



HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: MHCLG recall, HC 975

Monday 7 December 2020

Ordered by the House of Commons to be published on 7 December 2020.

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Members present: Meg Hillier (Chair); Gareth Bacon; Olivia Blake; Sir Geoffrey Clifton-Brown; Peter Grant.

Mr Clive Betts MP, Chair, Housing, Communities and Local Government Committee, Gareth Davies, Comptroller and Auditor General, National Audit Office, Aileen Murphie, Director, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-165

Witnesses

I: Jeremy Pocklington, Permanent Secretary, Ministry of Housing, Communities and Local Government, Catherine Frances, Director General, Local Government, Strategy and Analysis, MHCLG, Alex Skinner, Director, Local Government Finance, MHCLG, and Will Garton, Director, Public Spending, HM Treasury.



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Reports by the Comptroller and Auditor General

Local authority governance (HC 1865)

Local authority investment in commercial property (HC 45)

Overview of the UK Government's response to the COVID-19 pandemic (HC 366)

Readying the NHS and adult social care in England for COVID-19 (HC 367)

Review of the Town Deals selection process (HC 576)

Examination of witnesses

Witnesses: Jeremy Pocklington, Catherine Frances, Alex Skinner and Will Garton.

Chair: Welcome to the Public Accounts Committee on Monday 7 December 2020. We are pleased today to have the Ministry of Housing, Communities and Local Government, and a representative of the Treasury's public spending unit, back here to talk about a number of issues relating to this Department, which seems to have a lot on its plate and a lot that interests this Committee.

Before I introduce our witnesses, I would like to welcome as a guest to our Committee today the Chair of the Select Committee on Housing, Communities and Local Government, Clive Betts MP—a warm welcome to you, Mr Betts. I would also like to declare an interest, and to get others to declare any interests they have. I live in a tower block with cladding, which is going to be removed; I am not actually having to pay for that, but it is an issue that affects me. In my case, happily, the developer is funding it, but that is an interest I should declare as a leaseholder. Mr Bacon, I think you have an interest to declare as well.

Gareth Bacon: As a result of covid delaying elections last year, I am still a London borough councillor, and obviously the subject today is relevant to that, so I declare it at the outset.

Chair: Thank you very much, Mr Bacon.

Mr Betts: I am a vice-president of the Local Government Association.

Q1 **Chair:** Thank you, Mr Betts. All our interests are out there in the open.

First, if I may, I would like to turn to Jeremy Pocklington about the knotty issue of cladding, because I have lots of constituents—as do many Members around the country—with this issue, and it is something that this Committee has obviously produced a report on, as has Mr Betts' Committee. In the spending review, there was no new funding allocated



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to dealing with cladding: the £1.6 billion that has already been allocated was effectively re-announced. Is there any prospect of any more funding, Mr Pocklington?

Jeremy Pocklington: Let me say at the outset how seriously my Department is taking this issue of building safety and, in particular, the fact that there is a very large number of buildings with unsafe cladding that needs to be removed, as well as other building defects. There was not significant new funding in the spending review. Some new funding was confirmed for the building safety regulator, but nothing in addition to the £1.6 billion of taxpayers' money that has so far been allocated to the specific problem of removing cladding. We are continuing to look at a range of options, as my Housing Minister and others have made clear to the House. This work is ongoing, and at the moment, no decisions have been taken.

Q2 Chair: If there is no funding allocated for next year—that is, the 12 months from March—realistically, we know how Government funding works. Maybe Mr Garton from the Treasury could comment on this. I forgot to introduce the witnesses, but I will do that in a moment, and we will stick with you for now, Mr Pocklington. That means there is going to be no new money in that financial year, yet there are thousands and thousands of leaseholders up and down the country facing eye-watering bills: mortgage prisoners, life-changing situations. What comfort do you have for them, and are you actually trying to find a solution for the thousands of people living in that difficult situation?

Jeremy Pocklington: I really do appreciate that this is a very challenging situation for many people living in high-rise flats, and my Ministers have also been clear about that. First, we have to make progress on the building safety fund. We are towards the end of reviewing applications to that fund, and will be able to announce where we have got to in the coming weeks, hopefully before recess, or maybe early in the new year. That is the next stage of our work to address this issue. We have also been clear that we are working on a range of different options. As I say, though, Ministers have not yet made any decisions, so I do not want to rule anything in or out today.

Q3 Chair: It is three and a half years since the Grenfell fire, yet we still have not spent the first tranche of money. That is just not really good enough, is it? It is a complete failure in consumer and safety regulations. If you do not have the additional funding, do you have a timeframe as a Department for when all this cladding will be removed from tower blocks?

Jeremy Pocklington: This is an incredibly challenging situation. Over the past three and a half years, the scale of the problem has slowly emerged. We are essentially tackling a whole-system reform and ultimately, I suppose, decades of neglect in the building safety regulation system. That is going to take time, I fear, to resolve.

We have focused on the highest hazards and the biggest risks first. That is why last year—2019—we announced the funding for private-sector ACM remediation on top of the social-sector ACM remediation. I am pleased



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that we have made significant progress on remediating the highest hazard—ACM cladding, which was tragically on Grenfell Tower—during this year, and this month’s data will show continued progress on that. That is what we have focused on.

- Q4 **Chair:** What seems to happen is that every time we see you, Mr Pocklington, and your Department, we get a little bit of movement on the latest initiative, but where is the big-picture discussion? Given that, as you say, there have been years of regulatory failure, which is not the fault of the leaseholders who are affected, somebody in the system—it falls to you or your Department—needs to have that big-picture view of how this will be unravelled in the medium to long term.

At the moment, we have leaseholders who could be waiting for more than a decade at this rate without any funding. Even just on the practical issue of the people who could do the work, this is not going to happen very fast. People need honesty about how long it will take, but you also need a strategic plan. Do you have a strategic plan? It doesn’t feel like it from the perspective of those of us who are asking questions in Parliament.

Jeremy Pocklington: We are undertaking a whole-system reform of building safety. I cannot underestimate the scale of the change that is needed to address the problem. On the issue of funding, my Ministers have been clear that they will update as soon as we can and before the Building Safety Bill returns to Parliament.

- Q5 **Chair:** When you say update, does that mean that there may be more funding available?

Jeremy Pocklington: I understand the Committee’s interest, but it would be wrong for me to pre-empt Ministers, who are making those decisions in the usual way.

Chair: I am going to continue on this. Before I introduce the witnesses for the main session, I will go to Clive Betts MP, who is Chair of the Housing, Communities and Local Government Committee and our guest today.

- Q6 **Mr Betts:** Mr Pocklington, you have just talked about wholesale reform and the Building Safety Bill, but that is about the future, isn’t it? What the Chair was asking is whether you have a strategy and a plan for dealing with the historical problems.

Jeremy Pocklington: It is. As the Housing Minister said in Parliament, we have work under way on that issue. Decisions haven’t been taken, but we will update before the Building Safety Bill is introduced to Parliament.

- Q7 **Mr Betts:** So that means that before the Bill is introduced to Parliament, you will address the fact that the £1 billion building safety fund, which was announced in the Budget previously, is not sufficient to deal with the dangerous cladding? Therefore, presumably, you are coming back with a solution that does not involve leaseholders paying?



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Jeremy Pocklington: As I said, on the Building Safety Bill, we are in the final stages of reviewing applications to that fund, and we will set out further details as soon as we possibly can.

Q8 **Mr Betts:** Well, that didn't really answer the question. We know that the building safety fund is a "first come, first served" fund, which implies that some people will be too late, or that the fund will be insufficient to meet their needs. Given that the fund does not meet the assessed cost of removing all cladding that is not of limited combustibility from all the relevant buildings, you are going to have to find some more money from somewhere, aren't you?

Jeremy Pocklington: I understand the challenge and the motivation behind that question. The question ultimately is one for Ministers, rather than me as an official, as to how we approach this huge challenge of funding the historical remediation of buildings.

Q9 **Mr Betts:** It is a simple question. If leaseholders are not going to have to pick up the bill, more money will have to be found somewhere.

Jeremy Pocklington: There is a range of options, but I would rather not—

Q10 **Mr Betts:** Can you let us know what the options are?

Jeremy Pocklington: I am not going to go into detail because that will encourage speculation. Ministers have been clear that we are looking at a range of options, including financing models, working with Michael Wade. We also need to maximise the contribution from developers in different ways so that the future costs do not just fall on taxpayers. I completely understand why you ask the question, but unfortunately, I need to wait until Ministers have reached a decision.

Q11 **Mr Betts:** So you cannot tell us what Michael Wade is actually looking at?

Jeremy Pocklington: I have already said that he is looking at different approaches to provide financing solutions that might help avoid unaffordable costs for the leaseholders, but I want that work to be completed before we explain it to Parliament in the usual way.

Q12 **Mr Betts:** Avoiding that falling on leaseholders is a good objective. I think we would all echo that. Reference has been made recently to leaseholders not having to pay unaffordable costs. Can you define what an unaffordable cost is?

Jeremy Pocklington: Again, I do not think there is anything further I can give the Committee today. We will update you as soon as we can and before the Building Safety Bill is introduced to Parliament.

Q13 **Mr Betts:** So the aim is to avoid any costs falling on leaseholders?

Jeremy Pocklington: That is not exactly what I said a moment ago, Mr Betts.

Q14 **Chair:** You talked about financing models. That sounds to me like loans or



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some other finance mechanism for leaseholders. Is that looking in the right direction? Is that what is being proposed?

Jeremy Pocklington: I said we are looking at a range of options. Those include financing models, but we are looking at a full range of options. No decisions have been taken.

Q15 **Chair:** So the question in front of Ministers is essentially whether leaseholders pay or not? That is essentially the question that you cannot answer today because it is a matter for Ministers to decide. Is that a fair summary?

Jeremy Pocklington: The question of how to fund historical remediation costs is the question.

Q16 **Mr Betts:** We had an announcement about the EWS1 form, which has caused a great many problems and delay, and difficulties with residents getting mortgages and insurance in some cases. Has that now been resolved so that RICS and the lenders are all happy with the arrangements and so we do not have lengthy delays in these forms being dealt with?

Jeremy Pocklington: We are making progress on the important issue of the EWS1 form, but I do not want to indicate that everything has been solved on this issue yet. Our strategy on the EWS1 form, which is not a Government form or a regulatory requirement—it is an industry process, as you know—is to work with and encourage industry to reduce demand for the EWS1 form. That is where we are working with the Royal Institution of Chartered Surveyors. They are looking at how we could possibly make use of the form more proportionate in future. We are working with lenders on the form, and also trying to increase the supply of surveyors who are able to carry out the surveys required for that form so that we can reduce the time it takes and reduce the delays in the system and get as many of those forms through the system as possible. This is the right approach to take, but there is no quick fix, I am afraid.

Q17 **Mr Betts:** What is the timeframe for it to be completed?

Jeremy Pocklington: The training—

Q18 **Mr Betts:** What about the discussions with RICS and the lenders? When will that be finalised?

Jeremy Pocklington: My expectation is early next year.

Q19 **Mr Betts:** Which is January?

Jeremy Pocklington: January or February next year. We are working with the RICS and lenders. As I say, we are not entirely in control of this process, because the form is not a Government form, but we want to make progress as quickly as we can.

Q20 **Gareth Bacon:** Following on from the question asked by Mr Betts about the EWS1 form, Mr Pocklington, your Department's focus has been understandably on buildings over 18 metres in height with cladding on



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them, and on the need to replace that cladding. I want to ask about buildings under 18 metres in height that have cladding on them, to try to clear up whether an EWS1 form is required or not in terms of getting remortgaged, or new mortgages and so on, because there seems to be some grey around this.

Jeremy Pocklington: I completely understand the question and that is the area where we would like to work with lenders and surveyors to see a more proportionate approach. There are some buildings between 11 metres and 18 metres where an EWS1 form may ultimately be appropriate, but we would like to see that being used in a proportionate approach, where professional judgment is going to be applied.

Q21 **Gareth Bacon:** The trouble with that is that professional judgment from lenders is very cautious and we are finding people— leaseholders—who have bought their flats and now have an asset that has no value. They cannot get remortgaged; they cannot move, because nobody can get a mortgage to buy their property. It seems to me that some urgent action needs to be taken on this issue to clarify it, because unless there is some kind of direction from Government, the lenders simply are not going to lend and people will be trapped in homes that are unsuitable for them.

Is there anything that can be considered by the Government or that is being considered by the Government? And, if so, are you prepared to put some timescales around it? You mentioned January to February, to finalise the process for the buildings that I think are more at risk, but what about these buildings?

Jeremy Pocklington: These buildings are part of the same process, Mr Bacon, and this is the sort of area that we are working with surveyors and lenders on. But ultimately, as I say, this is an industry-led process.

Q22 **Gareth Bacon:** So, if Government guidance is announced and is in the public domain by—let us take the outer edge of what you have said— February next year, which is within two and a half months from now, how binding is that on lenders?

Jeremy Pocklington: Just to be clear, I was not talking about Government guidance, Mr Bacon; I was talking about the RICS providing guidance for surveyors, which the lenders would also use. These are decisions, though, that are ultimately for lenders and for surveyors' professional judgment, rather than Government guidance.

Q23 **Gareth Bacon:** Okay. So, what role is your Department taking then? I ask that because what I am really looking for is a key to unlocking the problem that we have at the moment, because these people are effectively locked in their flats—they cannot sell them, and they cannot move. They have seen absolutely nothing move for quite some time. So, what I am really looking for is this: if the Government are able to steer that process in any way, even if it means leaning on the RICS to make them move, what exactly are the Government doing and how much binding does the Government have on this?



Jeremy Pocklington: We are working very closely with RICS and with lenders as a part of the process. I would describe those discussions as constructive, but this is a very challenging and complicated area. The root cause of it—why is it so hard?—is because there are the historical remediation works that are required in some of these buildings, unfortunately including some buildings below 18 metres.

Q24 **Gareth Bacon:** We have now been talking for about five minutes and I am conscious that the meeting needs to get into the main meat of today's sitting—I can see the Chair giving me the evil eye down the camera—but I am not any the wiser, really. I mean, I have heard that you are having a few chats—probably lots of chats—with the RICS and with lenders, but I am not hearing of any progress, really. I have constituents writing to me, and I think that all the Members on this Committee probably have as well, who are in the same boat and who are looking for a way out.

Jeremy Pocklington: I understand and really do appreciate the position your constituents are in. That is why we announced the progress we have made recently with the agreement to fund more surveyors so that we can process more EWS1 forms more quickly. It is also recognised that, for buildings without cladding in general, the EWS1 form is not going to be required. The strategy is, as I say, one of reducing demand and increasing supply. Of course, we also need to address the underlying challenge, which is the issue we have all been talking about: the historic remediation that needs to happen on these buildings.

Gareth Bacon: I do not think I will get any more progress, Chair, so I will stop here.

Q25 **Chair:** Thank you, Mr Bacon. Let me have a go, then. Mr Pocklington, we have seen the first tragedy that led to all of this, which happened through decades of breakdown in consumer and regulatory systems. We have covered that, but, since then, your Department has made decisions, like changing regulations which brought more properties under the scope of EWS1, which suggests there is not an overarching understanding of how the different cogs and wheels in the private sector and the regulatory bodies and so on fit together. Do you have anything to say to the leaseholders who have been affected by the extension of the EWS1 form that you are now having to painfully unravel? As you just said, it is seemingly down to RICS—that is, the Royal Institution of Chartered Surveyors for those who may not follow every acronym we use. Why was that not picked up originally?

Jeremy Pocklington: I would like to emphasise to the Committee how seriously my Department is taking this issue and how hard we have been working on this—

Q26 **Chair:** I do not doubt for a minute that every civil servant working on this must have been appalled by what happened, as we all were three and a half years ago, and is appalled by the consumer concerns in this. The point is that decisions in your Department since then have exacerbated



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the problem for people living in fairly safe buildings, relatively, who have been prevented from selling. The problem has been extended to people who were not immediately at risk. That is the concern I am trying to raise.

Jeremy Pocklington: I understand that. Unfortunately, the reason why these problems have emerged is not, at its root cause, due to an accidental consequence of something we have done. It is because of the historic, underlying problems that we are tackling. Unfortunately, for some buildings, there is uncertainty about the valuation. I really do feel for those affected by this, but that is because of the underlying uncertainty about the valuation of the building because the cost of remediating is not yet known. That is ultimately the challenge we are dealing with. We do need to agree a way forward on the question of how we fund this historic remediation—that is the remaining additional piece of the jigsaw on which we need to make progress soon.

Q27 **Chair:** Can I just turn to the Building Safety Bill? There could be further problems in that. If you will require developers or owners of buildings to do the remediation work within a certain time period of discovering the problem and there is a shortage of professionals to do the work—that is one of the big issues that we highlighted in our report—surely you are setting people up to fail. There is still an issue about the supply of specialists able to do this work, which will cause a very long delay for many leaseholders. Have you considered that in drafting that legislation and accepting any amendments?

Jeremy Pocklington: Yes, we are very focused on the need for a proportionate approach that focuses on the biggest risks, and particularly those that could cause a catastrophic failure of a building such as we saw at Grenfell. That is what we need to keep in mind as we are taking forward work on the Bill. It may be that there are other building safety defects that ideally would be fully remediated. It may be that in other cases it would be more appropriate to manage the issue by mitigating those defects at a much lower cost to leaseholders. We are creating a regime that will enable those decisions to be taken openly and transparently.

Chair: We will leave it there for now but, as you can gather, it is something that exercises not just this Committee but Mr Betts' Committee and many others. I am sure you have read the *Hansard* of the recent debate on the urgent question on the back of Mr Betts' Committee's report.

I will now formally introduce our witnesses. We have heard a lot from Jeremy Pocklington, who is happily, although perhaps he does not feel it right now, the permanent secretary at the Ministry of Housing, Communities and Local Government. Catherine Frances is the director general for local government, strategy and analysis at the Ministry. Alex Skinner is director for local government finance—we will be coming to you shortly, Mr Skinner. Will Garton is the director of public spending at Her Majesty's Treasury. Welcome to you all. We are now going to move on to some discussion around council funding. I will ask Olivia Blake MP to kick



off.

- Q28 **Olivia Blake:** My first question is to Jeremy Pocklington. How confident are you that local authorities have received enough funding to deal with the covid cost pressures they are facing this year?

Jeremy Pocklington: We are assessing funding for local authorities this year through our process of monthly data that we are gathering, which I have talked to this Committee about. That gives us reassurance that what we are doing is appropriate for this year.

The key facts that I would point to on the expenditure side are that the seventh round of data that we published shows councils projecting to spend an additional £6.2 billion this year as a result of covid. That £6.2 billion compares with the additional funding that the Government have provided, which now equates to £7.2 billion—approximately 17% higher. That shows, looking at the system level, that there is an appropriate amount of funding in place.

Obviously, we can talk about the income side as well; we have different arrangements in place there. On the expenditure side at the system level, however, we have put sufficient funding into the system. Obviously, the position of individual local authorities can vary a lot within that. There are a small number that are facing greater pressure this year, which I am sure we will also want to cover in this hearing.

- Q29 **Olivia Blake:** That is really helpful. Just to get a sense of how the £7.2 billion maps out against the £6.2 billion, how much focus do you think the £7.2 billion has had to cover off the extra expenditure? Do you think that the money is getting to the right places?

Jeremy Pocklington: I will bring in my colleague Alex Skinner, if I may, to give you a bit more detail on what the monitoring reforms are showing us and where that expenditure is going.

Alex Skinner: In terms of the money and how it has been allocated—the £7.2 billion that Jeremy talked about—£4.6 billion of that has been from MHCLG in an un-ring-fenced grant that local authorities can use for local priorities. Then there has been £800 million in support of DHSC's surge capacity and £1.1 billion in the infection control fund.

There is then a further about £0.6 billion, which is spread between other Departments, including MHCLG's housing and homelessness funding and the DWP and Department for Education's home-to-school funding. In broad terms, that is the money. As I say, it is split between £4.6 billion—the majority—which is un-ring-fenced and which local authorities can use for their own priorities, and then some specific funding that has been allocated for key purposes.

In terms of where the money is spent, in broad terms, the largest area for which we have expenditure pressures is adult social care, which is about 50% of the pressures reported in the monitoring forms. The next two categories after that, which are substantially smaller, are forgone savings



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and increased expenditure; then there is environmental pressures; and finally there is children's social care. All those are covered in the £4.6 billion and the £1.1 billion that I talked about for the infection control fund, and the £800 million for research.

Q30 Olivia Blake: We are trying to see whether the sector level or the individual level is going to cause us more problems. How many individual local authorities are reporting financial pressures that exceed the funding that is provided to them or that they are likely to receive through income compensation schemes?

Alex Skinner: We have had discussions with about a third of the sector—over 100 local authorities in over 200 conversations—and within that, as Jeremy has said in previous appearances, there are a small number of local authorities that are talking to us about exceptional financial support. Obviously, I am not going to go into the details of which local authorities they are, because those discussions are confidential, but where we do agree that—

Q31 Olivia Blake: Can you give us a ballpark?

Alex Skinner: As I said, a small number of 339 local authorities.

Q32 Olivia Blake: “Small” is a bit of a difficult word. Is that a significant or insignificant number?

Alex Skinner: It's small.

Chair: Mr Skinner gets the “Yes Minister” gong of the day, so far.

Q33 Olivia Blake: Mr Skinner, I will ask you this way, then: how many of the local authorities that have been in touch with you plan to cut expenditure on services this year, and particularly on their service users?

Alex Skinner: We have had discussions with lots of authorities. It is obviously a local decision about how they would deal with any shortfall that they may face, because one of the things that they could do is to look at the services that they are providing. Obviously, that is an ongoing process and, in many ways, we would encourage it if it was, for example, because efficiencies were being introduced. Of course, they can also look at reserves as an alternative way of looking to meeting any shortfall, as Jeremy said.

Q34 Olivia Blake: Have you looked at the stability of the reserve levels in local authorities? I understand that many are balancing on very low-level open reserves.

Alex Skinner: There is a distribution of reserves across the sector. The vast majority have reasonable reserves. The decision about the level of reserves and how appropriate they are is a decision taken by the 151 officer locally. Historically, a rule of thumb might have been somewhere in the region of 5%. The vast majority of local authorities have reserves that exceed those levels.

Q35 Olivia Blake: Okay, but I am aware that a number have not. Mr



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Pocklington, can you explain the difference between the allocation methods for tranche 4 and for the ones that we discussed previously?

Jeremy Pocklington: I will have a go. Alex and Catherine are the experts. For the fourth tranche, we continue to use the relative needs formula for covid that we developed for the third tranche of spending. That takes account of population and, importantly, deprivation, and—*[Inaudible.]*

Different to the third tranche, we were—for the first time—also netting off to take account of previous grants through the un-ring-fenced funding we have provided, to take account of whether by using that formula, councils had been over or under-funded, subject to a minimum floor of £100,000.

Q36 **Olivia Blake:** That is interesting. Do you think that the new burdens process that was put in place, about which we have corresponded a lot, is still a relevant list?

Jeremy Pocklington: That is a good question. I know that we have talked about this at a number of previous hearings. The list of expenditure areas, about which I think I wrote to the Committee on 22 June, remains the list of areas that we are focused on in terms of our approach to managing local government pressures this year.

However, I would observe that, to an extent, given the pace and scale at which we are working, it might be better to look at what we have done in the Department more as undertaking mini in-year spending rounds, rather than simply following the new burden process. The new burden process has been how we have approached some of the more specific ring-fenced grants that we have granted this year—for example, to help with public health.

Q37 **Olivia Blake:** Just to focus quickly on fees and charges, have you done any work across the sector on future projections of those incomes in a post-covid world?

Jeremy Pocklington: May I refer this to Alex?

Alex Skinner: We have said that we are going to extend the sales, fees and charges scheme into the first quarter of next year. That will be done pro rata, which means that the 5% disregard will be applied to the three months—the quarter of the year—and it will be 75% thereafter. That is on the assumption that the good news that we have all heard about the vaccine and the pandemic will come to pass, but we recognise that that may not happen in quite the way we expect, so we have said that we will keep that under review in order that we can continue to support the sector.

Q38 **Olivia Blake:** I am really trying to get at whether there is a cliff edge in the financial planning of local authorities and what certainty we have about that income if, after the first quarter, this funding is not available to local authorities. What is your assessment of that?



Alex Skinner: My assessment would be that, obviously, funding streams will vary significantly from local authority to local authority; for some it is car parks, for some it is museums and leisure centres. As I say, we hope that, if the news on the vaccine comes to pass, we will return to normality by the time we get to the end of June. As I say, if it doesn't, we will obviously look, and as I think you are suggesting, there will then be a small number of local authorities with more structural problems. We have been talking to them, and in those cases we have said that they should come and talk to us and we will discuss exceptional financial support, looking at '21-'22 and beyond.

Q39 **Olivia Blake:** What level of service cuts are you anticipating as a result of financial planning uncertainty?

Alex Skinner: We believe that the spending review we just announced is sufficient to fund the pressures that local authorities have, ensuring that the sustainability of the sector remains at present levels.

Q40 **Olivia Blake:** Moving on, should local authorities be planning on the basis of the current tranche of funding? Will that be the last funding for this year, or do you think more funding will come in the future if it is needed?

Catherine Frances: I think as both Jeremy and Alex have said, at the moment, all the monitoring from local government tells us that they anticipate their spend at just over £6 billion for the whole year—*[Interruption.]*

Chair: There is a problem with your sound. It is quite alarming. Could you start the answer to the question again, because we lost a chunk of it in static?

Catherine Frances: Let me know if you cannot hear me. As both Jeremy Pocklington and Alex Skinner both said, the monitoring returns to us from local authorities themselves forecast spending at just over £6.2 billion for the whole year. Of course, that could change over time if demands on the local authorities change. We will keep hearing from them on that basis.

Q41 **Chair:** I am afraid we are having real problems—it has now gone too quiet. I am sorry; we will have to go to another witness. Could you fiddle around at your end with your settings, Ms Frances? I call Mr Skinner.

Alex Skinner: I think as Jeremy said, the latest round of monitoring, which is round 7, which covers the year up until October: local authorities are suggesting that their expenditure pressures for the whole year are £6.2 billion and that the amount of funding that we have given them is £7.2 billion, which is 17% or £1 billion over what they have asked for. Then, anticipating a question you might ask, if we then dip down from the sector as a whole to each individual type of local authority, each type of local authority actually has a surplus. So I think the basic answer is that our current assessment is that there is sufficient funding, but I think, as Catherine was just about to say, we obviously use the monitoring forms on a monthly basis to keep that under review, and if it did turn out that local authorities thought there would be a significant increase in their funding



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rate or spending rate up until the end of the year, then we would look at it.

Q42 **Olivia Blake:** Finally, then, Mr Skinner, what would you say would be the level that would trigger more funding from that monthly outlook?

Alex Skinner: That would obviously be a decision for Ministers, but in terms of the advice that we would give them, we would be looking to compare the broad spending rate and the amount that they had spent during the course of the year versus the amount that we had given them, so I would anticipate we would have to be a lot closer to the £7.2 billion before we would be looking at that.

Chair: We will leave it there with Ms Blake for now, but I am going to go to Clive Betts MP, the Chair of the Housing, Communities and Local Government Select Committee.

Q43 **Mr Betts:** I will address this to Jeremy Pocklington, but if you want to pass over to your colleagues any particular points, that is probably the easiest way to do it. Just in terms of the discussions with individual authorities, if you do conclude that an authority does need some help—probably to avoid a section 114 notice—would that help normally come through capitalisation, or is there any other form of help you might consider?

Jeremy Pocklington: Capitalisation, exceptional grant, may well be the route that we take, but I don't want to take anything off the table. We could look at a wider range of options.

Q44 **Mr Betts:** I suppose you have to balance there between helping an individual authority and other authorities saying, "We have managed our affairs okay and haven't got anything."

Jeremy Pocklington: You are quite right. We do also have to look at the interests of the taxpayer as well, and the impact on other authorities. That is why we have set out a number of principles that we are using, that we communicate to local authorities that come to us potentially asking for support. I am tempted to bring in Catherine Frances to have another go.

Chair: Okay, Ms Frances, we will persevere with your sound. Do you want to have a go?

Catherine Frances: Thank you very much. If you can't hear me, I will move.

When an authority comes to us asking about exceptional financial support, we have been very aware of the fact that we need to avoid perverse incentives and also we need to ensure value for money, so we have a set of principles that we set out to all authorities who approach us. There are six of them.

We ensure value for money, which means we scrutinise what is going on in their budgets and what the options are for them. We consider long-term sustainability. That is because, as the Committee would I am sure expect,



we don't want to give additional financial support in a context where we don't have a long-term view that the authority is on a stable footing. We have, thirdly, said we will look at the underlying drivers of fragility. Those issues need to be fixed, as I am sure you would expect. If a council is in difficulties because of its poor structures or its poor underlying strategy, we need to look at that. Fourthly, we have said we want to avoid moral hazard, which is exactly the point that you raised, Mr Betts. We don't want to reward failure.

The fifth and sixth principles are less interesting, but equally important: that we need to be legally robust and ensure that people are eligible. Each authority that comes to us for help—and, as we have said, there are a very small number who we think need help—is going through a process with us where we assess their needs using those principles.

- Q45 **Mr Betts:** That is helpful to understand the framework in which it is happening. Just in terms of next year's assumptions about local authority spending and the spending power that you announced—just to make it clear: that spending power total assumes every authority will use a 2% increase in council tax and a 3% extra council tax increase to fund social care. That assumption is built in, is it?

Catherine Frances: When we do the core spending power number, which is a 4.5% cash uplift for this year, going into next, which you will have seen, we are assuming several things. Firstly, we are assuming £1 billion extra for social care. As you say, that comes partly through a £300 million social care addition to grant, and through an adult social care precept of up to 3%, in addition to a 2% uplift in council tax. That is ability for authorities—

- Q46 **Mr Betts:** You say up to 3%, but you are actually assuming 3% in the figures, aren't you?

Catherine Frances: In the figures, we model 3% using the OBR forecasts and expectations of what the sector will do. Will knows exactly what goes on in that forecast, but through all our overarching modelling, we are assuming that when we say a £2.2 billion uplift, most councils will take that up.

- Q47 **Mr Betts:** Could you let us have the precise figures about your assumption? Is it all councils? It would be helpful to know precisely what the assumption is.

Catherine Frances: I think I will bring in Will Garton here, please.

Will Garton: It is all councils. It will pay them 5%.

- Q48 **Mr Betts:** That is helpful. Let us go on to pay. Is it the assumption that all councils will follow precisely the Chancellor's announcements for public sector pay?

Catherine Frances: In modelling the local government settlement in the spending review, we have made several assumptions. Firstly, we have assumed that the national living wage uplift that was announced by the



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Chancellor is, of course, fully funded in that settlement. As you know, in local government, levels of pay are set not by a pay unit or the national government guidance, but by negotiation between local employers and unions. So, we have made assumptions, which I will not go into in too much depth, in the local government settlement that are in line with the wider forecast.

Q49 **Mr Betts:** So, are they precisely in line with what the Chancellor announced in his statement the other day?

Catherine Frances: Well, he didn't announce a pay policy for local government because he couldn't—

Q50 **Mr Betts:** No, he announced one for the public sector, and I am trying to find out whether you are making the same assumptions for local government. I agree that, at the end of the day, it is the decision of local government, but what are you assuming in terms of the grant settlement in relation to local authority spending?

Catherine Frances: We have made assumptions in line with the wider economic forecasts. I am not going to go into too much detail beyond that, I'm afraid, because I wouldn't want to pre-empt what is an independent negotiation process.

Q51 **Mr Betts:** No, but you have made assumptions in the figures that you have announced, haven't you?

Catherine Frances: That's right.

Q52 **Mr Betts:** Those assumptions are in line with what the Chancellor said for wider public sector pay, are they?

Catherine Frances: Can I bring in Alex Skinner to give a bit more detail?

Alex Skinner: As Catherine has said, we have explicitly assumed on the national living wage and the national minimum wage. The question of exactly what we have set for the pay is complex, as Catherine says, because it is combined with a number of other elements of the forecast, which are things to do with demographics, wider inflationary pressures, specific demographic changes and others. It is hard to pull it out precisely. We anticipate that the funding that we have provided will be consistent with a settlement that local government will reach.

Q53 **Mr Betts:** Sorry, that is a non-answer. You have just told me that it is very complicated, but all the bits of the picture have clearly been put in and built together to get the final figure, haven't they? In building that picture, are you basically concluding that local authorities will deliver a pay policy in line with the Chancellor's statement and the wider issues of public sector pay? If they want some variation, that is up to them, but that is your assumption built into your forecast, isn't it?

Alex Skinner: What I am saying is that it is very difficult to link the assumptions that we make to that, because they are bound up with a whole set of other assumptions that give you the totality of the settlement and ultimately—



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Q54 **Mr Betts:** Can you set out for us all the assumptions that go together to make up the final bit?

Alex Skinner: We can do it and we have done. We have previously sent this Committee the list of all the assumptions that are publicly available that are used. I am happy to send that again.

Q55 **Mr Betts:** Right. Can we move on, then, to pay? A lot of local authority impact of pay is not just with direct employment. In social care, for example, most employees would be employed on the basis of private providers being contracted to the local authority. What differences are you making about pay for the employees of private contractors in that regard?

Alex Skinner: Is that a question to me?

Q56 **Mr Betts:** Whoever.

Alex Skinner: If it's to me, that comes back to exactly the point that Catherine was making, which is that when we do the forecasts, we do them on the basis of the wider macroeconomic conditions. We would be taking account of changes in private sector pay levels and the forecast of those. Those would be appropriate for the private sector staff that local authorities employ.

Q57 **Mr Betts:** Right. So again, can you tell us precisely what those assumptions are from the private sector?

Alex Skinner: I can certainly send you the OBR's figures for expected private sector wage increases.

Q58 **Mr Betts:** Your assumption is that people on local authority contracts will be paid in accordance with that.

Alex Skinner: It will depend on exactly which bit of local government you are talking about, because in some cases we may have some more detailed assumptions. But in broad terms, using the OBR's assumptions is correct.

Q59 **Mr Betts:** Well, let's say social care, then.

Alex Skinner: In the case of social care, we would start with the OBR, but we would also talk to DHSC about its assumptions for the private sector market.

Q60 **Mr Betts:** As you've already had those discussions, could you let us know what the results of them were?

Alex Skinner: As I have said, I am very happy to send the details of the stuff that goes into forecasts that is publicly available.

Q61 **Mr Betts:** Thank you. I will now go on to a couple of issues around income. You set out how you will help local authorities with lost income. Income from commercial investments of various kinds is clearly a big challenge. Will that be done on an individual authority-by-authority basis? Will you take a different a view of an authority, for example, which has



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invested in its own area, such as the airport developments, which we know about, compared with an authority that has been investing for yield somewhere on the other side of the country?

Alex Skinner: Commercial income is explicitly excluded from the sales, fees and charges scheme. Our anticipation would be that local authorities that have commercial investments have appropriate arrangements in place to manage the volatility in incomes which they could normally expect. In cases where they were unable to manage those, they should come and talk to us and we would consider them as part of our exceptional support scheme. As Jeremy covered, we would then consider the range of support measures we could put in place.

Q62 **Mr Betts:** Can I come on to loss of income from leisure? It is clear that if a local authority runs its leisure services, it is covered by the 75% arrangements that you put in place. I think that has generally been welcomed by the sector. The problem for a number of authorities—I declare an interest in Sheffield—is that their leisure centres are managed in some arm's length arrangement, often through a not-for-profit body. When income falls, the local authority has to cover the gap, but they are not helped through the loss of income scheme, are they?

Alex Skinner: No, that's incorrect. The key distinction between the sales, fees and charges scheme and other schemes is that for the sales, fees and charges scheme, because it is an income-related scheme, you have to be recording a loss of income. It does not matter whether the provider is in-house or contracted out; if what the local authority has experienced is a reduction of income through the course of the year, it would be covered. In the case you have raised, Mr Betts, it would be covered by the sales, fees and charges scheme.

Q63 **Mr Betts:** That is not what authorities have been told so far.

Alex Skinner: They won't have been told that by me. I can assure you that I look at everything we send out from the Department. It is absolutely clear that you can claim for the sales, fees and charges scheme if you are suffering a reduction in income. The key distinction is, if you are a local authority that subsidises its leisure centres, then you cannot, because that would be an increase in expenditure.

Q64 **Mr Betts:** Most people might that is semantics. I understand why you are saying that from a technical point of view, but the impact on local authority budgets is exactly the same, isn't it? Most local authorities will in some way subsidise their leisure facilities. Very few of them make a profit per se. If you run them directly and you normally put some subsidy in, then you now have to put more in, because you are losing the income from them. But if it is an arm's length arrangement, the arm's length body loses the income, therefore the local authority, in the same way, has to find the money. Why aren't they treated in the same way.

Alex Skinner: I think the key distinction is that we have an expenditure support scheme. That is the £4.6 billion that we have already talked about. When local authorities record on their monitoring on what they are



losing, they include leisure. We have about £200 million-worth of leisure recorded as a loss in the monitoring forms. The £4.6 billion is in part able to cover that. Obviously, a leisure centre is able to cover business, is able to reclaim business rates and would also be eligible for the furlough scheme. To correct you on the sales, fees and charges, I am looking at the figures, the third largest area that was paid out on 27 November, for the first tranche of sales, fees and charges, was for recreation.

- Q65 Mr Betts:** I am not disputing that, but you have just said that authorities that have to spend more money on arm's length leisure arrangements can claim under the extra expenditure. They can't directly, can they? That £200 million that you mentioned is for the whole of local authorities. Extra money is put into the general budget, which is distributed to local authorities, but it is not distributed to compensate specifically those authorities that have had to spend the extra money, is it?

Alex Skinner: The monitoring form records the extra expenditure that local authorities have incurred as a result of covid. It is absolutely true that the design of both the sales, fees and charges scheme and the expenditure would be looking at the costs that were incurred by the council rather than the broader costs that were incurred by a leisure provider. Separate to that is the £100 million scheme, which is being run by the DCMS and is looking at a slightly different set of issues but is designed to be complementary to the support that we have already put in. That is designed, I believe, to help provide the support that you are raising now.

- Q66 Mr Betts:** Yes, I understand that, although the idea that that is going to be anywhere near sufficient is another issue, which is a political issue. I understand that, but in the end what you are saying to us is that if an authority runs its own leisure services and loses income, it gets specific help, but where authorities have to spend money to support arm's length bodies that are losing income, that extra expenditure is taken account of in the generality of support for local authorities and not specifically in relation to the local authorities that have had to spend the money. It is a bit of an unbalanced system, isn't it?

Alex Skinner: In totality, I think that actually we are doing a reasonable job in trying to support the sector, but I agree with you that there are differences between the schemes. Absolutely I accept that.

Chair: Last couple of questions, Mr Betts.

- Q67 Mr Betts:** I have just one final question and then, as people will appreciate, I have to go and chair my own Select Committee. The arrangements for funding this year are very much covid-related. We can all understand that. But in the end there is nothing in this funding settlement to recognise the historical problems and challenges that local authorities have faced in their budgets, is there? There is nothing to deal with the historical deficits that the LGA has had over time. That is true, isn't it?

Chair: Well, the figures in the Blue Book speak for themselves. Ms



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Frances, were you going to come in on that?

Catherine Frances: I was just going to say that I think that, in aggregate, the settlement, as Alex has said, is at the level of a 4.5% cash uplift, and in addition that is building on a previous settlement of 4.4% real, which stabilised the sector a great deal. In addition, there are other grants that—

Q68 **Chair:** Can we just be clear, Ms Frances? Are you talking about cash or core spending? There is this whole thing about raising the council tax precept and including that; are you counting that in the—

Catherine Frances: The 4.5% is the cash uplift including the council tax increases, which is what you would expect from the sector—

Q69 **Chair:** It is including the council tax increase—let us just be clear. So that is not cash from the Treasury; it is cash from the pockets of local council tax payers as part of this—just to be clear.

Catherine Frances: Absolutely. That is how we have always calculated core spending power.

Chair: Yes. This is just to be clear.

Catherine Frances: The sector is funded from a combination of tax and also grant. What I was about to say was that there are other really quite large increases in grants going into the sector alongside core spending power. For example, high needs funding in the schools block, which is a relatively important issue for local councils, is increasing by £730 million this year, in addition to the £750 increases last year, which was a major issue for local authorities and means that SEND funding has gone up by a really significant amount, over 50%, in two years. The troubled families grant funding is held in there at flat, as you would expect. The new homes bonus, as we have said, has continued. There are all these things, including our own homelessness and rough sleeping funding, that are going up, so I think you need to see the funding to local government in the round, as well as the core figures.

Mr Betts: The LGA might say, "But we started off with a £5 billion deficit." Anyway, I have to leave it there, Chair, because I need to go and chair my own Committee. Thank you very much.

Chair: Thank you very much for your time, Mr Betts. Of course, Mr Betts' Committee and this Committee work closely together and we will continue to watch very closely these different aspects of local government funding. I am delighted now to turn back to Olivia Blake MP.

Q70 **Olivia Blake:** Thank you, Chair. I would like to ask Mr Pocklington a few questions about housing and homelessness. We have had quite a bit of written evidence about these two areas and the short-term support and changes to services during covid. Do you think that this change of approach, although more expensive in the short term, would be more cost-effective, if it were to continue in the longer term, for local



authorities and taxpayers?

Jeremy Pocklington: Our focus on the issue of rough sleeping and homelessness has been on tackling the immediate crisis in front of us. There has been a significant additional increase in funding this year, compared with the original spending review commitment, and further funding has been announced for next year. That means that next year we will be spending more on rough sleeping and homelessness than this year—I think more than £750 million in total. We have made very good progress this year, as I think is understood, but it is important that we continue to scrutinise our spending programmes in the future to ensure we are continuing to get value for the taxpayer.

Q71 **Olivia Blake:** Thank you for that answer. There has been a bit of concern about wraparound services perhaps being subject to cuts. Do you have any reassurance that those services will be protected or looked at with renewed vigour off the back of the lessons that have been learned from this extra spending?

Jeremy Pocklington: We will continue to do that. The main announcement in the spending review in this space was a 60% increase in resource funding, which will enable us to provide the broader support. That is a 60% increase, compared with the original SR19 budget for this year. We now need to work through the precise details of that to work out what is the best route to provide the sort of support that is needed.

Q72 **Olivia Blake:** How are you capturing the lessons that you have learned through this and the areas of best practice that have appeared?

Jeremy Pocklington: It is a huge, ongoing amount of work. We have expanded the resource in the Department on this, so we are very much learning as we go. The immediate focus is the period in front of us—the coldest winter months. I think that is the thing that we should focus on right now. We are also considering what sort of process we need to have in the new year and working beyond—how to really learn the lessons from the past year and maximise value for money to help us meet the ambition of ending rough sleeping by the end of the Parliament.

Q73 **Olivia Blake:** Moving on from rough sleeping and focusing on social housing availability, how are you supporting local authorities to increase their provision of social housing? Private sector renters are obviously in a very risky position at the moment. Are you expecting to see a significant increase in homelessness from that provision? How are you planning to support people in that situation in the volumes that we are likely to see?

Jeremy Pocklington: That is a really important set of issues. First of all, on social housing, the core of our work to increase supply is the affordable homes programme. The spending review confirmed the announcement that we made in the Budget at the start of this year for the next stage in the programme—the £12 billion that we are spending, should economic conditions allow, for an 180,000 additional increase in supply. I see that as our key vehicle on social housing.



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Obviously, local authorities can still take advantage of the removal of the housing revenue account cap, which was a very important change that we made a couple of years ago. That will take time to feed through into the system, but it will produce several thousand each year, growing slightly, I suspect, over time. To return to the private rented sector—I entirely agree about its growing importance—we continue to have work under way in the Department to reform tenancies in order to provide more assurance and confidence to tenants in that sector.

Q74 Olivia Blake: The removal of the HRA cap was obviously welcomed by the sector. How effective has that policy been for the delivery of houses thus far, and do you think that policy on its own will be enough to deliver the houses that are needed through councils?

Jeremy Pocklington: I do think it is an important policy. It was always going to take time: we deliberately did not set a target around this, because it is going to take time and a number of years for local authorities who can, and who want to, to build—or in many cases, rebuild—their capacity and their expertise in this. It is very much a policy for the medium term, but we are continuing to liaise with the sector. I know that Homes England has also worked with the sector as they think about how to take best advantage of that flexibility.

Q75 Sir Geoffrey Clifton-Brown: Can I come first of all to you, Mr Skinner, and go back to the subject that Mr Betts was raising: the funding of leisure centres, particularly those leisure centres that are run by arm's-length providers? I am aware of several local authorities that are having to pay quite chunky amounts to those arm's-length providers, not in loans but in grants; they are just handing over quite chunky sums of money at the moment to keep them going. Can we assume that the only refund for those sums that a local authority is going to get comes from their share of a fairly limited £100 million DCMS fund?

Alex Skinner: It would depend on exactly what the nature of the costs was. As I said, if a local authority had a reduction in income, it would claim under the income scheme: if it was in expenditure, it could do that. If you are talking about broader costs that a leisure centre might be incurring, then yes, the £100 million is probably the most appropriate place.

Q76 Sir Geoffrey Clifton-Brown: When is that £100 million fund going to be forthcoming?

Alex Skinner: That is a matter for DCMS. It is DCMS's policy area, but I understand they are working as hard as they can to get the money out as soon as they possibly can.

Q77 Sir Geoffrey Clifton-Brown: Because local authorities have incurred these costs, they need that fund, so will you be chasing DCMS to make sure they get it out as soon as possible, please?

Alex Skinner: I certainly will, yes.



Will Garton: If it is helpful, I understand that the process for applications should be open this year, with an intention of money flowing early next year.

Q78 **Sir Geoffrey Clifton-Brown:** Thank you; that is very helpful. Could I stay with you for a minute, Mr Skinner, and pick up on another of Mr Betts's points? With these 5% losses and then one quarter of the losses after that that the Government are going to refund, how sure are you that local authorities are going to be able to bear the remainder of those losses?

Alex Skinner: What we know from the monitoring forms we have done this year is that local authorities say they have £2.4 billion of reserves that are available to meet unexpected pressures this year. We know that the 5% disregard would be considerably smaller than that, so the first-order answer to that question would be that we anticipate they would be able to meet those costs. However, obviously, if a local authority found itself in a position where it could not, then we have the exceptional support scheme. A local authority could approach us, and we could talk about the measures that Jeremy raised earlier.

Q79 **Sir Geoffrey Clifton-Brown:** So if they do not have reserves and it is pushing them into trouble, they can come and talk to you about it.

Alex Skinner: Yes.

Q80 **Sir Geoffrey Clifton-Brown:** Thank you. In terms of commercial investment—maybe this is a question for you, Ms Frances—why have you treated some of them by excluding all commercial income from the compensation scheme? Why have you excluded these commercial investments from that scheme?

Catherine Frances: First, it is a point of principle that when local authorities have decided to embark on commercial investments, they will need to have taken some account of the likely mitigating strategies that they might have in place. It is also a sense of scale: you will remember that at the previous hearing, we discussed the outturn data from local authorities and their losses from commercial investments, and we said that information might take a little time to come through. Those losses account for only 9% of income lost by local authorities, whereas sales, fees and charges, for example, are slightly over a third. Really, what we are trying to do here is say to local councils—

Q81 **Sir Geoffrey Clifton-Brown:** Sorry, can I stop you there? Does that figure you have just given me include all commercial investments, or only the riskier ones? Or are all the strategic commercial investments and the riskier ones lumped together?

Catherine Frances: When we ask councils to fill in the monitoring form, we simply say, "What are you losing from commercial income?" That will be any commercial income, and on average that amounts to 9% of their lost income to date.

Q82 **Sir Geoffrey Clifton-Brown:** Can we go on to the effects of commercial



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property and talk about, for example, Croydon having had a section 114 notice served? You have had one served on you. Does this amount to some failure by your Department because you could not agree some form of capitalisation arrangement sooner, or does it go back to the fundamental issue that you do not want to give some authorities money when they have brought the problem on themselves?

Catherine Frances: I do not think it amounts to a failure. We have said that it would be best to avoid section 114s where it is possible to work that through with the council that is well financially managed. The decision to issue a section 114 on a council is an entirely local decision, and Croydon is entirely within its rights to have done that. On that council, I should make sure the Committee is aware of the three key points. The first—this is publicly available in the council's documents or I would not be quoting it—is that the council still needs to finalise its ask of central Government if it wishes to come to us for additional financial support. The papers that the council has considered recently note that it expects to come to us with a figure on 15 December.

The second point in relation to Croydon links to the point that you are making, which is that that council has had a public interest report issued by its auditors, which highlights really significant Government concerns about its financial controls and management. The Department has therefore issued a non-statutory review into the council to help us evaluate what it needs to do in order for any support that we choose to give to be value for money for the taxpayer.

Lastly, we have always said that the interests of the public are really important here and are paramount, so we have of course worked with Croydon. We have established that we do not believe they need any cash support, although we have offered to help if they need it. They are able to continue providing their statutory services, and we have asked them to alert us if at any point their covid-19 services are compromised. I hope my answer gives you a sense of the closeness with which we have been working with the council.

Q83 Sir Geoffrey Clifton-Brown: Let me dissect that answer, if I may. I will use Croydon because some of the problems can spread to the generality. One problem with Croydon was that they had qualified accounts because of their expenditure on the Ofsted report on children's social services and they had to spend a whole lot of extra money. That raises the question of whether you are looking very carefully at all local authorities where they have qualified audit reports. We will come on to Redmond later in this hearing, so I do not want to do that now, but where there are qualified reports, is your Department really examining carefully the qualifications, and is that likely to lead to a situation where there would be a section 114 notice?

Catherine Frances: In our reviews of the sector, which we talked to you previously about, where we look at the level of financial risk in the sector as well as other risks, we certainly do pick up if a council has had qualified reports, particularly if there are significant issues raised by the auditor.



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This year we were in touch with Croydon at the start of the year. Their most recent financial alert was from their auditor in autumn 2019, and we were in touch with the council at the start of 2020 in advance of the more recent public interest report being issued by the auditor.

I will not say that we crawled through every audit in the sector. Indeed, it is not really our job to do that; it is the job of local auditors and scrutiny committees to do that in a locally-based system, but we certainly watch very closely and we were certainly aware of potential issues in Croydon.

- Q84 Sir Geoffrey Clifton-Brown:** In addition to their expenditure on children's social services, they also had a problem with commercial property investment. You referred to the Grant Thornton report. Croydon invested £545 million on two commercial investments, which they get no income from, and a further £219 million on a housing scheme, which they have not had any income from from the very start of their investment. That is £764 million invested in property on which they get no income at the moment. Is your Department beginning to take a very close look at authorities, particularly those ones talking to you that are in financial trouble, at the level of their commercial investments?

Catherine Frances: Let me set out a few things, first on councils that are approaching us for financial support. As I have said, we have a set of principles to go through, one of which would be, "What is the underlying principle and cause of their financial difficulties?", and where it relates to unwise decisions or unsound structures, we would of course consider those.

In the case of Croydon, you have covered some of the issues that are available in the public interest report, and the non-statutory review that the Department has commissioned is partly there to help us to evaluate how we respond to any financial support if ultimately the council asks for that, and if we actually do something.

More widely, we have assured this Committee before that we are taking a closer look at commercial risk. Previously, you have asked us—quite rightly—to improve our data sources. We are now working with a pilot set of councils on a new dataset and we expect the returns from them right at the start of next year, in January. On the basis of what we get there, we will think about how we roll that scheme out more widely across the sector, but that should enable us to look at issues like what the commercial structure is, the value, the location, the type of commercial investments—

- Q85 Sir Geoffrey Clifton-Brown:** I am sorry, but we have got a lot to get through; thank you for that answer.

Can I turn to Will Garton? The Grant Thornton report makes it clear that in 2016 this council had borrowings of £968 million. By next year, they will have borrowings of well over £1 billion—£1,989,000,000. So, this is a doubling of what were already excessive borrowings. This council has a normal annual expenditure of about £40 million. I mean, any commercial organisation that had that sort of annual expenditure and that sort of



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loan would be in deep commercial trouble. This is taxpayers' money that is potentially at risk. When is the Treasury going to start to really look at this commercial investment and the borrowing associated with it across councils as a whole?

Will Garton: You raise an excellent question. When I was last in front of the Committee, which was in April or May, we were consulting on changes to the PWLB and lending plans, and the sorts of commercial activities that local authorities can undertake. I am pleased to say that since then we have responded to that consultation and we have published new policy. Local authorities now cannot access the PWLB for activity that is primarily for yield. So, there is a big change in the way that local authorities can get involved in this particular game going forward. That policy is now in place, as of today.

Q86 Sir Geoffrey Clifton-Brown: In many cases, that might make it worse, because you have dropped the rate of interest; as well as saying that they cannot borrow for yield, you have dropped the interest. So that might encourage local authorities to do it even more.

Will Garton: If they want to have access to the PWLB, and most local authorities do want that because the PWLB offers a combination of price certainty, speed and value for money in the market, they cannot borrow for activity that is primarily for yield. So, I do not think that we have made it worse; I think we have stopped the problem of local authorities using money from the PWLB to buy a commercial asset at the other end of the country.

Q87 Sir Geoffrey Clifton-Brown: Surely a fairly simple change to the PWLB rules would be restricting a local authority's ability to borrow according to the amount of its precept; in other words, the borrowing must be proportionate to its precept. With councils like Croydon and Spelthorne, which each have borrowings of over £1 billion now—indeed, Croydon now nearly £2 billion—this is beginning to get into really seriously bad economics. Surely the Treasury ought to stop this permissive role of the PWLB and introduce some proper controls.

Surely the Treasury ought to stop this permissive role of the PWLB and introduce some proper controls.

Will Garton: The reason why particular local authorities were able to afford to get so into commercial property is the return that that property generated. They will not be able to get into the sort of multiples you are talking about for the more vanilla, day-to-day activities that the PWLB now finances, because those will not give a return of the same order of magnitude. Local authorities can use the PWLB for things that I think Members of Parliament and citizens would expect—housing, highways, regeneration and the like. They cannot get into a wider commercial speculative game and have access to the state. I completely recognise the problem that you describe, but I think that shutting off a source of income from commercial activity will result in a much more conservative approach going forward.



Q88 Sir Geoffrey Clifton-Brown: Many of these investments are absolutely on the margin, whether they are for yield or for a local regeneration project. As a chartered surveyor, I could class some as one or the other. What will the Treasury do, through the PWLB, to police exactly which each is?

Will Garton: I agree that that is not an easy judgment. One thing we have sought not to do is to prevent local authorities from getting involved in the regeneration of a particular bit of their community, which we see as core to their mission. Trying to draft guidance and policy on precisely how to get that balance right is difficult, to be completely clear with you. However, we now have a clear position in place, where yield being the primary purpose is not allowed, but we recognise that, in a regeneration project—for example, a local authority might be improving some housing stock and might want to rent out one or two commercial units.

Q89 Sir Geoffrey Clifton-Brown: I absolutely understand, as a chartered surveyor, how and what projects involve. I am simply saying to you that some could be classed as one or the other. What guidance will you give to the PWLB to change its current stance so that it polices this properly?

Will Garton: We have issued guidance on precisely that. It is not for the PWLB to enforce this; it is for the Treasury to enforce. We have issued guidance on the right and wrong sides of the line, and of course we will keep that guidance under review. We asked local authorities to submit to MHCLG their capital plans for the next three years as part of their DELTA data collection process. We will monitor those returns carefully, and if we think that local authorities are borrowing primarily for yield, the first thing we would do is have a practical discussion with them; in extremis, we reserve the right in our policy to ask them to repay the loan. I think that would be extreme, and it is more likely that we would agree a plan that they will unwind any commercial investment that we thought was on the wrong side of the line.

However, I should stress that local authorities have been acting as if this guidance has been in place since the Budget in March. We have seen a significant reduction in activity, which may of course be partly due to the pandemic as well. We do not expect widespread problems with local authorities. In the eventuality that there are, we would of course be prepared to act.

Q90 Sir Geoffrey Clifton-Brown: I will leave that theme there, except to repeat the figures again. Croydon has a normal expenditure of £40 million; it has borrowings now of nearly £2 billion. That cannot make any sense. I hope the Treasury will police this properly to make sure that a similar situation can never arise in the future, because otherwise taxpayers' money will be needlessly put at risk. I will leave it there now.

Mr Skinner, social care funding is pretty fragmented, isn't it? This year, it will rely on the 3% precept on council tax, core funding and the Better Care Fund. Is that a sustainable way of funding social care going forward?



Alex Skinner: As you say, those are the funding streams for next year. The Government has said that it will be coming forward with longer term plans for adult social care reform, and I anticipate that that will also look at the question of funding. But that is an issue that will be taken forward next year.

Q91 **Sir Geoffrey Clifton-Brown:** Does this predicate the fact that the Better Care Fund, which is the bit that bridges the whole deficit—otherwise there would be a huge deficit in social care funding—will remain in place until we have a long-term sustainable way of funding social care?

Alex Skinner: For my part, all I can tell you is what was agreed as part of the spending review, which is that there will be a Better Care Fund next year.

Q92 **Sir Geoffrey Clifton-Brown:** There will be a Better Care Fund next year.

Alex Skinner: Correct. And it will rise in line with the NHS settlement, so it will be increasing by 5.3% in cash terms.

Q93 **Sir Geoffrey Clifton-Brown:** So if no permanent funding is agreed before then—it is quite a tight schedule to get something permanent, with a whole radical change of funding agreed within a year—will that Better Care Fund remain in place? What will take its place?

Will Garton: If I may, I think the Better Care Fund is very good policy. Most of us think that the integration between health and social care is the right thing to do for patients and those in care homes. As you know, the Better Care Fund spends on care but also on community services and NHS services close to care in the community. As Alex has said, it is going up by 5.3% next year. We have absolutely no plans to change the Better Care Fund. In fact, it is a very good example of the integration of health and social care benefits being realised, so I would be surprised if there were significant changes.

Q94 **Sir Geoffrey Clifton-Brown:** Nobody was criticising the Better Care Fund. In fact, it is a great thing, because it funds that gap; I do not know what would happen otherwise, but do you accept in principle that until you get a permanent solution, which may take a little while, because it will be really difficult and take a great deal of money, we will need something temporary, like a Better Care Fund, though it may be called something different? You accept that there will need to be a fund to bridge the difference.

Will Garton: Yes, if what I understand is correct.

Sir Geoffrey Clifton-Brown: Thank you very much. Basically, the social care sector needs to know that going forward it will have some form of stable Government funding, whatever that is; otherwise, the sector will be even more perilous than it is at the moment. Thank you for that answer.

Chair: Of course, we will be challenging the Department of Health and Social Care on this issue, as we have before about the social care market among other things.



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Q95 **Peter Grant:** Mr Pocklington, I want to ask some questions about Sir Tony Redmond's review into the statutory audit function in English local authorities. The review was published in September and, as far as I can tell, your Department has not yet issued a response. Can you give us an indication as to when you expect to be in a position to confirm whether or not you support those recommendations?

Jeremy Pocklington: We intend to publish a response by the end of the year.

Q96 **Peter Grant:** Thank you. Given that one of the recommendations has to specifically say it would be a good idea if the people carrying out local government audits had the skills and experience necessary, and 83% of local authorities surveyed said they did not think the people auditing them understood the regulatory environment in which they operate, there are clearly problems in English local authority audit just now. Are you addressing this with sufficient urgency?

Jeremy Pocklington: I think we are. Sir Tony's report is very important, but he has raised a number of very significant—*[Inaudible.]* There are clearly—

Chair: Mr Pocklington, you are fading for some reason. Could you lean in? Thank you.

Jeremy Pocklington: I will lean in and speak up. There are clearly a number of significant, complex challenges facing the local audit framework, including the quality and supply of auditors. I cannot go into detail in terms of our response, but I think it is fair to say we are looking at Sir Tony's recommendations positively, including the steps we need to take to improve the supply of qualified experienced auditors in this market.

Q97 **Peter Grant:** A lot of the questions that we have had this afternoon have obviously been about the intense additional pressure that local government has been placed under by the covid pandemic, whether that is financial pressure or the workload capacity of the staff. Given the amount of public money that they are responsible for, it is important that the audit of their expenditure is as robust during a pandemic as it is at any other time. Are you satisfied that the audit regime that was in place at the start of the pandemic was sufficiently robust, so that council tax payers in England could be confident that the money was properly used?

Jeremy Pocklington: I fear that Sir Tony's report has found that we need to take steps to improve the quality of local government audit and to strengthen the audit framework. It is clearly essential that local tax payers and councillors have access to high-quality audit; it is a fundamental pillar of accountability and transparency to sustain public confidence. In reading Sir Tony's report and from what we have all seen, I am clear that we need to take action to get that confidence in the way that we would all like to see.

Q98 **Peter Grant:** Some things struck me on reading Sir Tony's report. I have



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a background in local government in Scotland: I am a former council leader and an audit committee chair; I also worked professionally on local government internal audit. First, I find it strange that, even as a temporary measure, local authorities in England were appointing their own auditors. Could you explain why there has not been a process, since the demise of the Audit Commission, for somebody independent to appoint the auditors, rather than allow councils to decide who polices them?

Secondly, in Scotland, a lot of local government audits, including currently the audit on my own council in Fife, are carried out by a public body, Audit Scotland. It does a lot of the audits of local government, health service bodies and so on. That means that, first, a benchmark is set by the public sector for the quality that everybody else has to aim for. Secondly, it helps to prevent fee increases from getting excessively high. Could you explain why there is no equivalent for English local authorities of having a public sector organisation as the auditor, rather than having to go private?

Jeremy Pocklington: I will bring in my colleague Catherine to talk about the procurement of local government audits.

Catherine Frances: Maybe it is worth setting out that the PSAA—the public sector audit appointments body in England—is responsible for purchasing audit on behalf of most of local government. I think they are responsible for that for more than 98% of local bodies. In that role, they are considering issues of price and quality.

The key issue that comes through Sir Tony Redmond's report, of course, is that there is a mismatch, as he describes it, between the expectations of councillors, who wish to see audit that is transparent and easily comprehensible, and the rather technical world of local authority accounting. One of the issues that Sir Tony raises is a recommendation that there should be a summary that is very transparent and standardised. When we consider our response to Sir Tony's report, we will of course consider that. It is very important in terms of ensuring scrutiny locally. Some of the issues that we were just talking about were in councils where scrutiny has perhaps not been so strong.

We will also be considering the moves that the National Audit Office have made to introduce a new code of practice, which standardises and explains some of the tasks and standards that they expect auditors to undertake. It is a different situation, I acknowledge, from the one you describe in Scotland, but that is how the system works.

Q99 **Peter Grant:** Just for clarity, the PSAA is not entirely independent of local government, is it? My understanding is that it was originally incorporated by the Local Government Association. Although it is several steps removed from individual councils, it is not independent of local government in the way that, for example, Audit Scotland is in Scotland.

Going back to the issue of fees, quite clearly if there is a shortage of good enough, competent local authority auditors in England just now,



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increasing that supply is going to cost more. What consideration has been given to ensuring that local authorities and possibly other public bodies get sufficient additional resources to pay for the additional cost of the quality of audit we need?

Catherine Frances: I think today there is only a limited amount I can say about that. You are right, I suppose, that should different standards and expectations be placed on auditors, and fees change as a result, that will have an effect on the fees that need to be paid by local councils. At this point, I can't really go any further on that, pending the Government's response to Sir Tony's review and beyond that.

Q100 **Peter Grant:** But given the depths of the problems that the Redmond review has uncovered, audit fees for English councils are going to have to increase, are they not?

Catherine Frances: That is certainly the implication in Sir Tony's report, but again I cannot pre-empt the Government's response. I am sorry.

Q101 **Peter Grant:** Okay. The other part of my previous question is: have you considered establishing an entirely publicly owned body to carry out some statutory audits in English local government? If not, why not?

Catherine Frances: Again, I am sorry to potentially frustrate the Committee, but I cannot pre-empt the Government's responses to the Redmond review, which, as I am sure you know, contains recommendations about structures, transparency in councils and the audit market itself.

Peter Grant: Okay. That is all from me.

Q102 **Sir Geoffrey Clifton-Brown:** A question for you, Mr Pocklington. The Redmond review was published on 8 September. When can we expect the Government's response, please? Ms Frances has been deferring answers to a lot of very important questions, so it is really important that we see the Government's response. When is that likely to be, please?

Jeremy Pocklington: I think I have already said that we intend to publish a response by the end of the year.

Q103 **Chair:** As you know, this Committee, along with Mr Betts's Committee, is going to be very interested in watching that. I want to move on to the issue of the various funds that have been unveiled—the towns fund, the levelling-up fund and the future high streets fund. This will be fairly quickfire, Mr Pocklington, because we have covered some of this before. We just want some information—flesh on the bone of the spending review. On the predecessor to the existing towns fund—the one that was in place before July last year—a number of authorities were preparing bids. Did any submit bids under the previous towns fund model, before the new one was unveiled?

Jeremy Pocklington: Forgive me. I am confused by the question. I wonder whether one of my colleagues can help. I think we are confused by the question.



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Q104 **Chair:** There was a predecessor to the towns fund. I think it was the special towns fund—sorry, I have left that note somewhere. It was unveiled before the one that was then relaunched with nearly double the money in July, when the new Government came in, even though there was no election. There was a predecessor to the existing towns fund, wasn't there?

Jeremy Pocklington: I think I understand. My recollection is that this Government added a further £1 billion to the towns fund. A small amount of that goes to the future high streets fund and the majority of it goes to the towns deals, which we discussed at length in a previous hearing. There was then a question about the round of competitions for the towns deals.

Q105 **Chair:** I am going to come to that. The fund was boosted in July last year, but prior to that did any of the towns put in a bid for a town deal?

Jeremy Pocklington: It has all become the towns fund, which we talked about last time. That is my understanding. Will has just confirmed that.

Will Garton: That's right. The stronger towns fund was before July, and that was rolled into what you now know as the towns fund.

Q106 **Chair:** Just to be absolutely clear, the stronger towns fund never really got off the ground. No bids came in from towns.

Will Garton: Bids were not received for the stronger towns fund. There was, though, a process for the future high streets fund. I think that process has now played out and been merged into one single towns fund.

Q107 **Chair:** That brings me to the total amount for the towns fund—the £3.6 billion. That was, as you say, boosted last July by £1 billion, but there have been various announcements about money from the towns fund.

The Telegraph reported that about £320 million of the unallocated money from that fund would be transferred into the levelling-up fund. Then there is money from the towns fund that is going into the future high streets fund. In September, you told the Member for North West Durham, who is a member of this Committee, that Ministers had not yet made decisions about the timing or nature of the competition for the towns fund, so we do not know yet how much money is going into it.

The spending review announced that there would be 10 freeports, and the £175 million capital funding for those freeports would be "partly funded from the Towns fund". Mr Pocklington—if not you, perhaps you could direct this question to one of your team: how much is left in the towns fund?

Jeremy Pocklington: Let me have a go. I might bring in Mr Garton as well on this. *[Interruption.]*

Q108 **Chair:** Sorry, somehow your sound has broken up again. Can you start again?

Jeremy Pocklington: Where are we with the £3.6 billion? The key thing that we did in the spending review was to say that the competitive round



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for the towns fund would now be funded from the levelling-up fund, so at least £300 million—broadly the same as the number you referred to, I think—of the £4 billion in the levelling-up fund will be used through a competition process for town deal-type arrangements.

Q109 **Chair:** So you are raiding the £4 billion to go into the £3.6 billion. I am a bit confused. Or has that money come from the towns fund into the levelling-up fund? Which way is the money moving? How many times has it been promised?

Jeremy Pocklington: We haven't double-counted here. I think it is all transparently set out in the spending round. I am going to bring in Mr Garton.

Q110 **Chair:** Mr Garton, can you do the maths for us on this? Can you just lay it out clearly, please?

Will Garton: I appreciate that it can be hard to define. The objective of the levelling-up fund is, I think, a realisation from—

Q111 **Chair:** Just to be clear, we know and understand that. On this Committee, we have members with a direct interest in this. We understand exactly what the levelling-up fund's objective is—the Chancellor said that very clearly in the House.

What I am after is the maths of it. There is £4 billion in the levelling-up fund and £3.6 billion in the towns fund, and it seems to me that there is a bit of overlap there—it's like a Venn diagram. Maybe I am wrong, but perhaps you could explain.

Will Garton: Three hundred million of the £3.6 billion has gone into the £4 billion.

Q112 **Chair:** All right, so that is money that was already allocated and is now in the £4 billion. That has reduced the new money in the £4 billion, effectively. What about the future high streets fund? Does that balance it out?

Will Garton: The future high streets fund has already been subsumed into the £3.6 billion.

Q113 **Chair:** Right. It is about as clear as mud for people bidding. Can you, Mr Pocklington, or one of your team run through the timetable for the competition? The competitive element of the towns fund—when are we going to see the detail of how you can compete for the competitive element?

Jeremy Pocklington: Ministers have not made a decision on that yet. We will, though, set out a prospectus for the levelling-up fund in the new year.

Q114 **Chair:** Right, okay. We keep hearing about the levelling-up fund, but the towns fund was there before the levelling-up fund. At the moment, there is no decision about how there will be competition for the towns fund, but there is a levelling-up fund, and the Chancellor was clear that it is your responsibility to work up a procedure for that. How is that going on the



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levelling-up fund?

Jeremy Pocklington: We are working hard to develop a prospectus for the levelling-up fund.

Q115 **Chair:** At the same time as you are working on the prospectus for the towns fund. Can you give us an indication of what the difference is between the two?

Jeremy Pocklington: The spending review sets out that the levelling-up fund will include an element for town deal-style arrangements through a competitive process. We will need to set that out in the prospectus in the new year.

Q116 **Chair:** So it will include town deal-type funds. Does it have anything else that anyone can bid for?

Jeremy Pocklington: Then we are back into the point that you have already raised: the overall purpose of the levelling-up fund, which is set out in the spending round. We are deliberately bringing together different funding streams. I know a point that this Committee has made before, which you are perhaps alluding to, is that there is a complexity in the landscape. I think the levelling-up fund is a sensible evolution of that.

Q117 **Chair:** You have just won a “Yes Minister” medal for that—“a complexity in the landscape” is one way of putting it, Mr Pocklington. To be clear, can you confirm whether the local MP’s support will be required for any bid for the levelling-up fund?

Jeremy Pocklington: We will need to set that out in the prospectus. Our intention is that support from local political leadership, including MPs, will be a factor. I think the Chancellor has set that out. I do not think it would be right to describe that as a veto. I am not sure I would use the word “require”.

Q118 **Chair:** So it is not a veto, but you are saying that it is always good when an MP backs their own town’s town fund. I can see that most MPs might do that. Who will be the accounting officer for the levelling-up fund? Is that your lucky job, Mr Pocklington?

Jeremy Pocklington: I am assuming it will be.

Q119 **Chair:** Lucky you! That brings me to the point about your accounting officer assessment, which we asked for on the towns fund. We asked to see the full assessment ahead of this meeting today. As of yet, we have not received it. Will we be receiving the full accounting officer assessment from you?

Jeremy Pocklington: That is correct. I will respond to the Committee’s recommendations set out in the Treasury minute in the usual way. I would like to respond in the round rather than doing that piecemeal. To be frank, on the question of the accounting officer assessment, I provided a summary, as you know. In doing that, I was following our normal practice and policy, which is to provide summaries rather than actual advice. That is the challenge that I have on that.



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Q120 Chair: Let us be really clear: in our view there is advice to Ministers on policy, which we understand in a privileged place in the system we operate under. We are the Public Accounts Committee, so we do examine most things in public. But we do the numbers and we watch taxpayers' money.

Your assessment would be a private document to this Committee. I stress—if I have to—that as hon. Members we would never leak it. This Committee has never leaked any sensitive information that it has received in that way. We cannot understand why this particular document is not something that we would be able to see.

You are putting it very politely, but we know there have been conversations between our lawyers and yours about this. Please be clear. Are you willing to share your accounting officer assessment on this issue with us? These funds are now overlapping with each other. We want to see what the rationale is and what your assessment is as accounting officer.

Jeremy Pocklington: I have set out the challenge with that. The challenge with this issue—

Q121 Chair: Sorry, you set out the challenge with that, but could you set it out again? Perhaps I missed it.

Jeremy Pocklington: The approach that I have taken is to follow standard Government practice, which is to provide a summary to the Committee. This is not part of the Government's major project portfolio, but I still think it is right and in the public interest to have done that.

The decision on the full assessment is very hard to do. I will respond properly in the Treasury minute. It is not just a decision for me as accounting officer alone, given the wider implications. I do not think a full accounting officer assessment has been shared with this Committee, but I am still confirming that.

Q122 Chair: Mr Garton, do you have anything to add from the Treasury's point of view? Usually, on the issue of watching taxpayers' money we have a degree of shared interest.

Will Garton: We do, obviously. I do not think I can add much more to Jeremy's statement on this particular issue, I am afraid.

Q123 Chair: Okay. We will continue to pursue this, I should stress, because I think it is vital. There have been a number of questions about the allocation of that fund in particular. The future high streets fund is now in the towns fund. What is the timetable for allocating that and what are the competitive rules for allocating it? Some of it has already been allocated. Where are we at with the next stages?

Jeremy Pocklington: For the future high streets fund, my recollection is that we are coming towards the final stages of that process and we have received bids. The evaluation process is coming to a conclusion.

Q124 Chair: When will they know whether they have got the money?



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Jeremy Pocklington: I don't have a precise date, but I think it is a matter of weeks—early next year, to give you some sort of indication. But I do not want to be tied to a specific date.

Q125 **Chair:** Okay. So now we have the future high streets fund, the towns fund and the levelling-up fund. They are all potentially overlapping. As you might expect, a number of Members of Parliament have already come to see me to say, "Some of my neighbours have two of them, and I have none." You can imagine that there is a lot of interest in this.

Can you be clear: when are you going to have criteria for the next stage of the towns fund and the levelling-up fund, so that MPs and local authorities across the country know when they can bid, and what for?

Will Garton: Our intent, over time—because we think there are too many costs—is to merge. The future high streets fund and the towns fund have been merged. The local growth fund, the towns fund and pinch point funding from the Department for Transport will be subsumed into the levelling-up fund. So we will have one fund, less complexity, less confusion and more clarity for places about where they can bid into. That will succeed all the existing pots.

Q126 **Chair:** Right. So there will be one fund, under your happy leadership, Mr Pocklington. You are going to be the accounting officer for all this money, which will now be called the levelling-up fund.

Jeremy Pocklington: That is correct. We are going to work very closely with the Treasury and—

Q127 **Chair:** I am sure you are. So yes you are going to be the accounting officer and you have to draw up criteria for the levelling-up fund, but you are subsuming the other fund into it. Does that mean that, basically, we are waiting for criteria that will cover the whole pot of money, which will be called the levelling-up fund? It is going to be about ripping up the old rules and applying new ones.

Jeremy Pocklington: Largely. In terms of new bids, new funds, then yes—the message is to await the prospectus in the new year. For those currently in the process of bidding for a town deal through the deal process, which we have talked about at length, that work will continue and we will continue to allocate the high streets fund. But in terms of new money in the future, then yes, as I say, the message is to look out for that prospectus.

Q128 **Chair:** Can I go back to the issue of MPs being involved? There has been a lot of discussion about this. You are saying that it is not a veto, but are you saying that, in the early plans of what you are working out, an MP's support will help get a bid over the line?

Jeremy Pocklington: I think the Treasury has made that clear. What would I say to the Committee? The Treasury made clear that MPs' support should be a factor, and we know that local political leadership can make a difference to the success of projects on the ground.



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Q129 **Chair:** I am glad to hear a civil servant being positive about local political leadership. When we last had you in front of us, we asked you whether the regional mayors had been involved in the discussion. It was apparent from the answer of one of your officials that that had not been the case and then we were advised that they had met the mayors in the course of their normal day-to-day work. But the metro mayors were not involved in the discussions about the allocation or about which 101 towns would be included. Would you expect them to have some say over where that money is allocated in their region?

Jeremy Pocklington: We are going to set this all out in the levelling-up prospectus. This is different—this is a bidding process rather than Government Ministers making the selection decision in relation to town deals.

There is still a lot to work through here. It is going to be very important for us to protect taxpayers through this process. The notion of a vehicle that enables local leadership in its various forms to engage with this process will be something we will think hard about.

Q130 **Chair:** This has raised more questions than it has answered, I think. Just to be clear: what is your ballpark, or range of dates, for when you expect to get details on the new levelling-up fund, which incorporates the other funds? Will that be by the next financial year? Next month?

Jeremy Pocklington: In the new year. I do not want to give a specific target date, but the range of time that you are talking about seems sensible.

Chair: Okay. Thank you very much for that; we will probably have a few more questions for you in due course. I am going to hand back to Olivia Blake.

Q131 **Olivia Blake:** Mr Pocklington, on the subject of tiers, clearly there will probably be quite a shift and churn—

Chair: Ms Blake, your sound is a bit scratchy.

Chair: Ms Blake, your sound is a bit scratchy. Could you lean in and try again?

Q132 **Olivia Blake:** Clearly, tiers are going to be constantly changing over the next few months. Off the back of the review date this week, do you have a sense of who is going up and who is coming down, in terms of numbers?

Jeremy Pocklington: I don't, I am afraid.

Q133 **Olivia Blake:** Do you know if local leaders will be told in advance of any changes?

Jeremy Pocklington: I am afraid I don't have any information to give the Committee on that.

Q134 **Olivia Blake:** Looking at the support in place for local authorities and communities, are you confident that that support is working well?



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Jeremy Pocklington: We have provided a great deal of support to local communities, and I think the process and arrangements that we are putting in place continue to get better as we learn more and the pandemic continues. The public health support that we are now providing on a monthly basis to those in the higher tiers is, I think, a sensible approach. It is speedy, it is efficient and it reflects a lot of engagement with the sector.

Q135 **Olivia Blake:** This is to Will Garton. If funding is given to respond to particular effects of covid, it will have a bigger impact if it is allocated in proportion to those effects. Do you agree with that?

Will Garton: I am sorry, but I lost you somewhere on that question.

Chair: Try again, Ms Blake. Your sound was a bit scratchy. Can you repeat the question? I think your wi-fi is the problem.

Olivia Blake: I think it might be my internet—*[Interruption.]*

Chair: Ms Blake, I think we will have to pause and come back to you.

Olivia Blake: If funding is given to respond to particular—*[Interruption.]*

Chair: I'm afraid you are breaking up a bit, Ms Blake. I will go to Gareth Bacon MP, and we will try to come back to you on this point. Perhaps you would like to send me a message.

Q136 **Gareth Bacon:** Thank you, Chair. The first question is to Mr Garton, and it is about the spending review. Would it have been possible in the context of a one-year spending review to plan a multi-year settlement for the local government sector?

Will Garton: No, I don't think you could have done a multi-year settlement for local government in a one-year spending review.

Q137 **Gareth Bacon:** Because the Chancellor did decide to do a multi-year settlement, fully funded, for the national health service, schools and priority infrastructure projects. How was that possible, if it was not possible to do it for local government?

Will Garton: The NHS long-term settlement was, of course, made in June 2018, so in a rather different context from today's environment. In a limited number of areas, where capital certainty, in particular, was an issue for Departments—MHCLG, for example, have done a multi-year capital settlement for the affordable homes programme because we believe that there is a logic and you can drive better value for money for the taxpayer by giving that settlement up front. In terms of settlements that are largely resource DEL constrained, there is the long-term settlement for the DFE and the NHS, but those were both made prior to the circumstances that we find ourselves in and the great uncertainty of 2020.

Q138 **Gareth Bacon:** Much of the point about the uncertainty around 2020 is accepted, but the press release that came out from the Treasury around the long-term funding settlements for the areas that I have mentioned stated: "Long term investment in our country's future is the right thing to



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do, especially in areas which are the cornerstone of our society like the NHS, schools and infrastructure.” Would you not agree that local government is a cornerstone of our society?

Will Garton: I certainly recognise—we all do—the enormous contribution that local government makes. It has been in the frontline of the crisis over the last nine months, and what a good job it has done delivering services in difficult financial times over the last 10 years. I spend a lot of time with local authority chief executives, and I completely admire the work that they do, of course.

Q139 **Gareth Bacon:** Accepting the financial constraints that we have been under this year, which of course have been extraordinary, would it be fair to say that the Government are thinking about a long-term settlement for local government from next year onwards?

Will Garton: If you will forgive me, it is not for me to pre-empt policy decisions—

Gareth Bacon: I did not ask for a decision; I asked whether the Government were considering it.

Will Garton: In the main, we think that multi-year spending reviews are sensible things to do, because of the certainty they give public services. That has not been possible this year, for very obvious reasons that we all understand. I cannot pre-empt any further announcement that Ministers might make on what we will do next year. In the ordinary course of business, however, obviously we think that there are benefits to multi-year settlements, but that has just not been possible this year, because of the exceptional circumstances.

Q140 **Gareth Bacon:** That is fine. I appreciate that you cannot pre-empt a ministerial decision, and I am not asking you to do so; I am just asking what consideration might be given to it. I think you have probably gone about as far as you are going to go on that one, so I will move on to the spending review. Ms Frances, given what you asked the Treasury for, are you happy with what you got?

Catherine Frances: Yes, absolutely. I think the settlement is sustainable. Looping back to the point that Alex Skinner made considerably earlier in this hearing, our spending review settlement is made on the basis of public services and other services being maintained at their current service standards. In addition, there are the additional grants that I talked about, and there are improvements in homelessness and rough sleeping, for example, and in high needs. There is also the covid funding that we have put in—the £1.55 billion for next year on top of the settlement and the additional support for income lost from sales, fees and charges in the first quarter. Yes, it is a very good settlement. I recognise that there are strains on local government, so it is totally reasonable, of course.

Q141 **Gareth Bacon:** Certainly, my local council have acknowledged that actually this year is a good settlement for them, but there are so many unanswered questions stretching off into the future. Will you be negotiating with Mr Garton and his colleagues about multi-year



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settlements going forward after this year?

Catherine Frances: I am so sorry not to be able to develop more on the answers that Will has given. What happens in MHCLG, as in other Ministries of state, is that the Treasury quite rightly takes decisions on the shape of fiscal events and the shape of spending reviews, and I would expect what happens in local government to fall in with those wider decisions. Therefore, like Will, I am not sure that I can pre-empt in any way any further decisions or considerations on that point.

Q142 **Gareth Bacon:** But you would acknowledge that longer-term certainty would allow local authorities to plan more efficiently and to deliver a better service to local residents?

Catherine Frances: I would concede exactly the point that Will has made: in normal times, longer-term certainty often allows organisations to plan. Finance directors certainly prefer the ability to plan over the longer term. We have tried to offer that certainty where we can but, for the reasons Will alluded to, that has not been possible this year.

Q143 **Gareth Bacon:** Going back to you, Mr Garton, what was the strategy underlying the spending review this year? Was it simply to keep services going for another year, and to delay making a longer-term decision until there was more certainty?

Will Garton: No, I think the spending review saw considerable investment in public services to see it through this extraordinary time. We have talked this afternoon about local government getting a 4.4% real-terms increase in SR19, a 4.5% cash-terms increase in SR20, and £3 billion in extra covid money to see local authorities through next year. I think that, in anyone's book, that is a significant investment to help public services through this crisis. Clearly, we have to keep that under review and make decisions for the longer term, as things hopefully return to normal.

Q144 **Gareth Bacon:** Yes, but if you were to speak to any local government leader in the land, they would tell you that they are now providing barely more than a bare minimum statutory service, because they have had a decade of funding reductions. I acknowledge the increase that there has been, and that it is the highest settlement for 10 years, but of course that is after 10 years of reductions. Set against that, that is not necessarily a big gold star for the Government. Most local borough leaders will be looking for considerably more, and if they cannot get lots more money, then what they would probably like is some kind of funding over a longer period, which is why I keep talking about multi-year settlements.

Will Garton: Yes, and with Catherine and Alex, we spend an awful lot of time talking to council leaders as well, so we recognise that there are difficult trade-offs to be made and that it is not easy out there. I do not pretend that hard decisions do not have to be made. As we have said, in normal times we absolutely do believe in a multi-year spending review, and we recognise that providing certainty to local authorities helps them plan and deliver better public services. There is an intent to get back to



that, but it just has not been possible and nor would it be sensible to do so in the current environment when so much is unsure.

Q145 Gareth Bacon: Moving on to Mr Pocklington, one of the things that local government has been pinning its hopes on—I referred to it in my maiden speech back in February—is the fair funding review, which had gathered a certain amount of pace and then seemed to disappear. We obviously understand that the constraints of 2020 have been absolutely extraordinary. Where are we with the fair funding review?

Jeremy Pocklington: You are right—or certainly you are implying—that as part of the spending review settlement we have decided not, through SR20, to take forward the review of relative needs and resources, which is now referred to as the fair funding review. We are also not taking forward the 75% business rates retention or the business rates reset that was planned on the timetable that we had said. That is because we think local government needs ability and certainty in the short term, and that it would not have been right, frankly, to have distracted councils with those sorts of significant changes to the local government finance system. We are going to need to return to those issues and the question about where they go in future once we are through the worst of the pandemic. My message is that stability in the short term has been our overriding objective.

Q146 Gareth Bacon: That is fair enough, but obviously a lot of work was done on the fair funding review—I appreciate that I have not used the correct title—and I accept why you could not follow the timetable that you had originally announced. It was not announced with covid in mind, but we are where we are. When can we expect to hear a new timetable?

Jeremy Pocklington: The honest truth is that we have not made a decision on that yet. We still think the right thing is to focus on supporting local government through the pandemic, focused on this spending review. We are now focused on the provisional settlement. We will then, in the medium term, return to the questions around finance reform and how those issues are taken forward.

Q147 Gareth Bacon: That is almost keeping local government living hand to mouth a bit, really, and on the beg for scraps year after year. It is not providing them with any kind of strategic certainty. I am sure that you are picking this up because, I imagine, you speak to lots of chief executives up and down the country. I would imagine that the argument I am making now is not unfamiliar to you.

Jeremy Pocklington: It is not. The importance of certainty, including over the medium term, is one I think we all well understand. The Treasury also understands the benefits, as I think MHCLG does, and Will and Catherine have both already said that.

Q148 Gareth Bacon: But we know that the vaccine is starting to be distributed now. There are reasonable assumptions that life should approach relative normality by, let's say, the middle of 2021. Would now not be the time to start to plan these things?



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Jeremy Pocklington: We have got the hurdle of the local government finance settlement, which I think we need to focus on now. We also, to be honest, need to focus on supporting local government, partnering with them wherever possible, in the important months ahead on issues like vaccination, rapid testing or community testing. That is the right thing to focus on now. We have also been talking about Tony Redmond's review. That is what we are doing. We will then need to return to the medium term. I cannot put a date on some of the medium-term reforms today. They are important agendas, but it has been right to focus on stability in the short term.

Q149 **Gareth Bacon:** Sure, and nobody argues with that. But is it a question of either/or? I totally take your point that you have to focus on getting local government through where we are with the pandemic right now, and frankly nothing dwarfs the roll-out of the vaccine in importance at the moment; I do not mean to be trivial about that at all. But on the other hand, if work is going on in the background, once we are through the worst of the pandemic and the vaccine has achieved most of its roll-out, local government will be looking to try to rebuild at that point and it would be really good if MHCLG had got its ducks in a row. Is there no work going on in the background on that?

Jeremy Pocklington: Quite a lot of work has been done in the Department: the relative review of needs—the fair funding review—

Q150 **Gareth Bacon:** But that is my point, isn't it?

Jeremy Pocklington: There is quite a lot of knowledge that we are starting from. It is not the thing that we need to be focused on right now, but when the time comes and we are ready to look at those things again, we will be building on the basis of a lot of work that had been led by Catherine and Alex's teams over a long period.

Q151 **Gareth Bacon:** So has work on that stopped entirely at the moment?

Jeremy Pocklington: I will bring in Catherine to see if she has got anything to add on this.

Catherine Frances: I think that the teams that are usually working on that sort of issue are now focused on issues of covid for the very short term, in exactly the way that Jeremy has talked about. But we continue to have all that material and resource there. Like all other organisations, we are trying to make sure that we prioritise both the immediate needs of the country on covid and the practical issues as well as the financial issues coming out of that. However, all the work of the teams is still there, to reassure you.

Q152 **Gareth Bacon:** Okay. In one of your earlier answers to me, Ms Frances, you talked about services being maintained in the short term and focusing on that. Mr Garton, in one of his answers, talked about the need to make tough choices, which is normally code for not maintaining all the services and prioritising which ones you do want to maintain. Where is the balance?



Catherine Frances: I think that at national level the point I was trying to make is simply that we have model spending review settlements on the basis of maintaining the services that go into our maths. There are then some services, of course, which are being increased quite considerably, for instance for homelessness and rough sleeping, and for example regarding my points earlier about high needs.

However, we absolutely recognise that there are individual local authorities that will face a different distribution of resources and that have a different set of options open to them. You have asked previously, I think, in this hearing about reserves. It is partly to do with that, but it is to do with other things, too; it is to do with what they have chosen to prioritise and the models of public services that they have offered. And they all have to make their own decisions about what they prioritise going forward from here.

I think the balance from us is to ensure that we are funding what we see as the need and what well-established models establish is the need in these public services, but we will not pre-empt councils' decisions where they want to prioritise differently.

Q153 **Gareth Bacon:** Mr Pocklington, you touched on the need to get through the local government finance settlement, and that is pressing. Obviously, last year—for entirely understandable reasons, not least the fact that we had a general election in the middle of December—the financial settlement was announced on the last possible day, which was the last day that Parliament sat. When can we expect the financial settlement to be announced this year?

Jeremy Pocklington: I will bring in Alex, who is working long hours on this.

Alex Skinner: In terms of the settlement, we are looking to bring it forward as soon as we possibly can. Given the timing of the spending review and the calculations that we need to do in order to make sure that the settlement is absolutely watertight, that is likely to be the week starting 14 December.

Q154 **Gareth Bacon:** So by the end of that week, we expect the announcement to be made?

Alex Skinner: That is my expectation at the moment, yes.

Chair: It is very good to have such a clear date—so unusual, when you are all falling over. Thank you. Back to Olivia Blake MP, for some quickfire questions on the tiers.

Q155 **Olivia Blake:** This question is to Mr Garton. Why do some of the funding streams take into account the time an area spends under restrictions and other funding streams do not?

Will Garton: You are absolutely right—we have got a mixture of funding streams to support local businesses. As I think you well know, there is the local restrictions support grants—open and closed—which are monthly.



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There is the additional restrictions support grant, which is a one-off. They are targeted at slightly different businesses, or with slightly different intentions, and it is that mix of grants that I think gives local authorities a little bit of discretion or some discretion in how they support businesses in their patch. The Government was completely clear with local authorities, when it agreed the additional restrictions grant, that it was a one-off. That was set out very clearly at the time, and we are sticking to that.

Q156 Olivia Blake: Do you think that using a uniform formula when the impact of restrictions differs so much between different areas, based on the different businesses that they have, is fair?

Will Garton: It is hard to get this precisely right, but I think we haven't used a uniform formula, in that the local restrictions support grants, open and closed, are uniform pretty much, but there is a 5% flexibility within the open one so that local authorities can hit the hard target cases if they have a particular issue in their area, and then the additional restrictions support grant gives them greater flexibility still. So I wouldn't characterise it as uniform; I would characterise it as having many common features, with a bit of flexibility on top.

Q157 Olivia Blake: Do you think all local authorities in tier 3 will be able to balance their budgets this year and next year?

Will Garton: Our expectation is, because of the funding that we have put in this year—the £7 billion since March and the spending review settlement that we did on 25 November—that local authorities will be able to set a legally balanced budget for next year.

Q158 Olivia Blake: Are there any programmes that will be ending, or seeing money reduced, to pay for some of this?

Will Garton: If you look at the grants going into local government that we discussed earlier in the afternoon, they are either being maintained or increased, as far as I can see; Alex or Catherine might have a sharper eye for detail. Social care is going up by £300 million—

Olivia Blake: Sorry, I meant the extra funding.

Will Garton: The covid money?

Olivia Blake: Yes, for the tiers.

Will Garton: Oh sorry; I'm with you now. We have said on the business support grants that those are now monthly payments for the rest of the financial year.

Q159 Olivia Blake: Mr Pocklington, and Mr Garton afterwards, if that's okay, how well do you think your two Departments are working together to look at the impact on council tax and business rates income in the tiered system?

Jeremy Pocklington: We are working very closely together on this, as you would expect. I mean, it's tricky. Alex's team and Will's team are working very, very closely. We have set out in the spending round how we



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will implement the proposed scheme to support tax shortfalls—of course, tax shortfalls this year affect next year. We have agreed that those shortfalls can be spread not over one year but over three years in step, and that the Government will support, I think, 75%—one of my colleagues will correct me if I'm wrong—and councils will have to manage the 25%.

Will Garton: That is exactly right. We're not just saying it: we work really, really closely together on a daily basis. And on business rates and council tax, as Jeremy says, central Government is taking 75% of the hit.

Q160 **Olivia Blake:** Just to follow up, Mr Garton, one city region's political leadership believes that it has had assurances from the Treasury that no areas entering tier 3 will be put in a position, either this year or next year, where they can't balance the budget. Do you agree with that assurance that has been offered?

Will Garton: I don't think I was involved in the particular conversations to which I suspect you refer, but what I would say is that we are confident that the spending review that we delivered on 25 November allows every local authority in the land to deliver a balanced budget for next year.

Q161 **Olivia Blake:** Okay. That is interesting. Finally, given how many national restrictions were introduced in November—they often went further than tier 3—do you feel that that assurance can be offered to all local authorities if there is another peak, perhaps after Christmas?

Will Garton: We are talking about financial support from next April. As we discussed earlier in the afternoon, there is some room for hope and optimism that, by next April, things will have improved. Of course, we keep the existing package of support that we have announced for this year under review. As I said to you, the 4.5% increase in core spending power and the £3 billion-worth of covid money, hopefully combined with a vaccine, should see the sector supported in a sustainable and fair way.

Q162 **Olivia Blake:** Finally, I am sure I am not alone in this as a Committee member, but I have been contacted by a number of different types of business—pubs and hospitality are one. In the local economies where they are predominant, do you think the Department might look to do more if that is slower to reopen, with support from the Treasury?

Will Garton: The point I would make is that the good thing about the local restrictions support grant is that it is per business, so if you have a lot of pubs or restaurants in a particular place, they will get a lot of support, so it is proportional to the problem that the sector faces. It is not just those grants. Businesses were benefiting this year from the furlough scheme, the cancellation of business rates, the commercial eviction ban, bounce back loans and so on. There is a whole package of support.

Chair: We know the list. Thank you very much. We are now going to go to Gareth Bacon MP.

Q163 **Gareth Bacon:** I have a couple of questions about affordable homes. The recent announcement of the £12.2 billion going into affordable homes is obviously very welcome and exciting. Mr Pocklington, how many of them



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are expected to go on the first homes policy?

Jeremy Pocklington: As we discussed in the starter homes hearing, our plan is that 1,500 of those will go on first homes.

Q164 **Gareth Bacon:** When will we hear more detail about that? You referred to the hearing that you gave evidence at—I think it was in October—when you said that there would be a pilot, with details in the coming weeks. When can we expect to see those details?

Jeremy Pocklington: I don't have any further detail on that. Homes England has issued its broader prospectus on the affordable homes programme, including this element, and it is engaging with the sector. I am afraid I don't have further details to hand on the next steps.

Q165 **Gareth Bacon:** So it would be impossible for you to say when we would actually see those homes in bricks and mortar, as it were.

Jeremy Pocklington: I think we made it clear in the hearing that this is a long-term programme. Introducing a new policy like first homes, particularly bearing in mind the experience with starter homes, will take time. I think we talked about the next couple of years, but we deliberately have not set ourselves a target on that, in terms of the timeline.

Chair: We certainly do want to hear news. As you will have picked up, everybody on this Committee has a very strong interest in affordable housing, so can you write to us when you have more detail? Obviously, we will keep an eye out, but that is in case we miss it.

I thank all the witnesses very much indeed for their time. We will probably follow up some of this in correspondence. We reserve the right to produce a report. Obviously, it has been a bit of a Christmas tree session today. Thank you very much for covering such a range of ground and for your answers where they were forthcoming. Where they were not, we shall be pursuing you to the ends of the earth. Thank you very much indeed.