was, "They are the modernising dentistry team. The minister decided on Friday."

'They did some great work. But would I have chosen that as a major priority? No, I would not. By the end, we had a staff somewhere in the middle 700s. Too big.'

69 *Five Simple Rules for Modernising the NHS*, the NHS Modernisation Agency, 2001.

‘What we wanted, and what we were working towards, was not having all these people in the centre but having people who worked for us but who also continued to work in their own organisations. We had a lot of chief executives of frontline NHS organisations saying, “Yes, the MA is doing great things, but that is X% of my budget being given to the MA. Give me back half that money and I have the capacity on the ground to do this.”

‘Too many good people ended up in the Modernisation Agency rather than on the front line, or working partly for the MA and partly on the front line. And that was resented.

‘The original conception was that we would set up a central entity to build momentum, and then gradually decentralise and devolve it. That was the goal. But we got abolished before that happened.’

The agency, at its peak, was certainly highly regarded, offering tools, templates, choices, advice about how to re-engineer services, while training staff in the techniques needed to do that for themselves. For a time, ministers rated its performance highly enough for Fillingham to be seen as a potential successor to Sir Nigel Crisp as NHS chief executive.

‘Our biggest single achievement was that we trained 100,000 staff – 10% – in improvement skills in a three-year period,’ he says. ‘And, particularly through the collaboratives, we got a lot of frontline clinicians involved for the first time. We did a lot of work around patient safety and clinical governance. There were results.

‘They became clearer over time. And one of the lessons I would draw is that we should have had a much more robust framework for spelling out the results we were getting. We were so busy setting up new things, with lots of creative ideas, that we did not spend enough time communicating the results we were getting – partly because we were not measuring them effectively, and partly because improvement takes time to deliver results. So if you are only around for four years, you do not have a lot of time to do that.’

Aside from size and mission creep, the agency operated in what might politely be called a turbulent organisational structure.

Fillingham says: ‘We went through three reorganisations in the four years of our existence. That was quite depressing. Originally we accounted to a modernisation board of the great and the good, although I was a Department of Health director and reported to the NHS chief executive and Permanent Secretary, Nigel Crisp.

‘When we started there were 99 or so health authorities and lots of primary care trusts. They got rationalised into 30 strategic health authorities with four directors of health and social care above them. But about 18 months later the health and social care directors were abolished. And my reporting lines upwards changed. So there were repeated challenges about who we were relating to in the intermediate tiers. It was difficult to build the consistent relationships you need.’

To tackle some of these issues, there were some constructive discussions with officials and with Lord Warner, health minister at the time, about turning the agency into an arm’s-length body, outside the department. But that got trumped by Labour’s arm’s-length bodies review of 2004 as it worried about the inspectorate and regulatory state it was creating and started crunching them together into fewer bodies.

The Modernisation Agency got caught up in that. It was scrapped, replaced by the NHS Institute for Innovation and Improvement. That in turn has since been replaced by NHS Improving Quality. It is now hosted by NHS England, otherwise known as the NHS Commissioning Board.

The agency, Fillingham says, was Milburn's creation. When he went, other ministers inevitably wanted to put their stamp on it and did not have the same emotional attachment to the MA. 'We did not have the air cover.' He wonders whether, if the MA had become an arm's-length body, it might have been able to avoid or limit the mission creep, and the confusion over its role that it began to face. But he is far from sure that is the case.

Fillingham says it is crucial to be as clear as possible about roles. 'There is an interesting triangle between standard-setting – setting the minimum standards – inspection and regulation, to make sure you are achieving those standards, and improvement.

'Standard-setting in a national service is essentially a job for ministers, though they do it through other bodies. So we had the National Institute for Clinical Excellence and the Commission for Health Improvement [CHI] as the standard setters, with CHI doing the inspection. We were the improvement agency.

'But one of the issues that CHI had in its early days was whether it was just about inspection or was it about improvement? And in the later days of the MA, particularly with the four-hour wait target for accident and emergency, it became very unclear whether what we were about was improvement – or were we part of the performance management arrangements for A&E?

'I do think clarity about the roles is important. You need to tease them out. But it is not always easy. If you just have inspection as your quality assurance you run the risk of regression towards mediocrity. You end up with a box-ticking approach to regulation, where what people are thinking about is the minimum standard possible, not how do we innovate and drive standards forward? It takes confident and experienced chief executives and boards to do that, and we don't have enough of them.'

Andy McKeon, the former head of health at the Audit Commission, who was director general of policy and planning at the Department of Health for the earlier part of the MA's existence, shares much of Fillingham's analysis. 'It did get resented because it took good people out of hospitals,' he says. 'And there are always power struggles in an organisation like the NHS, and some people in the strategic health authorities resented it.

'But it was a brave attempt to do what everybody says needs doing, which is institutionalise the spread of best practices in the NHS. And it was doing good things. It was a bit like an orchestra. They were quite entrepreneurial, in having individuals who would go out and develop locally, more locally, bespoke things.

'It may have got too big. But it was definitely worth sticking with longer, rather than just abolishing. It was a big opportunity lost – thrown away, really. Definitely worth thinking about again.'

Finally, Fillingham says: 'There is an open question about whether your improvement capacity

should be organised nationally or not. I think I would say that the answer is to have some capability on a national basis, but not of the type of the MA.'

He currently runs AQuA, the Advancing Quality Alliance, in the north-west of England. He has applied many of the lessons learnt from his days at the MA. AQuA is a membership organisation of volunteers with 67 NHS members, who pay a subscription. Staff, usually clinicians, typically work part-time for AQuA and part-time back in their originating organisation. 'So we are building a community of improvers. The members get a discount back on their membership fee, they feel they own us, and that works really well. And regionally it is possible to know pretty much everybody. If you scaled us up to a national organisation, it would not work.'

5. Conclusions

Three short studies of the fate of three very different improvement agencies, when there have been dozens of such bodies over the years, is a far from comprehensive survey. But there is also a more general background against which the lessons from their arrival and disappearance might be debated.

There are similar organisations that have proved much longer lived than the three cited here, though even some of those have at times lived dangerously.

The arm's-length bodies review of 2005 – which, as a side effect, finished off the NHS Modernisation Agency – originally proposed crunching 11 public-sector inspectorates into just four.

One part of that would have seen the five inspectorates involved in criminal justice merged into one: HM Inspectorate of Constabulary (which can trace its roots back to 1856), the Inspectorate of Prisons (founded in 1981), the Crown Prosecution Service Inspectorate (created as an independent body in 2000), the Inspectorate of Probation (whose origins go back to 1936), and the Inspectorate of Court Administration (whose origins are complex but go way back).

That proposed five-way merger was described by critics as 'folly' and 'avoidable nonsense'⁷⁰ – i.e., aiming to put into one organisation five very different inspection regimes, which were different not from perversity but because they were inspecting very different things. Given the way the legislation was drafted, critics argued it would also have reduced the independence of some of the bodies, making them more subject to ministerial direction.

What drove this – aside from the wish to be seen to be culling quangos and saving some money – was the Government's desire for the criminal justice system to be more of a seamless service. Better integration between prison, probation and the police, in particular, might reduce reoffending. How far inspection should or can be used to drive policy in that way, rather than reflect it, is an important question.

The reaction to the apparent proposed destruction of truly independent inspection, plus a resolute campaign of defence among the various inspectorates, killed off the idea in the House of Lords – although the court administration inspectorate did not survive the current coalition Government's quango cull.

Some more recently created inspectorates have prospered. For example, Ofsted may continue to generate repeated bouts of controversy among teachers and education academics, but its ratings of schools are widely used by parents. Even it, however, has become the subject of mission creep. Its remit was first extended into child care, an issue perhaps not so different to schools. But its area of operations now stretches into children's social services and child safeguarding, an area of inspection that requires very different skills to inspecting schools.

Over the years, health and social care, in particular, have been subject to reorganisation and redefinition, with some pretty disastrous results. The Commission for Health Improvement, the first NHS inspectorate, was established in 2001. Despite its title, it became the subject of a debate

70 *The Guardian*, 4 July 2006.

about how far it was merely an inspectorate and how far an improvement agency. It was abolished in 2004 in favour of the Commission for Healthcare Audit and Inspection (CHAI). That removed 'improvement' from the title, and the organisation anyway renamed itself for day-to-day purposes as the Healthcare Commission. But it clearly saw its role as being about improvement and not just inspection. Its abolition was announced a mere 11 months into its existence – although it was four years before it finally merged into the existing Care Quality Commission (CQC).

On the social care side, the National Care Standards Commission was set up in 2000. In effect, it nationalised – for good reasons at the time – the inspection of adult social care, which had originally been undertaken by local authorities. It had been in existence for just 17 days before it was announced that it was to be abolished and turned into the Commission for Social Care Inspection (CSCI), whose jurisdiction was to cover both adult and children's social care – a sort of parallel body to the Healthcare Commission. As with the Healthcare Commission, the decision to abolish CSCI and move it into the CQC was announced 11 months after it started operating.

The CQC, which started work in 2009, brought together CSCI, the Healthcare Commission and the Mental Health Act Commission, whose concern was compulsorily detained patients. CSCI's inspection of children's services was hived off to Ofsted. As with the proposals for the criminal justice inspectorates, part of the idea was that having health and social care inspection in one place might help drive a more seamless service for patients. The Mental Health Act Commission was thrown in for good measure.

Quite unintentionally, the CQC was set up to fail.⁷¹ It was the third new quality regulator for health, and the fourth for social care, in only nine years. The combined budget of its three predecessor bodies was slashed by a third. It was given extensive new responsibilities, not least inspecting 8,000 GP practices for the first time, along with many thousands of dental practices. It brought together four different types of inspection, each of which required very different skills, given the nature of the services they were inspecting. It was an entirely predictable disaster – even if poor management, and its initial reliance more on generalist than specialist inspection teams, compounded that. Four years on, with its inspection regime having once again been recently recast, it is still working hard to recover.

Anna Walker, who is chair of the Office of Rail Regulation but was chief executive of the Healthcare Commission, and who before that had been deputy director general of Oftel, says: 'It cannot be right to serially pull these regulatory organisations up and reorganise them. You have to learn over time what works in terms of regulation, to really get under the skin of things. Regulation is complex and it needs time to evolve and ensure lessons are learnt about what works best.

'And an important point is – what are you asking your regulator to do? Are you asking your regulator merely to ensure that minimum standards are met? Or are you asking your regulator to encourage improvement, not just the safety net for minimum standards? Or do you want to leave improvement – stretch – merely to the commissioners?

71 *Designed to Fail*, Institute for Government, 3 July 2013.

'I do not believe Ofsted would have the national confidence which by and large it commands if all it was actually doing was checking the basics in schools. Its aim is to encourage improvement, as is the requirement for some other regulators, such as the Health and Safety Executive under general health and safety law. The question of improvement is a deeply, deeply fundamental one.'⁷²

All the bodies discussed here were clearly set up, at some level, to produce improvement, even if they did not have the word in their title. And it becomes clear there are important distinctions between standard-setting, inspection, regulation and improvement, although detailed discussion of the distinctions can rapidly become one in which angels dance on the heads of pins.

The key distinctions here are that standard-setting is essentially a matter for government, either through legislation or by delegation to a given body, or both – the Health and Safety Executive is a classic example of that, as is the National Institute for Health and Care Excellence (NICE).

Inspection and regulation – regulation implying powers to force a regulated body to do something – often overlap. But an organisation can be an inspector with no statutory regulatory powers. Indeed, that is common in the public sector – the prisons and police inspectorates, for example, or the Commission for Health Improvement and its successor body, CHAI. These are bodies that inspect and report but do not themselves have direct powers of intervention. Ministerial intervention may follow a report – and precisely how that happens varies. But they do not themselves directly intervene.

Equally, organisations can be an improvement agency, or more accurately, an agency for improvement, without inspection. The Audit Commission started out that way. Merely reporting standardised, comparable data – the limited task that the Audit Commission fulfilled in its earlier years – can itself be a driver for improvement. Its shift in the late 1990s into inspection clearly changed its nature. But even at the beginning the Audit Commission had some quasi-regulatory powers in the sense that it could highlight major problems in a given local authority and recommend action such as the appointment of commissioners – it being up to the minister to decide whether to intervene. This sort of quasi-regulatory power made it a regulator by publication and recommendation, without formally being one.

It is also possible to be a regulator without being an inspector. The economic regulators for the utilities do not routinely inspect water or power or communication companies, for example, though they have powers of investigation and can direct, chiefly over price-setting. This does not mean these companies are not subject to inspection. But the operational standards they have to meet are inspected and/or regulated by others – the Environment Agency, the Drinking Water Inspectorate, or the Health and Safety Executive, for example. In the public sector, Monitor regulates NHS foundation trusts, overseeing their finances and performance. It has powers of intervention – it can replace chairs and boards – but it does not itself inspect. The inspection of quality in these organisations is undertaken by the CQC, with Monitor taking its findings into account.

It is equally possible to be an improvement agency without being either an inspector or regulator – the NHS Modernisation Agency was clearly that, as was the National Policing Improvement Agency. Such a body is designed to produce guidelines and assistance, sometimes direct training, and sometimes consultancy, without inspecting or regulating.

72 Anna Walker, *Changing of the Guard: Lessons for the new NHS from departing health leaders*, Nuffield Trust, March 2013.

From this brief outline, it is apparent that the distinctions between bodies that set standards, inspect, regulate and improve may be far from clear cut. But unnecessary confusion, or lack of clarity about what organisations are about, can lead to trouble, as the case studies reveal. The confusion can be reflected in something so simple as their titles. The NPIA was an improvement agency in the sense that it trained and accredited. But the bulk of its business was service provision across a whole range of key policing tasks – managing the Police National Computer and the national fingerprint and DNA databases, national police communications and much else. As Lord Wasserman puts it: 'It had a branding problem ... its name was terrible. It was a vital support service.'

Likewise the Commission for Health Improvement, the original NHS inspectorate, was not, despite its title, a formal improvement body. It was merely an inspectorate, while its successor body, the Commission for Healthcare Audit and Inspection (which renamed itself the Healthcare Commission), no longer had the word 'improvement' in its title but clearly saw itself as having that role.

Peter Homa, chief executive of the CHI and now chief executive of a major NHS trust, says the link between inspection and formal improvement powers is an issue on which he has changed his mind. 'When we were set up, Frank Dobson, the Health Secretary, told us he wanted us to be somewhere left of the Audit Commission in terms of being an agency for improvement and not just an inspectorate.'

'But we didn't have the statutory powers to do that. We had clear duties about inspection, and some requirements over sharing good practice and reflecting back to the service where it was doing well and where it was not. But there wasn't a statutory basis for setting up the equivalent of the Modernisation Agency. Instead we worked very hard at not treading on their toes and sharing what we learnt with David Fillingham at the MA and with Mike Richards, who was the cancer tsar. We did have a duty to report on particular services, such as cancer, but we tried to work closely with him as he was doing the improvement.'

'At the beginning I had hoped you could combine inspection and improvement work. I now don't think you can. You can definitely be part of a system that brings about improvement. But while you can advise and help point people in the right direction for help and assistance, you can't roll your sleeves up and get directly involved in working with an organisation you have inspected in order to produce improvement because you will end up very shortly having to inspect them again, and you will be conflicted. You can, however, use inspection as part of a system of improvement.'

Marcine Waterman, who is now controller of audit at the Audit Commission, emphasises that these days the commission 'is not an improvement agency. We are a regulator of audit, which is what we have always been. We have headed back to our future, so to speak. Improvement agencies tend to be more supportive to those they are working with. They are often connected to the executive, and they try to get alongside people to help them improve. The Audit Commission is about holding a mirror to people, holding people to account. Speaking without fear or favour. That is what we have always been about. It is an important distinction for us.'

By contrast, Baroness (Barbara) Young paints a different view. She was chief executive of the Environment Agency from 2001 to 2008. Its regulatory remit stretches from the nuclear industry to waste management, to sewage, flood protection and fishing licences. Previously she had been chair of English Nature and a senior NHS manager. She was also the first chair of the CQC during its difficult birth.

An inspector or regulator that is only about minimum standards, she says, 'is not doing very much at all. You don't want people to get into the construct of thinking that I have just got to scrape past the minimum standard. You actually want to encourage people to think about how they do continuous improvement, about how – in the case of the NHS – they work with patients to make sure that they want to go and seek good practice from elsewhere.

'I think you have to develop a partnership with the people you regulate. You have open access to data so you know exactly what is going on. You have a regime that understands what the precursors of poor practice are – like a change of boss, high staff turnover, inadequate training, or a merger or takeover, all the classic things that cause poor practice to start to happen. You have inspectors who have come out of the industry so they really know what it is that they are inspecting. So you do your inspections with a degree of knowledge and partnership, with enough powers in your hand so that when you walk up the front drive and talk to the chief executive, they think, "Wow, I had better collaborate with these folk." And as a result people are more likely to come to you and say, "Look, we know we are about to plunge into poor performance because of X, Y and Z." It works like that in the nuclear industry. They tell you.'

But there are, she says, distinctions between the public and private sectors, with some of the tensions greater in the public sector. In the private sector it is possible for a regulator to work quietly with a company as the regulator demands improvement – with the threat of publicity and fines in the background. When regulators do that in the public sector and things do not improve quickly – and particularly in these days of demands for greater transparency about everything to do with the public sector – they risk being accused of a cover-up. The recent headlines concerning the Morecambe Bay hospitals are a case in point.

There are some tools available in the private sector that are not easily applied in the public sphere. There are no shareholders for most schools and hospitals, for example. So a significant fine essentially penalises only future pupils and patients, not the current management and owners.

In addition, the more ministers are directly responsible for a service – the NHS, prisons, probation – the more sensitive the task. The minister is both the regulator's boss or sponsor, and responsible for the service. 'It is very difficult to get a proper regulator/regulatee relationship,' one former chair of a public-sector regulator says, 'because your secretary of state is your boss but at the same time you are regulating him or her and criticising what they are responsible for. It can be a bit of a nightmare.'

So what lessons might come out of all of this?

A note of caution is needed in attempting to draw big, generic lessons from this account. Each of the more detailed case studies, and the fate of some of the other bodies discussed, is at least to some degree *sui generis*. The gelling or clashing of personalities; particular events; changes in the political climate; the differing interests of ministers, regardless of party, at different times; particular behaviour by the agency in question, the department or ministers – all of these play a part and make each case different.

Nonetheless, some broad lessons and observations do emerge. Most are far from original or surprising. Indeed, they come up time and again in the Institute for Government's work⁷³ – common

73 See, for example, *Read Before Burning: Arm's-length government for a new administration*, Institute for Government, 2010.

themes that nonetheless are worth reiterating in the particular context of improvement agencies. We group them into two broad headings – things that help with the creation and running of improvement agencies, and those related to changing, or abolishing, such bodies.

Creation and maintenance

1. Clarity of purpose

This applies to everyone concerned – ministers, the department, the agency itself. It is crucial when an arm’s-length body is set up, but also throughout its existence. As the more detailed discussion above illustrates, there are important distinctions between standard-setting, inspection, regulation – all of which are aimed at improvement – and being purely an improvement agency. Precisely what is needed will vary by sector. The roles are not entirely distinct and they can be mixed. But it is crucial to be as clear as possible about them. Being muddled can lead to trouble, as the case studies show.

2. Clarity of governance

This is a constant theme in the Institute for Government’s work. It will not be revisited in detail here. But being clear about the roles and responsibilities of government and the agency in question is crucial – as set out in *Read Before Burning* and *It Takes Two*, the Institute’s twin reports on governance and effective relationships with arm’s-length bodies.⁷⁴

3. Regularly revisit purpose and function

All the bodies we have looked at eventually suffered from inadequate sponsorship by their department. Throughout the life of these arm’s-length bodies, the department and the agency itself need to remember what it is there for. From all the interviews conducted for this report, it is clear that the Department for Communities and Local Government (DCLG) had, to a considerable degree, forgotten about the Audit Commission’s core function – audit. It had been going on so quietly and relatively effectively for so long that its importance had disappeared off the radar. The commission’s role as an inspectorate, and indeed regulator through the recommendations in its national studies, had come to dominate the political conversation.

A key reason for the huge delay in the abolition of the Audit Commission has been the belated rediscovery by the department of the importance of audit, and the long debate in Parliament and elsewhere about how to maintain its effectiveness – even if, in the view of the Institute, long-standing and important principles about the independence of public audit, and the underpinning of that, still remain at risk in the new arrangements.

The department holds an absolutely key responsibility for understanding purpose and function. But the reality of the turnover of ministers and officials means that in practice the burden often falls on the agency itself, which must repeatedly ensure that its sponsors in government do really understand why the organisation was created and how its purpose is being interpreted.

For example, it is noteworthy how little contact the Audit Commission chair had with ministers. Michael O’Higgins says he only met John Denham at the National Economic Forum. He had no specific meeting with him on the commission. After the election, O’Higgins had one meeting with Eric

⁷⁴ *Ibid.* and *It Takes Two*.

Pickles, about the replacement chief executive, and one brief encounter at a DCLG reception.⁷⁵ For whatever reason, the normal early-sighting meeting between the new minister in a lead department and the chair of a key arm's-length body to establish a working relationship did not happen.

There was uncertainty throughout the life of the NPIA about precisely who its customers and clients were and to whom it was answerable, factors that clearly contributed to its demise.

David Fillingham makes the point that as sponsor ministers changed, so a clear view of what the NHS Modernisation Agency was about dimmed. Peter Homa adds: 'The calibre and experience and the understanding of the civil servants in your sponsoring department is very important. That applies all the time, but particularly when you are setting up a new organisation where you may have civil servants who have never been involved in setting up a new organisation, with all the risks and challenges that involves – and that was something that the CQC suffered from. It was given an impossible task. I was very lucky. But having civil servants who really understand the business you are in, not just at the beginning but all the way through, and making sure the ministers do, is crucial.'

So time and effort spent keeping in touch with the principal client is essential. If an arm's-length body is not clear about its purpose, while understanding whose support is essential to its success, it will be vulnerable, regardless of whether abolition is the right solution.

4. Measure and manage cost-effectiveness

It almost goes without saying that organisations need to manage their own cost-effectiveness. This applies, for example, to levels of remuneration and expenses, which were widely seen to have got out of hand during the mid-2000s. In several cases the organisations reacted too slowly to a changed political climate in which all the parties were challenging very high public-sector salaries and expenses. It is one thing to gather political intelligence and another to act intelligently on it.

Measures of cost-effectiveness also matter at a much more fundamental level in ensuring that the department and the agency's clients understand the organisation's impact. Improvement agencies need to have in place measures of impact and performance that are developed and agreed with the department, so that its value for money or otherwise is illuminated. That, of course, can also reinforce its standing among those it is inspecting and regulating, as well as with central government, Parliament and the public. To put it another way, and to quote Nick Gargan, agencies must not fall 'into the arrogance of assured existence'.

5. Beware 'mission creep' and the 'dustbin syndrome'

This is a sub-set of lesson two. But it was clearly a factor in the demise of some of the agencies discussed here – very clearly so in the case of the NPIA and the Modernisation Agency. Being given extra duties can look like a vote of confidence. But it can turn an agency into a dustbin, distract from its core function, leave it with multiple tasks requiring very different skills, and simply make it too big and diverse to do its job well.

Agencies themselves, of course, do not necessarily make the decisions about mission creep, although they can be tempted into it. It is often ministers who decide to extend an organisation's remit. It remains to be seen, for example, in relation to children's services whether Ofsted can in the long term combine school inspection with child safeguarding.

75 Interview with Michael O'Higgins.

One side effect of the Audit Commission's abolition has been to extend the reach of the National Audit Office further into local government – a form of mission creep. There is, of course, a precedent in that Audit Scotland and Audit Wales, in appreciably smaller countries than England, appear to have successfully melded oversight of the devolved administrations' spending with that of local government. It remains to be seen, however, whether the NAO's greater involvement in local government – with the Public Accounts Committee's hearings and investigations into NAO reports – produces a fruitful relationship between the PAC and local government or, as some fear, a destructive one, with its hearings pitting two sets of elected representatives – local and national and from different parties – against each other.

6. Stability really can help

Endless change does not produce good outcomes. Health and social care have, respectively, been through three and four different inspectorates in less than a decade, and in the case of health, even more inspection regimes. It is little wonder it has not gone well. The Modernisation Agency in its brief life went through repeated changes of accountability upwards and reorganisation downwards of the world with which it was seeking to deal.

As Anna Walker puts it: 'It cannot be right to serially pull these regulatory organisations up and reorganise them. You have to learn over time what works.' Equally, as Nick Gargan noted about the NPIA and its relation to the police service generally: 'In 13½ out of the previous 20 years there had been at least one unit of the service in transition. We need to either create incentives for stopping that or get better at doing it.' That is a point to which the lessons will return.

7. Think about funding models

This is less a lesson than an observation. Improvement agencies can be funded in many ways – by charging their clients, by direct government grant, by top-slicing an element of other organisations' budgets, for example. For much of its life – and as is now the case for the remainder of its existence – the Audit Commission charged those for whom it arranged audit, adding in effect a surcharge to that for its national studies. In other words it was not directly funded by central government. For many years, supporters of the Audit Commission argued that to be a significant strength, underlining its independence from central government and making it, at least in theory, responsive to the clients whose money it was spending. That changed as the commission was drawn into inspection and took some central government grant, although the audit fees always constituted the great bulk of its income. And that source of income did not in the end save it. The Modernisation Agency, by contrast, was in effect funded by top-slicing an element of NHS cash, an approach which led to some resentment from those NHS organisations that felt they had the capacity for 'modernisation' without the need for the agency's assistance. It is notable that David Fillingham, in setting up a regional improvement agency that replicates a fair amount of what the Modernisation Agency did, has opted for a subscription-based approach – precisely because it produces what might be dubbed customer buy-in.

None of this is to suggest there is necessarily a single 'right' model for funding improvement agencies. It does suggest that some thought is worthwhile during their creation about precisely how they are to be funded and what impact that may have on those with whom they have to work.

Lessons for change

This study did not set out to go into the details of how to change, or how to successfully close down, an arm's-length body involved in improving public services. But some broad issues do emerge. The first is:

1. Abolition should not be the first resort

That sounds obvious. Doubtless it is done. And it is not an argument for not getting rid of an organisation that has outlived its purpose.

But it is notable that almost all the organisations discussed here were formed, at least in part, from predecessor bodies. Significant amounts of what they did – even in the case of the Audit Commission – are still being done somewhere after abolition, although not necessarily on the same scale. So it really does seem to make sense to think hard about options other than abolition, given the financial and opportunity costs involved, and given that timetables for abolition and the creation of something new have a distinct tendency to slip.

If things are not going well, Lord Heseltine's view, quoted at the opening of this report, that you then 'change the chairman, it is no more complicated than that' is a seductive one.

This happens extremely rarely, though there are plenty of cases of chairs not being renewed at the end of a term. Instead it seems somehow easier for ministers to abolish entire bodies than have a row over sacking a chairman. There is, of course, a risk – particularly after a change of government – of ministers being accused of 'politicising' an arm's-length body and undermining its independence, particularly if a chair is or has been associated with a different political party.

But for all that, it does seem remarkable that ministers appear to be far more willing to incur the huge costs and disruption of abolishing organisations than to face a short-term row over changing their leadership and remit in order to take them in a different direction – a solution that must on occasions be a cheaper, swifter and cleaner option.

2. Fast may prove slow

Moving quickly has clear advantages. But announcing abolition without having thought through successor arrangements for key functions has big drawbacks. The Audit Commission is a prime example of that; the NPIA likewise. And the paradox is that what looks like speed ends up being slower than a more old-fashioned, structured, consultative process ahead of any final abolition.

In the case of the NPIA there were different views on the merit of what happened. The Coalition took what one Home Office official described as an 'organic' approach to successor functions. Nick Herbert, the minister in charge, acknowledges that approach 'did make it harder'. But he adds: 'I think it was necessary. The [police] service may have said they'd be happier if we'd said, "That's what you're doing" but I don't think they'd actually have liked it.' For Herbert, co-production of future structures was essential. The question remains whether these conversations could have been accelerated – the whole process took well over a year – without it appearing that the Home Office was entirely engineering it. Others felt the uncertainty was destructive and pointed in particular to the potential impact on staff – despite high staff morale. In the case of the Audit Commission, the

failure to be clear about what was going to happen to residual functions has produced a multi-year delay in the outcome, and difficulties in maintaining high-quality staff in a body that on the current timetables is going to go, but which still has a crucial role to play – overseeing the existing audit contracts.

Co-production, to use a different term to an ‘organic’ approach, can clearly help with the final buy-in to new arrangements. But navigating blind – abolition is announced but no one in practice has a clear idea of what follows – is deeply unhelpful.

3. Build some central expertise in both creation and abolition

This is a last-but-not-least lesson – to the point where it may almost be a recommendation.

What is most notable about all the bodies discussed here – with the sole exception of the Commission for Health Improvement, which was the first hospital inspectorate – is that they all had precursors that went into the new entity. That is true of the Audit Commission, the NPIA, the NHS Modernisation Agency, CQC, CSCI, Ofsted and many others.

Each time, a new team with no experience tends to be assembled and the process relearnt. The same applies to close-down. And even if some of the lessons here are learnt, governments will continue to close down arm’s-length bodies, often for good reasons.

Sean Byrne, the NPIA’s head of strategy, pointed out: ‘Looking back, we have shut down a lot of public bodies, so collectively we should be good at it. Yet there is no central expertise to draw on. The cabinet guidelines were about accounting, and that wasn’t much use. There must be a better way of doing these things.’ A Home Office official concurred: ‘We ended up pretty much with a team that was thrown together’ and ‘did not seek out other learning that was out there’. But as Byrne noted, if they had looked for the learning there was no central repository for it.

Central knowledge of how to do this well lies in pieces all over Whitehall. But finding the people who know is a matter of luck rather than there being a standing central resource, or even a central resource that knows where to find the knowledge and the practitioners, and which is itself known to exist by the rest of the government machine.

As already noted, this study did not set out to examine in detail how to handle closures. But it is clear that those involved in these cases gained valuable experience on what works and what does not. Their experience should be used by those embarking on similar close-downs. As an example of lessons that might be learnt, those involved in the NPIA’s abolition say it did have the merit of co-locating NPIA and Home Office staff in a joint closure team. Despite the difficulties faced in getting decisions about what was to happen to core residual functions, that did make for good handling of those decisions once they were made, and good communication between the Home Office and the NPIA. Paul Minton, deputy chief executive of the NPIA from December 2010 until late 2012, says the fact that staff from the NPIA went to sit alongside Home Office officials ‘was a critical success factor’ in a relatively smooth transition.

Finale

This report cannot end without a verdict on the abolition of the Audit Commission – the decision which triggered this study. It is hard to conclude that there was not an element of pique in it. That is demonstrated by the current position, where the remnants of the commission will, on the current timetable, be abolished in 2015 with an interim successor body set up to oversee audit contracts until their expiry in 2017 or 2020. That decision appears to have no logic.

A key and ancient principle of public audit (genuinely independent appointment of auditors) has been seriously undermined, and a more modern one (that there should be an independent body to stand behind those auditors) has disappeared.

Likewise, central procurement of council and some other public-sector audit, and oversight of whether claims for extra auditing fees from the private sector are justified, will disappear. That system has worked well over the years. It may be replaced by councils – and other public bodies – choosing to club together to buy in these services. If enough do so, that could be a back-door way of recreating part of the commission's function, though on a voluntary basis. But it makes little sense to scrap the existing centralised function, not least because, on the grounds of value for money and oversight, the Coalition is itself deliberately centralising the procurement of many essential, routine services – of which audit is one.

There remains, however, both time and an opportunity for an incoming government in 2015 to reverse those decisions – one it should take.

The National Audit Office may prove good at doing local government studies. But it lacks the power the Audit Commission had to require standardised information from those it will be studying in local government. However good armchair auditors, think-tanks and academics prove to be at analysing the wealth of data that is now being published – and the Institute is all in favour of that data being easily available – it requires standardisation, and the knowledge to interpret what it shows, in order for it be used to produce really reliable conclusions. That too has gone missing.

In one form or another, and doubtless under a different banner, a Commission for Audit to cover at least those three roles – a guarantee of independent audit, standardisation of data and ideally a central procurement and oversight function – needs to be reinvented.

Appendix: Where did NPIA functions go?

Shortly before it was dissolved, the National Policing Improvement Agency published details of the functions that would move from the NPIA to other organisations. The following table is an adapted version of that document.⁷⁶

Function	Destination	Date of transfer
101	Home Office	October 2012
Airwave, the secure band for emergency services communication	Home Office	October 2012
Authorised Professional Practice (APP) (skills accreditation)	College of Policing	1 December 2012
Automotive Equipment Section (AES)	Home Office	October 2012
Business Management Centre (BMC)	Interim move to Home Office before going to Police ICT Company	October 2012
CBRN (Chemical, biological, radiological and nuclear defence procedures)	College of Policing	1 December 2012
Central Witness Bureau (witness protection)	Serious Organised Crime Agency (SOCA) before going to National Crime Agency (NCA)	1 April 2012
Continuous Improvement, Capability Support and Cost Effectiveness (Best practice support)	College of Policing	1 December 2012
CPU (IT procurement team and Airwave, excluding posts aligned to College of Policing)	Interim move to Home Office before going to Police ICT Company	October 2012
Crime Map (online crime mapping)	Home Office	October 2012
Crime Operational Support (Additional central capacity)	Interim move to SOCA before going to NCA	1 April 2012

⁷⁶ *Where did NPIA functions go?*, The National Policing Improvement Agency website, accessed 24 February 2014.

The Criminal Justice and Local Policing Unit	College of Policing	1 December 2012
Efficiency and Knowledge Support Unit (formerly known as Cost Effectiveness, Capability Support and Continuous Improvement)	College of Policing	1 December 2012
Emergency Service Mobile Communications Programme (ESMCP)	Home Office	October 2012
Exams and assessments	College of Policing	1 December 2012
Forensics and Forensics Procurement	Home Office	October 2012
Hendon Data Centre (IT: data storage)	Home Office	October 2012
Information Assurance	Interim move to Home Office before going to Police ICT Company	October 2012
Information Systems Improvement Strategy (ISIS)	Interim move to Home Office before going to Police ICT Company	October 2012
The International Academy, Bramshill	College of Policing	1 December 2012
Learning, development strategy and curriculum	College of Policing	1 December 2012
Learning delivery	College of Policing	1 December 2012
Missing Persons Bureau	Interim move to SOCA before going to NCA	1 April 2012
The National College of Police Leadership	College of Policing	1 December 2012
National Injuries Database	Interim move to SOCA before going to NCA	1 April 2012
National Police Aviation Service (NPAS) project team	Home Office	October 2012
Non-IT procurement	Home Office	October 2011
Police National Computer (PNC)	Home Office	October 2012
Police National Database (PND)	Interim move to Home Office before going to Police ICT Company	October 2012

Practice Improvement Unit	College of Policing	1 December 2012
Proceeds of Crime Centre (POCC) – NPIA retains responsibility until NCA goes live on 7 October 2013	Interim move of staff to SOCA before going to NCA	1 November 2012
Research, Analysis and Information (RAI)	College of Policing	1 December 2012
Schengen Information Systems (SIS) II	Home Office	October 2012
Serious Crime Analysis Section (SCAS)	Interim move to SOCA before going to NCA	1 April 2012
Specialist Operations Centre	Interim move to SOCA before going to NCA	1 April 2012
Technology Product Management Unit (TPMU)	Interim move to Home Office before going to Police ICT Company	October 2012
Uniformed Operational Support	College of Policing	1 December 2012
Workforce Strategy	Home Office and College of Policing	October and 1 December 2012

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Aside from formal interviews, the Institute held two Chatham House roundtables, one on the Audit Commission and one on the National Policing Improvement Agency, with some of the comments made at those subsequently put on the record here, with permission. Again we are grateful to those who gave up time to attend and in some cases produced briefing papers for us.

The authors also benefited from an early sight of a paper on the abolition of the Audit Commission by Dr Katherine Tonkiss and Professor Chris Skelcher from INLOGOV, the School of Government and Society at the University of Birmingham, for which we are again grateful.⁷⁷

⁷⁷ Dr Katherine Tonkiss and Professor Chris Skelcher, 'The Politics of Arm's Length Body Reform in the UK: A Case Study of the Audit Commission', INLOGOV, School of Government and Society, University of Birmingham.

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