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The Committee of Public Accounts

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Summary

Local authority governance is critically important in this era of financial pressure and rapid change. Local governance arrangements are being stretched and tested as local authorities take on more risks and look for innovative ways to deal with funding pressures and growing demand for services. As we reported in February 2019, many councils are overspending on social care and reducing spending on other key services. They are also, for example, pursuing shared services, expanding outsourcing and taking on commercial activities, at the same time as making a significant reduction in the resources available to support corporate activities like governance. Council spending power fell by 29% in real terms between 2010–11 and 2017–18.

Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities' commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental.

Introduction

Local politicians and council officers operate within a governance framework of checks and balances to ensure that local authorities' decision-making is lawful, informed by objective advice, transparent and consultative. Some parts of local governance are locally defined, but core components of the statutory framework of legal duties and financial controls are overseen by the Ministry of Housing, Communities & Local Government (the Department). The Department is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting. The new, more localised framework has had to function effectively at a time when the process of governance itself is more challenging and complex because of new arrangements such as shared services, outsourcing and commercial activities. Reduced resources mean that delivery of change programmes and dealing with financial pressures can be crucial to the financial viability of an authority. This makes the implications of governance failure more significant.

Conclusions and recommendations

1. **The Department is not yet providing effective leadership of the local governance system.** Local authority governance arrangements have, in general, coped effectively with the significant challenges the sector has faced since 2010–11. However, there is still significant room for improvement. Existing weaknesses need to be addressed, and the framework's effectiveness needs to be maintained in the context of the rapidly changing local governance landscape. We are particularly concerned about the gap between substantial intervention powers of the Secretary of State and the daily operation of a largely unregulated sector. Rather than simply waiting until things have gone wrong locally and resorting to statutory intervention, the Department should be a system leader to ensure that the whole system is effective and that the key organisations involved in the framework are working in an effective and co-ordinated manner. The Department acknowledges that it has been too reactive in its oversight and leadership role. We therefore welcome the Department's commitment to improve its oversight and leadership of the local governance system. However, meaningful change must be delivered by the Department rather than just warm words. The Department still makes confusing statements that do not express clearly enough its overall ownership of the governance system. It needs to assure Parliament and the public that the promised local governance panel will be more than a talking shop. We are yet to be convinced: the Department has been unable to describe any new concrete actions that will flow from its new approach.

Recommendation: *The Department should write us within the next six months, setting out:*

- *its overall plan for improving its oversight;*
 - *its progress in working more effectively with other government departments to understand overall pressures on service sustainability;*
 - *its objectives for the promised local governance panel and the means by which the panel's effectiveness will be assessed;*
 - *progress in setting up the new panel, including its work programme, the concrete actions the panel will take; the timetable and intended outcomes the panel will be working towards.*
2. **The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.** The Department places great reliance on the work of external auditors, particularly in relation to value for money arrangements. It recognises that the importance of this work is heightened as council activities become more varied, complicated and commercial. However, a number of key representative organisations and councils told us that they had concerns about external audit. For instance, a quarter of finance directors at councils with responsibility for social care services for vulnerable people would like more value for money work from external audit, and the same proportion feel that audit fees are too low relative to the risk faced by their local authority. The Department believes the focus of external audit on whether arrangements are in place means that some local authorities are concerned that they no longer have sufficient assurance that

their organisations are working effectively or that value for money decisions are being made. It has committed to addressing this ‘expectations gap’ as part of its review of external audit. The Department has not yet decided whether this will be an independent review or carried out by the Department itself.

Recommendation: *The Department’s proposed review of the work of independent auditors should be conducted independently and should ensure that concerns from some local authorities over current fee levels and the contribution of external audit are examined fully and rigorously. The review should make an assessment of whether external audit is providing an effective service and meeting the needs of local authorities.*

Recommendation: *If the review identifies an ‘expectation gap’ as a factor underlying local authorities’ concerns with external audit, then the Department should identify how these unmet expectations can be met.*

3. **The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.** The Department does not systematically collect detailed information on how well local governance is working. This is a remarkable oversight. Of the monitoring it does carry out, we were unimpressed with the Department’s description of the information it holds on weaknesses and risks within local government governance. We are not confident that the current arrangements are enough to identify struggling councils that try to keep their problems to themselves, or to spot emerging wider weaknesses across the sector. The Department acknowledges that statutory officers play a vital role in local governance but does not collect or otherwise have access to information about the status and capacity of statutory officers across the sector. The Department is open about its reliance on ‘soft intelligence’ for information on the ways in which authorities may be seeking to circumvent rules, for instance through the creation of innovative delivery and investment vehicles. It accepts, however, that to some extent this information is akin to gossip. The Department also relies on journalism to identify issues, although the Government has recently said that it accepts that local newspapers can often struggle to dedicate journalists to investigative work. We welcome the Department’s new commitment to ‘thematic health checks’ but need assurance about what this will mean in practice.

Recommendation: *The Department should assess the governance evidence base available to it currently and write to us by November 2019 setting out how it will address gaps it has identified.*

4. **The Department’s monitoring is not focused on long-term risks to council finances and therefore to services.** The Local Government Association told us that reductions in central government funding to local authorities has meant that they need to increase their income and have taken on more risky commercial activities as a result. Some councils are borrowing very large amounts to fund commercial investment, creating long-term financial risks if investments do not deliver as expected. Councils need sound finances, now and in the future, to ensure they are able to deliver the services that local people expect. Our previous work has repeatedly shown that demand for local authority services is increasing, particularly within the adult social care and children’s services sector, putting local authority

finances under strain. The Department's risk monitoring is primarily aimed at identifying immediate financial concerns rather than the longer-term exposure of councils to financial risk. The Department's data on council debt levels does not allow it to assess the level of risk councils are exposed to as a result of that debt. The Department does not formally monitor council's commercial activities or non-traditional operating models.

Recommendation: *The Department should assess and monitor the scale of long-term risk that authorities might have exposed themselves to through their commercial investments and ventures.*

5. **There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.** Residents and taxpayers have a right to know if there are serious problems, but current arrangements mean that if there is a problem with the finances of a local authority or how it is being run, then that information may not be available on a timely basis. We were told that the scale of Northamptonshire County Council's recent problems was 'an open secret' within the sector. But awareness only for those 'in the know' is not good enough. Peer reviews are an important source of information for the Department but these do not have to be published, unlike Ofsted reports, reducing the transparency about local authorities' performance to the public. We accept that there may be short critical periods where transparency is not appropriate but much more can be done than is at present. This is particularly true in instances where the Department itself has felt the need to engage informally with a particular authority. The Department accepts that greater transparency is desirable and is exploring options for enhancing it. However, the Department has previously said that it would explore publishing lessons from formal interventions but has yet to commit to doing so.

Recommendation: *The Department should set out how it will improve transparency over its engagement on governance issues with individual local authorities, including:*

- *a review of the information the LGA is required to publish under its sector-led improvement work funded by the Department.*
- *the steps the Department will take to publish information and learning following formal interventions.*

1 Oversight of governance

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Ministry of Housing, Communities and Local Government (the Department) about local authority governance and the Department’s accountability for it.¹ We also took evidence from the Local Government Association, Stevenage District Council, the Chartered Institute of Public Finance and Accountancy, and the Centre for Public Scrutiny.²

2. Local politicians and council employees operate within a governance framework of checks and balances to ensure that decision-making is lawful, informed by objective advice, transparent and consultative. Key elements of the local framework include officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association.³

3. While elements of these local governance arrangements are locally defined, core components are set out in a statutory framework of legal duties and financial controls overseen by the Ministry of Housing, Communities & Local Government (the Department). The Department is responsible for ensuring that this framework contains the right checks and balances, and for changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. These arrangements represent a significant reduction in central oversight in recent years following the government’s decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.⁴

4. The new, more localised framework has had to function effectively at a time when the process of governance itself is more challenging and complex, and when reduced resources mean that the implications of governance failure are increasingly significant. Council spending power (government grant, business rates and council tax) has fallen in real terms by 28.6% from 2010–11 to 2017–18. Spend on services other than social care fell by a third in real terms from 2010–11 to 2017–18, as did spending on corporate and democratic support activities. Authorities are innovating in response to financial pressure but shared services, outsourcing and commercial activities can all add complexity to council governance arrangements.⁵

Leadership of the local governance system

5. Witnesses with detailed knowledge of local government told us that the governance system in local authorities is fundamentally sound.⁶ 98% of council chief finance officers are confident in their ability to provide advice to elected members that they might find challenging, and external auditors are confident about the effectiveness of most key

1 Comptroller and Auditor General, *Local authority governance*, Session 2017–19, HC 1865, 15 January 2019 (referred to as C&AG’s Report in subsequent references)

2 [Oral evidence to Committee of Public Accounts inquiry into Local Government Governance and Accountability](#), HC 1738, 27 March 2019.

3 C&AG’s Report, paras 1 and 1.6

4 C&AG’s Report, paras 2, 20 and 1.7

5 Comptroller and Auditor General, *Financial sustainability of local authorities 2018*, Session 2017–19, HC 834, 8 March 2018, para 1.5; C&AG’s Report, Figure 2, and Figure 6

6 Qq 1- 3, 28

governance arrangements at most councils.⁷ However the Centre for Public Scrutiny also told us that “the amount of pressure that is currently on the system is having an impact. We are starting to see that the new demands and the amount of complexity that councils are dealing with are creating some challenges for governance.”⁸ 27% of external auditors did not agree that audit committees provided sufficient assurance about authorities’ governance arrangements, while seventeen per cent did not agree that risk management arrangements were effective.⁹ In 18% of cases, external auditors did not agree that internal audit was effective in the council they audit, and in 16% of cases auditors did not agree that arrangements for scrutiny, challenge and debate were effective.¹⁰ CIPFA told us that “the risk is that governance is seen as a costly overhead and so perhaps should be cut when councils face pressure, when actually that is a time when you need better governance and you need to invest in that overhead”.¹¹ Resources to support governance fell by 34.2% in real terms between 2010–11 and 2017–18.¹²

6. The Secretary of State for Housing, Communities and Local Government can use statutory intervention powers to remove control from local elected politicians if there are sufficiently serious value for money risks at an individual authority.¹³ However, CIPFA told us that there was “a big gap” between the normal, highly localised operation of governance and the “nuclear powers” of the Secretary of State, acknowledging that “The question for all of us involved in trying to advise about good governance is what preventive steps can be taken to strengthen local governance in order that that can be avoided.”¹⁴ The Centre for Public Scrutiny told us that “there are potentially little pockets of that sort of insight that are not getting joined together soon enough” across organisations.¹⁵ The Department accepted that “Our job in the Department is to make sure that those systems are there and that they are as strong as they need to be.” The Department understands the need for it to be more active to provide leadership to drive coordinated change across the system.¹⁶ However, “We have perhaps been a little bit ad hoc about where we have drawn that assurance in the past.”¹⁷ The Secretary of State has written publicly to Parliament to say that in the current context we “want to enhance our role on oversight of the system”, propose to “play a clearer role as convenors of the accountability framework” and work more closely with other government departments.¹⁸ The Permanent Secretary told us “What I think we will do is work much more openly and in a much clearer way with all of those bodies that at the moment oversee parts of the system for us ... What I would like us to improve on is, first, being clear what the work programme of system and sector oversight is for each of those bodies—we are sometimes commissioning and sometimes they are doing the work anyway ... and also to pull everybody together so that they can share risk and issues”.¹⁹

7 C&AG’s Report, paras 2.6 and 2.11, and Figures 9 and 11

8 Q 2

9 C&AG’s Report, paragraph 14

10 C&AG’s Report, paragraph 14

11 Q 3

12 C&AG’s report, paragraph 11

13 C&AG’s report, para 3.16

14 Qq 3, 28

15 Q 30

16 C&AG’s Report, paragraph 21

17 Qq 57, 64

18 [Letter from the Secretary of State for Housing, Communities and Local Government to the Chair of the Housing, Communities and Local Government Committee](#), dated 25 March 2019, published by the Committee on 2 April 2019

19 Q 40

7. We welcome these new intentions and are determined that they must be matched by the delivery of meaningful change despite the absence of clarity in the Department's evidence to us. The Department referred to other organisations “who own the system with us”; but, when challenged, accepted that this was not a correct description of the relationship.²⁰ The Department remains committed to localism but this should not mean any confusion about where formal responsibility and accountability to Parliament lies. After hearing about the government's new intentions we challenged the Department to demonstrate that the clearer convening role meant more than ‘getting everyone together for a chat’. However, the example that it gave of a concrete action under the new approach, a review of the local audit regime, was one that “we have always promised that we would do”. Accordingly, we have not seen yet that the Department is demonstrating a changed approach.²¹

Adequate information on governance

8. The Department does not systematically collect detailed information about how well key aspects of local governance are working.²² In each authority there are three key officers who have been given legal responsibilities and powers to protect good governance under the legal framework that the Department is responsible for overseeing: the head of paid service, the section 151 officer and the monitoring officer.²³ When we asked the Department what information it collected or had access to that would enable it to assess the status and capacity of monitoring officers to deliver their role, we were told that such data is not collected for the statutory officers.²⁴ The Department accepted that this was a gap, saying that they had started work aimed at filling it.²⁵ The Department told us that the Department had worked with CIPFA to change codes governing local authority commercial activity, giving this as a positive result of their oversight.²⁶ However, when we asked if the Department's monitoring provided a comprehensive list of council interests in commercial entities or risks from new models of delivery the Department stated that it did not monitor in that level of detail.²⁷

9. The information that the Department does collect is sometimes from sources that can be very patchy or else in decline. The Department described its approach to ‘soft intelligence’, commenting for example that “We are at conferences. We are visiting local authorities. ... local authorities talk about other local authorities.”²⁸ But the Department accepted that “To some extent, it [soft intelligence] is gossip”.²⁹ Similarly the Department was clear about its reliance on journalism: “Often it is journalism that throws up things that nobody else knew about.”³⁰ However the Government has accepted that public interest journalism, such as investigative journalism, which “helps us to shine a light on important issues, in communities, in courtrooms, in council chambers” is “under threat, especially

20 Qq 104, 105

21 Qq 39–45.

22 C&AG's Report, paragraphs 3.9 and 3.10

23 C&AG's Report, paragraph 2.2 and Figure 7.

24 Qq 88 to 92

25 Qq 88, 90

26 Qq 41, 53, 58, 97

27 Qq 104, 108, 110

28 Q 101

29 Q 120

30 Qq 59 and 120.

at the local level”. In the 10 years to 2018, the circulation of local newspapers halved.³¹ The Department accepted that these aspects of its processes for monitoring changes in the sector, such as the shift to delivering more activities through companies, were informal and needed improvement.³²

10. The Department told us that thematic reviews of aspects of governance, to improve understanding and give a health check, were “very much what we want to be doing more of in the future, or encouraging others to do more of”.³³ Such an improvement is important because we heard from the Centre for Public Scrutiny that at present “councils that are not necessarily where Northamptonshire were, but are a couple of stages before” may “hit the stage of wanting to keep things to themselves” so “it can look as if everything is fine” from the outside despite the problems.³⁴ The Department accepted that “Requiring publication of peer reviews, rather than the sometimes slightly glossy summaries that we see” could be advantageous and is under discussion with the LGA on this. However, the coverage of peer reviews is still not universal. These discussions are ongoing so it is not clear what the outcome will be.³⁵ Currently the Department relies on the LGA’s view of what information to share from peer reviews, since the reviews themselves are not automatically shared.³⁶

Long-term commercial risks

11. Local authorities spent £3.7 billion on the acquisition of land and existing buildings in 2017–18, a sharp increase from the £1.1 billion that they spent in 2015–16.³⁷ This increase has coincided with some very large council purchases of commercial property in order to generate income. In 2016–17, one council bought a business centre for £385 million, financed through borrowing of £410 million over 50 years. Financial risks exist until the end of the term of the loan.³⁸ This council now has total commercial investments valued at £933 million and borrowing of over £1 billion.³⁹ The Local Government Association told us that “we have to take more risky activity than we used to” as “those services that people rely on will still have to be delivered”. In the LGA’s view this was a situation of Government’s making: “The Government could not have it both ways: you could not give us less, but expect us to do more and then say, ‘Don’t take any risks.’”⁴⁰

12. Ultimately local government exists to deliver services to their local communities, shaped by the wishes of the local electorate and service users. The Department’s own account of the accountability of local authorities emphasises the power of the ballot box and other mechanisms for public scrutiny.⁴¹ However, delivery of these services depends on sound council finances. This is why the Department leads cross-government work to assess the funding needs of local authorities at Spending Reviews, and conducts ongoing monitoring of the sustainability of the sector. This monitoring covers risks to non-fulfilment

31 Secretary of State for Digital, Culture, Media and Sport, oral statement on the publication of the Cairncross Review into the sustainability of high-quality journalism, 12 February 2019, Hansard volume 654, columns 772–3.

32 Q 104.

33 Qq 89, 94.

34 Q 24

35 Qq 76, 77

36 Q 117

37 C&AG’s Report, Figure 3.

38 KPMG, External audit report 2016–17: Spelthorne Borough Council, 5 February 2019

39 Spelthorne Borough Council, The Capital Strategy of Spelthorne Borough Council, approved 21 February 2019

40 Q 1

41 Qq 60 and 61

of the ‘best value’ duty covering decisions about service provision.⁴² We note that local auditors are less positive about councils’ risk management arrangements for commercial investments than they are about councils’ overall risk management arrangements.⁴³

13. We have previously highlighted that many authorities, particularly those with social care responsibilities, are showing worrying signs of being under financial pressure.⁴⁴ We have also challenged the Department about the fact that their assurance about financial sustainability is very short-term in its focus: only covering the remainder of the Spending Review period.⁴⁵ We asked the Department how their risk monitoring would capture the exposure to longer-term risks of councils with large commercial investments, even though the immediate effects of additional income appeared positive. The Department’s answers either did not directly address this point or were unconvincing. For example, the Department highlighted its ability to identify increases in debt.⁴⁶ However the Department also pointed out that its source sets out the amount of borrowing but “does not talk about what it is borrowed for”.⁴⁷ The purpose of borrowing is crucial in assessing the risks that come with that borrowing.

14. We asked about commercial models, such as private sector borrowing by council-owned companies or joint venture vehicles.⁴⁸ The Department confirmed that such approaches might not be identifiable from data within its monitoring framework.⁴⁹ The Department does not comprehensively monitor non-traditional operating models or subsidiary companies.⁵⁰

42 Comptroller and Auditor General, *Financial sustainability of local authorities 2018*, HC 834, Session 2017–19, March 2018, paragraphs 4.4, 4.27, 4.34, 4.40

43 C&AG’s Report, paragraph 2.14 and Figure 26.

44 Committee of Public Accounts, *Financial sustainability of local authorities 2018*, Fiftieth Report of Session 2017–19, HC 970, June 2018, paragraphs 4 and 7

45 Committee of Public Accounts, *Local government spending*, Seventy-Sixth Report of Session 2017–19, HC 1775, February 2019, page 10

46 Qq 96–97

47 Q 96

48 Qq 98 to 100

49 Qq 100 to 110

50 Qq 107 to 110

2 Assurance mechanisms

Transparent engagement and intervention

15. We have recently reported concerns in relation to external audit and how it is too difficult for citizens to find out about local issues that are important to them.⁵¹ Residents and taxpayers have a right to know if there are serious problems at their local authority. However, we heard from CIPFA and the Centre for Public Scrutiny that there is a lack of transparency in situations where an authority is heading toward failure and other organisations are seeking to prevent that.⁵² CIPFA told us that “we were all aware that Northants was going in the wrong direction. We were working with the CFO and the LGA was working with members and the chief executive. The Department was aware.” The LGA agreed that “Northamptonshire was an open secret”. However, this activity was conducted ‘under-the-radar’ and kept out of the public domain.⁵³ LGA peer reviews are an important source of information for the Department about problems in local authorities but, unlike Ofsted reports, these do not have to be published.⁵⁴

16. The Local Government Association told us firmly that greater transparency was not appropriate: “I think people who know what is going on know what is going on, and people who don’t, don’t. There is a good reason for that and I do not think it should change.”⁵⁵ The Department appears to have a more balanced view, accepting that “there are very important and valid arguments about the private space” but also understanding that this leaves the public outside and ignorant of the government’s worries.⁵⁶ Given the Department’s commitment to localism and local democratic accountability we trust that informal attempts to address governance in an individual authority only take place where there are serious concerns. Where there are serious concerns, there are strong reasons for these being made public without undue delay. The Department is committed to the value of transparency and is keen to explore tools for delivering greater transparency in this situation.⁵⁷

17. The Department said that it “agreed with the recommendations in the NAO Report.”⁵⁸ One of these referred to greater transparency and openness in relation to formal interventions.⁵⁹ We asked the Department if they would publish lessons learned from statutory interventions.⁶⁰ The Department described this as “a useful suggestion”, “something that could definitely add to the debate”, “an important part of learning” and a “discipline of knowing that it has been done”. However, as in responding to a similar recommendation by another Committee, the Accounting Officer did not make a firm commitment and suggested that “it may be other sources will do it better than we can”.⁶¹

51 Committee of Public Accounts, [Auditing local government](#), Eighty-Fifth Report of Session 2017–19, HC 1738, March 2019, paragraphs 18 and 19

52 Qq 22, 28, 29

53 Q 22

54 Qq 95, 76–78

55 Q 30

56 Qq 75, 77.

57 Qq 75–76

58 Q 62.

59 C&AG’s Report, recommendation e.

60 Q 125

61 Qq 125–128; C&AG’s Report, paragraph 3.21

18. There are two types of lessons that can be learned from the experience of statutory intervention: lessons for the councils involved about how best to engage with the process, but also lessons for the Department about its processes and decision making. In relation to the first type of lesson, the Centre for Public Scrutiny also felt there was a gap for councils that wanted to learn from others that had been subject to intervention.⁶² We agree with the Accounting Officer that here the Department may not necessarily be best placed. However, we are clear that Departmental self-reflection without defensiveness, leading to the second type of lesson, is an essential discipline. It is what the Department expects of councils. Self-reflection cannot be carried out by another organisation.

External audit

19. The Department emphasised the importance of external audit more than once when giving evidence. When we asked the Department about assurance that robust and well-integrated financial governance was in place at each local authority, the response was that “first of all, we would rely very much on external audit”.⁶³ The Permanent Secretary was very clear that “External audit is an extremely important part of the system. It is where I get my assurance that value for money arrangements are in place in councils.”⁶⁴ When we pressed the Department about its assurance over council commercial ventures, the Permanent Secretary emphasised that “The more complicated the activities that councils engage in, particularly as they get more commercial, the more we need to ensure that the professional oversight is there as well, which is why I go back to audit”.⁶⁵ Similarly, when we explored the Department’s assurance about council activity carried out through companies, the response was that the external auditor’s value for money conclusion “is the safeguard that I would rely on. That is, if you like, the line of defence. ... As things get less standard, the more external audit has to do for us.”⁶⁶

20. There are a number of issues with external audit. Some council chief executives, finance directors and heads of internal audit raised concerns with the National Audit Office that the contribution of external audit to local governance has reduced recently.⁶⁷ CIPFA told us that it shared this concern, which it linked to the change to reduction in audit fees.⁶⁸ 25% of finance directors at single tier and county councils felt that their audit fees in 2017–18 were too low relative to the risk that their authorities face.⁶⁹ Over half of finance directors at single tier and county councils (which have responsibility for social care services for vulnerable people) wanted some change to their external audit. The most common change, wanted by 26% of these finance directors, was more value for money work, particularly in relation to financial sustainability.⁷⁰

21. The Department recognises that concerns about external audit have been expressed from a range of directions and that “we have a lot of questions that we need to answer”.⁷¹ For example, the Department recognised that some finance directors want more from

62 Q 24

63 Qq 46 to 51

64 Q 45

65 Q 61

66 Q 110

67 C&AG’s Report, paragraph 2.36.

68 Q 3.

69 C&AG’s Report, Figure 17.

70 C&AG’s Report, paragraphs 2.40 and 2.41, and Figure 19.

71 Q 42

external audit than they are getting, calling this an ‘expectations gap’. The Department said the gap existed because these finance directors wanted “assurance locally about how their organisations are working and about whether value for money decisions are being taken”, as opposed to value for money arrangements “which is what the audit actually looks at”. It added that “If there is a gap, the way the system is supposed to work at the moment is that it is to be filled through peer review and the performance, improvement and oversight side there, rather than through audit. We perhaps need to be clearer about that.”⁷² In addition the Department accepted “There is some work we need to do with the Local Government Association” about putting their performance, improvement and oversight work “on a slightly tighter footing”.⁷³

22. The Department has committed to carrying out a post-implementation review of the new audit regime in 2019, and invited us to hold it to account for the progress and quality of this work.⁷⁴ The Department told us that the review will cover the cost of audit.⁷⁵ It also said that “we haven’t yet decided whether it will be an independent review, done for the Secretary of State, or whether it will be work that we corral inside the Department through a consultation.”⁷⁶

72 Q 69
73 Q 76
74 Qq 42 to 45
75 Q 73
76 Q 44

Formal Minutes

Wednesday 8 May 2019

Members present:

Meg Hillier, in the Chair

Sir Geoffrey Clifton-Brown	Anne Marie Morris
Caroline Flint	Lee Rowley
Stephen Morgan	Gareth Snell

Draft Report (*Local authority governance*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 22 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Ninety-seventh 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.

[Adjourned till Monday 13 May at 3:30pm]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Wednesday 27 March 2019

Jacqui McKinlay, Chief Executive, Centre for Public Scrutiny, **Lord Gary Porter**, Chairman of the Local Government Association, **Rob Whiteman**, CEO, Chartered Institute of Public Finance and Accountancy, and **Sharon Taylor**, Leader, Stevenage Borough Council

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Melanie Dawes, Permanent Secretary, Department for Communities and Local Government, **Dr Jo Farrar**, Director General, Local Government and Public Services, Ministry of Housing, Communities and Local Government, and **Alex Skinner**, Director, Local Government Finance, Ministry of Housing, Communities and Local Government

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List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Tackling online VAT fraud and error	HC 312 (Cm 9549)
Second Report	Brexit and the future of Customs	HC 401 (Cm 9565)
Third Report	Hinkley Point C	HC 393 (Cm 9565)
Fourth Report	Clinical correspondence handling at NHS Shared Business Services	HC 396 (Cm 9575)
Fifth Report	Managing the costs of clinical negligence in hospital trusts	HC 397 (Cm 9575)
Sixth Report	The growing threat of online fraud	HC 399 (Cm 9575)
Seventh Report	Brexit and the UK border	HC 558 (Cm 9575)
Eighth Report	Mental health in prisons	HC 400 (Cm 9575) (Cm 9596)
Ninth Report	Sheffield to Rotherham tram-trains	HC 453 (Cm 9575)
Tenth Report	High Speed 2 Annual Report and Accounts	HC 454 (Cm 9575)
Eleventh Report	Homeless households	HC 462 (Cm 9575) (Cm 9618)
Twelfth Report	HMRC's Performance in 2016–17	HC 456 (Cm 9596)
Thirteenth Report	NHS continuing healthcare funding	HC 455 (Cm 9596)
Fourteenth Report	Delivering Carrier Strike	HC 394 (Cm 9596)
Fifteenth Report	Offender-monitoring tags	HC 458 (Cm 9596)
Sixteenth Report	Government borrowing and the Whole of Government Accounts	HC 463 (Cm 9596)
Seventeenth Report	Retaining and developing the teaching workforce	HC 460 (Cm 9596)

Eighteenth Report	Exiting the European Union	HC 467 (Cm 9596)
Nineteenth Report	Excess Votes 2016–17	HC 806 (Cm 9596)
Twentieth Report	Update on the Thameslink Programme	HC 466 (Cm 9618)
Twenty-First Report	The Nuclear Decommissioning Authority’s Magnox	HC 461 (Cm 9618)
Twenty-Second Report	The monitoring, inspection and funding of Learndirect Ltd.	HC 875 (Cm 9618)
Twenty-Third Report	Alternative Higher Education Providers	HC 736 (Cm 9618)
Twenty-Fourth Report	Care Quality Commission: regulating health and social care	HC 468 (Cm 9618)
Twenty-Fifth Report	The sale of the Green Investment Bank	HC 468 (Cm 9618)
Twenty-Sixth Report	Governance and departmental oversight of the Greater Cambridge Greater Peterborough Local Enterprise Partnership	HC 896 (Cm 9618)
Twenty-Seventh Report	Government contracts for Community Rehabilitation Companies	HC 897 (Cm 9618)
Twenty-Eighth Report	Ministry of Defence: Acquisition and support of defence equipment	HC 724 (Cm 9618)
Twenty-Ninth Report	Sustainability and transformation in the NHS	HC 793 (Cm 9618)
Thirtieth Report	Academy schools’ finances	HC 760 (Cm 9618)
Thirty-First Report	The future of the National Lottery	HC 898 (Cm 9643)
Thirty-Second Report	Cyber-attack on the NHS	HC 787 (Cm 9643)
Thirty-Third Report	Research and Development funding across government	HC 668 (Cm 9643)
Thirty-Fourth Report	Exiting the European Union: The Department for Business, Energy and Industrial Strategy	HC 687 (Cm 9643)
Thirty-Fifth Report	Rail franchising in the UK	HC 689 (Cm 9643)
Thirty-Sixth Report	Reducing modern slavery	HC 886 (Cm 9643)
Thirty-Seventh Report	Exiting the European Union: The Department for Environment, Food & Rural Affairs and the Department for International Trade	HC 699 (Cm 9643)
Thirty-Eighth Report	The adult social care workforce in England	HC 690 (Cm 9667)
Thirty-Ninth Report	The Defence Equipment Plan 2017–2027	HC 880 (Cm 9667)

Fortieth Report	Renewable Heat Incentive in Great Britain	HC 696 (Cm 9667)
Forty-First Report	Government risk assessments relating to Carillion	HC 1045 (Cm 9667)
Forty-Second Report	Modernising the Disclosure and Barring Service	HC 695 (Cm 9667)
Forty-Third Report	Clinical correspondence handling in the NHS	HC 929 (Cm 9702)
Forty-Fourth Report	Reducing emergency admissions	HC 795 (Cm 9702)
Forty-Fifth Report	The higher education market	HC 693 (Cm 9702)
Forty-Sixth Report	Private Finance Initiatives	HC 894 (Cm 9702)
Forty-Seventh Report	Delivering STEM skills for the economy	HC 691 (Cm 9702)
Forty-Eighth Report	Exiting the EU: The financial settlement	HC 973 (Cm 9702)
Forty-Ninth Report	Progress in tackling online VAT fraud	HC 1304 (Cm 9702)
Fiftieth Report	Financial sustainability of local authorities	HC 970 (Cm 9702)
Fifty-First Report	BBC commercial activities	HC 670 (Cm 9702)
Fifty-Second Report	Converting schools to academies	HC 697 (Cm 9702)
Fifty-Third Report	Ministry of Defence's contract with Annington Property Limited	HC 974 (Cm 9702)
Fifty-Fourth Report	Visit to Washington DC	HC 1404 (Cm 9702)
Fifty-Fifth Report	Employment and Support Allowance	HC 975 (Cm 9702)
Fifty-Sixth Report	Transforming courts and tribunals	HC 976 (Cm 9702)
Fifty-Seventh Report	Supporting Primary Care Services: NHS England's contract with Capita	HC 698 (Cm 9702)
Fifty-Eighth Report	Strategic Suppliers	HC 1031 (Cm 9702)
Fifty-Ninth Report	Skill shortages in the Armed Forces	HC 1027 (9740)
Sixtieth Report	Ofsted's inspection of schools	HC1029 (Cm 9740)
Sixty-First Report	Ministry of Defence nuclear programme	HC 1028 (Cm 9740)

Sixty-Second Report	Price increases for generic medications	HC 1184 (Cm 9740)
Sixty-Third Report	Interface between health and social care	HC 1376 (Cm 9740)
Sixty-Fourth Report	Universal Credit	HC 1375 (Cp 18)
Sixty-Fifth Report	Nuclear Decommissioning Authority	HC 1375 (Cp 18)
Sixty-Sixth Report	HMRC's performance in 2017–18	HC 1526 (Cp 18)
Sixty-Seventh Report	Financial Sustainability of police forces in England and Wales	HC 1513 (Cp 18)
Sixty-Eighth Report	Defra's progress towards Brexit	HC 1514 (CP 18)
Sixty-Ninth Report	Sale of student loans	HC 1527 (Cp 56)
Seventieth Report	Department for Transport's implementation of Brexit	HC 1657 (Cp 56)
Seventy-First Report	Department for Health and Social Care accounts	HC 1515 (Cp 56)
Seventy-Second Report	Mental health services for children and young people	HC 1593 (Cp 79)
Seventy-Third Report	Academy accounts and performance	HC 1597 (Cp 79)
Seventy-Fourth Report	Whole of Government accounts	HC 464 (Cp 79)
Seventy-Fifth Report	Pre-appointment hearing: preferred candidate for Comptroller and Auditor General	HC 1883 (Cp 79)
Seventy-Sixth Report	Local Government Spending	HC 1775 (Cp 79)
Seventy-Seventh Report	Defence Equipment Plan 2018–28	HC 1519 (Cp 79)
Seventy-Eighth Report	Improving Government planning and spending	HC 1596
Seventy-Ninth Report	Excess Votes 2017–18	HC 1931
Eightieth Report	Capita's contracts with the Ministry of Defence	HC 1736
Eighty-First Report	Rail management and timetabling	HC 1793
Eighty-Second Report	Windrush generation and the Home Office	HC 1518
Eighty-Third Report	Clinical Commissioning Groups	HC 1740
Eighty-Fourth Report	Bank of England's central services	HC 1739

Eighty-Fifth Report	Auditing local government	HC 1738
Eighty-Sixth Report	Brexit and the UK border: further progress review	HC 1942
Eighty-Seventh Report	Renewing the EastEnders set	HC 1737
Eighty-Eighth Report	Transforming children’s services	HC 1741
Eighty-Ninth Report	Public cost of decommissioning oil and gas infrastructure	HC 1742
Ninetieth Report	BBC and personal service companies	HC 1522
Ninety-First Report	NHS financial sustainability: progress review	HC 1743
Ninety-Second Report	Crossrail: progress review	HC 2004
Ninety-Third Report	Disclosure and Barring Service: progress review	HC 2006
Ninety-Fourth Report	Transforming rehabilitation: progress review	HC 1747
Ninety-Fifth Report	Accessing public services through the Government’s Verify digital system	HC 1748
Ninety-Sixth Report	Adult health screening	HC 1746
First Special Report	Chair of the Public Accounts Committee’s Second Annual Report	HC 347
Second Special Report	Third Annual Report of the Chair of the Committee of Public Accounts	HC 1399