

Housing, Communities and Local Government Committee

Oral evidence: Local authority financial sustainability and the Section 114 regime, HC 1054
The spending review and local government finance, HC 924

Monday 22 February 2021

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Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Brendan Clarke-Smith; Ben Everitt; Rachel Hopkins; Mary Robinson.

Questions 47 - 97

Witnesses

I: Luke Hall MP, Minister of State for Regional Growth and Local Government; and Alex Skinner, Director of Local Government Finance, Ministry of Housing, Communities and Local Government.

Examination of Witnesses

Witnesses: Luke Hall and Alex Skinner.

Chair: Welcome, everyone, to this afternoon's session of the Housing, Communities and Local Government Select Committee. This afternoon we have an evidence session with the Minister of State for Regional Growth and Local Government, who I will come on to and introduce in a minute. To begin with, I want to ask members of the Committee to put on record their interests in the subjects this afternoon. The subjects we are going to be looking at are the spending review and local government finance, and also local authority financial sustainability and the section 114 regime. I am a vice-president of the Local Government Association.

Ian Byrne: I am a sitting councillor in Liverpool.

Ben Everitt: I am a councillor.

Bob Blackman: I am a vice-president of the LGA. I also employ a councillor in my office.



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Brendan Clarke-Smith: I employ a councillor in my office.

Mary Robinson: I employ a councillor in my staff team.

Q47 **Chair:** Moving to our two witnesses today, the first is Luke Hall, the Minister. Welcome, Minister, to our session. You have an official with you. Could I ask you to introduce him to the Committee and those watching?

Luke Hall: Good afternoon, Chair. Good afternoon, everybody. My name is Luke Hall, Minister of State for Regional Growth and Local Government. With me is Alex Skinner, who is the director of local government finance in MHCLG.

Q48 **Chair:** Thank you very much for coming, Minister. You are very welcome to come to meet us on these important subjects. The issue of local government finance is always a difficult one, and certainly Covid has introduced an extra element of complication and challenge into it. Councillors and the Local Government Association have said that the spending review helps provide a degree of certainty, but major challenges exist for the longer term. They were there before Covid and are still there. What is your response to that?

Luke Hall: The local government finance settlement, which passed through the House 10 days or so ago, is a very positive one. First and foremost, we see a 4.6% rise in core spending power for local government. We see core spending power rise from £49 billion to £51.3 billion. It is a real-terms increase for local government. One of the things we have really tried to do with this settlement is to target the increases at the areas that need the most support. That is why we have seen an additional £1 billion of funding available for adults' and children's social care. Very importantly, that includes £300 million of grant funding and an additional 3% adult social care precept. We have also confirmed that we will roll forward last year's £1.41 billion of social care grant and continue the improved better care grant at £2.1 billion as well.

The question is really about certainty. Alongside the provisional settlement that we published on 17 December, we also published three other important points to provide as much certainty as we could. The first was the direct allocations of the £1.55 billion un-ringfenced grant for councils for next year. We did that because we wanted to provide as much certainty as we possibly could, within the constraints of a one-year spending review. That was a really important part of what we published on 17 December. The second part, which we also published to try to provide some certainty, a couple of days after the provisional settlement, was the allocations of the local council tax support scheme for all local government for next year. That was warmly welcomed, at £670 million. Also, we confirmed that, into next year, we would continue the sales, fees and charges scheme, up until the end of June.

We think all of those were important to try to address this point about stability and certainty and give as much as we could in that early phase.



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The reason why that is really important is that there was the £1.55 billion for Covid-related pressures. When you look through the early response to the pandemic, when we were in an even more dynamic situation, we were publishing the first rounds of the Covid support money that was going to local authorities throughout the year, but we were not in a position to provide longer-term certainty. We did not have the data to make a clear and accurate projection about what the Covid costs were likely to be.

We were in the position, in November and December, where we had sufficient data from councils, which were filling in their returns to us every month throughout the lockdown, to make an accurate enough projection to distribute those Covid funds that far in advance of the next financial year. We took a clear judgment, at that point, to try to publish those breakdowns early and provide that certainty as best we could. Clearly, there was a policy choice there to provide certainty. We have tried to mitigate it in every way we can.

Q49 Chair: I will come on to a couple of the points in a second. In terms of the Prime Minister's statement today, is there anything in there that would lead you to reflect on the fact that there might be additional pressures on local government that had not been taken into account that you want to return to have discussions with them about?

Luke Hall: I come back to the point that the settlement that passed through the House was accompanied by significant Covid support for next year. That breakdown of the £1.55 billion was for Covid-related pressures. There will be parts of Covid support that we will address and continue to monitor as we move through the year. I would reinforce the point that it is a significant amount of funding that has been provided and in line with the data returns that were returned to us and we are publishing summaries of, through councils.

Q50 Chair: Maybe, as the Prime Minister said, being cautious, there may be elements of the road map that are not absolutely deliverable, in terms of the timeframe he has currently announced. At that point, would you be willing to go back to the LGA and have further discussions about any consequent support they might need?

Luke Hall: To clarify, did you mean the Treasury? You said the LGA.

Chair: For the Government to talk to the LGA about the consequences, as they see it, for councils.

Luke Hall: We certainly have regular discussions with the LGA. I have very regular discussions with the chair of the LGA. Those conversations will continue to happen. The broader point I am trying to make is that, since the start of the pandemic, we have made a commitment to local government to stand behind them. We feel that we have honoured that commitment. As we have moved throughout a very dynamic situation over the last year, we have responded with, as I say, those first four



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tranches of funding that we distributed throughout the year. We have kept the whole situation under review as the situation has changed.

- Q51 **Chair:** On the specifics of that, Ben Everitt is going to come in with some more questions. At least you are keeping it under review. That is helpful. To come on to the core funding increase you were talking about, you said it was 4.6%. That 4.6% is only the figure that is available, is it not, if every council puts their council tax up by 5%?

Luke Hall: Yes. In short, that is predicated upon the council tax and adult social care precepts being utilised. Those are individual decisions for councils. It is quite clear about that in the documents, yes. That is the way we have measured core spending power over the last few years, as a fair way to assess the changes year on year. At this stage, before a lot of councils have set their budgets, that is the most accurate way for us to try to demonstrate the rise.

- Q52 **Chair:** Of the £2.2 billion increase in core funding, £1.9 billion is council tax increase and £0.3 billion is from the Government. Is that right?

Luke Hall: Core spending rises from £49 billion to £51.3 billion next year. You are absolutely right that councils will take individual decisions. The final amount of core spending power for councils, after they have taken those decisions, will depend on the decisions they make. We have given councils the ability to defer some of those social care precept rises to next year as well. It is probably important to take that into account when considering the overall core spending power quantum for the whole year.

- Q53 **Chair:** If they are deferred, they will not have the core spending power increase you refer to.

Luke Hall: That is correct.

- Q54 **Chair:** You mentioned the £670 million extra for local council tax support schemes. Does that indicate that the whole council tax system is creaking at the seams?

Luke Hall: The £670 million we are providing councils for local council tax support next year is in recognition of the fact that there will be higher unemployment and that councils will have well-established schemes they can use to support people over the next year. It was one part of a wider Covid package that we published on 17 December alongside the un-ringfenced grant, which of course councils can use as they see best fit, and the wide extension to the sales, fees and charges scheme. The principle of that is that they can reduce council tax bills for those least able to pay. It recognises the increased cost of providing council tax support at a time of rising unemployment and challenges for the economy.

- Q55 **Chair:** Yes, I understand, Minister. Let me put on the record that the extra help for council tax support schemes is very welcome. I am not



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trying to deny that. I am just asking whether it reflects that the council tax system itself might be in need of some reform at some stage. Putting more and more pressure on this system each year is not really sustainable.

Luke Hall: In terms of wider reform of the local government finance system, everybody in this Committee will be aware of our wider commitment to reform the local government finance system. That is one piece of work that was unfortunately delayed by the events of this year. We will look at all locally raised taxes and revenue distribution in that review, when we are at that point, after the dust has settled.

The decision we were faced with this year was what was the appropriate policy and fiscal response to the challenging situation that councils were in. When we looked at that, we thought the right thing to do was to provide that substantial sum through the LCTS scheme. That was following consultation on the first three months of LCTS returns from last year. It is the right and appropriate amount of council tax support, recognising that the situation we are in is challenging and fluid.

Q56 **Ben Everitt:** Hello, Minister. It is nice to see you. Hello, Alex, as well. The recognition that we need to address the local government finance settlement is music to my ears, certainly with the scope, as you just indicated, including looking at what we raise locally. That is very welcome and of course well overdue, were it not for the pandemic.

We heard from a previous witness in this inquiry, a council leader, that they had to balance their time between filling in the data returns to Government and doing the day job. We all recognise the immense pressure that councils are under during the pandemic. With that in mind and listening to what you were saying to Clive about looking at the returns and giving an adequate amount of Covid-related support to councils, are we confident that we have covered everything off? I refer specifically to the letter that this Committee sent to the Secretary of State prior to the spending review, calling on the Government to commit all the funding to local government to cover those additional spending requirements and the income loss. That income loss is possibly the hardest one to quantify for this financial year. Are you confident we are there?

Luke Hall: If you look at the total support that has been provided right across Government, it is over £8 billion of funding support for councils this year. We discussed the £3 billion that we have published for support for the start of next year. That is a total commitment of over £11 billion now. You are right to talk about the returns. There is an important point there, is there not? You highlighted the council leader who talked about balancing the need to get right the data on the returns with the workload and the benefits that brings.

They are extremely important returns that have been hugely beneficial for us as a Government Department during this last year. It has really



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allowed us to understand and then demonstrate to other parts of Government the pressures that are on local government. We feel we have stood behind local government during this period. One of the tools we have had to do that has been really detailed returns from councils.

We absolutely recognise that places a burden on officers of the council and elected members to make sure those returns are accurate and fulfilled. I would say a couple of things. The first is that councils have largely been superb in sending those returns back. It has been really important to us as a Department to make the argument across Government. We will continue to try to refine those data returns because we recognise that we have to get the balance right as we move towards a hopefully more stable position for local government. We do not want them to be filling in returns that are not of any benefit.

We have a small team of people in our Department who are now having conversations with local government about the best way to refine those returns. We are open to removing some of the questions if people feel they are of no benefit. However, they have been hugely beneficial for us, so we are not inclined at this stage to stop asking local government to fill them in. Overall, we think it has been a big net benefit.

I will come back to the core of your question, which is the funding support. Those projections, which is why I made the point, demonstrate to us that the spending pressures on local government this year will be in the region of £6.9 billion. They are projections, but when you compare that against the resource we have given councils, it is quite clear that the money for expenditure is certainly significant and far exceeds what councils are going to spend, or what they self-report and tell us they are going to spend. We are certainly confident about that. In fact, to exceed that supply of un-ringfenced support we have given them, they would have to have a monthly run rate of around £1 billion of Covid pressures. We are confident about that.

The other support mechanisms we have provided, through the sales, fees and charges scheme or the rates scheme, have clearly helped councils, too. As I said earlier to the Chair, of course we continue to keep the situation under review, because it remains a fluid situation, but we are certainly confident we have provided the income support that is required.

Q57 Ben Everitt: We have had a figure from the LGA where they suggest that a further £2.6 billion will be required to cover the cost pressures. I recognise that it is not the LGA's job to knock on Government's door and say, "We have too much money," but there must be a case for recognising the working they have. You can put the current pressures that local government is under financially into three brackets. We have the historical issues related to the formula grant and the revenue support grant, the way it is calculated, and the inequalities and inefficiencies within that historical calculation. We also have a second tranche of cost pressures that are almost self-inflicted. My colleagues are going to come



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on to some of the capitalisation, section 114 and other issues that some councils are facing at the moment. Then there is this third and unavoidable bracket, to which the LGA's £2.6 billion refers. That is those Covid-related pressures.

Are we confident we can cover that £2.6 billion from the funds you have described? Do we have the bandwidth within the central pot to make sure that, in the financial year 2020-21, we are not going to get councils going under because of that third bracket issue, taking aside the historical settlement issues and financial mismanagement questions?

Luke Hall: You are quite right. The LGA is absolutely entitled to make an argument for more funding, but we do not accept that that £2.6 billion figure is accurate. We do not think the evidence is there to demonstrate that. Using the returns we have from councils that have self-reported, it is clear that there is enough money to support an excess of distributed support to meet their expenditure pressures. That is quite clear. As I said, you would have to have a run rate of around £1 billion a month for that not to be the case.

We will continue to keep individual, specific councils under review if they are facing particular challenges. One of the things that has been very clear is that the pressures on local authorities in response to Covid have not been uniformly distributed. They can quite easily coalesce in individual local authorities that might be particularly exposed. We are confident that the money to meet income pressures is absolutely there.

Chair: One of the issues that has come up from our witnesses very clearly is the whole question of social care and the need to have a clear funding policy on that.

Q58 **Ian Byrne:** Good afternoon, Minister. I will direct this one to you first. As a result of the additional financial pressures created by the pandemic, only 4% of directors of adult social services are confident that their budgets are sufficient to meet their statutory duties. The system is broken and Covid has stress-tested it. This Committee, along with many others, has long called for proposals for a long-term solution to the funding of adult social care to be brought forward. Minister, how much longer do you think we will be kept waiting?

Luke Hall: I do not recognise the 4% figure that has been quoted. I do not know how old that is, but I would be happy to look at it. On social care, we have had reports from this Committee, the Commons and the Lords about reform of the social care system. That is in addition to a wide range of very well-informed pieces of work that have been submitted to our Department and to DHSC about reform of one of the most complex and challenging issues that local government and our country faces. This is a huge challenge. It is not just in social care but all across Government. The pandemic has posed unprecedented challenges to the sector. We have still committed for the reforms to be brought forward this year. Many other pieces of work have been delayed due to the



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pandemic, but the commitment from the Health Secretary is firm that those proposals will come forward this year.

Q59 Ian Byrne: To build on that, you are saying that you do not recognise the 4%. The proportion of service spend on social care has risen from about 46% 10 years ago to 64% now. Do you agree that continuing to raise the adult social care precept a further 3% in 2021-22 is not a sustainable solution to funding adult social care? I can speak with experience in Liverpool.

Luke Hall: Is your question about whether it is not a sustainable system?

Ian Byrne: Raising the precept. We need other solutions to what we are seeing now. It backs up what I am outlining with only 4% of directors being confident, so 96% of adult social service directors are not confident that their budgets are sufficient to meet their statutory duties. The hole is being filled by the precept. Is that a long-term, sustainable solution?

Luke Hall: This is an extremely complex area. Could I make a couple of points on this? First, you referenced the rising proportion of service spend on adult social care. That is absolutely right. Perhaps I will frame my answer with this bit of context. If you look back to 2015-16, at that point adult social care was at its lowest proportion of spend in local government for quite some time. That is why the proportion of spend on social care services has come up from that low point. Back in 2017, the Chancellor at the time announced another £2 billion for social care through the better care fund. That saw the proportion of spend increasing in local government and on social care. You saw the proportion of non-ringfenced spend overall on adult social care rise from 32% back then to 34% in the 2019-20 financial year.

The second point I would make in response is that core spending power for the coming financial year is rising by, as I said, 4.6% in cash terms, as was true for this current financial year in last year's settlement. That is at least in line with inflation, which enables people to maintain current service levels. The vast majority of that is un-ringfenced, so councils can choose to use that rise in core spending power on adult social care if they believe that is the appropriate course of action. It is very clear that adult social care is by far the largest area of spend for many councils around the country. The pandemic has crystallised the pressures in that respect in social care.

The other point to make is that, in the improved better care fund, you will see an almost 5.5% rise next year. The social care grant is rising by 20% next year. Those are both real-terms increases, so that should be absolutely sufficient to support frontline services, at least keeping in line with inflation as the absolute bare minimum. We are providing significant support to social care.



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The last point is on equalisation. This was discussed a little bit in the settlement debate, but we probably could not quite get into the detail of it then. One of the policy decisions we had to take in this local government finance settlement was on the appropriate level of equalisation to make sure all councils around the country have the ability to raise sufficient resources to pay for social care pressures through that social care grant. Last year, we used £150 million to equalise that level of support for councils. This year, we took a conscious choice to increase that, so we put another £240 million in this year.

I would flag that as an important part of the settlement and a clear policy choice from us. We thought that was right. The reason I highlight that is because it is not a small difference to some councils. In some parts of the world, it makes quite a significant difference to the ability to pay for social care. In the absence of the wider reform you are rightly referring to, that was one of the tools we had to support that gap. If you look at Birmingham, I think it was an extra £19.1 million for the two years. It was £7.6 million for Lancashire, £10 million for Liverpool and almost £7 million for Sheffield. It is an important part of what we are doing at the moment, while waiting for the wider reform to support social care across the country. I apologise, that was a bit of a long answer.

Q60 Ian Byrne: No, I welcome what you have just said about the equalisation. It undoubtedly made a real difference, certainly to places like Liverpool that cannot raise the revenue from council tax increases. To be honest, you did not really answer the question with regards to the long-term solution. It looks like what you have said there is mere sticking plasters to what we are seeing as a systemic issue. You have not really given me the answer I was trying to draw out of you, which was on the long-term solution. The Prime Minister stood on the steps of Downing Street and said he had one. We are still waiting to see it. You are not forthcoming with any sort of MHCLG solution either.

Luke Hall: The answer I have is direct, but it is in the absence of a firm date. We will bring it forward this year. That is the Government's commitment.

Q61 Ian Byrne: Talking about the settlement, many of the measures in the settlement were welcomed but recognised rightly as short term. With the news that the number of UK households in destitution has more than doubled during 2020 as the economy has struggled during the coronavirus pandemic, according to research conducted by the National Institute of Economic and Social Research, the need, undeniably, for long-term investment in our local authorities to plan with confidence how they meet this catastrophe grows daily. When do you expect the Government to bring forward proposals to address the outcome of the fair funding review and the fundamental review of business rates and of business rates retention? That certainty is definitely needed by local authorities.



Luke Hall: Yes. Like we were just talking about with the social care work that had been unfortunately delayed by the pandemic, the same is true for the review of relative needs and resources, the fair funding review. We were at the point last year of being about to go out to consult on the fair funding review. We took the decision at the time, moving into the pandemic, that it, to be quite frank, would not be a good year to have a detailed conversation with councils about local government finance reform. I hope the Committee will agree it is quite fair to say that the vast majority of councils agreed with that. They thought that this is an issue that requires attention and detail in the future financial plans for reform. They just did not have the bandwidth, as we as a Department did not, to do that in the way we would want to with the sufficient level of attention in that financial year.

Now, we will let the dust settle after the pandemic before coming forward with those reforms that we are still committed to and still very much want to see happen. That is still a clear policy commitment from this Government. The Secretary of State and I believe the current distribution mechanism is not the fairest way to distribute resources. We want to bring forward that reform. We are going to have to try to understand what the longer-term Covid scarring impacts are on local government finance. We would probably all see that it would be very difficult to pick up the exact same material we were working with last year and assume it will automatically suit a post-Covid world, when we have all sorts of impacts that might not yet be clear on local government finance. We are committed to bringing that forward, probably in the context of a forward spending review.

Apologies, because I have given such a long answer. I am not sure if you also asked about multi-year settlements.

Q62 **Ian Byrne:** Yes. The LGA is talking about a three-year settlement, is it not? Certainly from my perspective in Liverpool, we are desperate for a long-term settlement so we can start planning a rebuild back from Covid. It has hit cities like mine disproportionately.

Luke Hall: Yes, absolutely. It is a universal view from local government that multi-year settlements are preferable, for all the reasons I am sure we would all agree with about long-term certainty and planning for councils. We completely appreciate that and appreciate the importance of that to councils when planning and setting budget support planning. Clearly, this year has been a unique one. It will take time for the dust to settle. I hope that, when we come to the settlement next year, it will be a multi-year one. I understand that that is the hope of the Chancellor as well, but he will set out his plans for spending reviews in the usual way in due course. We took that decision for it to be a single-year spending review to prioritise the response. I hope the Committee understands that.

Notwithstanding all that, we tried to use the policy levers that we had to provide certainty where we could. I do not want to restate all the same things as earlier, but that is through the Covid support, the £3 billion



package that we announced in December. While perhaps not on all of those, certainly on two of them, the £1.55 billion distribution that we published in December, that was a clear policy choice. We could have held that back and waited until later in the year to see what the further implications were after further rounds of the returns from councils. There was a very clear view from local government that they wanted certainty. In the context of a one-year spending review, we thought it was right to try to provide that up front. I think the LGA are quite rightly and fairly making that point, and I certainly hope we will be returning to that world soon.

- Q63 **Chair:** Minister, it is helpful that you recognise the need to have a look generally at local government finance in the light of the longer-term implications of Covid. That is a really helpful comment. In terms of the social care package of some kind, the reform being announced this year, do you have any idea whether that will be a Green Paper, a White Paper or an announcement of an intention to legislate?

Luke Hall: I am afraid that I do not have any more detail to share with you today, other than what the Health Secretary has previously said. I am sorry about that.

Chair: We will move on now to another important issue, which is about authorities that are struggling with their finances and are looking for some form of capitalisation.

- Q64 **Mary Robinson:** Good afternoon, Minister. Earlier this month, the Government published details of capitalisation directions agreed with four local authorities: Eastbourne, Bexley, Luton and Peterborough. These were said at the time to be due to unique circumstances or residual issues. Would you be able to expand on what those issues are?

Luke Hall: We certainly know that there are a handful of councils that are facing significant financial challenges due to quite unique circumstances. Some of those are due to poor management and some are due to the exceptional nature of the last year. We have tried to work really closely with those councils to help them navigate what is a genuinely extremely difficult situation for them, as they try to set balanced budgets at the same time as responding to Covid pressures and delivering their business-as-usual pressures.

You are right. Earlier this month, we published details of the four councils: Bexley, Eastbourne, Luton and Peterborough. They will be subject to rigorous reviews of their finances. That was an outline offer of support, pending reviews. It is fair to say that we certainly never provide taxpayer support lightly. It is right that we have asked for conditions around those.

You really asked for more details of why. Each of those councils is in a unique and different situation. It is not a blanket set of pressures across those councils, because they vary so much in the pressures upon them.



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For example, if you take Luton, there is clearly an issue there relating to the exposure of the airport. That is a unique situation in and of itself. I am not saying it is the only reason, but clearly it is a big part of the driver for having to come to Government. That council has been particularly affected because passenger demand has dropped by 90%; there are some very challenging issues there. By the way, I am desperately sorry for all the council employees at the airport who are facing extremely difficult situations at the moment.

If you look at Eastbourne, for instance, it has a particular reliance on income from tourism and the events industry. It has been particularly exposed during this year. It is quite a small council with such a large income from those particular sources. The wider point I am trying to make is that it is council-specific. Some of them are through bad choices, and some of them are through the unique pressures that this year has thrown at them.

Q65 Mary Robinson: Notwithstanding the issues at Luton airport and poor management issues, the general exceptional Covid pressures could be felt by a lot of other councils. To what extent are these issues that are shared by other councils?

Luke Hall: The point I would come back to is that the support we are providing councils during this time is well in excess of the spending pressures they are facing from Covid. Clearly, there are expenditure pressures on top of that, but we are supporting that through our sales, fees and charges scheme. There are particular challenges and these individual local authorities that face particular challenges, some of which will be due to decisions they have made and some of which will be exposure to other forms of income. I do not think it is right to say that that is representative of a broader problem in local government.

We have just had two local government finance settlements that have commanded the support of the House. We have had significant support into local government, the £11 billion commitment support for councils, alongside all the other support for councils. Broadly, it is a very positive package that we have tried to stand behind councils with. Notwithstanding that, you are right, of course there will be individual councils particularly affected. That is why we have tried to work with them so closely to try to mitigate those pressures, while more broadly protecting taxpayers around the country where we can.

Q66 Mary Robinson: Do you expect any other councils to move into this area where they would need this type of support?

Luke Hall: I hope you will appreciate that I cannot divulge any private discussions the Department is having with any individual councils. I am certainly very happy to delve into the detail of the four councils that have requested exceptional financial support from us. Since the publication of the provisional settlement and the Covid support package back in December, on the 17th and a couple of days later for the LCTS, we have



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seen the number of councils that we were having conversations with reduce. A lot of councils did not expect to have the rise in core spending power that there was and the subsequent package of Covid support.

To come back to that point about certainty, the point at which we were able to give certainty has significantly helped councils plan. From then onwards, we have seen a reduction in the number of councils coming to us saying that they are in danger of issuing 114 or needing extra recourse to Government.

Q67 Mary Robinson: You mentioned earlier the conditions that you were enforcing on these councils or that were part of the capitalisation direction. What exactly were the conditions that these councils have had to sign up to?

Luke Hall: They vary, but all the councils will be subject to financial reviews to make sure we have got our assessment right of the amount of support that is required. We have provided them with outline offers of support to enable them to set budgets for this coming year. The final offer will be subject to that strict, stringent review of finances. They will differ slightly because of the fact that the pressures are not uniform.

If you look at Eastbourne, for instance, it will be subject to a series of conditions that look at its financial management but also its sustainability and how it is managing and mitigating financial risk. The conditions are different, for example, in Luton, where you have this issue with the airport and the exposure to the airport. Alongside the review of the council's finances, there will also be that review of the relationship with the airport. Again, we thought that was a fair condition to attach to the capitalisation direction. They vary depending on the exact position of the individual council and the nature of the problems it is facing.

Q68 Mary Robinson: Where lines are blurred between capital and revenue streams, it inevitably raises the question of whether any conditions could be imposed or required around sale of assets, et cetera. Would you be exploring that, or are any of these directions subject to those conditions?

Luke Hall: We have asked councils to look at their financial planning. It is certainly true that the financial reviews in some of those cases will look at existing assets, exposure to different income streams, financial management and plans. Perhaps I can ask Alex whether he wants to say anything extra about any of the individual conditions that we have attached, in terms of exposure to assets and requiring capital sell-offs.

Alex Skinner: To add a little bit of detail to what the Minister said, the capitalisations will be split. Where the local authorities have asked for capitalisations for this year and next year, those will be treated separately. One of the details and conditions on the capitalisation for this year is that the expenditure can only be claimed when it is incurred. Secondly, it needs to be accounted for in the correct way with the correct treatment of the minimum revenue provision. Thirdly, there has to be the



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review that the Minister talked about. Fourthly, there will be an interest-rate premium, given the nature of the support.

As the Minister has said, those reviews will look at the local authority's financial management. One of the issues it would then look at would be, exactly as the Minister said, what assets they hold and whether it would be appropriate for the local authority to consider selling those and, if so, over what time period.

Q69 Mary Robinson: It sounds as if this review is going to be quite interactive between the Department, the Government and the local authorities. To what extent is that discussion going to be about those conversations directed towards what local authorities do with their capital assets in terms of sales?

Luke Hall: In each of the four cases, we have tried to work closely with the individual councils. Ultimately, we are trying to help them navigate through a particularly difficult situation and to make sure they are sustainable going forward. Yes, we will expect them to robustly consider the future of commercial investments and assets. It would not be right to ask the taxpayer to underwrite that support without doing so. That is absolutely something that the review will try to expand our understanding of before the final offer is made.

Q70 Brendan Clarke-Smith: Good afternoon, Minister and Alex. On that theme of section 114s, CIPFA recently told us that around 12 local authorities were in danger of issuing a section 114 notice. What is the current situation with that?

Luke Hall: I would put the answer in this context. Section 114 notices are not a frequent occurrence. As you know, there have been two in the last few years. That is Northamptonshire County Council and, more recently, Croydon. At the time when they were both issued, there was clear evidence of wider problems within the council, so less of a symptom of the local government finance system and the support that is underwriting that council, but clearly aligned with direct failures in financial management and governance of those individual local authorities. The context is that these are very rare.

The second part of the context is that we have provided a significant amount of support to councils. I am going to come back to the answer—I apologise—but we cannot disclose information about any private conversation we have had. If councils want to publicise that they are speaking to us, they are very welcome to do that, but unfortunately I cannot comment on it.

What I could say is the point I made earlier. Since the publication of the provisional settlement, the number of councils we have been speaking to has reduced. That is right, because we provided a substantial amount of financial support, £11 billion of commitment, and commitment into next year as well for sales, fees and charges, LCTS and £1.55 billion of un-



ringfenced funding. A number of those councils are telling us that they no longer need to seek additional support or recourse from Government. If any council feels the need to approach us, of course we will have the conversations with them.

- Q71 **Brendan Clarke-Smith:** On the subject of Covid-19, in terms of the impact on local authorities that are maybe close to issuing a section 114 notice, how have the Government been assessing the impact of this?

Luke Hall: We talked earlier about not just the support but also the data monitoring that we have as a Department. We have significant data returns from local government, which come in these monthly monitoring returns that come through to us. We look at the monitoring returns. We have very regular conversations with individual local authorities and third parties, who inform our monitoring of councils and situations in individual councils. It is primarily through data returns and direct links with councils, which keep us up to date with their financial positions.

- Q72 **Brendan Clarke-Smith:** Finally, in light of recent experiences, is the Department satisfied with the section 114 regime generally, or do you think changes may be needed to incentivise more responsible financial decision-making?

Luke Hall: I would come back to this point, if you will excuse me. Section 114 notices are extremely rare. There have been only two in the last five or six years, so this is not a regular occurrence for local government. I do not want to give the impression that it is. We have been speaking to a number of councils, and that number reduced after the settlements. In terms of decisions councils are making about their own financial management, obviously we encourage and support good financial management in local government. That is clearly hugely important.

We support the importance, by the way, of local, well-run capital investment in housing and regeneration. Commercial investment can be appropriate and necessary when it is done well. In recent years, there has certainly been a minority of councils that have been taking excessive risks with taxpayers' money and becoming overly indebted in pursuit of commercial income. That is clearly not behaviour we support. That is why you have seen some of the more recent changes to the Public Works Loan Board and other organisations the Department is looking at. We want to see and support the highest level of financial prudence in taking on investment and managing risk.

- Q73 **Bob Blackman:** Can I touch on some of the issues around commercial decisions? When the Local Government Association gave us evidence recently, it made the point that, between 2010 and 2016, the Government encouraged councils to be much more commercial in order to offset the reductions in Government grants. Is that a fair assessment from your perspective?



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Luke Hall: I would not comment on the language that Ministers before me and the Secretary of State have used about commercial investment. In recent years, as I say, we have seen that there is a minority of councils that have been taking excessive risks. That is why we have acted to prevent local authorities from doing that or to take action to reduce that risk. That is why you see the changes to the PWLB and others. It is why we continue to monitor the developments in the sector and ensure the capital framework that we have is fit for purpose. We would not hesitate to act if there was more we needed to do in that space.

It is clear that the pandemic has exposed the risk of some of these unwise investments by local government and an overreliance on commercial income to balance budgets. The changes to the PWLB will make a difference to stop councils taking on excessive risk. We want to make sure councils that are taking on risk have the skills and personnel in place to manage it effectively, rather than taking on unnecessary debt burden. If councils demonstrate the highest standard of probity by following the spirit of the framework, where possible they should reduce reliance on commercial income. If councils are unable or unwilling to contain that risk, we would be ready to take more active steps if required.

Q74 **Bob Blackman:** Obviously it is your predecessors. I completely accept that it is not your responsibility, but over that six-year period clearly the Government were encouraging councils to make investments on a prudent basis, not taking reckless decisions. Presumably you would accept that.

Luke Hall: That is not language I would use. We have asked councils, where they take investments, to make sure they are prudent investments and are following the framework that is set out for them. We have tried to create a local government finance systems that supports and adequately funds councils. There is a debate around that, which we spoke about earlier. We have tried to finance the system properly and put one in place where local government is able to take on commercial investments for the reasons that are allowed and required under the codes. It is fully within its rights to do that, but it is a risk that it takes. It is not something that I see us as encouraging, so to speak.

Q75 **Bob Blackman:** In his evidence to us, Councillor Richard Watts from the Local Government Association pointed out about Luton, as I think you mentioned earlier, Minister. I have no doubt my colleague on the Committee will have a few things to ask about Luton in a minute. Luton took an investment in the airport and basically it got unlucky, because this was a steady income stream and then suddenly there is no income at all, because the airport goes out of action. Would you draw a distinction between that and Croydon, which has been under a 114 notice, where it appears that, shall we say, less than prudent decisions were taken?

Luke Hall: I would draw a distinction between every exceptional financial support case that we have. Croydon is not published as one of those yet.



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It has made public statements about that; that is in the public domain. I hope you will forgive me for not talking too much about the detail as to whether I deem the level of exposure in Croydon to be correct or not. There is a review pending into the exact relationship of the council with its airport. The point I would make on commercial investment is that we want councils to be able to borrow and invest for service spending, for housing, regeneration and preventive action, but we do not want councils to be borrowing from the PWLB, for instance, primarily for a yield purpose. Alex, I do not know if you want to say anything else on Luton and the airport specifically.

Q76 Bob Blackman: Obviously there is an issue here. Luton is a prime example of a local authority that has taken a decision. No one could have foreseen that basically air travel was not going to be possible. I do not think any reasonable person would say, "There will not be any air travel coming." That is one of those things that is an act of God, effectively. For people who are investing and taking commercial decisions around commercial activity and using that to balance their books, there is a concern that certain local authorities have placed greater reliance on this than others. There is a massive difference between what Luton did, frankly, and what I think Croydon have done. I do not think you can compare the two.

Luke Hall: I would completely accept that. Apologies, as clearly I poorly articulated it. I tried at the start to draw a distinction between some of the cases. As I say, when you look at Luton or Eastbourne, for example, they have what would normally be income sources that would deliver for them. That is clearly completely different from overexposure to extremely unwise commercial investments, which public interest reports have demonstrated that some councils have overexposed themselves to. There is a clear difference between that. That is why you have seen the action we have taken in Croydon.

We do not want to encourage councils generally to enter into risky investment and become overly indebted and reliant on income streams that cannot deliver for them in a stable way. These individual cases will be subject to assurance reviews to make sure they have made the right decisions. Luton will have that review into the airport. I would not for a second disagree that there are clear differences between Luton, Eastbourne and Croydon, for instance.

Q77 Bob Blackman: You have made the point about what sorts of investments are appropriate. What about out-of-area assets that local authorities may acquire? Is that appropriate?

Luke Hall: We have taken some action on out-of-area investments. Alex, could you talk a bit about the detail of the November reforms on out of area and what we designated as appropriate?

Alex Skinner: As part of the reforms to the PWLB that the Treasury instituted last year, if a local authority were to invest out of area for



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commercial activity, it would no longer be able to borrow from the PWLB. Given the relative rates of the PWLB versus other sources, we would expect that to lead to local authorities no longer making out-of-area commercial investments. That is backed up by the numbers. As you can see, the level of borrowing in the PWLB has fallen relatively sharply since then, particularly around those kinds of investments.

Q78 Ian Byrne: This is a really quick, direct question; a quick, direct answer would be much appreciated. We are hearing about local councils trying to offset cuts in central Government funding by borrowing and the various schemes outlined, from Croydon to Luton. Would you agree that austerity put these councils in the position to have to take that gamble?

Luke Hall: I would not agree that anyone who has read the public interest report into Croydon would think that local government finance and the central distribution of resource is directly responsible for that, no. I think people will take their own view on the judgment in somewhere like Croydon. I would not accept the language of cuts for the last two years of local government finance settlements, which I have been Minister for. We have seen 4.5% and 4.6% rises in core spending power.

Q79 Ian Byrne: Minister, can I remind you that in Liverpool we have had a 68% cut to central Government funding? It has caused absolute devastation. My council has had to take decisions about going out, borrowing and investing like many other councils. I am trying to get to the nub of this. Austerity has undoubtedly forced councils to make decisions that they previously would not have made. After Covid, there is also talk of more austerity, potentially. Are we just going to be reinventing the wheel and going in a circle on this, or will you accept that austerity has forced councils to make decisions that they would not otherwise have taken?

Luke Hall: I would not accept the premise that councils will see a reduction in funding next year. We have just passed a finance settlement that sees an increase in core spending power. On a basic, factual level, we have to accept that. I would not accept the premise that it was wider local government finance that led Croydon to some of the failures it encountered.

Chair: We have to move on now. You may not like his answer, but the Minister has given his answer.

Q80 Bob Blackman: I want to move on now to what CIPFA has told us. It told the Committee that making commercial investments with a view to subsidising services with the profits that are generated is a breach of the prudential code. You have kind of alluded to this, but do you agree with what CIPFA said?

Luke Hall: On the code, Alex, can I defer to you?

Alex Skinner: I can add a bit of detail. The code is clear that you should not. The issue is the code is "have regard to", rather than "must". "Have



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regard to" means that a local authority may not follow the guidance in the code, but it then needs to clearly set that out. Rob, in his evidence to you, said there was a debate about whether it would be helpful to strengthen that. The other thing I should say is that it is clear that, with "have regard to", the professional duty of the finance director, as a member of CIPFA or another accounting body, would be to follow the code. It would be a case of the councillors deciding that they felt it was not appropriate.

Q81 Bob Blackman: Can we be clear? From the consideration you have given thus far, are you considering changes to the code, on the basis of what CIPFA has had to say?

Alex Skinner: We have committed to looking at the code as a result of an NAO study on commercialism that came out last year and the subsequent PAC report that came out from it. Yes, we are looking at the code and what changes should be made to the code to make sure it is fully fit for purpose.

Q82 Bob Blackman: Do you have a timeframe for that?

Alex Skinner: We have committed to go back to the Committee towards the middle of this year. I think it is July.

Q83 Bob Blackman: Finally, in terms of these areas, we have written evidence from councils arguing that the reforms to the Public Works Loan Board lending terms go too far in restricting councils' freedom to make borrowing and investment decisions. What is your reaction to that? You have highlighted the fact that the numbers of people borrowing money and the levels of borrowing have come down. Local authorities are saying you are being too restrictive.

Luke Hall: The reform we made prevented councils borrowing from the PWLB primarily for yield. In practice, that means councils need to submit a high-level description of their capital spending and financial plans for the following three years, including their expected use of the PWLB. They can be edited in-year if required. Alex made this point earlier. If a council is intending to make an investment primarily for yield, from no matter what source, it will not be able to have access to the PWLB. That is an important tool that we have. I have highlighted the areas that councils can and may want to borrow to invest in. Investments for yield as part of treasury management is still permitted for councils. They are also allowed to refinance loans and externalise internal borrowing.

You are right: this question is about if we are getting the balance right of the freedoms and responsibilities for councils using the PWLB. We think that the changes we have made will have an effect. The PWLB is essentially a lender of last resort. That means that hopefully it will change local authorities' behaviour in taking on that excessively risky investment. I am sure some people will argue that we have not got the balance right, but we think these reforms are useful. We have work to do with the



Treasury to ensure our work is complementary alongside its work and reinforces what it is doing.

It is also fair at this point to say it is probably not the case that reforms we have made will stop all the risks we have seen from capital activity. It would not stop excessive debt or imprudent investments in, for example, energy companies. We think we have the balance about right, but we accept that this might not stop all the risk. That is why we want to continue to gather more data and look at what we might be able to do to further mitigate that.

Q84 Rachel Hopkins: I apologise for arriving slightly late to the Committee. I was in the Chamber just before I came on. If you have not picked up already, I am still a local councillor in Luton and I am also a vice-president of the LGA. The Minister very well knows about Luton and my understanding of the relationship with the airport. Thank you for your time when you met with us.

Building on the data and oversight of data, last year the Public Accounts Committee, in its report on local authority investment in commercial property, said that the Ministry appeared “blind to the level of exposure of the local government sector to sectoral commercial risks”, and called on it to be more active in its oversight of the prudential framework. Listening to what you have just said, and anything further you would like to add, do you accept that the Department has not always had adequate oversight of local government borrowing and investment?

Luke Hall: Thank you for taking time to meet about Luton. As was said, we are currently undertaking a review to make sure we have the data that we need. We have to be able to understand the trends and drivers of this type of risk and investment in councils, and the associated longer-term effects on financial stability for councils. We want to improve that data. We sent a survey out to local government and some stakeholders. We expect those returns to come back into us centrally by the end of March this year. That will provide us with a further evidence base on which to take policy decisions regarding exposure and investments.

We need to make sure that we have the best quality data to understand the capital system. We need to make sure interventions are effective but that they do not have unintended consequences for local authorities. Getting that balance right is important. We also recognise the importance of timely intervention. That is why we require the best-quality data and why we need to make sure that our understanding of capital activity and improving data collection and defining exactly how that looks is a really important part of our work.

This probably has to align with the development of options for more direct intervention as part of the wider strategy for us as a Department. The fact that we are looking to improve our data collection probably answers that question. Hopefully, with the returns we have and the



consultation exercise we are in the middle of now, the returns will help us better inform the future policy choices there.

- Q85 **Rachel Hopkins:** We heard from Rob Whiteman of CIPFA. He told the Committee there should be greater openness and transparency regarding the data Government use to monitor local authorities' financial resilience. Do you think it would be helpful to have more publicly available and comprehensible data?

Luke Hall: In some respects, in local authority data we have really started doing that over the last year actually, for instance the local authority monitoring spending income returns that we have started with councils over the course of last year. We were talking earlier about the pressure on councils of filling in, returning and getting those right and accurate and trying to get that balance right. We think we broadly have, accepting that we might need to make some changes. We publish those. We are about to publish our ninth round of the monitoring returns for councils. That is a new set of data that we are trying to be transparent with.

As we try to improve the accuracy and quality of that data, there is a question about whether we would want to publish any more. That is a completely legitimate debate as we move towards the end of the current restrictions and look to finalise what the future system for data collection and publication looks like. There will be a very valid debate about the level of detail we publish underneath those new publications. We are doing that now and it has improved over the last year. You are absolutely right: as we finalise with councils what that should look like for the future, there is a debate about the level that we publish. The other side of that would be the point that was made earlier about the extra pressure on councils to provide data of an accurate enough quality for us to publish centrally. We are absolutely trying to get that right.

I will finish by repeating the point I made earlier about having a group within local government to discuss with us the future of what that data looks like and what we should be collecting from now on into the next financial year, which is really important. It is fair to say that, as Ministers, we are very interested in this. We are very interested in getting this right and very much welcome the Committee's views on it.

- Q86 **Chair:** Minister, I was on this Committee, indeed I was Chair of it, when the Audit Commission was abolished. Bob Blackman is smiling because he was on the Committee as well. Is setting up the Redmond review an acceptance from Government that the architecture post Audit Commission is not quite right? Do you understand the concerns expressed by Rob Whiteman at CIPFA, who expressed disappointment that the establishment of a new regulator, as recommended by Redmond, does not seem to be on the Government's agenda?

Luke Hall: We thank Sir Tony for a really good-quality and detailed bit of work to help us inform sensible policy development as a Department. We



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need a robust local audit system and transparent financial reporting. We were just talking about that. That is absolutely key for delivering value for money for taxpayers and supporting sound investment, a principle we were just talking about. We are absolutely committed to strengthening the local audit system so that taxpayers can better hold councils to account for their spending and the decisions they are making. We have provided £15 million for councils next year to help stabilise the market.

In reference to the point about OLAR, I certainly want to reassure the Committee that, as well as looking at the shorter-term measures we are taking to stabilise the market through cash injections, extra transparency and others, we are looking at the full range of options that might be available to ensure long-term stability of the audit market. We want to do that with due care to taxpayers' money. We do not want to recreate the Audit Commission. I am slightly worried that I am now going to offend some people who have been on the Audit Commission. We do not want an overcentralised, overly bureaucratic system, if we are looking to drive improvements in audit.

We also need to recognise this serious point that setting up a new organisation like this, like OLAR, takes time. When you look at the report from Sir Tony, it is important that timely actions are taken to address the fragility of the market. We want to do that. We want to explore potential alternatives that may not require a slot for primary legislation and that potentially do not necessitate a new body, so they can be implemented sooner to help stabilise the system. We want to look at how we can consider a system leader, if you like, for audit that can also work closely with the health bodies to make sure that we are not creating divergence and we can capitalise on opportunities for greater alignment with health as well. We are looking at a range of options there and we have committed to coming back with an update on our thinking by spring of this year.

Q87 Chair: Most people in Parliament, most MPs, would recognise that the National Audit Office does a truly excellent job and has a great deal of credibility. What it cannot do is look at an individual authority or a number of individual authorities, join up any concerns that might have been exposed by audit and start to form a picture from that of what is going on. Do you not think there is some merit in having a body that can look at the slightly wider issues affecting local government from information being collected from individual audits?

Luke Hall: I completely appreciate that point. It is the point I made earlier, which is that we want to consider a system leader here for local audit. We want to make sure that body is facing the right way with other parts of the system. As I said, the Secretary of State and I are not minded to set up a completely new body, especially not one that requires legislation in Parliament, especially during an already compressed parliamentary timetable for the next session.

Q88 Chair: It is wait and see?



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Luke Hall: We have committed to coming back by spring 2021.

Q89 **Chair:** I am sure, between ourselves, the PAC and others, we may want to have a further look at that. There is one final issue. Do you accept the point that local authorities should not appoint their own auditors?

Luke Hall: I am going to defer that point to Alex.

Alex Skinner: I know that discussion came up in the previous Committee meeting. The auditors are appointed by PSAA. I know there is a link through the LGA to local authorities, but it acts as an independent body and goes out to tender in order to get those bodies. At the moment, it is something that, alongside all the other issues that were raised by Redmond, we are happy to consider, but that is the status at the moment.

Q90 **Chair:** Yes, but there is nothing to stop an individual local authority appointing their own auditor currently. That would be quite legal, would it not?

Alex Skinner: It could do, but 98% of them, the vast majority, go through PSAA.

Q91 **Chair:** Might it be better to make sure they all did?

Alex Skinner: That is something, alongside all the other recommendations that have come out of Redmond, that we are happy to consider.

Chair: We will no doubt come back to that one in due course as well.

Q92 **Bob Blackman:** At the beginning of the month, you published, or the Ministry published, the rapid review of Croydon, which was led by Chris Wood. You appointed an improvement and assurance panel, which is being led by Tony McArdle. Can you give us an update of where the situation has reached in Croydon, please?

Luke Hall: Yes, absolutely. Croydon Council has, frankly, not demonstrated the responsibility on spending and investments that all the residents and council tax payers in Croydon, and the wider UK taxpayer, would expect. That is why the Secretary of State announced measures to address what we thought were very serious failings at Croydon so we can begin to help them turn the situation around and deliver some form of value for money for the taxpayer. You are right: the improvement and assurance panel, comprised of experts from the local government finance world, has been appointed to challenge the progress made in Croydon, particular in response to the rapid review that you referenced.

We have supported Croydon with a significant amount of Covid support over the last year. It has indicated—I reference this because it has been referenced publicly—that it needs a significant amount of extra support from Government, which I am sure you appreciate we will have to think about very carefully. It is a very significant amount of support. We are



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currently considering the request and we will have to set out our response to that in due course, in the same way that we have with the other exceptional financial support requests.

Q93 Bob Blackman: What is the role of the improvement panel? Are they like commissioners who can basically take over and administer services, or are they just making recommendations? What is happening with this improvement panel?

Luke Hall: We have appointed Tony McArdle, who is the independent chair, Margaret Lee, who is the finance lead for the Croydon panel, and Phil Brookes, who is an independent external member and is the companies lead for the work that has been going on. There is the ability for the panel to appoint external independent members if they see fit. It will challenge the council and its work. It will support its development, have access to information, data and accounts to support work and ultimately make recommendations to the Secretary of State about the council, its progress and whether further intervention should be required. It is there to support and challenge the council as we try to help it turn around a significant situation where it has really failed to demonstrate value for money for the taxpayer.

Q94 Bob Blackman: You are making the point that Croydon has applied to the Ministry for substantially more money. Is that being overseen by the improvement panel, or is this something the council has just done to the Ministry? Has the improvement panel looked at this and said, "Yes, this is a reasonable case and we would support it," or is this a case of the council applying to the Ministry and the improvement panel has not had a chance to oversee it?

Luke Hall: The exceptional financial support request that comes to Government will look at a range of different information, which will include the independent review and all the work that officials in our Department are doing with Croydon itself. The review panel will make recommendations about intervention into the council, and it obviously has the right to do that. Essentially, we have to consider the exceptional financial support request on the basis of whether it is required as part of a plan to turn around a failing council. It has to be done on the basis of open books with MHCLG so we can probe in detail its figures and what is required.

It is fair to say that it has been an ongoing discussion with Croydon about making sure we have accurate reflections of the cost challenges it faces this year and into next year. We and our officials trying to get that data right has been an ongoing discussion.

Q95 Bob Blackman: For clarity, what is the improvement panel's role in this application for funding? If it says, "We do not think that is required. You can improve services by doing X, Y, Z," is that the end of its approach for funding, or is it supporting the approach for funding?



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Luke Hall: Alex, is there anything else you want to add on this, on the exact involvement of the panel in the EFS request before an initial outline offer is made?

Alex Skinner: The primary purpose of the panel is to do with the improvement plan. It is to help the council in developing and implementing its improvement plan and then to provide assurance to the Secretary of State that that plan is then being delivered. If the improvement panel has views on the application for financial support, that is something we would take into account. It does not have a formal role in providing advice. That process, as the Minister set out, was that we have had discussions with them and there has been the non-statutory rapid review, which was undertaken by Chris Wood, as you said.

Q96 **Bob Blackman:** You have had the rapid review and there is an improvement panel in place. What lessons can be learned from what has happened at Croydon, in terms of better regulation and oversight of how the authority and other authorities should act in the future?

Luke Hall: The public interest report is a useful starting point for lessons for other councils about wise or unwise investments. I would circle back to the point I was trying to make earlier about the fact that section 114 notices are extremely rare. When you look at the two that have happened in the last five years, you see a lot of governance and financial failures. The public interest report sets those out much more clearly and articulately than I would be able to, so that is probably the proper starting point for lessons learned.

As I said, we are committed to trying to improve our data and oversight of these types of investments. That is certainly a wider piece of improvement work that we want to do. That is why we have that exercise at the moment to consult on that and take views on how we can improve it. That is certainly something we are doing. Taxpayer support should not be provided lightly. This is a significant request for support, following, reflectively, significant failings in the council.

Q97 **Chair:** Minister, finally, I have a welcome and a gripe that local government gives us whenever it talks about finance. The welcome is the amount of ringfencing that has been removed and the greater freedom that gives to local councillors. That is absolutely right. The gripe is how many forms councillors have to fill in to bid for relatively small sums of money, competition that often does not lead to the funding being given, at the end of the day. Would it be appropriate for you to go back to the Department and talk to your colleagues in other Departments to see whether there could be a real attempt to reduce the amount of money that is given through this bidding process and form filling, which takes up so much local government time?

Luke Hall: I am completely open to looking at that, absolutely. Be under no illusion, this is raised very regularly with me as well from local government. Our starting position is that we want to avoid ringfencing for



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local government unless there is a really good reason to do so. When we are talking about the larger investments and large competitive funds that local authorities have to bid for, there is clearly due process and good reasons for that. If councils or this Committee want to highlight some particular examples of what they think are, essentially, overly bureaucratic processes, I would be really happy to do that. I can assure you I am continually making the point to other Departments, as local government often is, about the need to try to make sure we are not ringfencing unless there is a genuine reason to do so. I am always happy to take away recommendations about what specific bits can be looked at and come back to you.

Chair: Thank you very much for that, Minister, on a positive note. Thank you very much for your time today, covering a range of issues of local government finance, which I am sure we as a Committee will be coming back to, probably with you, in the not-too-distant future. Thank you as well, Alex Skinner, for coming along to the Committee and supporting the Minister today.