House of Commons
Committee of Public Accounts

Department for Communities and Local Government: Financial sustainability of local authorities

Third Report of Session 2013–14

Report, together with formal minutes, oral and written evidence

Ordered by the House of Commons
to be printed 13 May 2013
Committee of Public Accounts
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Powers
The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publications
The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff
The current staff of the Committee is Adrian Jenner (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and James McQuade (Committee Assistants) and Alex Paterson (Media Officer).

Contacts
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# Contents

## Report

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary</td>
<td>3</td>
</tr>
<tr>
<td>Conclusions and recommendations</td>
<td>5</td>
</tr>
</tbody>
</table>

1 **Understanding the effects of changes to local government funding** 7  
   Changes to local authority funding and the response of local authorities 7  
   The Department’s understanding of the effects of funding changes 8  
   Variable effects of funding changes on different councils 8  

2 **The Department’s accountability for local government spending and sustainability** 10  
   Accountability for local authority spending and its value for money 10  
   Accountability in the event a number of councils become financially unsustainable 11  
   The future shape of local authorities 12  

## Formal Minutes

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14</td>
</tr>
</tbody>
</table>

## Witnesses

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15</td>
</tr>
</tbody>
</table>

## List of printed written evidence

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of printed written evidence</td>
<td>15</td>
</tr>
</tbody>
</table>

## List of Reports from the Committee during the current Parliament

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of Reports from the Committee during the current Parliament</td>
<td>16</td>
</tr>
</tbody>
</table>
Summary

Local government is now halfway through a period of significant funding reductions. Central government grant funding to local authorities is being cut by over a quarter in real terms (£7.6 billion) between 2011 and 2015. At the same time the Department for Communities and Local Government (the Department), is introducing fundamental changes to the local government finance system with reforms to business rates and council tax benefits. To date, councils have, as a whole, managed to cope, but with reductions likely to continue for several years, the pressures on the sector are set to increase.

The Department does not properly understand the overall impact on local services that will result from the funding reductions. In some instances it cannot provide assurances that money voted by Parliament for a particular purpose has in fact been used to fulfil that purpose. For key local service areas the Department did not do enough work with other government departments to model how funding changes may adversely affect other areas of the public sector, for example cuts in local authority adult social care could lead to bed blocking in hospitals. Some departments that provide funding to local authorities modelled the likely effects of funding changes before carrying them out, but the modelling was inadequate and must be improved in time for the next Spending Review. None of the Spending Review submissions scrutinised by the National Audit Office analysed how the funding changes would affect different types of local authority.

So far, the highest reductions in terms of spending power have tended to be for councils that depend most on government grant, where needs for local services tend to be greatest. New reforms to the funding system—allowing councils to retain a portion of Business Rates income they raise locally—will reward councils who enjoy growth in Business Rates income, but will also remove resources from those which experience a relative decline. It will become increasingly important for the Department to improve its ability to foresee what effects the full package of funding reductions and reforms will have on local authority areas, particularly for those authorities which face higher deprivation levels.

Local authorities’ funding continues to be cut yet the number of statutory duties they have has stayed the same, and in some areas, such as adult social care, the demand for services is increasing. If these trends continue there is a risk that the worst-affected councils will be unable to meet their statutory obligations, and that serious questions will arise about the viability of some councils. The Local Government Association has already deemed one district council as being unviable, but the Department does not have a clear strategy for responding to and dealing with such failures. The Department urgently needs to engage with other government departments and the local government sector on what the financial pressures mean for the future shape of local authority services. It must also overhaul its accountability arrangements and in particular clarify its plans to respond if councils become unviable.

While the Department collects a significant amount of data from local government, it has not focused enough on what information is needed to understand councils’ spending and performance. The Department did not make clear how it will monitor councils’ ability to cope with funding changes, or the extent to which they are able to do this by increasing
efficiency rather than reducing services. Neither has it demonstrated that the information published is sufficient to provide assurance on the value for money with which councils spend their resources. It was not acceptable for us to learn that nobody is responsible for providing Parliament with information on either severance payments or the use of personal service companies by local authorities.

On the basis of a Report by the Comptroller and Auditor General,¹ we took evidence on the financial sustainability of local authorities from the Local Government Association (LGA) and Professor Tony Travers of the London School of Economics, and from the Department for Communities and Local Government.

¹ C&AG’s Report, Financial sustainability of local authorities, Session 2012-13, HC 888
Conclusions and recommendations

1. The Department has not assessed the cumulative impact of the funding cuts and changes to the funding arrangements on the financial sustainability of local government and the services it provides. Central government is reducing its funding to councils by more than a quarter over four years. At the same time, reforms introduced will result in changing from a system in which funding responded to changes in need to one in which it responds primarily to changes in Business Rates base. While departments provided some information on the potential impacts of funding reductions on local government, the data was superficial and incomplete. For example, the Department for Education did not provide a proper cost analysis of the overall impact of funding reductions on children’s services. The risk assessments the Department carries out before introducing funding reductions and changes are incomplete. Furthermore, there is no data to demonstrate that money voted by Parliament for a particular purpose is being used by local authorities for that purpose. Furthermore, we have seen examples where there is no data to demonstrate that money voted by Parliament for a particular purpose is being used by local authorities for that purpose. The Department needs to work with other departments to improve central government’s assessment of the effects of funding reductions and reforms—including how they interact with each other—before the next Spending Review. The Department should also work with other departments to ensure monies voted by Parliament for a particular purpose are used to fulfil that purpose.

2. The effects of funding changes vary widely across the local government sector. Different councils are receiving different levels of reductions: whilst some have seen their spending power reduced by just over 1% in 2012-13, others have seen reductions of nearly 9% in two consecutive years. The Department does not have a good understanding of the effects of funding changes on individual councils. It also lacks understanding of the actual impacts on poorer or more vulnerable communities and local residents. The Department needs to improve its understanding of the impacts of funding changes on individual councils, focusing in particular on the outliers which would be worst affected. This must include an understanding of what the impact could be for vulnerable groups.

3. It is unclear what actions the Department will take in the event of financial failure occurring in a number of local authorities. The Department’s procedures for managing serious problems with local authorities’ finances or service provision are designed for dealing with one-off failures, often the result of internal and unique factors within an individual council. In the current funding environment, however, there is an increased risk that a number of councils become financially unsustainable – with the example of West Somerset Council, deemed “not viable” by an LGA report, serving as an early warning sign. The Department must clarify its role and responsibilities in the event of multiple financial failures of local authorities, and draw up contingency plans for intervention.
4. **The Department has not adequately assessed the long-term implications of funding reductions on the services councils deliver.** Local authorities have, as a whole, managed to cope with funding reductions since the 2010 Spending Review. However, the danger is that they may soon have little room for further efficiency gains, meaning that future savings would increasingly have to be met by service reductions. The Department needs urgently to engage with other departments, local government, and the public in a transparent dialogue as to what services councils will be expected to provide in a prolonged period of declining funding. This may involve renewed discussion about councils’ statutory duties.

5. **The Department lacks understanding of the efficiency with which councils use their funding and has not set out how the information currently published on the sector provides assurance on value for money.** The Department has a responsibility to ensure that a system is in place—including clear and comparable information about performance and spending—to provide assurance on all councils’ value for money. However, the Department has not set out how it ensures that the information available is sufficient to demonstrate that councils are providing value for money. The Department was not clear on whether it could provide the committee with full information on the use of personal service companies by local authorities and the extent to which severance payments have been employed in local government. Nor was the Department able to articulate the extent to which reductions in local authority spending came from efficiency improvements rather than cuts to services. In order to provide assurance to Parliament that there are effective safeguards in place on the value for money of council spending, the Department must define how it assures itself that local authorities are delivering value for money. In doing this, it should set out what data it will collect, as well as the standards that published data on council performance should meet to provide proper accountability.
1 Understanding the effects of changes to local government funding

Changes to local authority funding and the response of local authorities

1. In the 2010 Spending Review, HM Treasury set out plans to reduce central government’s funding to local authorities (excluding education, police, and fire) by 26% (£7.6 billion) in real terms over four years—from £29.7 billion in 2010-11 to £22.1 billion in 2014-15. In addition, local authorities are facing constraints on their ability to increase the income they can raise locally. In some cases, this is the result of Government policy—for instance, the statutory regulation that local authorities must seek a referendum if they wish to raise council tax beyond a certain limit (2% in 2013-14). In others, it is the result of wider economic conditions—depressing the potential income from charging for leisure services, for example. Overall, the projected reduction in local authority income is 14% in real terms over four years, once council tax income is taken into account.

2. During this period the Department for Communities and Local Government (the Department) is also introducing a series of changes to the way in which local authorities are funded. Notably, from 2013-14, local authorities will retain approximately 50% of the Business Rates income they raise locally from shops, offices, and other non-residential properties. Previously, all Business Rates revenue (which amounted to £21.5 billion in 2010-11) was pooled nationally and (alongside the revenue support grant) was redistributed to local authorities according to a formula designed to reflect relative needs and ability to raise income through council tax. While, in the new system, the remaining Business Rates revenue will continue to be redistributed to local authorities, the amount each receives will no longer be updated annually to take account of changing needs. The intention is to shift the principal revenue funding system from one which is focused on relative needs to one which provides an incentive to promote local business growth.

3. The National Audit Office estimates that, over the first two years of the Spending Review period, local authorities had reduced their spending by £4.6 billion in real terms, approximately half of the overall savings required by March 2015. Professor Travers thought that “overwhelmingly, local authorities have managed the process thus far extremely effectively.”

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2 C&AG’s Report, para 1.14 & Figure 3
3 Q 38
4 C&AG’s Report, para 1.14
5 C&AG’s Report, para 3.13
6 C&AG’s Report, para 3.12
7 C&AG’s Report, para 3.17
8 Qq 126, 129, 180, 181
9 C&AG’s Report, para 2.3
10 Q 17
4. Local authorities have increased their unallocated general reserves over the last three years and were holding £3.6 billion in unallocated general reserves in 2011-12. The Local Government Association (LGA) told us that local authorities are building up reserves primarily in response to the future funding uncertainty and because they have delivered planned savings early. Local authorities have also set aside reserves for restructuring, growth and infrastructure projects.\(^{11}\) While the level of reserves appears large in absolute terms, the LGA noted that it was only enough to keep every council in the country going for two months.\(^{12}\) At the same time, 12% of authorities were found to be at risk of not balancing their budgets.

**The Department’s understanding of the effects of funding changes**

5. The Department is responsible for setting the financial framework for local authorities.\(^{13}\) It must therefore work together with other government departments to ensure sufficient analysis is done to understand the combined impact of policy changes and funding reductions on local services.\(^{14}\) This is particularly important if funding changes and reductions implemented for the local government sector have financial implications on other public services. For example, cuts in adult social care may result in increases in hospital costs as patients wait longer to be discharged and emergency readmissions go up.\(^{15}\)

6. Central government departments did not undertake sufficient quantitative modelling of the impacts of spending review decisions on local authorities. For example, the Department for Education did not produce a quantitative analysis of overall cost pressures for children’s services.\(^{16}\) Furthermore, the National Audit Office found that none of the departmental submissions to the Spending Review it examined had broken down their analysis to look at the differential impacts of funding reductions on a regional or individual local authority basis.\(^{17}\) In addition, the Department told us that no modelling had been done to understand the effect of cuts in adult social care on hospital discharges, although it later informed us that it was working with the Department of Health to develop a common understanding of spending changes and the impact on adult social care. The Department also stated that, although spending on adult social care had declined between 2011 and 2012, the level of delayed discharge from hospital had so far stayed roughly the same.\(^{18}\)

**Variable effects of funding changes on different councils**

7. The spending reductions and funding changes do not have a uniform effect among all local authorities. Some local authorities have seen their spending power (the cash they have...
to spend on services) reduce by less than 2% in one year, while others have had spending power reductions of up to 8.8% (with 12 authorities having this maximum reduction in two consecutive years).\textsuperscript{19} The Department told us that it is inevitable that those local authorities that are more grant dependent will be harder hit by government reductions; however, it pointed out that it had provided resources to ensure no council had annual spending power reductions greater than 8.8%.\textsuperscript{20} As well as affecting different local authorities in different ways, some of the policy changes are having more direct impacts on more vulnerable residents. The LGA cited figures to suggest that 2.5 million people would be adversely affected by the Government’s reforms and reductions to council tax support.\textsuperscript{21}

8. The funding changes may also have a proportionately greater effect on smaller authorities and on local authorities that have limited ability to generate growth.\textsuperscript{22} Professor Travers suggested that if the funding reductions continue over the next decade, this will expose smaller local authorities.\textsuperscript{23} Both Professor Travers and the LGA warned that those local authorities which have a high level of grant dependency and are not in a position to generate an increase in local business rate income might face financial difficulties. The change to the arrangements for Business Rates will allow councils to keep 50% of the growth in their Business Rate yield, while another reform—the New Homes Bonus—will generate additional income for local authorities which generate housing growth. Local authorities that are not able to do this will not benefit from these policies.\textsuperscript{24}

9. While we acknowledge the Department’s efforts to understand the total financial impact of funding changes through its spending power calculation, the National Audit Office reported that the Department had not yet fully modelled the cumulative impact of funding reductions and changes on individual local authorities’ financial position.\textsuperscript{25} In addition, the Department did not yet fully understand the impact of some of their decisions on vulnerable residents. For example, while the Department had done some analysis of the potential effects of its reforms to council tax support on financial incentives to move from benefits to paid work, it could not demonstrate an understanding of what the impacts would be for recipients of council tax support in different areas.\textsuperscript{26}
2 The Department’s accountability for local government spending and sustainability

Accountability for local authority spending and its value for money

10. The Department’s Accounting Officer is responsible for having a core system which provides the necessary assurances that local authorities will spend their resources with regularity, propriety and value for money. The system is set out in the Department’s Accountability System Statement. Each council, through the council executive, is accountable for allocating its resources. A council’s performance can be scrutinised by the public and by councillors outside of elections, and also by an independent auditor who looks at arrangements to achieve value for money. This scrutiny is supported by the availability of transparent, comparable data on performance and on spending.\(^\text{27}\) In September 2011, the Department produced a Code of Recommended Practice for Local Authorities on Data Transparency.\(^\text{28}\)

11. We have noted previously that confidence in the success of localism will depend on having robust information flows which serve the needs of all stakeholders, including taxpayers, and that Departments needed to develop specific data strategies to support their Accountability System Statements.\(^\text{29}\) We were concerned that data and information on council performance is still not easily accessible or standardised. This made it difficult for the Department and the public to compare councils’ performance, share best practice, and to hold councils to account.\(^\text{30}\)

12. The Department said it had avoided being too prescriptive about how information was published, and was instead relying on a sector-led process for developing benchmark data, rather than a top-down system which had failed to work in the past.\(^\text{31}\) It was working in collaboration with the LGA to draw together comparative data on local authority performance. The LGA had developed an online tool, LG Inform, which was available to local authorities, and was planned to be available to the public to allow users to compare performance and spend information from summer 2013.\(^\text{32}\) The Department recognised that the sector had not yet published sufficiently transparent data to benchmark councils’ performance, but it had made some good progress.\(^\text{33}\) The Department said the LGA should

27 Department for Communities and Local Government, Accounting Officer Accountability System Statement for Local Government, March 2012
28 Department for Communities and Local Government, Code of Recommended Practice for Local Authorities on Data Transparency, September 2011
29 Committee of Public Accounts, Seventy-ninth Report of Session 2010-12, Accountability for public money – progress report, HC 1563, para 2; Q 119
30 Qq 109, 159 -162
31 Q 109, 159-162
32 Qq 119-120, 160-161; C&AG’s Report, para 3.39
33 Q 162
be allowed to determine the design of LG Inform but told us it would re-examine the arrangements if it felt they were not working.\(^\text{34}\)

13. We were concerned about how the Department ensures the information published about councils’ costs and service provision is sufficient to provide assurance to Parliament on value for money. We also wanted to know how, given the nature of formula grant funding which gives councils flexibility over how money is spent, the Department could say whether the grants from Government departments had been used for the purposes for which Parliament intended.\(^\text{35}\) We were also concerned that neither the Department nor the LGA seemed able to provide us with information on the use of personal service companies and the use of severance payments by local government. The Department told us that, through its Accountability System Statement, it was trying to set up a system that drives value for money, transparency and good financial control, but was not seeking to dictate to individual authorities how they should manage their affairs.\(^\text{36}\)

14. We were also concerned about whether the Department had sufficient information to determine the extent to which local authorities were able to absorb funding reductions through making efficiency improvements. This information would be important to inform the level of local authority funding and the extent of constraints to put in place on council tax rises.\(^\text{37}\) The Department said it had anticipated that most of the local government spending reductions would come from efficiency savings, but that it had not monitored or quantified the size of these savings—and therefore did not know the extent of the spending reduction that would come from service cuts.\(^\text{38}\)

**Accountability in the event a number of councils become financially unsustainable**

15. There are signs that the financial sustainability of some local authorities is coming under increasing strain in the current funding climate. The Audit Commission has identified 9\% of local authorities as having been in “high financial stress” in 2011-12, with 12\% being at risk of not balancing their budgets in future years.\(^\text{39}\) While Professor Travers noted that the requirement of balancing their budgets serves as a strong incentive for local authorities to make the required savings to absorb funding reductions, it is possible that for local authorities that are under financial stress “this produces a lack of sustainability in a council’s capacity to deliver services”.\(^\text{40}\) West Somerset, a small district council, is already facing the risk of being no longer financially sustainable, with the LGA concluding that the council is not viable as a unit of local democracy and governance over the longer term.\(^\text{41}\) To help address cases such as this in the short term, the Department has allowed local

\(^{34}\) Q 160

\(^{35}\) Qq 79-80, 82

\(^{36}\) Q 79

\(^{37}\) Q 61

\(^{38}\) Qq 67-73, 77

\(^{39}\) Audit Commission, Tough Times 2012, November 2012, p 36

\(^{40}\) Q 17

\(^{41}\) Qq 45-46
authorities to increase council tax by up to £5 per person. In the longer term, however, small authorities like West Somerset will, according to the Department, “have to radically look at the business model for the way they deliver services”. 42

16. The Department told us that it is accountable for maintaining an overall system of safeguards on council finances, including statutory responsibilities on local authorities to set a balanced budget. 43 Should local authorities experience significant difficulties, whether in their financial management or service delivery, it has powers to intervene. Where it has intervened in the past, however, this has generally been in response to one-off failings relating to unique factors within an individual council. 44 We questioned how the Department was addressing the possibility that on-going funding reductions might prove too much for a number of local authorities to cope with, and what it would do about it. The Department said it would seek to identify such situations in advance through its modelling, by noting local auditors’ reports, and that ultimately it would rely on local authorities identifying themselves as being in trouble. In terms of what it would do were such situations to occur, the Department told us that the “the two ways in which you could do something about it” would be “Government judgements on funding for local government and Government judgements on the statutory duties it puts on local government and the standards of those statutory duties”. However, it did not clarify what it would do in any more detail. The Department also said that if local authorities were to experience local Business Rates growth, they would enjoy a measure of increased income. 45

The future shape of local authorities

17. Longer term, the financial constraints on local authorities look set to continue. The Treasury has announced that the rate of public spending reductions seen in the 2010 Spending Review will continue up to 2017-18. 46 The Department confirmed that it would be wise for local authorities to plan for further cuts in the next spending round. 47 At the same time, while the Department said it had carried out a consultation on the statutory duties which local authorities have to carry out, it was unable to state whether it had reduced them at all in the light of reductions in funding. 48 Furthermore, the cost pressures on some of the most expensive statutory services, such as adult social care, are projected to continue to rise. 49

18. The National Audit Office concluded that, as funding reductions continue, local authorities may find it harder to maintain services. 50 The LGA modelling of the effect of likely future funding cuts showed that funding reductions will lead to an 80% cut in non-

42 Qq 49, 114-116
43 Q 155
44 C&AG’s Report, paras 3.40-42
45 Q 111
46 HM Treasury, Autumn Statement 2012, Cm 8480, December 2012, para 1.46
47 Q 173
48 Qq 99-100
49 C&AG’s Report, para 3.30
50 C&AG’s Report, para 9
statutory services such as leisure.\textsuperscript{51} Professor Travers spoke about the possibility of reorganising local government and creating larger, more viable units, but he acknowledged that this is not current Government policy, and that it may lead to higher short-term costs. He also suggested that the Government has to look at reducing the statutory duties on local government and review whether “there are a number of things that, traditionally, local government has done that it no longer needs to do”.\textsuperscript{52} In the short term, the LGA thought that three-year financial settlements (as well as further progress with community budgets) could provide greater financial certainty for local authorities, and the potential to generate savings. In the longer term, however, it thought there was a general need to think about the financial base of local government.\textsuperscript{53}
Formal Minutes

Monday 13 May 2013

Members present:

Mrs Margaret Hodge, in the Chair

Guto Bebb
Chris Heaton-Harris
Meg Hillier
Mr Stewart Jackson

Fiona Mactaggart
Nick Smith
Justin Tomlinson

Draft Report (Department for Communities and Local Government: Financial sustainability of local authorities), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 18 read and agreed to.

Summary agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 15 May at 2.00 pm]
Witnesses

Monday 25 February 2013

Carolyn Downs, Chief Executive, Local Government Association and Professor Tony Travers, London School of Economics

Sir Bob Kerslake, Permanent Secretary and Simon Ridley, Acting Director General for Localism, Department for Communities and Local Government

List of printed written evidence

1. Department for Communities and Local Government  Ev 28
2. Local Government Association  Ev 33
List of Reports from the Committee during the current Parliament

The reference number of the Government’s response to each Report is printed in brackets after the HC printing number.

Session 2013–14

Oral evidence

Taken before the Committee of Public Accounts
on Monday 25 February 2013

Members present:
Margaret Hodge (Chair)
Mr Richard Bacon
Stephen Barclay
Guto Bebb
Jackie Doyle-Price
Chris Heaton-Harris
Mr Stewart Jackson
Fiona Mactaggart
Nick Smith
Ian Swales
Justin Tomlinson

Amyas Morse, Comptroller and Auditor General, Lynda McMullan, Assistant Auditor General, Stephen Fitzgerald, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
Financial sustainability of local authorities (HC 888)

Examination of Witnesses

Witnesses: Carolyn Downs, Chief Executive, Local Government Association, and Tony Travers, LSE, gave evidence.

Q1 Chair: Welcome, and apologies: we are running late. Thank you for waiting and thank you to the two of you; I think you both know the form. Before we come to the issue that we are discussing today, I just want to ask Carolyn Downs this. Last time you appeared before us, it was on personal services companies and you were unable to provide us with the data we required on the extent to which local authorities were using personal service companies. You promised you would come back to us and, to the best of my recollection, I have had nothing from you.
Carolyn Downs: I think I have written to you on at least two separate occasions.

Q2 Chair: But not with any data.
Carolyn Downs: Gosh, I’m sorry. I can’t remember exactly. I don’t have responsibility for personal services contracts in different councils. Is there a specific issue—

Q3 Chair: No, we are not asking you to have responsibility; what we asked you for was the data. The Government clearly have responsibility for what happens in central Government. Health has responsibility for what happens in the health trusts. You are our only source of information as to the extent to which personal service companies are being used in local government.
Carolyn Downs: I think the last time I wrote to you I clarified—

Q4 Chair: When you came, Carolyn—just to remind you, because I remember it well—you had a very small number; you gave us a very, very small number—
Carolyn Downs: I did.

Q5 Chair: And we were—I was going to say “incredulous”, but I am not sure that is the right use of the word. We did not think it was an accurate number, so you said you would go away and come back to us with a better understanding of the extent to which personal services companies are used by local authorities.
Carolyn Downs: I think the undertaking I gave you was to go away and look specifically at Barnet—what you raised with me was Barnet council—and I did specifically go away and wrote to you on the back of the information I received from Barnet council. We do not hold that information about every council in the country.

Q6 Fiona Mactaggart: How could Parliament get it if you haven’t got it?
Carolyn Downs: You could find out by writing to every single council in the country, or CLG could do that. We just do not hold that data. We did a random sampling of councils, which I then extrapolated—I have written to you to explain how I provided you with the information I did, which was an extrapolation.

Q7 Chair: That is not very satisfactory. With the greatest respect, you can’t expect the Public Accounts Committee to write to every single local authority. It’s not just upper-tier authorities; there has to be a mechanism. This is an issue that Government have a pretty clear view on, which is shared. In the end, the accountability comes through to us. We need to be able to evaluate the extent of the issue within local government—which we believe is greater than you were able to inform us about when you last gave evidence on it—and we need to have a mechanism for doing so.
Carolyn Downs: I would suggest you do that through Sir Bob Kerslake and the Department for Communities and Local Government, because we do not hold that information at the Local Government Association.

Q8 Stephen Barclay: Foundation hospital trusts are accountable to Parliament directly, but they are still under a duty to disclose special severance payments to the Treasury. Are local authorities under a duty to disclose such payments to anyone outside the local authority?
Carolyn Downs: Are you talking about personal services contracts or severance payments—
Stephen Barclay: Both.
Carolyn Downs: In terms of severance payments, a local authority—to be absolutely honest, I would not want to commit one way or another as to exactly what the disclosure is. But you have to put it in your remuneration report for certain amounts of money—

Q9 Stephen Barclay: Well, that does not work with foundation hospitals. They are different, but it is the same point, which is: do you disclose potentially embarrassing financial data outside the organisation? So if we look at foundation hospitals, they have to disclose special severance payments, but they disclose them within their overall staffing budgets, so they can hide them very easily, but they are required to disclose them to the Treasury—which is why I had a two-year battle to get visibility and the Treasury finally released that data. What I am interested in for special severance payments, but also for personal service contracts, is what disclosure there is outside the body that is making them. Obviously there is a potential conflict of interest from not having transparency. For both of those, is there a disclosure requirement outside the organisation?
Carolyn Downs: No.

Q10 Stephen Barclay: None at all?
Carolyn Downs: No.

Q11 Stephen Barclay: So not even to the accounting officer?
Carolyn Downs: The accountability of a local authority is to the electorate and the local public, and the democratically elected councillors for that authority. There is no accountability in that respect for the budgets through to Government, no.

Q12 Stephen Barclay: So does it concern you at all that there is no disclosure outside the organisation?
Carolyn Downs: Well—I had this in relation to the later item—if you go to the public and ask them who they trust to make decisions about their local area, according to a MORI poll dated January 2013, 79% of local people trust their local council to make decisions about their local area and 11% trust the Government to make those decisions.

Q13 Stephen Barclay: I am not disputing who makes the decision; I am just asking how transparent is the decision that is made. It is hard to compromise trust if you don’t tell people what you are doing.
Carolyn Downs: The decision about a severance payment in the local authority will be made according to the pay policies and the severance agreements, which are clearly public and transparent processes. So in all of that, there will be a policy about severance in the local authority. That policy will be adopted when a severance payment is made to an individual.

Q14 Mr Bacon: Can I be clear that you are saying that if the authority has a policy, which it has published, that says, “Our severance payments shall be confidential”, then that is sufficient in your view?
Is that what you are saying? When you say, “They’ve got a policy and the policy is published,” you are saying that they might have a policy that says, “Severance payments shall be confidential,” and that would be an example of the kind of policy you are talking about that is published, yes?
Carolyn Downs: What I am saying is that, for example, the policy will say, “Our severance payment is 1.2 weeks’ pay for every year’s service,” or something like that. On that basis they will calculate the payment. I can write to you and let you know definitely about the disclosures around severance, but I would not want to commit to you today that every single council would declare the severance payment for every single employee. My view is that it would be subject to freedom of information and it would be disclosed. There is an issue about the names of the individuals that would be included in that, but my view is that every severance payment is subject to disclosure.

Q15 Mr Bacon: And what is your view about personal service contracts, which was where Mr Barclay started?
Carolyn Downs: I am pretty positive, again, that if you asked through FOI for the arrangements in terms of the policy, that would obviously be open anyway and available regardless. If you were asking about a specific post and a specific post holder under FOI, my view is that that would be entirely disclosable as well.

Q16 Chair: Let us move it on to the main issue that we are talking about today, which is the financial viability—
Carolyn Downs: Sorry, it says that all authorities are “required to publish their policies on severance for chief officers”—but not all officers—so for chief officers, who are the highly paid officers, disclosure is required.

Q17 Chair: Let us now move to the financial viability of local authorities. Let me start with Tony Travers, because we have asked you, Carolyn, about things that you were not expecting, but where you are the only vehicle through which we can have some communication with local government. Tony, given the extent to which the demand has been put on local authorities for savings—they got the bulk of the deficit reduction cuts that were required across Government—how, on the whole, are they coping and how ready will they be if in the next CSR, as now seems likely, there will be a further round of cuts required from local government?
Tony Travers: There is no doubt that local authorities have been expected to make bigger reductions than the average across the whole public sector—indeed, as we know, across the whole of the public sector, public expenditure has, in cash terms, continued to increase, whereas cash for local government, both for revenue and capital, has fallen, so in real terms they are significantly bigger. There is no question but that there is a disproportionate expectation that local government will reduce its spending further and faster than other parts of the public sector—not in all parts, but in most. The Government have been pretty clear about that.

As the National Audit Office Report suggests, overwhelmingly local authorities have managed the process thus far extremely effectively. Of course, one of the reasons why they do that is because they, unlike central Government, are required by law to balance their budget in-year. That discipline alone means that local authorities will manage their budgets down to any number the Government choose, so there is no question in my view of authorities going bankrupt, as is often discussed in the media—

Chair: Well, West Somerset district council.

Tony Travers: —however, there is the question of whether an authority might become incapable of fulfilling its legal obligations, which is completely different. Because of the requirement to balance the budgets—which falls very heavily on the officers—in the end, whatever number the Government set for local government spending, each council will hit the target it is given. That begs the question, however, of whether it produces a lack of sustainability in a council’s capacity to deliver services.

The NAO Report, rightly in my view, makes it clear that a number of councils—12%, it says—are currently at risk of being unable to balance their budgets in-year, but again, the chances are that they will all do that by the end of the year. It is a matter of not getting it wrong at the beginning of the year or having to make adjustments during the year, which is not great financial practice. The requirement for councils to balance their revenue budgets is a very powerful discipline to ensure that, whatever figure the Government set for them to spend, they will spend it.

Q18 Chair: Carolyn, where do you think the greatest pressures have come? From the authorities that talk to you at the LGA, where do you think are the greatest pressures in terms of national priorities or local needs and priorities? Where does that seem to you to be falling?

Carolyn Downs: The biggest pressure, without doubt, is adult social care and the increasing demand from older and ageing people and from people with disabilities who are going into adulthood and who are living longer, too. Those are the two huge pressure areas. Adult social care represents about 50% of a local authority’s budget and therefore the increasing demand on that service area is really causing a problem.

The other issue that most councils would say is an increasing squeeze is the inability to raise income, particularly through council tax. Councils say that although their expenditure and their grant are being reduced, their ability to raise income to offset cuts in services is being reduced as well.

Q19 Chair: Where would they normally raise income? Just take me through that.

Carolyn Downs: From council tax.

Q20 Chair: I see, but for years they have faced that constraint. That has not changed.

Carolyn Downs: It has been reduced considerably over the last few years.

Chair: Has it?

Justin Tomlinson: Yes, because it is capped. If you hit 2%, you have to go to a referendum. The only one was in Bristol, I think, and everybody voted for a council tax cut, so I do not think many local authorities will be keen to rush out on that, but certainly over the previous decade, 15%-plus council tax rises were not unusual.

Q21 Mr Jackson: I need to declare that I am vice-president of the Local Government Association and a member of the board of the New Local Government Network, of which Professor Travers is also a member.

In view of what you have said about the general fiscal regime in local government, to what do you attribute the fact that, if you look at figure 7 on page 20, in terms of the outturn of the revenue budget, more than 300 local authorities underspent? If you look at the key facts in the Report, £3.6 billion is held in unallocated general reserves. I have two questions. First, why do you think the first thing is happening? Is it poor financial management or a lack of capacity? Secondly, is there a template that you can use to fix reserves at a realistic level that reflects the financial pressures that local authorities are under? That is a question for both of you.

Carolyn Downs: In terms of under-spending, I would say that, actually, it is quite the reverse of poor financial management; it is very prudent financial management. We face increased uncertainty at present regarding changes to business rates and the devolution of them. Council tax support is changing next year and universal credit will be introduced next year. There is a huge amount of uncertainty at the moment, with the reform agenda, about council finances. Additionally, every council is expecting its grant to be reduced going forward, so it is almost like saving for a rainy day and putting money to one side.

One of the things we need to get greater flexibility from the Government on is about the capitalisation of one-off costs that we have to bear when we downsize in a time of austerity. Significant redundancy costs would need to be capitalised. If we cannot do that, people will build up reserves—without a doubt—to be able to pay those one-off costs. That is very clear.

We have done a survey of councils about the building up of reserves. Uncertainty represents 30% of the reason, and 40% is about the early delivery of savings. Councils are achieving the savings that they have got planned to downsize early and are under-spending as a result, putting that money into reserves. Some 16% of reserves have been accrued and allocated. Councils are telling us that they are being used to set up growth
and infrastructure projects. Those are the budgets—around planning and development—that are getting the largest level of cuts as grant reduction goes forward. There are some really good financial management reasons why councils are building reserves.

**Q22 Mr Jackson:** Before you go on, it is all very well—all tickety-boo—except that these same local authorities are complaining about indicative cuts of between 25% and 35% in the comprehensive spending review period and, as the Chair says, going forward from there. We are talking about in-year funding of front-line services, whether it is meals on wheels or libraries. You cannot have it both ways. You cannot complain about the revenue support grant—in old money—and at the same time say, “We have this money stashed away for a rainy day.”

**Carolyn Downs:** There are two issues. The revenue support grant is ongoing revenue; the use of reserves is a one-off. For example, many councils are getting revenue support grant cuts of over the figure you have stated, but those same councils will definitely need to downsize. If you are a grant-dependent council, as a council, you will need to put moneys to one side to be able to pay to undertake that downsize. So, actually, it is absolutely good financial management that creates reserves.

On top of that, the reason why we have reserves is because we, unlike central Government, are not allowed to borrow money and run up a deficit. We have to hold reserves. The national level of reserves sounds like a large figure when one quotes it as a one-off, but the national level of reserve holding would keep every council in the country going for two months. That is the amount of reserves we are holding—an amount of money that would keep a council going for two months.

Those are levels that we have had recommended to us for many years by the Audit Commission. In fact, the council of which I was chief executive was criticised every single year in our management letter from the Audit Commission for not holding sufficient reserves, which we felt was too much.

On that, I would be extremely robust in the defence of really good financial management by local government, in terms of the way it builds up its reserves.

**Q23 Chair:** Tony, do you want to add to that?

**Tony Travers:** Yes. With these under-spends, as they call them, I would say, first, that this position is probably better than that which emerges in the NHS from time to time with excess spending. The NHS does that from time to time, and I don’t think that would be good. Secondly, of course, every penny that is put into these reserves is a pound off the UK deficit, so if it were taken out, it would put the deficit up.

The third thing is that this is undoubtedly a reaction to a reasonable expectation that any local authority would have that the future will be much worse than the present. If you trend forward the spending reductions that have occurred since the 2010 spending review to beyond the end of that review—going to 2015–16, 2016–17 and beyond, which must now be a rational thing to do—you would expect local government spending to continue to fall at this rate for some time. That is what a rational financial planner would do. That being the case, it is easy to see why authorities are cautious about the future, given the likelihood that their spending will continue to fall for three, four, five or six years into the future. That is why they are cautious.

**Q24 Justin Tomlinson:** First of all, on this specific point, I share your thought that this is actually, generally, a sign of good practice. At the election, this was one of the few areas of public spending where all the parties were, frankly, brutally honest by saying that there would be difficult decisions for local authorities. To an extent, they knew it was coming, and a lot of them started to prepare well before the outcome of the general election was decided. Compared with some of the other areas of the public sector, they had a head start. In most cases, that is good practice, although I am sure there are examples where that is not there.

This is just for my reassurance, but has there been any study at all of whether the building up of reserves has coincided with election cycles, in terms of those authorities that have the four-year quarterly? Some people may suggest that there is a temptation to build up the reserves in the first three years before opening up the coffers. Has there been any evidence of that?

**Carolyn Downs:** Not that I am aware of, no.

**Tony Travers:** Certainly, traditionally, in the days when local authorities had greater freedom over council tax, there was a clear tendency for them to hold down the council tax in an election year. It would be naïve to pretend that they did not do that. However, council tax is now so constrained that that tendency has largely disappeared. I am not aware of any real, proven willingness of them to run surpluses or build up extra reserves between elections in order to save them for the year of an election.

**Q25 Justin Tomlinson:** If it is okay, Chair, I have a few things to ask.

Times are tough for local authorities. I was a councillor for 10 years, and I regularly meet the leader of my local authority, who is permanently worried about the challenges that it faces. I split this into two categories: there are opportunities and there are pressures. The pressures are fairly obvious, but I want to ask you to comment on a couple of the opportunities. One of the biggest areas of expenditure for a local authority is obviously staff costs. People often focus on the idea that if we have fewer staff, we could save money, but I also think that there are further opportunities within the existing staff, first of all in terms of the amount spent on consultants. I absolutely understand why you would get consultants in, particularly for one-off projects to which they bring a particular skill set, but I certainly know from my time and from talking to other local authorities that quite often we are paying good money to officers who should, supposedly, have those skill sets, but whose time is spent recruiting consultants to do the work that in theory they are being paid for. I wonder whether there is an opportunity to look at and review...
the skill sets and to look at whether we have the wrong people in the wrong posts. Perhaps with a bit more thought and career development, we would be able to reduce the reliance on consultants wherever possible.

Carolyn Downs: I have no doubt that councils will do that. We run some specific programmes with councils that work to try to strip out unnecessary overhead costs. Unnecessary use of consultants will be one, as well as procurement costs and general efficiency gains. We are specifically running those programmes with councils to help them to strip out any unnecessary costs. Certainly, I am aware of many authorities in which the use of consultants has to be approved by politicians, not just officials, precisely as a mechanism to drive out those costs.

Q26 Justin Tomlinson: But there is a problem with that: the politician who signs it off is presented with a request to do project X. Someone then says, “We do not currently have that skill set in our office, so you need to authorise this or project X will not proceed.” It is about a long-term culture of making sure that those people are in the right place. At that level of management in the public sector, the pay is reasonably good, so you would expect that skill set to be there. When I was a lead member in the cabinet on Swindon borough council, I remember the number of times officers came to me and said that they had to employ a consultant to do something that I presumed, wrongly, that they would have been capable of doing. That was not the case for every example, because there were many very talented officers. However, it sometimes felt as though they were not necessarily developing the right people with the right skills for the long-term projects that would come up.

Carolyn Downs: I accept your point and we are working on that basis with councils.

Q27 Justin Tomlinson: In a similar vein, I want to ask about the amount that local authorities spend on paying off officers. I certainly know that when we took control of the council, pretty much all the top-tier officers left. Then, over time, as different top-tier directors perhaps did not live up to expectations, they would go, but they were always paid off. There was never any desire to put in disciplinary procedures that said, “These are the targets you should hit. If you don’t, you will go.” It seemed that we were rewarding failure, and ultimately it was the taxpayer who was paying for that. That contributed quite significantly to the overall staff cost. Again, is that something about which more could be done?

Carolyn Downs: Personally, I think that if somebody is not doing their job properly, they should be subject to the appropriate capability and performance management processes.

Q28 Justin Tomlinson: But are you confident that in local authorities there are the skill sets to do this, because I am not convinced that there are?

Carolyn Downs: I am very confident that local authorities—among the public sector—are very good at moving people on, but I agree that at some point there is a business case that one can put together about the amount of time you will spend actually undertaking performance management and the disputes that will come along as a result of a dismissal. One looks at that as a manager—I assume as a politician as well—and makes a decision about what is the best business case.

Q29 Justin Tomlinson: I think your last point is crucial and I was going to ask about it. Is there an element that if you publicly pay someone off, you are admitting that there was a problem and that, ultimately, while the officer may have been responsible, the politicians would have to take the rap, in effect? When you are running up to an election, it is perhaps easier to delete that post with a generous pay offer than it is for them to stand up and say that they made wrong decisions on our watch.

Carolyn Downs: If you delete the post and make a pay-off, the post is gone. It has actually been deleted from the establishment and you have to show to the council’s auditor—the district auditor—that you have made a saving as a result. A huge amount of scrutiny is undertaken in local authorities about pay-offs. The district auditor has to sign off most of those payments.

Justin Tomlinson: Changing to a different subject, one of the biggest areas—

Q30 Stephen Barclay: May I come in on that, because it is an interesting point? When the leader of my council changed—it is a Conservative council, so I am not making a party political point—the chief exec went because, personality-wise, the view was that there was not the right fit. The chief exec’s post did not go. We saw the case of Caroline Thomson with the BBC pay-offs. The idea was that the chief operating officer role for the BBC could be made redundant. Most people looking at that organisation find that surprising. We have an incident now with Roly Keating, who was head of archive. It is unclear, because, even though he was on £250,000 a year—

Chair: Steve, I’m going to keep you to local government.

Stephen Barclay: The point is that Ms Downs is making the argument that there is process and procedure around this and that these jobs must have gone. What we see with other organisations is that it is questionable whether that is the case. Justin’s point is one that is shared by others. It seems that people are going from councils and popping up elsewhere—in other councils—having had major pay-offs. To what extent is the LGA looking at that?

Carolyn Downs: Let us be clear about this. If a chief executive is asked to move because there has been a change of political control, that person is not excluded from employment legislation—it includes them as well. If they are asked to move, that is a compromise agreement that would be agreed by both parties and signed off accordingly. If another authority chooses to engage that person and employ them, it is exactly the same as in the private sector. People get compromise agreements and they get jobs elsewhere. The alternative, if you do not want to have that level of employment protection, is that they get paid more.
Q31 Mr Jackson: I think there is a distinction, because in the private sector, it might be that that could be construed as constructive dismissal as a result of change of circumstances.
Carolyn Downs: It could in the local authority as well.

Q32 Mr Jackson: Just because the political leadership changes does not mean that you are entitled to make a compromise agreement—
Carolyn Downs: No, but just because the political leadership changes does not mean that you are not good enough to do your job. If you were good enough to do your job anyway and you were performing it well, but there is a change of political control and somebody says to you, “Sorry, you have performed your job very well indeed, but we do not like you because we have changed political control,” that individual has employment rights that sit behind them, and they should be able to exercise their rights.
Mr Jackson: At the taxpayers’ expense.
Chair: Let us go back to Justin.

Q33 Justin Tomlinson: Again, focusing on skill sets, what are the biggest opportunities for authorities that are thinking of extending shared objectives and services? I certainly know that we were ahead of the game, in terms of combining social services and the local PCT. Is there the skill set involved, right across local authorities, to take advantage of all potential opportunities? Is there also the appetite, and is there the urgency?
Carolyn Downs: There is absolutely the appetite and definitely the skill set. That has been shown to date already, and local authority chief executives have managed PCTs over quite a number of years successfully. My view, in terms of financial sustainability going forward, is that there absolutely has to be more integration between health and local authorities with adult social care. The skill set is about management—managing people, managing stakeholder relationships, managing buildings, and managing money and resource. I personally think that local authorities and their chief executives are extremely good at doing that, and they have been doing so for many years. That is the way we need to go if we are going to continue to have cuts.

Q34 Justin Tomlinson: Two to go. When planning capital spending, I have never felt that there is the urgency in local authorities to prioritise revenue-saving expenditure. Councils are very quick to come up with schemes that involve cutting ribbons and everybody celebrating, and they do not necessarily think of the revenue implications of doing such things. Also, when you have two similarly rated projects, there is not necessarily the urgency to look at schemes that might then save revenue. I accept that some local authorities have more money to play with than others, but some very good local authorities have thought, “I know. If we do certain capital projects within adult social services, that will directly bring down our revenue costs, which will help to offset other pressures.” Again, do you feel that there are the skill sets to take advantage of those sorts of long-term decisions, and is there the urgency to do that?
Carolyn Downs: The urgency is absolutely there, and if you look at the level of savings that have come out of adult social care—about 5.5% over the past two years—the overwhelming majority have come from efficiency savings. Looking at demand management is an issue that we need to take forward, and how do we get people—

Q35 Justin Tomlinson: But demand management is not the capital spending.
Carolyn Downs: No, absolutely. The personalisation budgets going forward move away, to a certain extent, from capitalised spending as well, but I absolutely think that—

Q36 Chair: What do you mean by demand management?
Carolyn Downs: That is about how many people use your services and what type of services—
Chair: But what does that mean?
Carolyn Downs: For example, one would try to get more people and users of health services to use primary health care services—

Q37 Chair: How are you going to manage that demand?
Carolyn Downs: Because you provide services at home as opposed to in a hospital, which is a huge amount cheaper.
Chair: I can tell you, just looking at my local hospital, that they will go to the A and E if there is nowhere else to go.

Q38 Justin Tomlinson: Let me give the sorts of examples that I was thinking of. You many want to build a new swimming pool, but there is no such thing as a profitable swimming pool. The more water you have, the more money you lose, so local authorities should think, “If we are going to do that, we should build five-a-side football pitches at the same time,” which are, in effect, a licence to print money, so the swimming revenue pressures are offset. In areas such as social services, it is also about out-of-town placements for children in care and emergency help and support, which can be a huge hit at very short notice. It is just about councils prioritising those areas over perhaps some of the more exciting things in the headlines, so that is where I was coming from on that. My final point on this one is that you made reference earlier to the sorts of pressures on revenue. Obviously, you get the money raised from council tax, and with that 2%, I suspect very few councils will wish to chance their arm with the public—and if they do, they probably will not get very far. So councils are limited in how much money they can raise from council tax. Obviously, there is a fall in money from central Government. With the other areas in which they generate, what is the feedback at the moment? Presumably car-parking revenue and leisure services money is also heavily under pressure and presumably falling.
Carolyn Downs: Yes, indeed. You are right that it is falling. As I said earlier, one of the issues is that our
ability to raise income at the same time as it is being cut is decreasing as well, which just exacerbates the situation in which we find ourselves.

Q39 Fiona Mactaggart: I am interested in paragraph 10 of the Report, which reminds us of the changes to council tax support. Instead of having a national scheme for council tax benefit, and rules which apply to council tax benefit, these have been localised completely. Tony, have you done a study of what different people are doing and what the impact of that is going to be? That is, how many people around the country are going to be paying council tax for the first time, and who has worked out whether they are actually going to pay it, because these are the poorest people?

Tony Travers: Not a study as yet, because the full impact of this will only appear when the system starts in April. Inevitably, with the reform handing responsibility to local authorities to sustain a form of council tax support, but with 90% of the money that was paid out this year—and within those figures, pensioners are protected with the same arrangements as this year—there will be some, possibly many, households that will be worse off, unless councils can move resources across from other parts of their budgets to make up the difference. I certainly have not done a study about the detail of how that will work. [Interruption.] Carolyn has passed me a piece of paper to give you her numbers.

Carolyn Downs: The National Policy Institute has done a study which shows that of 2.9 million working-age council tax benefit claimants—2.5 million will be adversely affected by reform on council tax support. Obviously, 85,000 will affected by secondary changes, such as the reduction of the removal of a second adult rebate; 415,000 will see no change at all in their council tax support; and 535,000 working people on low incomes will see an increase in their council tax as of April.

Q40 Fiona Mactaggart: So a lot of people are going to be hit.

Carolyn Downs: Yes.

Q41 Fiona Mactaggart: I am wondering if councils—Carolyn, perhaps you know—have done an estimate of whether they are actually going to get the income, if you see what I mean, from those people. In a lot of these cases, they have never paid council tax, because under the present system they do not. If you are poor enough, you do not pay anything. The reason I am asking this is because I know you councils—bless you—you have wonderful legal powers where you batch legal cases and—bang!—not only do people get sued for their council tax plus £100 for court costs, plus whatever, but they suddenly come to us as their MPs with these massive, scary bills and scary court summonses, and so on, and it is all done automatically. It is not like most times where you go to court and an individual is summoning you. You, as a council, can summon a batch of people. I am rather anxious that, within a few months after 1 April, a lot of people will go to court and end up not just with the bill to the council, but also the bill for the court costs.

Carolyn Downs: A lot of councils are putting in place advice, support mechanisms, face to face, for council tax benefit claimants, and in relation to universal credit and wider benefits, so that they help them manage that whole process. We have said, all the way through this, that we want more discretion at the local level, because the regulation around council tax support is being set nationally. We have argued consistently that we think that that should be allowed and deregulated, so more decisions can be made by councils in their local area. For example, local government have said consistently on council tax support that we think that for single occupants who have a discount at the moment, who are relatively wealthy we should be able to take that into account, so we can offset as much of the difficult decisions on people who are more vulnerable and who are more likely to get into debt.

Q42 Fiona Mactaggart: The figures you have just told me are what a number of those very vulnerable people are going to be paying.

Carolyn Downs: We have never said or thought anything other than that vulnerable people, who have not paid in the past, will end up paying.

Q43 Chair: And, Tony, in your view, is it collectable?

Tony Travers: Some of it will not be collectable, but local authorities are under a legal obligation to collect it, so they will have to try to collect it to the point where they decide, I assume, that the disbenefits and the costs of trying to collect the small amounts are so great that it is not worth going any further. They do not want to send out a signal to that effect, so they must make some significant effort to collect even those small amounts. As with some of the other welfare benefits, there is an explicit policy to make people aware of what they have to pay, and you would expect it to work like this.

Q44 Fiona Mactaggart: My other question is about small and big. I represent probably the smallest unitary authority in the country—I might be wrong—but it is certainly small compared with most—and therefore individual high-cost cases of individual children with multiple disabilities can substantially impact on a budget in year, especially in a place such as Slough where people arrive in year—they have not been born there so you can plan for them to grow up, but they turn up as it were—and I am wondering whether, in an era of reducing spending, you think that that risks the sustainability of small local authorities.

Tony Travers: I think that Slough may be a small unitary, but it is quite big by the standards of some of the smaller shire districts. Smaller authorities are likely to be more exposed as we go ahead. As I said earlier in an answer to Mr Jackson, the issue is this: we are only three years into a much longer period of reductions of local government spending. Because of decisions that have been taken—I understand why—to protect the NHS, the welfare budget, schools and international development, efforts to reduce overall
public expenditure inevitably fall on the rest. So long as that set of decisions remains in place and the deficit still needs to be reduced, it is inevitable that this pressure will continue. I must stress that although we have no public spending plans beyond about 2015, when we do get them into the future, they are going to repeat this right the way through to the end of the decade. The reason for that is when the original spending review figures were set in 2010, it was expected that we would have got rid of the deficit by 2015. Now that is not the case, it will take much longer to reduce the deficit and that in turn will mean that this kind of pressure will have to continue. It would be a naïve local authority that did not plan for cuts of another, say, 15%, 20% or 25% in cash over the years to the end of the decade. At that point, smaller authorities will be exposed.

Q45 Chair: We are starting to see that now. You at the LGA have done a report on West Somerset council, which is small.
Carolyn Downs: Very small.
Chair: It has a revenue budget of £4.9 million, which is tiny, although it has a population of 35,000 to 40,000.
Carolyn Downs: It is a district council.

Q46 Chair: And you have said, LGA, that this council is not viable as a unit of local democracy and governance over the longer term. So this is the start of the first. Tony first and then Carolyn, what do you think should happen now?
Tony Travers: To be honest, it is difficult, Chairman, because although the Government have a step-in power—the NAO Report is very clear that there is a step-in power as and when and if the Government deem in extremis that an authority has failed—they do not have a general step-in power—

Q47 Chair: So what should happen now?
Tony Travers: In the short term, I am afraid, we will have to wait and see how bad it gets. I know that that sounds a bit irresponsible, but I think it is difficult to imagine the Government stepping in, for example, and ordering a reorganisation of local government, to try to create bigger units—

Q48 Chair: That would take for ever as well, wouldn’t it?
Tony Travers: It would be very expensive, unless we got rid of all the redundancy payments that we were just by implication, saying are not a good thing. We would have to have some way of shrinking the number of local authorities and making them much, much bigger. I doubt that that would be popular, and it is certainly not the current Secretary of State’s policy. It would be a very big change in an attempt to accommodate the increasingly obvious difficulties for small local authorities. I am not sure that there is an answer, because if you have to reorganise local government to try to accommodate these spending cuts, you risk creating short-term costs as you do it, which would make things worse, not better. For the short term, we will have to see how many other authorities get into West Somerset’s position. We will have to see whether over time, for example, the Government could reduce the statutory duties on local government—whether they could say that there are a number of things that, traditionally, local government has done that it no longer needs to do. You only have to say that to see how politically difficult it would be, but at some point that will have to happen.

Q49 Chair: What do you think they should do, Carolyn?
Carolyn Downs: I think actually the Government did do something about West Somerset and allowed council tax increases of £5 per person per annum.

Q50 Chair: That is a short-term fix.
Carolyn Downs: But it has fixed it in the short term for that one. I do not think we should just concentrate on small councils, because there are different circumstances for different types of councils. One big issue is: how grant-dependent are you? A lot of the authorities that have scored very highly in relation to deprivation—

Q51 Chair: West Somerset is not going to have a massive commercial business rates base.
Carolyn Downs: It might do in the future, because it has got a huge nuclear power station being built there. That might sort it out.
Chair: Has it? Okay.
Tony Travers: There is a serious point here. As we look forward, another thing to take into account, certainly for this Committee, is that there are reforms taking place in April to the business rate to allow councils to keep 50% of the growth in the business rate yield, and the new homes bonus has already been introduced. Those reforms will produce extra income for some authorities, but it is more or less a zero-sum game—not quite a zero-sum game, but getting on for that. Over time, you would expect some authorities where there is the potential for growth to be able to take advantage of these policies and develop their income base, but the tail at the other end will be in greater difficulty even than the average. That is where the problem will lie.
Carolyn Downs: And some of those places might be large cities, so it is not just small, rural districts. Where you have a high level of deprivation, where you have a high level of dependency on grant and where you have a limited ability to raise income either through business rates or through council tax—

Q52 Ian Swales: I will be brief. I have two very quick points, the first of which relates to what you have just been talking about. A lot of the councils in the north-east are drawing graphs that show that by about 2018, on the current trajectory, they will not be able to provide any non-statutory services. Everything else will have to go. Do you do any recording of not just spending but how much is going on statutory and...
Caroline Dowans: I completely agree, and the graphs that they used were the graphs that we did for them. We modelled that for every single council in the country, and it showed that the overwhelming majority of cuts—there is going to have to be about an 80% cut in non-statutory services such as leisure, so the prioritisation that there might have been in leisure in the past will go completely.

Q53 Ian Swales: What is the picture across councils? This Report is about the financial sustainability of councils, and I am guessing that that picture is far from uniform.

Caroline Dowans: It is.

Q54 Ian Swales: So what is the message that is coming from it?

Caroline Dowans: The NAO Report picks that up perfectly, in my view, by saying that all the issues that I was just talking about—grant dependency, income raising and the demand on your services—will create a situation that is entirely specific to your local area.

Q55 Ian Swales: But what should we be doing about it? The blunt instrument of percentage cuts means that you can do that for one or two or three years, but, over time, things will diverge; certain councils, such as Mr Bacon’s, will be unhealthy and will be able to do whatever they like, but others, as you say, will have no leisure, no arts and no environmental spending at all if we keep this up. How can we deal with that?

Caroline Dowans: A really positive thing that could be done is that we could go back to three-year settlements, as we had previously, so that the financial settlement for the authority gives them financial certainty for three years. Then they can invest to save going forward as well. For those upper-tier authorities that are dealing with social care, and adult social care in particular, we really need to progress the integration and the community budget agenda, which will actually see significant savings both to health and to local government.

I think that, in the longer term, we need to think about the financial base of local government. I hope that you would accept that we manage our financial affairs very well indeed in councils. Actually, I think that the more that is devolved to us, the better the financial management that we will be able to give.

Q56 Ian Swales: Having asked a macro question, I want to ask a micro question on the role of the LGA in sharing best practice and data. For example, Newcastle council is in the headlines as being in a desperate state and there are national newspaper articles on that. They pay their staff 25p a mile more to travel around than we around this table get. Is that something that you pick up with them and ask them why they do not do something about it?

Caroline Dowans: We are trying to negotiate nationally precisely that issue on car mileage rates with the trade unions right now, as part of the pay settlement. We, the LGA, are doing that.

Q57 Ian Swales: It is unfortunate that when people see things like the amount spent on trade union officials—there is another horror story there—it blows all credibility out of the water when they, in turn, say that we are running out of money. I think that it is really important that the LGA takes up these types of issues as well as doing its lobbying.

Tony Travers: To come in on the macro question, if you look at the period from 2010–11, the base year for the spending review, through to 2014–15, then, as predicted, local government spending, on average, will have fallen by 14%. The equivalent number for the NHS in the same period is plus 12.3%, so one is going one way and the other is going the other way. The welfare budget, in total, has gone up faster even than NHS spending. It is not for me to question this, but this is just the way that the settled will of Government—and, indeed I suspect, dare I say it, the Opposition—that the NHS must be prioritised, welfare is automatic, schools spending has to rise and international development will have to go up.

If you are trying to do all of those things while holding down the total of public expenditure, it is inevitable that local government will have to be reduced—it is a mathematical certainty—and until, or unless, any political party decides to change the major ingredients in this, it will carry on like this for some years to come. It cannot be escaped.

Chair: Good. Well, thank you very much. We are running even later than we should be and we have kept Bob Kerslase sitting there listening to you, waiting. Thanks very much both of you. Just for the record, we published your letter.

Caroline Dowans: Did you?

Chair: Yes, in the evidence. But we have not got the data.

Caroline Dowans: No.

Examination of Witnesses

Witnesses: Sir Bob Kerslake, Permanent Secretary, Department for Communities and Local Government, and Simon Ridley, Acting Director General for Localism, Department for Communities and Local Government, gave evidence.

Q58 Chair: Thank you very much for coming and apologies for keeping you waiting. I am going to start on the question I asked Carolyn Downs: we want the data on how many personal service contracts there are in local government. She is unable to provide that, but she said that you should provide that. Will you?

Sir Bob Kerslake: I will do my best to find that out, Chair. It will probably be a request to individual local
authority to give us that information. I do not think that we have any legal obligation for them to give it to us, but we will see what we can get.

Q59 Chair: Because it is Government policy. I have not got Danny Alexander’s statement in front of me, but in that he was quite clear that it ought to impact on local government, which is why we called Carolyn in for the hearing. We called in the BBC, and it changed what happens now in the BBC. We have absolutely no data or evidence of how extensive it is in local government and whether, in line with Government policy, local authorities are now changing their practice.

Sir Bob Kerslake: We can answer Stephen Barclay’s question about whether local authorities are required to publish the redundancies for senior staff. The answer is yes, it has to be published by virtue of the Accounts and Audit (England) Regulations 2011. In their annual accounts, they have to show redundancy payments to senior staff.

Q60 Chair: Will you come back to us on the personal service contracts?

Sir Bob Kerslake: We will indeed.

Q61 Chair: I was put right by Justin earlier. The truth is that in effect you or the Government now set local authority finances, given the controls you have over council tax rises. In determining these financial cuts to local authorities, how much do you expect to come from efficiency savings? I assume you did some modelling—we will come back time and time again to modelling. How much do you expect to come from efficiency savings, and how much from reductions in service?

Sir Bob Kerslake: It is important, first of all, to say that we do not set the finances of individual authorities. We set the financial framework, and we determine the grants that will go to them.

Q62 Chair: What don’t you set?

Sir Bob Kerslake: We don’t set the council tax level.

Q63 Chair: You do, in effect, by limiting the council tax increase to 2%. That gives a tiny flexibility, but it is hardly—

Sir Bob Kerslake: We limited the council tax increase to 2% without use of a referendum. It is open to local authorities to have a referendum.

Q64 Chair: In this room, we know that means you effectively set the council tax rise to 2%.

Sir Bob Kerslake: No. This is an important point to make. Of course, local authorities are reluctant to go for a referendum, partly because they cost money, and partly—

Q65 Chair: Were you sitting in Sheffield, you would be reluctant, Sir Bob.

Sir Bob Kerslake: You would be reluctant, but you would not rule it out as an option. That is the important point. We are not recommending that local authorities do it, but it is a decision for individual authorities whether they go for 0%, whether they go for 1%, whether they go for 1.99% or whether they go for more than that.

Q66 Justin Tomlinson: Can I ask for clarification? If a local authority tests the desire to go higher than 2% in a referendum, is the referendum binding?

Sir Bob Kerslake: As far as I understand it, the referendum is binding. The outcome of that process is that the local authority would have to follow it.

Q67 Chair: Obviously nobody is going to vote for a tax increase—that is common sense. However, if you are the leader of a local authority and you get back a tax cut—I didn’t know Bristol had done one—that is what you would have to do. I want to get an answer to my question. Did you model the extent to which the financial cuts would impact on services, and where you expected efficiency savings?

Sir Bob Kerslake: What we did in the 2010 spending round is well covered in the NAO Report. We asked Departments to indicate the impact of different options on spending, service pressures and efficiency. Inevitably, it was not an exact science. It was a best guess about what would happen.

Q68 Chair: I accept that it is not exact.

Sir Bob Kerslake: It varied between different services, and the depth of analysis varied from service to service, so I cannot give you a single number.

Q69 Chair: But there must be an overarching distribution effect, as we saw in the NAO Report. On the whole, how much did you expect to come from efficiency savings, and how much from service cuts?

Sir Bob Kerslake: I will ask Simon to come in on this, because he was actually involved in the negotiations. As far as I am aware, we did not set a number, nor did we set an expectation for local governments.

Q70 Chair: You must have modelled it. If you didn’t model it, you ought to have done.

Simon Ridley: What we modelled were the different spend levels and the expectation of what could be met through efficiencies. The expectation is that councils can meet the majority of the savings, but we didn’t put a number on that because of the number of different local authorities in very different positions with control over both the spend side and the income side of their budgets.

Q71 Chair: Of course. But what was your expectation overall?

Simon Ridley: The expectation was that the majority of savings would come from efficiencies.

Q72 Chair: And is that what happened? What was the majority? Over two thirds?

Simon Ridley: We did not put a number on it. Thus far, the evidence is that most of the savings are coming from efficiencies.

Q73 Chair: That was going to be my next question. In the first period—in the first couple of years—how
much has come from efficiency savings and how much has come from service cuts?
Simon Ridley: Again, we do not have a precise number. There is a large number of local authorities who are—We have the spend data.

Q74 Chair: I am talking about averaging. I accept that averages are always a bit difficult, but there must be an average around the place.
Sir Bob Kerslake: It is generally very difficult to say, because when local authorities make their decisions, what reduction constitutes an efficiency saving and what constitutes a service impact is something that we do not have all the data on. They do not classify it in that way.

Q75 Chair: Shouldn’t you have?
Sir Bob Kerslake: I do not think so. I think these decisions have be their choice.

Q76 Chair: To hold the first bit of this: one of the main things I want to get through is that there are national policy priorities, and much of the money that goes to local government goes to accounting officers—whether it is health, transport, education, as well as yourselves, and it is probably increasingly health now. The accounting officers are responsible, through us, to Parliament for how that money is spent. You cut the money. You give them greater flexibility. We need a way that we can then measure whether the national priorities for which the money was voted for in Parliament are being met through service delivery at local level. That requires data. I do not see in the current framework, with localism, how either you, Sir Bob, or certainly the permanent secretaries at Transport or Education and so on can sit before us and say that they know that the money voted for a service has been used in delivering it.
Sir Bob Kerslake: We have pretty good information about how much is spent by local authorities on what service. That information has formed the foundation of the NAO Report into where reductions and savings have been made. We do have good data on spend, and those are in here.

Q77 Chair: If you have those data and can track them over time—I am assuming that these are not new data since 2010–11, but were around before then—you can then give us some assessment of where, in dealing with the financial reductions, there is impact on service levels across the piece in local government. You must be able to do that.
Sir Bob Kerslake: This is a different point. We can tell you where spend has moved, and, indeed, that is in this Report. We can tell you what local authorities say about how much has been savings and how much has been efficiency, but we do not have the exact data about whether a spending reduction was something that led to a service reduction or was delivered through efficiency. We do not have that very precise information authority by authority.

Spending reductions can either be because they have reduced services or because they are run more efficiently. All our evidence suggests that local authorities have, first of all, taken out staffing costs across the board. They have taken out savings at different levels across their local authorities. The second thing is that they have looked at where they can move back from the current service provision in some areas—somebody once described it to me as “dimming the lights”. They have reduced some services in some areas.
I cannot tell you how much of any individual spending reduction—let’s say on planning, housing or something else—relates to which kind of saving. We very much rely on their information on that, as it is covered in the NAO Report.

Q78 Chair: Let me pursue this a bit further; if we had the Department for Transport accounting officer here, who has given certain money to local authorities to maintain local roads or put in strategic road improvements or whatever, would he—it is a he—be able to tell us that that money had been used to that purpose?
Sir Bob Kerslake: Not if the funding has gone through the formula grant system or—

Q79 Chair: Quite. So how is that accountability? You know our obsession with accountability.

Sir Bob Kerslake: I think that accountability, as I talked about previously at this Committee, is managed through the accountability system statement, which puts obligations on local authorities about balancing their accounts and promoting value for money. Indeed, we have now added a duty in relation to section 151 officers. That has added into the code setting out their responsibilities in relation to value for money. We are trying to set up a system that drives value for money, transparency, and good financial control; we are not seeking to dictate to individual authorities how they should manage their affairs.

Q80 Chair: No, but Parliament wants to know that the money we vote to allocate to a particular purpose is used for that purpose. With the current settlement, you tell me that you cannot tell us how many cuts there have been in service standards, and you are now telling me that you also cannot tell us whether the money voted on from the Departments for Transport, for Education et al has been used for the purpose for which Parliament voted.

Sir Bob Kerslake: Let me just go back a stage. If we have given local authorities the discretion to spend the money in the most effective way to deliver the prescribed outcomes we are looking for, that must be their choice. We set very limited areas in which we require particular standards, and those are the duties.

Q81 Chair: I understand all that, Sir Bob. I am saying to you that you are left with a problem. Money is voted from Parliament, through Departments, for particular purposes. You then give local authorities the discretion to use the money. My understanding is that there is now only £5 billion in specific grants. Most of the money is going through the formula.

Sir Bob Kerslake: The point I would make is that that funding is brought together as a formula grant, in the way in which Parliament votes for it.
Q82 Chair: I understand that, but there is no way that you can track that pound through to ensure that it is being spent where it was voted. That actually raises huge accountability issues.
Sir Bob Kerslake: What Parliament agrees is a formula grant funding that covers a range of functions. When it awards the funding for local government, it explicitly makes that decision about the flexibility that local government will have. So it is not as if Parliament is being told it will be spent precisely in this way.

Q83 Chair: Let me try once more, because this is the big problem that we have here and that you have. In the Report, it says that the Department for Education was unable to or did absolutely no modelling on the impact of the financial cuts that they were giving to local authorities to run children’s services—this is not education, which is passported through; this is the children’s services part of it. They did absolutely no financial modelling of the impact of those cuts, so they have no clue what they have meant. Somebody will find me the reference, but it says that they did not do any financial modelling.
Sir Bob Kerslake: I will ask Simon to come in specifically on the extent of the DFE modelling—I think they did some.

Q84 Chair: No, they didn’t. Look at 3.27 in the Report.
Sir Bob Kerslake: I want to come back to the specific issue of what the funding is securing from, for example, the DFE. The DFE will set expectations of how they will run children’s services, particularly child protection. That is then inspected and challenged if it is not of the expected standard. That is the requirement that we are putting on education authorities; it is a set of outcome requirements, not a requirement to spend the money.
Chair: But they cut the money and they don’t model.
I can’t find 3.27—what page are we on?
Simon Ridley: So it is not the case that no modelling was done.

Q85 Chair: You agreed the Report.
Simon Ridley: I am not disagreeing with the Report. The Report says that there was qualitative evidence submitted by the Department. They did not do detailed quantitative modelling, for example on pressures. They provided a more qualitative assessment, and cost modelling on some specific services and groups, such as looked-after children. That is in the Report.

Q86 Chair: Just to read it, for the record: “the Department for Education could not give an estimate of cost pressures and the scope for savings across the entirety of children’s services.”
Sir Bob Kerslake: That is exactly right and we are saying the same thing. We are saying that they were able to provide modelling for certain parts of the children’s services area, but not across the whole range.

Q87 Chair: Well, I think the system is becoming broken in this regard. I am sorry to hog this issue a little bit, but I feel quite strongly about it, having seen what is happening in my own local authority. If we take the example of the Department for Education and children’s services. They cut the finance and they don’t know what it means in its entirety. Then they come along and put a perfectly laudable new duty—or they are about to, or they are talking about doing so—concerning adoption on to local authorities. Now, if the Department for Education doesn’t model and doesn’t know how much it has cost, what the hell is it doing putting a new duty on a local authority, just at a time when it is cutting the budget?
I can tell you from my own experience—and I am sure I am not alone around the table—that the impact on children’s services is that most of the children’s centres have gone, a lot of the support work around children in their early years has gone, and they are struggling to provide an adequate service for looked-after children because of the pressure on adult social care in local authorities. You diktat from central Government—I know this is not your Department; this is the DFE, but you are here as the accounting officer for the lot—you diktat a cut, you don’t know what the impact’s going to be, you never bother to measure it until there is going to be another disaster, when everybody will go bananas and then try and deal with it, and then Government as a whole places new duties on local authorities: good new duties, but unfunded.
Sir Bob Kerslake: I will just come back on a couple of points. I think what the DFE did was to model on certain services within children’s services. We would put our hands up and say they didn’t model across the whole of the children’s services; and that is a point made in the Report. The second point says if we add new burdens to local authorities, they have to be costed and funding has to go in to cover those. That’s a clear protocol that was established many years ago.

Q88 Chair: So is there new money for the new adoption protocols?
Sir Bob Kerslake: If there are new burdens then that will be assessed and it will be a decision to make about new funding.

Q89 Chair: Has new money gone in with it?
Sir Bob Kerslake: I don’t think that has been firmed up yet, but if there are new burdens there is a clear process.

Q90 Chair: I don’t think that is true. I am not an expert on the adoption stuff.
Simon Ridley: There is certainly funding going in for the new adoption, but the details of it, and the new burdens—

Q91 Chair: The changes; the higher standards; the perfectly proper, very good, higher standards that they want local authorities to achieve are going to be funded with new money, are they?
Sir Bob Kerslake: We will come back with numbers on that, but what I am saying is there is a clear process
for assessing new burdens and funding them. We will come back with the numbers on adoption.

Q92 Chair: What, whether there is new money?
Sir Bob Kerslake: Yes.

Q93 Mr Jackson: I think there is a huge difference between top-down targets, where you end up with, for instance, the catastrophe of Mid Staffordshire, and robust methodologies and modelling; so can I just draw your attention to one very important aspect of devolution and localism, which is public health? Obviously both DCLG and the Department of Health will have generic, comprehensive policy objectives for public health. What methodology or modelling is in place from central Government to make sure that the objectives that we all want to see are achieved for the money going in through public health funding, which will be overseen by the health overview and scrutiny committees; or is there no methodology?
Sir Bob Kerslake: Two points to make: one is that for the early period, at least, the public health funding is ring-fenced to that purpose. Secondly, before that money went over, each of the authorities taking on that role were peer-assessed in terms of their readiness to take on the function and deliver it properly; so I think these are two quite significant safeguards that went into the new public health arrangements.

Q94 Mr Jackson: I suppose the more straightforward question is: is there a correlation between what central Government wants to achieve in terms of public health outcomes, say, at the end of the comprehensive spending review period, and the measurement of the achievement in local government? For instance, in my own constituency we would be focusing on stroke, diabetes, COPD; but other areas might be focusing on teenage pregnancies. I am just trying to understand who’s checking that the generic objectives are being followed and achieved.
Sir Bob Kerslake: You are right to say that each authority taking on a public health authority role will have differing outcomes and different priorities. That is the whole intent of the model here—in some places heart disease will be a higher issue, and in other places diabetes, and so on. So it will vary across the country. What I think Health is seeking to achieve is a resilient system, whereby authorities properly assess the different priorities in their area. They do a strategic health needs assessment, and then apply the funding towards those outcomes. And they will have, and do have, clear outcomes they are looking for nationally. It is also worth saying that the new commissioning board will have representatives on these health and wellbeing partnerships, and will be closely involved in the process, as will, of course, the new clinical commissioning groups. So there are a fair number of local and national players involved in ensuring that they use the money in an effective way and deliver outcomes, because that is the deal here. But how it will play out in practice will vary between different local authorities, because they have different priorities.

Q95 Stephen Barclay: So will you have comparative clusters?
Sir Bob Kerslake: We should be able to assess the impact of the work on public health by comparative clusters; I think that should be possible.

Q96 Stephen Barclay: You are absolutely right that different areas will have different priorities, but it would be much more interesting to bring together half a dozen similar areas from different parts of the country. Stewart and I have the issue in Peterborough and north Cambridgeshire where things are often done on a county basis, and we are very different from south Cambridgeshire. Actually, what would be far more informative would be to take different parts of the country with similar demographics and issues to ourselves, and have that as the comparative cluster rather than a regional one or a county one. So will you bring that data together? And if so, when will we see that, moving forward? When is that document going to set that out?
Sir Bob Kerslake: I cannot say for certain when, but I am absolutely certain that it will be done in terms of comparative information on outcomes. And I will go back to Health and find out exactly when they intend to produce their first assessment of impacts.

Q97 Stephen Barclay: So you will send us a note that will set out when we will know the different areas that will be brought together as comparative clusters?
Sir Bob Kerslake: I think that they will probably already have their comparative clusters now. I thought that the question was, “When will they do their first outcome assessment?”

Q98 Stephen Barclay: Sure. What I would like to know—in my area, say, for Fenland—is which areas does it make most sense to compare us with, and then how will we benchmarked against those areas? It may be somewhere in Northumbria, somewhere in the north-west, rather than it being on an east-of-England basis.
Sir Bob Kerslake: I absolutely understand the point, and I will come back and give you—
Chair: To be honest, I think that some of us know that that information is there from the Audit Commission at the moment, Steve.
Sir Bob Kerslake: My thought is that they will probably have that information now, but I will come back and give you what is being given to the individual authorities.
Stephen Barclay: It will be different, because this is a new initiative, is it not? And the outcomes that we are seeking to achieve will not be there, because this is something moving forward.
Chair: No, but the comparative authorities—the basis—hopefully that is something they will take forward from the Audit Commission. They do a cluster analysis of like-for-like—
Stephen Barclay: With respect, that will not necessarily fit the same for the health outcomes that these new boards are set up—
Sir Bob Kerslake: I am absolutely certain from my previous experience that they have this information and I will make sure that you get it.
Q99 Justin Tomlinson: I have a few questions, but I am happy for other members of the Committee to jump in.

From my experience as a local councillor, I know that a lot of what I got elected to do was very different from what the Government of the time expected the local authority to do. I see in paragraph 1.2 of the Report that in June 2011, “They”—that is, local authorities—had “1,335 statutory duties”. I am convinced that there are a lot of things that the public do not expect local authorities to do, and that they do not need to do. What efforts are being made to give local authorities a little bit more freedom in choosing which things they need to do? Ultimately, we were guided by trying to get three or more stars when I was on the local authority. Are we easing the pressure on local authorities?

Sir Bob Kerslake: I think we have done a huge amount to remove those kinds of requirements on local authorities. We have done away with the comprehensive performance assessment model—the so-called star ratings—and we have reduced the requirements on information that they have to provide, a lot of which was actually perceptual information and not performance information. We have looked to the LGA to play a key role on benchmark data—I think that they have got some really good work going on through LG Inform—and we have drastically reduced the amount of ring-fencing of the funding that we have, so that local authorities have more flexibility to use the money. I appreciate that, as the Chair says, that brings with it issues, but we think that is the way to go.

As regards duties, we brought all the duties together in one place. I think that was the first time that had ever been done. We undertook some consultation on duties as well. It is worth saying that when you consult on these issues, you get many people coming back saying “Please hang on to this duty”—usually they are the ones directly responsible to that area—rather than wanting to give it up. Duties remain a challenge, but we are open to conversation with the LGA and others about this.

Q100 Chair: Just to get that clear, you have not reduced duties, then?

Sir Bob Kerslake: I cannot say whether we have specifically reduced the number of duties. What I do know is that we brought them all together, so—

Q101 Chair: Is there not even one-in, one-out, like there is for regulations for businesses?

Sir Bob Kerslake: There is not an exact policy of one-in, one-out. We have actually sought to avoid bringing new duties on local government at all.

Q102 Chair: Yes, but you are. Adoption is a classic. It is a good duty—I am not quarrelling with it—but it is a new duty.

Sir Bob Kerslake: And as I said earlier, there is a clear policy on new burdens. When we add burdens, they have to be funded.

Q103 Justin Tomlinson: But on the first part of the answer, when you have pulled some stuff back from local authorities, from your experience, how many of those local authorities take advantage of that opportunity?

Sir Bob Kerslake: Authorities will immediately take advantage of not having to provide all the information to us; that is fairly clear-cut. I think there is quite good evidence of local authorities being more flexible about how they deliver services and what they deliver. I think there is still scope to go further on that. Some have been more ambitious and forward-looking than others, so I think there is still scope for local authorities to take advantage of the new freedoms that they have.

Q104 Justin Tomlinson: Kind of connected to this, as part of the over-vigorous inspections that local authorities have, there was one example that I was aware of where a local authority was deemed to be failing, and it was down to leadership within the council. The new, very expensively paid temporary chief executive came forward and said, “Right. What we’ll do is we’ll re-advertise all those top directors’ jobs. We’ll offer lots more money so we get the very best people on the market, which will prove we are the best local authority around.” Lo and behold, five of the six positions were filled by existing people, but because they were paid more money, the inspection reflected that they must be leaders within the field. Are we addressing things like that which force massive pay inflation?

Sir Bob Kerslake: I do think that has changed in quite a lot of authorities. The evidence suggests that the senior pay is coming down under a lot of pressure from—

Q105 Justin Tomlinson: And we are now acknowledging that the amount of pay does not necessarily equal quality.

Sir Bob Kerslake: I think it probably never has done, to be truthful. What I would say is that a big change of that sort can be expensive—for all the reasons you have rehearsed here this afternoon—and needs to be handled pretty carefully. What I would say also is that we see the LGA’s peer review process as the right way to go in terms of review and challenge of authorities. The LGA has done quite a lot of these reviews now—over 80, from my memory—and I think that is a much more effective way of getting to the heart of how local authorities can improve. It is less likely to lead to what I think was the culture in the past, which was a bit like football clubs—the way you went up the league table was literally to appoint the most expensive manager, which was good for the manager, but did not always necessarily—

Q106 Justin Tomlinson: So we are now actually focused on outcomes rather than expenditure?

Sir Bob Kerslake: Absolutely right.

Q107 Justin Tomlinson: I touched earlier on the importance of promoting capital expenditure in a way that focuses on revenue-saving opportunities. Do you have confidence that local authorities have the urgency and skills to prioritise opportunities to save revenue?
Sir Bob Kerslake: In my personal view, the evidence suggests that they have done pretty well, actually. I share Carolyn’s view that local government has done incredibly well at managing some very challenging circumstances. I think the culture of saying, “We’ll just spend and then worry about the revenue costs,” is much less frequent now. I absolutely take your point: there is plenty of evidence that people built community facilities in the past through planning gain funds and then realised that they did not have any revenue to run them. I think that is very unusual now. People know that if you build a library or a swimming pool, the capital cost is not the real issue; it is the whole-life costs. I think there is a lot better handling of that now.

Q108 Justin Tomlinson: One of the big points that Eric Pickles made was on the utilisation of this army of armchair auditors. I had an end-of-term pre-recess debate where I highlighted that issue, because we in my office attempted to see how easy it was to do that. While every council, with the exception of Nottingham, had to be dragged there kicking and screaming, they did in theory provide the data. The data was hidden—it often took you a very long time to find it—and even if you could find it, it was written in such a way that you could not properly audit it. When I ran my own business, if people had wanted to post through my letter box suggestions for how I could save money, I would have thanked them and probably shared in any savings that I found because I was interested. It was my business. If you can be incentivised in such a way that you could not properly audit it, then it is effectively circumventing accusation.

Q109 Justin Tomlinson: The problem is that that data—if you are lucky enough to have found it hidden somewhere on the website—is almost unusable because of the different headings and the way they hide how what is being done. In the case of most authorities, it is impossible to be a proactive resident, helping the local authority to better use its money. The Government are really keen on this, and they could go further to encourage local authorities to be a little more open to help.

Sir Bob Kerslake: There are two points. One is that we have looked at the LGA’s work through LG Inform on benchmark costs, for example. We have tried to avoid being too prescriptive about how information is published, but if there is evidence that the way it is published is a major barrier to its active use, we will have to look at that again.

Q110 Chair: I just want to bring Amyas in, and then we will return to you, Justin.

Amyas Morse: I just want to ask about something further down the road, Sir Bob. You talked about the inventive ways that local government could find to deliver services more efficiently and so on, and we recognise that in the Report. What I am not clear about is when you will know that they do not have enough money to deliver their statutory responsibilities—in other words, there is not an option for doing that more agilely; they just not have enough money to do it. I am not saying that we are at that point yet, but it would be nice to know how you will know that. Will there just be lots of judicial reviews, or traditional challenges about not meeting their statutory—

Q111 Chair: Birmingham is a case in point. It was judicially reviewed on its adult services and lost.

Amyas Morse: I don’t mean it as an unfriendly question; I am just trying to ask: if it goes that far— if we have austerity for another five years—how will we find that out, if we get to the point where there just isn’t a way of doing it?

Sir Bob Kerslake: We would have a number of ways of picking that up, if the pressure reaches the point where not all the statutory duties can be met. First, as Simon said, you do modelling ahead of financial spending rounds, and we are doing that now for the current spending round. Secondly, we have a lot of intelligence through the audit process and individual audits telling us what issues are arising through that route. Thirdly, of course, local authorities themselves will tell us what their position is. We have very, very extensive consultation leading up to spending rounds, and we are indeed in extensive consultation now with the LGA. So those are three sources. We will also, of course, have the feedback from organisations that are there to, if you like, advocate and defend those services, so there are quite a few ways of knowing whether we are hitting that point. I don’t think we have hit that point. I don’t think we have hit that point for any particular authority, either—I’ll come back to Birmingham in a minute if you want—but I think there are at least four ways, and probably more, whereby we will know when we have reached that point, if we ever reach that point.
Amyas Morse: Okay, but if you did ever reach that point, what channel would you have for doing anything about it? That is what I am not clear about.

Sir Bob Kerslake: Clearly, the channel for doing anything about it is Government judgments on funding for local government and Government judgments on the statutory duties it puts on local government and the standards of those statutory duties. Those would be two ways in which you could do something about it. Third would be Government decisions on how local government might raise funding from different sources. Bear in mind that one of the key aims of the localising of business rates is that if the economy grows—it’s not a zero sum, by the way, on business rates—local authorities will retain, as we sit here now, half of, and potentially in the future more of, the local business income. So there are at least three, and potentially four, ways in which we can impact on local authorities’ ability to deliver on their statutory duties: the direct grant funding, the requirements we put on the extent and depth of those duties, and indeed the buoyancy of income sources.

Chair: Can I go to Ian and then come back to you, Justin? Is that all right?

Sir Bob Kerslake: Sorry, Chair, did you want me to deal with Birmingham?

Q112 Chair: Yes, Birmingham. It’s just that it was an interesting case in the papers. They lost a judicial review—I’m not familiar with it.

Sir Bob Kerslake: It is important to say it was not because they were per se breaching their statutory duties. What they decided to move towards was “critical” as the measurement of the standard of care that they provided. Most authorities—in fact, all bar a handful—do “substantial or critical” as the service—

Q113 Fiona Mactaggart: No; no longer. There’s an awful lot that now just do “critical”. It’s changing in that direction very quickly, isn’t it, Sir Bob?

Sir Bob Kerslake: No, I think it’s not. What there has been is a move from “moderate” to “substantial or critical”, as the NAO Report indeed makes very clear. The issue for Birmingham was whether they had assessed the impact of moving to that level and had consulted properly. I don’t think it was per se a breach of a statutory duty.

Q114 Chair: Before I come to Ian, just tell me this. West Somerset—what are you going to do about that one?

Sir Bob Kerslake: We have already heard about one of the things we have done, which is to give a flexibility—

Q115 Chair: That is short term. I accept—

Sir Bob Kerslake: No, it’s not short term actually, because—

Q116 Chair: What, they can put up their tax rate by 5% for ever?

Sir Bob Kerslake: £5 per head rather than the 2%. For the very small authorities, we have built in a stabiliser that will see them through a number of years—I can’t say how many—but it is not the only thing they are going to have to do. They will have to radically look at the business model for the way they deliver services. They know that in West Somerset. We are in close touch with them about how they are approaching it, but they are the smallest district by population and—

Q117 Chair: I understand that. What astounded me on this one was reading the LGA report, which said—I have never seen this before, in any document—the Council is not viable as a unit of local democracy”. I am quoting from the report: it is “not viable”. In a way, this is building on Amyas’s question. It’s down to you guys if you’re told that.

Sir Bob Kerslake: I personally do not think they have reached the point where they cannot run. They are not viable in the way in which they run at the moment. They will have to look at an entirely different service model about how they commission services in West Somerset because of their size—

Q118 Chair: So you have no other plan than to say to them, “You can raise your council tax by a bit more and you’ve got to sort it yourself”? You don’t see any—what about the bins in that area? The main thing that a district council of that sort will be doing will be bin collection, I would have thought—waste collection. It’s the very basic public health stuff at that level.

Sir Bob Kerslake: As I said earlier, at least three things are happening in relation to West Somerset. One is that we have made a change in terms of their ability to raise council tax, which is important. Secondly, we are working with them, and the LGA is working with them, to look at different business models—commissioning more of their services, rather than directly providing them.

Chair: I bet they do most of that anyway.

Sir Bob Kerslake: Thirdly, they will retain half the business rates. In the case of West Somerset, in the future, they will see more business rates income from the consequence of building the new nuclear power station in the district. So there are three ways in which that particular authority can sustain themselves in the future. I am not saying that it is easy—they are a particular outlier in terms of the challenges they face—but I would not say that they are unviable at this date.

Q119 Ian Swales: I would like to explore a bit more the role of your Department in all this, Sir Bob. Building on what Justin was saying, one of our conclusions from the accounting for public money hearing last April was: “Confidence in the success of localism will depend on having robust information flows which serve the needs of all stakeholders, including taxpayers...Departments need to develop specific data strategies to support their Accountability System Statements.” Did you accept that? If so, how are you getting on?

Sir Bob Kerslake: We have a clear plan about what data we want from local government and what we think is right for us to collect as a Department. As I
said earlier, I think we have pretty good data sources, particularly on financial sustainability.

We also think that we are not the only people who should collect data. We think that we should work in collaboration with the LGA, and they have been working to develop a product they call “LG Inform”, which brings together comparative data on local authority performance.

The third thing that I would say is happening is that we have quite a strong and close liaison with the inspectorates that go to local authorities to assess their performance in key services where the Government think it is appropriate, particularly in services to the vulnerable. So I think we have a clear approach to data from local authorities. We supplement that with what we get from the LGA and inspectorates.

Q120 Ian Swales: The LGA works for councils, not for yourselves. What I would like to understand better is, you say that you have a clear picture. Is it management information that you get or is it simply financial ratios? Do you have enough information to influence managers and look at benchmarking and so on?

Sir Bob Kerslake: The bulk of what we have—I am happy for Simon to come in here—is financial information from the returns they give us about their spending and their balance. We referred to that earlier. As I said, we have quite a lot of management information from Departments that collect data. Health collects a lot of data about care services and local authorities. Education gets a lot of information from Ofsted on the performance of children’s services. We have that sort of data. Regarding benchmarking data, we predominantly look to “LG Inform”.

Q121 Ian Swales: How many financial people work in DCLG? What is the size of the team?

Sir Bob Kerslake: Simon can say how big his team is on local government finance.

Simon Ridley: The local government finance team is about 120 people.

Ian Swales: That is more than one for every three councils.

Simon Ridley: First, there is a local government policy team, which does a lot of the work around efficiency and procurement. There seems to be about another 80 people. A good chunk of the Department is focused on local government policy and finance and the regulations around that.

Q122 Chris Heaton-Harris: You just said that there is no method of spreading best practice apart from through the LGA and that you have a unit doing efficiency. How is the efficiency communicated with local councils?

Simon Ridley: We are doing a range of work, usually closely with the LGA and with local councils. For example, we have been involved with the LGA and a number of local councils around procurement. It is being led by the chief executive of Hampshire. But we have been part of the support for that work and trying to promote best practice. Our role in this is very much trying to help work with best practice in the sector to bring them together with what is going on in the Cabinet Office across central Government and try to learn across those boundaries. We are not running local authorities. We are using our position at the centre.

Sir Bob Kerslake: Another initiative that perhaps we will come on to later is the community budgets initiative, which is about how different public services work in a place. We have got four major whole-place pilots working on that as we speak. The initiative is about how you can combine the way public services work to get more efficient public service and better outcomes.

Q123 Mr Bacon: Where are your four pilots?

Sir Bob Kerslake: They are Manchester, Cheshire, the tri-boroughs and Essex.

Q124 Mr Bacon: Can you send us a note about that?

Sir Bob Kerslake: Yes, I would be very happy to do that.

Q125 Ian Swales: Can I just turn to another point? Given the importance of the formulas—it makes it very clear in the Report the way the grant is fixed and so on, and there is equally a suggestion that it is relatively impenetrable and complex—I think it is really vital that you build public trust and local government trust in how all this works. I am just wondering what views you have on that. I will give you an example, which is the public health formula. I was pleased to see that life expectancy was a big factor in it, but imagine my surprise to find that it was the opposite of what I expected. I would have expected areas such as mine with low life expectancy to get more money through the formula. How are you going to build public confidence in the machinations that go on up the road that nobody seems to get involved with?

Sir Bob Kerslake: I take your point. Mr Swales, that this is a complex process. We had a whole session on this issue of funding distribution not long ago. We went through, in some ways, why it is very hard to come up with a simple formula—

Q126 Ian Swales: I might have missed that one. Anyway, there is an issue about building public trust.

Sir Bob Kerslake: I do see your point. I cannot answer the public health one—I do not know whether Simon can—because I do not know the reason, but we will certainly come back to it. I can say in relation to local government and our funding model that part of the complexity comes from the fact that you have very different types of authority providing a wide range of services, so it is almost impossible to come up with a very simple model. What I would say is that with the localising of business rates we have tried, in effect, not to have this dependency model that involves every year a constant obsession with the formula, and instead create a model that rewards those who are able to deliver growth. That is what we have been trying to achieve.
Q127 Ian Swales: Last question from me. The Chief Secretary to the Treasury has to sign off pay deals in the civil service of £150,000 or more, but it appears that there is no such check and balance in the local government sector. That means that you get cases such as my local authority, which is about as small as Slough in terms of being a unitary authority—it has a population of about 150,000—where they can pay an officer £14,000 a month to a personal service company and nobody outside the authority seems particularly to be doing anything about it.

Sir Bob Kerslake: We have undertaken to come back on the personal service company, and we will. I know that the Secretary of State will be as concerned as you are about that issue. What we have done—I think the Secretary of State wrote on 20 February to all local authorities—is to up the ante on their disclosure of pay and say that any salary of more than £100,000 should be approved by the full council, as indeed should any severance payment of more than £100,000. That is not statutorily binding on them, and they have to make their own decision on it, but it is a clear signal that we think that is the right way to go.

Q128 Ian Swales: I will just push this one a bit more. With due respect to all of them, a typical group of councillors is not going to know what the pay rates should or should not be at top levels of local government, because they will be told whatever story is needed to justify the appointment that they want to make. What is the role of DCLG in all this?

Sir Bob Kerslake: Our role hitherto has been to set expectations on local authorities about the publication of pay, and there is a clear expectation that they publish pay above given levels—£50,000 and £100,000—and that they take decisions on those over £100,000 to council. I think, by and large, councils are signing up to that; I am not sure that there are many who are not doing that. There is now quite a high level of transparency about pay levels and senior pay levels. That is why organisations such as the TaxPayers Alliance are able to come up with the data they have. What I cannot answer as clearly is payments through personal service companies. I think that is an entirely fair question and we will come back on that.

Q129 Justin Tomlinson: On two of the big changes—the localisation of the business rates and the new homes bonus—some local authorities will be winners and some will be losers. Am I right in thinking that, with the business rates, the amount of winners will equate to the amount of losers so that overall, for local authorities, it is even stevens, but the new homes bonus should create extra money? Or am I wrong on that?

Sir Bob Kerslake: I think that it is other way round, actually. Our whole ambition, though localising business rates, is to provide an incentive for local authorities to be pro-growth. I think we calculated that the model we are introducing, over time, could generate something like £10 billion for the economy. It is absolutely not a zero-sum game on business rates; if local authorities can deliver growth—they all can deliver growth—they will be better off from that delivery. It is very clear on that.

Q130 Chair: Can I ask a question of Treasury? That means that it adds to public spending. If an authority gets in extra money because it is successful in growth, what does that do for our public expenditure limits?

Marius Gallaher: It will be self-financing additional expenditure.

Q131 Chair: No, it is public spending. It does not matter; it is public expenditure through taxation. It must add to the public expenditure envelope.

Marius Gallaher: Yes, but it will be self-financing. It might increase the totals—

Q132 Chair: That does not matter. If you are trying to control public expenditure, it does not matter how it is financed.

Sir Bob Kerslake: The Treasury have two controls: they have total managed expenditure and also net expenditure after income sources. I think the point being made by the Treasury officer—

Q133 Chair: But it does not matter. When we go to the whole of Government accounts, the extra money spent by local authorities because they have managed growth—I am very keen on this—will have to count as public expenditure, full stop. Will it not, Amyas? It will.

Amyas Morse: Yes it will, but they are not denying that; they are just saying that it will be counterbalanced by increased income.

Q134 Chair: But it does affect public expenditure controls.

Amyas Morse: You are right; it is more public expenditure and more income.

Simon Ridley: The Treasury still have the ability to set DEL limits in spending rounds, which—

Q135 Chair: Well they cannot, because they cannot control this lot.

Simon Ridley: The Treasury will still have the ability to set DEL limits in spending rounds. The localised business rates, which are 50% of the business rate take, have been moved into AME, so it operates in the AME system as self-financed expenditure in exactly the same way as council tax. But for the rest of DEL, both for local government and for other Departments, the Treasury still has complete control on setting the spending limits, so public spending will still depend on those decisions in the spending review, exactly as they do now.

Chair: Okay, but it still adds to public expenditure—all they have done is shift it to AME. That is fine, and I understand that, but it is an additional public expenditure that we are trying to control.

Sir Bob Kerslake: I want to finish answering your question from just now. The first part that I was trying to say was that, as far as business rates are concerned, if you grow the economy and grow business income, local authorities will retain half of that and everybody wins out of that. The evidence of the last five years is
that it is not necessarily the places that you would think would be the winners that have been, in fact.

On the new homes bonus, it is a hybrid: we put in some additional funding at the beginning, and after that it was funded within the formula grant above and beyond that sum. In the future it will be a zero-sum game for new housing, in effect, because it will trade off, but we did put some new money in as well. That is how it stands.

Amyas Morse: We have a study coming out on that as well.

Q136 Justin Tomlinson: One last small question. Landfill tax continues to increase, and local authorities are pretty much all at 50% recycling. That was relatively easy to do in the sense that, as long as you did full kerbside recycling, you would get there. Are we going to see further increases in landfill tax, and if so, how will local authorities address that? Because it is a challenge to go beyond just kerbside recycling.

Sir Bob Kerslake: I am not aware of any plans on landfill tax, but again I will come back to you on that point.

Q137 Fiona Mactaggart: If I look at figure 3 and figure 4, I see a pattern of more significant reductions in in-year spending for local authorities than for the rest of public spending. Local authorities have coped with that reasonably well to date, but I am struck by figure 4. I looked at that group of authorities which were down there, between 8% and 9%, and noticed that all bar Great Yarmouth were Labour or no overall control, but the equivalent-sized group of local authorities whose reduction was less than 2% were all Conservative. As these are percentage figures, it seems to me that we are creating particular difficulties for the local authorities that have the most deprived people in them, which tend to be represented by Labour. Is that causing you more challenges, as a Department?

Sir Bob Kerslake: I think what you have heard this afternoon suggests that there is no obvious typology of authority that gets into difficulties.

Q138 Fiona Mactaggart: So it is just a coincidence that it is Labour authorities?

Sir Bob Kerslake: You asked, is it causing me concern about the issues for individual authorities? What I am saying is that those authorities that have got into difficulties have done so for particular reasons—if I deal with the substantive point you are making—and it has not always been related to the level of deprivation or the size, or anything else. It has been local factors. Birmingham, you will know about, got into difficulties—West Somerset and so on.

In terms of the way in which the spending power worked and where the formula grant worked, there was quite a lot of effort made to ensure that the changes took account of different levels of deprivation and were done in a progressive way. But inevitably, those authorities that were grant dependent were going to be more affected by the changes on grant. That was an inevitability of the system. It did not mean to say that Government did not seek to introduce those in a progressive way that took account of need; they did.

Fiona Mactaggart: Thanks. I must ask you to speak a little louder, because I am finding it difficult to hear.

Sir Bob Kerslake: I am doing my best.

Q139 Fiona Mactaggart: That thing that worries me most about the National Audit Office’s Report is paragraphs 15 to 17, where it seems to me that they are saying that, in this situation where local authorities are making cuts—they are reducing services, as we can see from chapter 2—there does not seem a great deal of clarity at a national level about the quality of information upon which decisions to distribute grants are made. That is the first issue. Or the understanding of actually what is happening on the ground, which for us as a Committee is clearly a serious issue. Are you confident that, first, you have good enough quality information for starters—as far as I can see from this Report, the Department for Education sort of said, “and we’re guessing” on that bit. I might have got that wrong, but it looks a bit like that doesn’t it? Was your information sufficiently good at the start and is your information about what is actually happening sufficiently good now, for us in Parliament to be confident about where the taxpayers’ pound is going?

Sir Bob Kerslake: Let us deal with the first question first. I think we had information that was as good as possible when we came to the decisions on the spending round in 2010. What the NAO accurately says is that we were good on some parts of that information and not as good as we might have wanted to be in other parts.

If you go back to the process that we were undertaking in SR 2010, it was a pretty big and challenging exercise, done at a pace, across Government, to halt the level of spending and reduce the level of spending in this country. It was a major, specific piece of work done in an unprecedented way, if you like. I think, in the circumstances, the information we had was not that bad, on the modelling of the impact on different services.

We can, of course, continue to work on that. We will continue to work on it. And we will look to do whatever we can to improve it for the next spending round. So that is the first question.

On the formula grant, I would like Simon to come in as he worked with this. We went to a lot of effort to ensure that the data we had on the formula grant, and the approach that we took to the formula grant, was as current as it possibly could be, and used the best data available in order to make the calculations. We introduced a new concept of spending power, as a way of calculating the total spending impact of Government decisions, which was the first time that had been done, really. It was the first time Government had tried to capture the whole spending impact. Then we put a limit of 8.8% on the amount of their spending power that local authorities could lose. So the second point to make is that we went to a lot of trouble to implement the formula grant in a fair and balanced way, and to take account of all the spending issues that were going on.

Your third question was about knowledge on the ground. I think we have pretty good knowledge about the spending on the ground and the balance levels of individual authorities. We have a lot of qualitative
data about how they are managing their affairs. They are required to set a balanced budget, they have statutory accounts which give us information and we have a lot of informal information from our own staff and from the LGA. I actually think we have pretty good knowledge of what is happening on the ground and where local authorities are finding life particularly difficult. We do have good knowledge about that. What we do not try to do is form an individual judgment of how a local authority has taken its decisions on services and efficiency. We think that that is for their local judgment. Simon, did you want to say a few words about the work that was done on the formula grant?

Simon Ridley: I would make three points on the formula grant. The first is that, as Bob said, it is absolutely based on the most up-to-date data we can get. For the year’s settlement to come, for example, we used data from the new census. The second thing is that in determining the distribution—this is the progressive bit that Bob talked about—we sought to ensure that the local authorities most dependent on grant saw the smallest reductions in grant. We did that by dividing councils into four groups. For example, those most dependent on grant see a 2% reduction in that grant next year, and those least dependent on it see a 7% reduction.

On spending power, it focuses on the overall impact on local authorities. That is why, on that figure that you first drew attention to, the few authorities at the bottom are all at 8.8%. The Government put in about £100 million over the first two years of the spending review, in additional money to maintain that level for those councils. Again next year, there will be a further £8.5 million for the seven councils to make sure their spending power reduction is limited.

Q140 Chair: What was the rationale for giving a bigger cut to those authorities that are less dependent on grant?

Sir Bob Kerslake: The point we’re making, Chair, is that we wanted to make the percentage reduction for high grant-dependent authorities less than the percentage reduction for low grant-dependent authorities. It was a progressive process on the ground. The point that I would make, though, is—

Q141 Chair: The outcome doesn’t look very well done.

Sir Bob Kerslake: The reason it looks different is that clearly, even if the percentage is lower, the absolute sum will be higher, because they are more grant dependent.

Q142 Jackie Doyle-Price: I just want to satisfy myself that by applying that damping formula, you are still being fair to those local authorities most in need. As Fiona has pointed out, some local authorities in affluent areas are having their reduction limited, but that money must come out of the system somewhere.

Sir Bob Kerslake: Sorry, it’s the other way around. What we are saying is that for authorities that are the most grant dependent, the percentage reduction in their grant was lower than for those authorities that were the least grant dependent.

Chair: Interestingly, Thanet—Jackie’s authority—is at the top of the list. I cannot imagine—

Jackie Doyle-Price: Once you apply the damping formula, we have a significant reduction in our income, which I object to, because Surrey is having its grant protected. Pardon me, but my residents need that money a bit more than the residents of Surrey.

Q143 Chair: Thanet is at the top of the list, with the biggest cut in grant. Surrey is right down at the bottom of the list for spending power. Norfolk—that is why they have been quiet with you around the table—did the best. Thanet did worst.

Mr Bacon: It is down to the quality of the local Member.

Jackie Doyle-Price: All right, Richard, I’ll see you outside.

Sir Bob Kerslake: We are in danger of getting into the intricacies of this, but I have two points to make. One is that there is a general damping effect. Secondly, the upper-tier authorities that you are referring to are also the ones providing adult and social care services. Those are the ones—particularly in adult care—where we have made a lower reduction in that element of the formula grant.

Q144 Fiona Maclaggart: I have to say that Slough and Wokingham have exactly the same responsibilities, but the cut in Slough’s spending power and the cut in Wokingham’s spending power are at a margin of enormous difference.

I want to ask one further question, which is about cumulative changes. Paragraph 13 talks about the number of different changes to local government funding that are being implemented over the spending review period. It becomes increasingly important to understand the effect of cumulative changes. Elsewhere the Report refers to, for example, the change of eligibility threshold to “substantial” or “critical” for adult social services putting additional pressure on other services, such as the NHS. I want to know, so I can be confident, that you have understood and assessed accurately the combined impact of this range of changes on the financial risk profile of a local authority. How do you know if you have got it right? Your initial estimates of the spending impact of national decisions were not always 100% accurate. You said that it was done at a pace, and I understand that, but we have got to be clear now that there is a bit more time, and we need to know what the cumulative impact will be on local authorities. Indeed, those local authorities need to know. I do not see evidence in the Report that, first, you are doing that accurately and, secondly, that you are sharing that knowledge with local authorities. Convince me otherwise.

Sir Bob Kerslake: First, the point that Simon and I made earlier is that the spending power calculation is, to an extent, a cumulative impact assessment because it takes account of all the changes that are going on around the funding that the Government give to local government. So spending power, in a way that was not done in the past, captures the range of different decisions that are made as regards funding of a local authority. That is quite a powerful point.
Secondly, we work very closely with Departments, in particular the Department of Health, to understand what decisions they are making on funding, such as on public health and in relation to health spending generally, to see how those two things interact. So we have pretty good data—we can always improve it, and we seek to do so in the next spending round—on the cumulative impact of our decisions on grants, other Departments’ decisions on grants, and the changes that those other Departments are making to other local services.

Q145 Fiona McTaggart: Is there a place I can look at that? Where can I see something saying, “Here is this decision from this Department, and here is what it is going to cost”? I cannot find that. I had a look to see whether I could find something like that, and I couldn’t.

Stephen Barclay: A working group.

Sir Bob Kerslake: We can definitely give you the information on the spending power and how that is made up of different changes on the ground.

Q146 Chair: Does that include things like business rates and the localisation of council tax support?

Sir Bob Kerslake: It will pick up all the issues around business rates and the localisation of council tax—anything where there is direct Government funding to a local authority. It is less easy for us to overlay what, say, Health has done in relation to NHS funding, but we could do that as well if you wanted.

Q147 Fiona McTaggart: And could you share that with us?

Sir Bob Kerslake: I think that would be possible, yes.

Q148 Stephen Barclay: Could you clarify how productivity is assessed?

Sir Bob Kerslake: In local authorities?

Stephen Barclay: Yes.

Sir Bob Kerslake: As I said earlier, we do not have a direct measure of local authorities’ efficiency. We can calculate by how much they have reduced their staffing numbers, which we know to be over 100,000. We can calculate the productivity increase there in relation to the services they provide. There are national statistics produced on that. You can get a calculation of productivity simply from the changes in staffing numbers and making an assumption about whether they are carrying out the same responsibilities.

Q149 Stephen Barclay: Not really, because that drop in staffing numbers may be just because they are dropping the service.

Sir Bob Kerslake: That was the point I was going to make. We can get a crude calculation of productivity, but I cannot say for certain that it is all productivity and not service cuts—some of it will clearly be service cuts.

Q150 Stephen Barclay: How do you assess different improvement levels in productivity across councils?

Sir Bob Kerslake: We don’t assess different improvement levels in productivity.
contact with them and through the data they give us on the number of families that they have identified, the number of families that they are working with and then the number of families that they have turned around, which is where they get the payment-by-results sum.

Q155 Stephen Barclay: What I am confused about is what you are actually accountable for. You are accountable for putting a system in place—I get that—but, separate to that, what areas are you personally accountable for?

Sir Bob Kerslake: We are accountable for the probity of the overall system: is it a properly controlled system that has safeguards around balanced budgets and publishing of accounts? We are accountable for whether we create the right incentives and penalties, if you like, in the system for greater efficiency. We are accountable, obviously, for the overall working of the system and the accuracy, as has already been raised, by which we pay money to local authorities as grant funding. Those are the things that we are focused on, and a lot of that is set out in some detail in our system statement.

Q156 Chair: I want to come in on this, Steve, because it is my obsession. But you are also accountable for the money that you put through to local authorities—the money that you give through your element of the formula grant. You are accountable for that to us, and part of that accountability must be—

Sir Bob Kerslake: Productivity.

Q157 Chair: Productivity is one thing, and also Government objectives, and meeting those, would be another. You must be accountable for that. I think it is a key issue that we are going to come out with on this. You cannot jump out of that accountability.

Sir Bob Kerslake: I did not for a moment suggest that we did jump out of that accountability. What I am saying is that the Government do not now set masses of individual targets for local government. They are actually very discerning about the number of places for which they hold local government accountable for particular service delivery. What you can say is, “Does the system deliver that?” So, does the system deliver safeguarding, the core requirements of adult care and the duties that local authorities are expected to deliver? That is perfectly reasonable for the system to be held accountable for.

Q158 Ian Swales: Are we getting the impression that you are going to know that only when things go wrong, because we seem to be dismantling all the checking and reporting arrangements? So, you throw this money and, yes, the local authority has a whole load of things to do, but how do you actually know until something goes wrong?

Sir Bob Kerslake: First of all, we are not “dismantling” all the reporting arrangements; we have pared them down to the areas where we think the reporting information is useful. There is still a lot of data that local authorities are required to give to us. Frankly, we have just taken out a lot of the data that was useless. That is the first point.

Q159 Stephen Barclay: With respect, Sir Bob, the problem is not, and never has been, a lack of information. We had a Report 18 months ago on the Ministry of Justice regarding youth offending that involved the collection of 3,000 items of data, but could not say which programme worked best and share that.

What you are talking about just sounds very nebulous; it is all about systems. We had systems in the health service and we saw with Mid Staffs that the systems had failed. What I do not get a sense of is who is looking at the councils that are responding most productively to the challenge and at what is best practice, and then questioning those councils that are not acting in a similar fashion and are perhaps not sharing their chief execs between three councils or not looking at back office costs as robustly as they should, rather than the front-line costs. I would have thought that, as part of your system, that is something that DCLG should be doing, and I do not get that sense.

Sir Bob Kerslake: That is a fundamental difference: I think it is a matter of philosophy. The information we are talking about is not nebulous; it is very precise information. What we stop short of doing is judging an individual authority’s productivity and then telling it what it should do to improve. We don’t think we are well placed to do that, and we don’t think we get it right. The evidence to back that view is a whole sequence of systems—CPA being one of them—that failed to work. Let us be clear about that.

Stephen Barclay: I agree about that, Sir Bob, but—

Sir Bob Kerslake: Let me just finish the point, because this is quite critical. We think the best way to drive efficiency is through transparency so that the local players know that through benchmarking done by the sector—so the LGA plays a key role through peer review done by the sector—and through the kind of natural democratic processes of the electorate. Now you can disagree with that view and say, “Let’s return to a top-down model of telling local authorities what they should do to improve.” but I do not think that that is the Government’s position.

Q160 Stephen Barclay: That is a total misrepresentation of what I am saying. What I am saying is that there is not the standardisation to allow the sort of grass-roots pressure that most of us around
the table constantly want. When we try to compare our councils, we find it very difficult because most of the time the data are presented in different ways across different councils. It is that standardisation of data, and the comparability of it, that is the difficulty.

Sir Bob Kerslake: And that is the exercise that the LGA has taken on, through LG Inform. We believe that we should give that process a chance to work. If it does not work, we will have to look at a different way of doing it, but we felt that the sector was best placed to develop standardised benchmark data on performance.

Q161 Stephen Barclay: So why is it still not in place? We have had civil service reform after civil service reform, so why is this still a work in progress?

Sir Bob Kerslake: I think that is something that we need to have a conversation with the LGA about, but I think that it has made some good strides to develop comparative data and clearly that is something that it is continuing to work on. I am talking specifically about local government, not about central Government. We have a separate exercise for central Government and a way of getting standardised performance data and management information across Departments, which has now been published.

Stephen Barclay: Actually, the NAO said in its Report that there is a vacuum of good-quality management information, and that Departments have tended to lack a strategic vision, but that is about central Government, so it is a different issue.

Q162 Mr Bacon: I am interested. You obviously think this information is worth having. You just said that central Government have their own approach to getting it, and you explained why you think it is best driven by local government through the LGA locally.

Sir Bob Kerslake: Yes, but if the information Mr Barclay is after were available in the right rich form—I agree with you about CPA and all that, and hardly anyone does not agree that the performance assessments, as they were done, were not satisfactory—there is a rich mine of information that should be available and turned into intelligence, but we still do not have access to it. Yet I stand aside from the call for, how without it, you have as an accounting officer can turn round to Parliament and say that this is the best that can be done with the available money, because you don’t know. I understand philosophically why you might do that and I see why the local government milieu—the local government people—are doing it to themselves because they might be more likely to drive it, but you are relying on them to do it. We are four or five years into the financial crunch and this process—I think it was Mr Tomlinson who said earlier that local government recognised that this was coming down the pipe—started before the 2010 election. But as Professor Travers said, the arithmetic makes it very clear that it will go on for a long time. Yet four or five years into the process we still do not know how or when we will have information turned into intelligence of the quality that Mr Barclay and Parliament are after.

Sir Bob Kerslake: I guess the point of departure is how best to build those systems of comparative information. My personal view is that a lot of money was spent on and a lot of time was devoted to developing top-down systems so that central Government could, in theory, know which authorities were productive and which were not, and, to be blunt, most of it was flawed and ineffective. As someone who worked on the other side of the table, I never used that data because I didn’t trust it.

My personal view is that you are more likely to get an outcome here if you look to a sector-led process for developing benchmark data. Have they absolutely got there yet? I don’t think they have, but I think they have made some good progress. Do I think that us taking that job on, on their behalf, would get to a better outcome? I am not convinced. There is a real difference between what I would call service efficiency and outcome-impact efficiency. You can have plenty of services that are ostensibly efficient but do not deliver the outcomes.

Some recent work under the community budgets had a member of staff sitting on the desk of each agency to assess what impact that interaction and that visit had in moving the problem on—how many were successful and how many were failures. Something like 40% failed actually to move the case on. I have no doubt that that reception desk would have a measure of efficiency that said they dealt with a high number of cases per member of staff on the desk. That is one measure of efficiency.

Q163 Mr Bacon: You sound as though you have been reading Mr John Seddon.

Sir Bob Kerslake: I may well have been. Mr Bacon: I have also been reading him.

Sir Bob Kerslake: This is a real-life study.

Q164 Mr Bacon: He is dealing with real life most of the time. Are you talking about the large call centres that consultants persuade people to buy into and that they then contract for, whose revenue goes up when there is a large number of calls, so that having designed a system that increases the amount of failure demand, they not only get paid to provide a poorer service, but they get extra revenue from the extra calls? Are you saying that you have some doubts about that?

Sir Bob Kerslake: I would not like to get drawn into the example I think you are alluding to, but the work we are doing on community budgets is focused on how to change outcomes and life chances for individuals, while reducing demand on services at the same time. That is a different kind of efficiency. You must measure that sort of efficiency as well as how many widgets are being processed.

Q165 Mr Bacon: May I ask just one more question on that point? Sir Bob, you gave five or six routes through which you get information, one of which was Mr Ridley—you pointed at Mr Ridley, anyway. That route was a community team or the folk in part of DCLG. Was it the local accountability team?

Sir Bob Kerslake: I said the localities team. May I just say a bit more about that? In CLG, with the abolition of the Government offices, we have required all of our senior managers to link with localities as
part of their job and to go out to talk to local authorities to find out what is happening. We have also created a dedicated team in the Department to pull together information about each locality so that we have a kind of database of different types of information on each authority.

Q166 Mr Bacon: I have one question, and then I am done. A couple of years ago I went to a QE2 conference at which, among others, your predecessor, Sir Gus O’Donnell, was speaking. Forty-seven different Economic and Social Research Council-funded papers under the auspices of Christopher Hood were reporting back. On the basis of some fairly heavy empirical research, one of those papers was about what causes local government to change its behaviour. Was it a change of chief executive? Was it an election and a change of administration? Was it the removal of certain senior managers? By far the single biggest thing that caused local government to change its behaviour was being sued and losing in the courts. I am interested in how you would know. Do your localities folk know? If local councils across the country, and there are hundreds of them, get sued and lose, who tells you? Who helps you to spot the trends? Is it the localities team? Is there somebody doing that?

Sir Bob Kerslake: The truth is that it’s not one source; it is a whole range of sources. We regularly meet with departments on their specific services. We pick things up through the accounts and through spending returns. The purpose of Simon’s team is to synthesize those data and tell us what the messages are. I do not think we actually have one that tells us how many times an authority has been sued, but we will pick up data on high-profile cases where local authorities have lost, such as in Birmingham. We will pick up such information, so it is not one source; it is a whole number of different sources that tell us where a local authority is at at any particular point in time. No single source will give you the complete answer.

Q167 Jackie Doyle-Price: I’d like to ask for your reflections on the fact that local authority reserves are increasing quite substantially. To what degree is that financial prudence? Or is it a hoarding of taxpayers’ money?

Sir Bob Kerslake: It’s going to be a mix of both to some extent, but there are perfectly good reasons why local authorities are acting prudently, such as the ones that Carolyn talked about. They are going into a new financial system in April, and a lot of changes are happening together. There are perfectly good reasons why you would save funding. They may also have issues about funding redundancies that they want to cover. They may also be introducing ambitious change that they are not absolutely sure will work. Those are all good reasons to hold unallocated reserves. What I think you can say is that, in one sense, reserves are a useful test of how well local authorities are doing, because whether or not you agree with their decision, they have been able to create the headroom to increase their reserves. A signal that you have a real problem would be if large numbers of authorities were running their balances down year after year and taking short-term decisions. Actually, the NAO Report suggests that those numbers are pretty modest.

Q168 Jackie Doyle-Price: But if, over time, it became clear that the reason was more about hoarding money than being prudent, is that something you would take into consideration when allocating grants? With schools, for example, if reserves go up too high the money is clawed back.

Sir Bob Kerslake: On schools, I think we neither could nor would want to take action to claw back from an individual school if it retained grant—

Q169 Jackie Doyle-Price: But that does happen. If a school holds a level of reserves over a period of years, the local authority will claw back that money because the school has no business holding taxpayers’ money. What I am asking is whether, over time, that is something you would consider. Or would you consider perhaps looking at the grant allocation?

Sir Bob Kerslake: I think we would need to be very sure that there is compelling evidence of hoarding before we do that, not least because a local authority is not legally able to budget for increasing its balances without any purpose. It has to have a clear underlying purpose.

Q170 Jackie Doyle-Price: Who polices that?

Sir Bob Kerslake: The auditors. If they thought a local authority was willy-nilly building up reserves and balances—it would not be Amyas, but local auditors—if they thought that it was hoarding balances with no underlying purpose, they could challenge that as a legitimate action by the council. So far, we have felt that the right approach to this is to be very clear that local authorities have a duty actively to consider the level of balances and—this is a crucial point—that members should take a decision on this issue. They should not simply rely on the advice of officers, they should form their own judgment about the balance of risk and reserves.

Q171 Jackie Doyle-Price: That is a very important message to give them, in my experience. Have there been any discussions between you and the Treasury about this? When we had a session on whole-of-Government accounts, this was a point that they made quite forcefully to us, that in the current environment it was surprising that the reserves were going up as much as they have.

Sir Bob Kerslake: The Treasury keeps a weather eye on what is happening on borrowing, reserves and spending by local authorities but, as I said earlier, if it carried on with a relentless trend, no doubt some challenging questions would be asked. At the moment, given the range of change and of uncertainty, as I said earlier, there are good reasons why local authorities retain balances. I don’t know if Simon wants to add anything.

Q172 Jackie Doyle-Price: I think you could probably do more to make it clear to members that they have to look electors in the eye to justify increasing council tax while those are going up.
Sir Bob Kerslake: I think they would have to justify why they would either increase council tax or cut services, if they have got balances and it is not clear why they have got them.

Amyas Morse: I just have a small financial point. We observed in our Report that there were 12 local authorities that had reductions of 8.8% in both 2011–12 and 2012–13. Then I am thinking about the fact that in those years you had a significant transition grant allocated to make sure that the reduction was not any more than that. Is that going to be an ongoing feature of funding, would you say?

Sir Bob Kerslake: We put it in for this year and next year, so there is clearly a plan there. The very clear message of the Minister is that that money should not just be there to stave off a problem. They should be using it as a driver to increase their efficiency as authorities. It is being given to them with a clear expectation that they will have a plan for change. We do not want this to go on for ever.

Amyas Morse: My only reason for asking is that some things like the new homes bonus are in fact quite strongly redistributive in the later years of the scheme, so some of these what are described as transitional pressures will not necessarily go away.

Sir Bob Kerslake: No, they will not, and we will judge that when we come to each year and assess the impact on spending power. Obviously that will be a matter for Ministers to decide, but I think that for those authorities that have been there for a couple of years, there is a clear expectation that they have had time to adjust their pattern of spending. We are helping them to adjust, rather than to carry on depending on this grant. I think that is a fair assessment.

Simon Ridley: This year—in the third year—we are requiring them to show us what they are doing to change, so the transitional grant cannot go on for ever.

Q173 Chair: I am going to ask some very quick questions on issues that I do not think that we have covered—short answers, please. Is it your view that local authorities would be wise to be planning for cuts in the next spending round?

Sir Bob Kerslake: Yes.

Q174 Chair: In that case, have you a view on what—picking out Jackie’s point—their level of reserves should be?

Sir Bob Kerslake: We have not got a view on level of reserves, because it will vary from authority to authority, allocated to unallocated, and it has to depend on the risks that that authority faces.

Q175 Chair: So you have not got a view.

Sir Bob Kerslake: We have not set a view for the amount.

Q176 Chair: Although your Secretary of State did castigate a few of them.

Sir Bob Kerslake: He will castigate if he thinks that they are holding without purpose and if their members are not actively involved in the decision.

Q177 Chair: How does he know that if you don’t and we don’t?

Sir Bob Kerslake: He might take a view about some authorities, but it is a general point that we are making.

Q178 Chair: You yourself are cutting your staff, so will you have the staff to be able to monitor? What does that mean about your ability to monitor and to inform Parliament about the impact of the changes and cuts?

Sir Bob Kerslake: We have effectively taken out the staff we needed to in order to balance our budget for this spending round. In a sense, we are practising what we preach.

Q179 Chair: But have you got the staff to monitor, give us the information we require and look at the impact and dangers—

Sir Bob Kerslake: There are two questions in there, Chair. One is whether we will have enough staff to do the job we need to do. I think the answer is yes. Will we be able to give you all the data you require? That will depend on what the request is.

Q180 Chair: Not to satisfy Stephen or myself. On business rates, because we have not spent a lot of time on it, have you looked at the relationship between taxable capacity—the existence of prosperous businesses—and actual need, or have you just looked at growth?

Sir Bob Kerslake: I think we have, Simon, do you want to say a bit about the relationship between tax and need?

Simon Ridley: We are moving from a scheme based purely on grant to one based on incentive, but where there is a large amount of grant still coming through. We have done a couple of things. First, we have set up the scheme with a baseline from April based on the old needs assessment. That is what underlines the baseline. We have then done a series of things in terms of the distribution for this year, to try to adjust it to protect those most dependent on grant.

Q181 Chair: Is this formula grant or business rate?

Simon Ridley: That is the formula grant.

Chair: I was interested in business rate.

Simon Ridley: We have underpinned it. The starting point on business rates is underpinned by that assessment, so we have not completely diverged, in terms of setting the baseline, from need. Over time, the business rates allocation will change according to business rates growth, but we have made sure that councils are not disadvantaged by the business rates base that they have by creating a reasonably complex system of tariffs and top-ups. If you have a very high business rate base, you have to pay a chunk of it into the centre, and then we distribute it to the councils with a low business rates base.

Sir Bob Kerslake: It is worth saying that those top-ups and tariffs are uprated by inflation each year.

Q182 Chair: And you think that is enough to mitigate it? I am sure that Jackie’s authority and mine—Jackie’s probably does better than mine.
Sir Bob Kerslake: As you will know, there has been quite a lot of debate about this, but the fact that their business rates might have declined may not mean that they will be winners or losers on revaluation. It depends on how everybody else moves in the picture.

Chair: Can you say that again?

Sir Bob Kerslake: Whether an individual business will benefit from a revaluation depends on their relative—

Chair: Well, of course, but they feel that they are starting from an unfair base, because the value of their business property has declined, but the business rate bill has not declined consequentially on that.

Sir Bob Kerslake: I see that, but as I say, whether their bill will change, upward or downward, will depend on how much other businesses have moved up or down.

Chair: I would need to go back and look at the research by the Resolution Foundation.

Sir Bob Kerslake: I don't think it has been modelled against hospital discharges.

Chair: Why is Treasury not doing that work? Maybe I can ask the Treasury, as the Finance Ministry. Marius Gallacher: I am sure that some work has been done on that in co-operation with the Department of Health.

Chair: That is a very waffly answer. I think this is another of these issues that we come across all the time.

Sir Bob Kerslake: I don't think it is, because we work very closely with Health. On hospital discharge, the performance has been improving over time. We have good information about how local authorities are working together with Health. As part of SR 10, some of the funding that went in was from Health directly into supporting local authorities in order to maintain low levels of delay on discharges.

Chair: I accept that there is more coming down the line—the Report says that there will be 6% cuts—has that been modelled against hospital discharges?

Sir Bob Kerslake: I do not think it has been modelled against hospital discharges.

Chair: A similar issue is cuts, because so much local authority spending is on social care. If we all accept that there is more coming down the line—the Report says that there will be 6% cuts—has that been modelled against hospital discharges?

Chair: Nothing on council tax.

Sir Bob Kerslake: We work very closely with DWP on the impact of what we are proposing on council tax.

Chair: Will you write to us about your modelling of marginal rates of taxation?

Sir Bob Kerslake: We will give you what information we can on this.

Chair: Can you say that again?

Sir Bob Kerslake: I see that, but as I say, whether their bill will change, upward or downward, will depend on how much other businesses have moved up or down.

Chair: On council tax benefit, I have looked at some Resolution Foundation research, which you may think is good or not. They have said that the marginal deduction rates of about 620,000 council tax benefit claimants will rise to 81% with the cut in council tax benefit. That impacts on the whole philosophy and purpose of universal credit.

Sir Bob Kerslake: The level of impact on marginal reduction rates will depend on the scheme that each authority introduces.

Chair: One assumes they have done that on the basis of—I do not know how they do it.

Sir Bob Kerslake: I would need to go back and look at the research by the Resolution Foundation.

Chair: On the whole, they do good research, and they say that quite a lot of people—these are the working poor; these are people in work—will face, for the first time ever, the 10% council tax bill. They reckon that for 620,000, their marginal rate of tax—the deduction rate; the money they will lose—is 81%. That militates against the whole purpose of universal credit.

Sir Bob Kerslake: I need to go back and check the Resolution Foundation work, but we have, this year, put in £100 million for local authorities—

Chair: Are you looking at that? Again, it is almost a question to Treasury or a question to you with your other hat on, Sir Bob. Here is one bit of Government doing something around council tax benefit. We raised this, when we looked at universal benefit, as one of the areas. It was this and tuition fees that were the two issues we came out with, where a policy decision taken by you in isolation impacts on another policy intention in another Department; in this case, DWP.

Sir Bob Kerslake: We work very closely with DWP on the impact of what we are proposing on council tax.
on, or Treasury—has got to get a handle on both this and the other issue I have raised. Otherwise, we may be helping public expenditure in one regard but stacking it up in another.

Sir Bob Kerslake: All I can say is, it is not either of those roles. It is actually me as permanent secretary of DCLG working closely with the permanent secretary of Health, and that is what we are doing, particularly on these issues.

Q196 Chair: Okay. It would be nice to know that, apart from looking at it, something is being done about it and that there is a real strategy around it. We will raise those issues in our conclusions.

Sir Bob Kerslake: We are happy to give you more information on what collaborative working is going on.

Q197 Mr Bacon: On the subject of housing benefit and universal credit, if there was one area that caused you the most concern about the reforms of universal credit in terms of their impact on local government, would that be it?

Sir Bob Kerslake: Housing benefit?
Mr Bacon: Yes.

Sir Bob Kerslake: As far as universal credit is concerned, the changes around housing benefit are probably the biggest for them, because it affects residents in terms of their claiming and because local authorities will have to change their services delivered. A significant part of what they do will move into a new arrangement. Universal credit is happening over quite a long period—from 2013 to 2017—so there is time to take on board those changes. Probably what local government is more focused on at the moment is the set of welfare reforms that are happening from 1 April. Universal credit is a phased introduction. It will start pretty small from 1 April. My guess is that here and now, the focus is probably on the other changes—around social sector size criteria and so on. Over time, universal credit and housing benefit will become bigger issues.

Chair: Thank you very much. Apologies for keeping you waiting at the beginning.
Written evidence

Written evidence submitted by the Department for Communities and Local Government

FOLLOW-UP NOTE FROM PAC HEARING ON 25 FEBRUARY

At the PAC hearing on Monday 25 February on the financial sustainability of local authorities I committed to sending you a number of pieces of further information.

As I said at the time, we believe that the calculation of Spending Power, which covers the wide variety of income sources for local authorities, is the best overall measure of the cumulative impact of the range of changes affecting them. To help you and the committee understand the evidence that goes into this, I have attached a detailed note setting out the components of individual grants and other income streams. As requested, this includes the impact of forthcoming changes to the health system and funding such as the new Public Health Grant. It also, inevitably, involves some estimates for future years.

We discussed accountability at some length. The accountability system statement we have previously debated sets out the approach to accountability that is agreed and through which I discharge my responsibilities as Accounting Officer. In relation to funds transferred by my department to local government, I am accountable for the system which provides assurance that funds are spent properly (this is different from departmental funding for which I am also directly accountable for individual spending decisions). As you know, Parliament votes on the funding to local authorities as an unhypothecated block grant not attributed to specific services or to specific objectives. Local authorities then supplement this funding with their own locally raised resources. Councillors are accountable for making decisions about how best to spend their resources on behalf their communities and can be held to account by local people. My accountability system statement sets out the tried and tested checks and balances on local councils in managing their resources. It includes a tight set of financial controls laid down in statute, duties to provide services, external scrutiny through mechanisms such as audit and transparency and ultimately accountability to local people.

I mentioned the Community Budgets initiative during the hearing, and have attached a general briefing on this. Below I have addressed the other questions and clarifications raised by you and the Committee.

Bob Kerslake
Permanent Secretary
March 2013

1. USE OF PERSONAL SERVICES CONTRACTS IN LOCAL AUTHORITIES

As both the Chief Executive of the LGA and I set out, local authorities are each an individual employer in their own right and make appointments in the light of their local circumstances. However, Ministers have made clear that the public: have a right to expect that their interests are being protected when senior appointments are made, particularly where arrangements could be perceived as seeking to minimise tax payments by individuals.

We have taken the issue of public service companies seriously. On 17 February 2012, the Secretary of State wrote to the Chair of the Local Government Association about the tax arrangements of public sector appointments. That letter set out the Government's policy on this matter, as announced by the Chief Secretary, and asked the Local Government Association to consider how it could encourage the sector to similarly follow the principles. The letter can be found at:


On the same day, the Secretary of State published guidance to which authorities must have regard when exercising their pay accountability functions under the Localism Act 2011. The Act requires authorities to prepare, approve and publish pay policy statements for each financial year. The guidance makes clear that, in doing so, authorities should actively review their approach to the terms of remuneration for their senior appointments, particularly where arrangements exist which could be perceived as seeking to minimise tax payments. In addition, authorities should develop and include within their pay policy statements a local policy on the use of such arrangements within their workforces. Pay Statements must be approved by the Full Council.

Finally, and as you will know, the Code of Recommended Practice for Local Authorities on Data Transparency requires councils to publish all spending on goods and services, including payments to contractors, over £500. The Secretary of State indicated in the attached letter that, in the next update to the Code, the Government will make explicit that payments to contractors includes payments to senior staff via consultancies. This will provide much needed information in this area to enable fuller scrutiny than is possible at present. I will write to local authorities to ask them in the interest of transparency to make this information publicly available online ahead of the update to the Code.
2. FUNDING FOR LOCAL GOVERNMENT ON ADOPTION

On the 25 January Edward Timpson MP, Parliamentary under Secretary of State for Children and Families launched a new adoption strategy and announced a package of funding for the adoption system in a Written Ministerial Statement. We discussed the nature of the policy at the hearing and I should clarify that the Government’s approach does not include a new duty in addition to the duties and responsibilities as outlined in the Adoption and Children Act 2002.

Adoption Statutory Guidance updated in 2012 which can be found at http://www.education.gov.uk/aboutdfe/statutory/g0072314/guidance

This statement announced that £150 million of the Early Intervention Grant will be provided to local authorities in the form of the Adoption Reform Grant. This funding will help to secure reform of the adoption system.

The Adoption Reform Grant will be in two parts. £100 million of the £150 million will be available to local authorities to support adoption reform, but will not be ring-fenced. It will enable local authorities to target funding at the entire adoption process and the specialist support children need, but they will retain local discretion to use this funding to address their highest priority needs, such as the major backlog of children waiting for adoption.

The remaining £50 million will be ring-fenced. It will support local authorities to address structural problems with adopter recruitment, particularly the uneconomic fee that local authorities are charged for adopters approved by other authorities, which is lower than that charged by voluntary adoption agencies. It will also help in the search for adopters willing and able to take children who are more difficult to place, and so tend to wait longer for new homes.

DfE consulted local government to develop the details of this grant to maximise the impact of this funding. DfE, in their published document, Further Action on Adoption: Finding More Loving Homes also set out their intention to legislate in the future to shape the new Adoption System to give the Secretary of State the power to require local authorities to outsource the recruitment and approval of adopters. This would be a new regulatory change and, as I said at the oral evidence session, as part of this process (as with any new duty) new burdens will be assessed and funding provided as appropriate.

The Government is committed to ensuring that all net new burdens on local government are assessed and fully and properly funded in accordance with the New Burdens Doctrine through the assessment of new policies and programmes as they are developed. The New Burdens Doctrine is available at:


3. THE EFFECT OF COUNCIL TAX SUPPORT ON MARGINAL DEDUCTION RATES

The Department for Communities and Local Government and the Department for Work and Pensions worked together as the reforms were developed to support local authorities in ensuring that their council tax reduction schemes support work incentives. This included publishing guidance for local authorities, which was agreed between departments, setting out the issues authorities should take into account in designing schemes that ensure work pays.

Departments have also worked closely together to develop arrangements for taking into account Universal Credit in the default scheme, which comes into effect where a local authority fails to adopt a scheme by 31 January, and on which a number of authorities have modelled their own schemes. The approach set out in the default scheme helps to support work incentives by helping to control maximum marginal deduction rates (the rate at which support is withdrawn) to around 81%, after taking into account a person’s tax and national insurance contributions. This was the level used by the Resolution Foundation research, which you highlighted.

However, authorities are not all using the default scheme, and it is for each billing authority to design their own schemes to encourage people into work. We have seen authorities taking a range of approaches to do this, some of which have designed schemes that further enhance work incentives. For example, Wiltshire has reduced its earnings taper from 20% to 15%, and authorities such as Eastleigh, Wokingham, Winchester and Braintree have increased the amount of earnings that is disregarded from income calculations.

The guidance produced is available at:


The technical paper produced for the default scheme is available at:


The Default Scheme Regulations are available at:

http://www.legislation.gov.uk/uksi/2012/2886/contents/made
4. FUNDING FOR PUBLIC HEALTH

The Committee asked a number of questions about the new role for local authorities on public health, and the associated funding.

How was Public Health funding allocated, and how will it be assessed?

Public health funding was allocated using a "fair share" formula developed by the Advisory Committee on Resource Allocation (ACRA) - an independent committee of GPs, public health experts, NHS managers and academics. The formula aims to estimate the relative need of each local authority for these services and is based on health status of the local population, but also takes account of other factors such as age and local health inequalities.

Separately, the 2012–13 baseline spend for each local authority was estimated based on returns from PCTs of actual spend in 2010–11 and local validation. These were also validated using 2012–13 planned spending returns.

However, local authorities were not moved immediately to the allocation implied by the formula. To ensure resources can be used effectively, the available growth was capped at 10%. The Government has also given all authorities at least a real terms increase in each year to reduce the risk of destabilising existing services.

The technical guide explaining the grant allocation methodology is attached (http://www.dh.gov.uk/health/2013/01/ph-grants-las). While multiple weightings have been applied to reflect local health needs, life expectancy is not one of the factors taken into consideration.

Local authorities will be providing a breakdown of the expenditure from their public health grants at the end of each financial year. Reporting on spend from the public health grant will be done "via existing local government reporting systems (ie the Revenue Account and Revenue Outturn form). Public Health England will be responsible for reviewing these returns on behalf of the Department of Health. This will include reviewing the financial data to understand what the grant has been spent on and to flag any potential areas of concern.

Will councils be clustered to allow comparison with areas facing similar health challenges?

This is something that Public Health England will be doing in future as a matter of course, but comparative cluster data has readily been available for some time from a number of sources.

The reporting tool for the Public Health Outcomes Framework (http://www.phoutcomes.info) allows local areas to be compared against England at present, but the intention is to include user-selectable comparators. A large number of other public health indicators, which include comparative cluster data, are currently available from other sources, most notably the Health & Social Care Information Centre. The HSCIC indicator portal (https://indicators.ic.nhs.uk) contains a large number of health indicators, the majority of which contain comparative data for England and for the ONS area classification.

Longer-term, the intention is for PHE to review all the indicators and reporting tools it produces or commissions to ensure that, wherever possible, comparative cluster data is available for local authorities.

5. MODELLING ON THE EFFECT OF REDUCTIONS IN ADULT SOCIAL CARE FUNDING ON HOSPITAL DISCHARGES

The Department for Communities and Local Government and the Department of Health are continuing to work together to develop a common understanding of spending changes and the impact on adult social care. This work is important ahead of the next spending round.

The Committee asked about the impact of reductions in spend on adult social care on hospital discharges. Although spending on adult social care has fallen nationally, the level of all delays has remained stable. For example, during 2011, there were 1,382,052 delayed days, compared with 1,372,635 delayed days in 2012.

6. ARE THERE ANY PLANS FOR AN INCREASE IN LANDFILL TAX

In June 2010 the Government confirmed that the standard rate of landfill tax would rise by £8 per tonne each year up to at least 2014, and also announced a floor under the standard rate of landfill tax so that the rate will not fall below £80 per tonne from 2014 until at least 2020. These announcements provide certainty for local authorities and businesses investing in alternative more sustainable waste management practises. Local authorities and businesses can reduce their landfill tax liability -which they feel through landfill site gate fees -by improving resource efficiency and increasing the use of recycling or other waste management solutions.
BACKGROUND ON THE COMPONENTS OF SPENDING POWER

Revenue Spending Power in 2013–14 is Derived as Follows:

— The Council Tax Requirement in 2012–13 (excluding parish precepts) as submitted to DCLG by individual councils. As no information is currently available for future years, the Government has assumed for these purposes that the amount which authorities will receive through council tax income will be the same in 2013–14 and 2014–15 as received through the Council Tax Requirement in 2012–13. No uplift has been assumed for any changes in future years, such as increases in council tax base;

— Negative 2013–14 council tax support grant. (This is to remove a double counting caused by council tax support grant appearing in both start-up funding assessment and also in council tax requirement in 2012–13);

— Start-up funding assessment figure for 2013–14. (The baseline funding level included within Start Up Funding Assessment is an indication rather than a guaranteed cash amount);

— Specific grants in 2013–14 as listed in the tables accompanying this note;

— NHS funding (of £859m in 2013–14) for spend on social care that also benefits health.

The Indicative Revenue Spending Power in 2014–15 is Derived as Follows:

The Council Tax Requirement in 2012–13 (excluding parish precepts) as submitted to DCLG by individual councils;

— Negative 2013–14 council tax support grant. (This is to remove a double counting caused by council tax support grant appearing in both start-up funding assessment and also in council tax requirement in 2012–13);

— Indicative start-up funding assessment for 2014–15. (The baseline funding level included within Start Up Funding Assessment is an indication rather than a guaranteed cash amount);

— Specific grants in 2014–15 as listed in the tables accompanying this note for which individual allocations are available at the time of the 2013–14 settlement except for New Homes Bonus. The amount for the 2014–15 New Homes Bonus and the corresponding New Homes Bonus Adjustment grant have been estimated by rolling forward the amount of New Homes Bonus received for 2013–14. Actual New Homes Bonus for 2014–15 will depend on the change in authorities’ effective housing stock so is likely to differ from this figure, which should act as a proxy for illustrative purposes only.

— NHS funding (£900m in 2014–15) for spend on social care that also benefits health. Actual allocations for 2014–15 unavailable, so local authority allocations for 2014–15 have been estimated based on the 2013–14 allocations.

A Second Set of Spending Power Figures have also been Calculated Incorporating Public Health Grant

Components of Spending Power

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### The Concept

The aim of the Whole-Place Community Budgets was to trial a policy co-design process through the creation of a joint team made up of local public service providers and Whitehall secondees in four local authority or sub-regional areas to create a shared understanding of the problems. Each pilot area was given the freedom to design solutions for a more unified and improved approach to public service delivery that replaces complexity, duplication, waste and gaps in service provision with more efficient use of resources and demonstrably effective interventions, that are supported by robust analysis of the financial and other benefits.

### The Pilot Areas

The four Whole-Place Community Budget pilots were:

- Cheshire West and Chester;
- Essex;
- Greater Manchester (covering the Cities of Manchester and Salford the Metropolitan Boroughs of Bolton, Bury, Oldham, Rochdale, Stockport, Tameside, Trafford, Wigan); and
- London Borough of Hammersmith & Fulham, Royal Borough of Kensington & Chelsea and City of Westminster ("The Tri-borough").

After working intensely from Spring 2012, the four Whole-Place Community Budget pilots reported in October 2012. They produced 25 business plans for redesigning particular services in their areas. The four pilots focused on reducing downstream demand on public services and boosting skills and growth. Their plans redesign public services to better tackle complex issues including health and social care integration, criminal justice, troubled families, and children and young people. From the pilots' experience, we know that this work is not easy, but the potential prize is significant -the pilots' have estimated they can save £800m over five years.

These business plans, underpinned by robust cost benefit analysis, set out how services can be rewired to maintain outcomes, and meet demand pressures whilst reducing costs. The pilots are progressing their

### Annex B

#### WHOLE-PLACE COMMUNITY BUDGETS

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implementation plans to show they can deliver the savings and scalability envisaged. The approach has been about making most effective use of resources to deliver better outcomes and save costs - delivering better for less.

The Local Government Association I Ernst & Young published a report on 10 January. This says that net benefits of £9.4-£20.6 billion can be secured over a five year period with steady state annual savings of £4.2-£7.9 billion, based on an aggregation of the pilots' business cases.

**Examples of Public Service Reform from the Pilots**

**Health and Social Care**

Greater Manchester estimate that 750,000 bed days are taken up by those in need of adult social care. They estimate that running more integrated prevention services they can save almost £14m by reducing emergency admissions and days spent in hospital beds or care homes. The London boroughs found that 20% of residents who had the most serious conditions accounted for three quarters of social care costs, almost £25,000 a person compared to the cost for the healthiest which was £275. West Cheshire expect to make a £26m saving from a similar approach.

**Domestic Abuse**

Essex have 29,000 incidents of domestic abuse costing the county £86m a year. Essex aim to save over £1 OOm by reducing reoffending and domestic abuse. They will increase support for 17,000 victims by creating a single contact point to help with issues like accommodation and dealing with perpetrators. West Cheshire found that almost all of the £20m spent on dealing with its 9,000 cases of domestic abuse was reactive. They expect to save £17m by providing earlier support for victims and dealing with perpetrators sooner.

**Reducing re-offending**

Westminster, Kensington and Chelsea and Hammersmith and Fulham found that half of those given short sentences were likely to re-offend within a year. That group totals 9% of all offenders but two thirds of all prison admissions and releases. They are establishing a bespoke service to co-ordinate help that is expected to save £25m. Essex have 44,000 victims of crime a year. Half of all crime in Essex is committed by someone with a record. Two thirds of boys with a convicted father go on to commit crimes themselves.

**Supporting children**

Greater Manchester has 16,000 children a year at risk of not being ready for school. It early intervention approach is expected to save £200m over 25 years. West Cheshire plan to introduce a children's investment unit and single family assessments that will save £2m.

**Future Support for New Places**

To ensure that the messages of this work reach a wide audience, the experience of the pilots is being captured in a guide that will be jointly published with DCLG and the Local Government Association, supported by a new website in Spring 2013.

We are continuing to support the four Whole-Place pilots through implementation to enable them to achieve local public sector reform. Whilst there is nothing stopping other areas from following the pilots' lead, the Government remains committed to doing what it can to support other areas to adopt similar approaches to public service transformation. While we will not be able to support all areas across the country in the same way as we have the four pilots, we are currently considering the type of advice and support on co-designing local public service reform that will be needed at key stages by new places in developing the community budget approach. An announcement is expected shortly.

This innovative approach should also prove to be a practical example of open policy making and civil service reform.

**Written evidence from the Local Government Association**

At my recent appearance before your committee I said that I would write to you about disclosures related to severance pay in local authorities.

At the evidence session I told the committee that all authorities are required to publish their policies on severance for chief officers, but not all officers. So for chief officers disclosure is required.

As I stated in my evidence, compromise agreements are disclosable under the Freedom of Information Act 2005. However, as they contain personal data, such requests are required be dealt with in accordance with the rules relating to disclosure of information involving third party personal data under the Data Protection Act 1998.
In a recent decision (Gibson v IC and Craven District Council 2011) relating to a request for disclosure of a compromise agreement between Craven District Council and its ex-Chief Executive, the Information Commissioner decided that it would be unfair to the former employee to release such information and upheld the decision of the Council to refuse disclosure.

The matter was referred to an Information Tribunal which agreed that, generally, information on compromise agreements should not be disclosed. However, having considered the particular context and circumstances, the Tribunal ordered disclosure of information in the compromise insofar as it related to the use of public funds.

I hope that the above information covers the question raised in committee. If you require further information, or points of clarity, please feel contact me.

Carolyn Downs  
Chief Executive  
Local Government Association  

11 March 2013