HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Local Government Finance system: Overview and challenges, HC 646

Monday 29 November 2021

Ordered by the House of Commons to be published on 29 November 2021.

Watch the meeting

Members present: Dame Meg Hillier (Chair); Shaun Bailey; Sir Geoffrey Clifton-Brown; Mr Mark Francois; Antony Higginbotham; Mr Richard Holden; Craig Mackinlay; Nick Smith; James Wild.

Gareth Davies, Comptroller and Auditor General, National Audit Office, Adrian Jenner, Director of Parliamentary Relations, NAO, Vicky Davis, Director, NAO and David Fairbrother, Treasury Officer of Accounts were in attendance.

Questions 1 - 120

Witnesses

I: Jeremy Pocklington, Permanent Secretary, Department for Levelling Up, Housing and Communities (DLUHC); Catherine Frances, Director General, Local Government and Public Services, DLUHC; Alex Skinner, Director, Local Government Finance, DLUHC; and Will Garton, Director, Public Services HM Treasury.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

The local government finance system in England: overview and challenges (HC 858, Session 2021–22)

Examination of witnesses

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

Chair: Welcome to the Public Accounts Committee on Monday 29 November 2021. We are returning to a topic of long-standing interest to the Committee: the financial health of local government. We have before us representatives of a new Department, or an old Department with a new name: the Department for Levelling Up, Housing and Communities. Although it has lost "local government" from its name, that is still a core responsibility of the Department. We want to talk today about the challenges that local government faces, partly as a result of covid, but much more generally as well, because that is the key issue and has for a while been a concern of the Committee. We also want to touch on the reforms of local government financing that are on the way through but not quite yet delivered.

I welcome our witnesses. Online, we have Jeremy Pocklington, the permanent secretary at the Department for Levelling Up, Housing and Communities. In the room with us, we have from the same Department Catherine Frances, the director general for local government and public services, and Alex Skinner, the director for local government finance; and Will Garton, the director of public services at Her Majesty's Treasury. That is a good team to look at the numbers with us.

Before we get into the main session, we have some questions about some of the issues currently going on, including the weather. I call Mr Richard Holden MP.

Q1 **Mr Holden:** Thank you very much indeed, Chair. There is a real issue at the moment across the north of England, particularly in places such as County Durham, which I represent. We have seen really horrific snowfall and very high winds in the last few days as a result of Storm Arwen. Northern Powergrid has managed to reconnect around 75% of the quarter of a million homes that have been left without power, but that still leaves around 80,000 homes without electricity, including thousands in my constituency of North West Durham. A lot of the communities are really getting involved in helping each other out, but what is the Department doing to step up to assist those councils? Are any funds available for such instances if Durham County Council, with which I spoke earlier today alongside Northern Powergrid, does call on the Department for support?

Jeremy Pocklington: First of all, thank you for the question. Our sympathy goes out to everyone affected by the adverse weather. We very much hope that they are reconnected to the grid soon. The actual work to lead on reconnections, led by the distribution network companies—the DNOs—is co-ordinated through our colleagues in BEIS. We are working closely with them through our resilience and emergencies division, and the red function, which is liaising closely with councils in the area. My colleague Ms Frances may want to provide a further update on that. Any council should come and talk to the Department if they have any particular difficulties or concerns, including in relation to money.

Mr Holden: Thank you, Mr Pocklington. Ms Frances, do you have anything to add?

Catherine Frances: I do not really have anything to add. Our LRF colleagues have been working with our red function over the last few days. There are quite established protocols for switching on emergency support for finances, as you know. We have to meet certain thresholds to get to that point. If any council needs help, they should just come and talk to us, and we will assess that jointly with them.

Mr Holden: Thank you.

Q2 **James Wild:** Back in March, the Government committed to closing the loophole that allows property owners to avoid paying any council tax by declaring that they let out their second home even if they don't do so; and they do not pay any business rates, either, because of small business rate relief. What is the delay in bringing that measure into effect?

Chair: Mr Pocklington?

Jeremy Pocklington: I think my colleague Mr Skinner might be better placed to answer that.

Alex Skinner: Sure, I am very happy to do that. The plan at the moment is that we will come out with proposals before Christmas on the particular issue of holiday lets.

James Wild: Okay, great. That is good news.

Q3 **Chair:** Proposals before Christmas does not mean it will be implemented before Christmas.

Alex Skinner: No. The proposals will come forward and then we will obviously take the normal legislative routes, to make sure that it is implemented.

Q4 **Chair:** Have you got a timeframe for how long it will take to legislate? You do not have a slot in Government time for that yet, I guess.

Alex Skinner: As soon as possible.

Q5 **Chair:** I think some people on this Committee might lobby bits of Government—it will be over to you shortly, business managers.

Finally, before we go into the main session, there are obviously a number of refugees from Afghanistan living in hotels and temporary accommodation. That has put quite a lot of pressure on local services—

health, as well as local government. Can you give us an update on support? When people arrived, I think there was a hope that they would be rehoused more quickly than they have been. Understandably, it can be very challenging to rehouse people permanently. Is there any further update on support and financing for local government to support Afghan refugees?

Catherine Frances: Perhaps I can come in on that. This is a really challenging situation. As you allude to, there are around 12,000 in hotels at the moment, and we have been working very closely with the Home Office. At the moment, the Home Office has a system of financial support flowing to councils to fund their statutory support functions for individuals in bridging accommodation in hotels. In addition, the Government has announced funding that flows on a tariff basis for individuals who have come through the ACRS scheme or the ARAP scheme when they are housed with local councils and placed. That funding is over £20,000 per person, with additional funding for health, education and English language provision as well.

In addition, our Department has helped shape a £17 million housing fund, which can be used by local councils to top up payments when they are placing individuals in houses in the private rented sector. The feedback from councils so far is that that is a very helpful funding stream. The update that we gave to the Home Affairs Committee just last week on the revised data was that over 1,000 properties have been found, and people are in the process of being matched to them. That is well over 4,000 people. We recognise the challenge.

Q6 **Chair:** While all this is welcome, important and necessary, one of the challenges is the long term. The £17 million to top up private rents sounds like a lot of money, but it can be burnt through very quickly in constituencies such as mine and those of colleagues with high rent areas that are above the local housing allowance level. Is there any further thinking going on within the Department about how to support these people in the long term and make sure that local government has the money to do that?

Catherine Frances: The funding that will be given to local councils when these people are placed spans three years of additional support for them. On the housing funding that has gone in, it is essentially a policy decision to say that we have a very exceptional need. A very exceptional group of people have come in one, as it were, as a result of Operation Pitting. This is a really unusual step to take, to give the councils flexibility. But I think the funding will flow for three years in these schemes, and then they will just be part of the local government funding formulas and all the rest of it that we are going to cover today.

Chair: I just want to comment and add to that. Perhaps I will not ask for a comment back from you, Ms Frances, but it is important to highlight that in my constituency, two families were rehoused from Syria. Four years on, one of the main householders has found work and is able to support themselves, more or less, but the other, the head of the household, has not been able to find to work, so private rent becomes a real challenge. There may be a longer tail, but perhaps this is not the hearing in which to go into that in detail.

We will move on to the vital issue of the financial sustainability of local government, and I am going to turn to Sir Geoffrey Clifton-Brown to kick off.

Q7 **Sir Geoffrey Clifton-Brown:** Good afternoon. Perhaps we could ask Mr Pocklington first, then perhaps Will Garton can cover anything that is not covered. What is your current assessment of the financial health of the local government sector, particularly in view of the spending review settlement?

Did you hear that, Mr Pocklington? I'm really sorry; I was mumbling under my mask.

Jeremy Pocklington: I did hear it, Sir Geoffrey. Let me start with the current position this year, then I will move on to the spending review. First of all, looking at the current position, our assessment is that the financial position of the sector is sustainable and that the combination of the funding that has been provided in recent spending rounds and the additional funding provided through covid emergency funding leaves local government—looking at the sector as a whole—able to meet the pressures that it is facing. Coming into this year, the increase in core spending power from the last spending review was 4.6% in cash terms. There was a real increase in the spending review previous to that. Over the last two years, we have provided £12.5 billion of additional support for expenditure pressures related to covid.

We are continuing with our monthly monitoring data at the moment. The commitment that we gave to local authorities was that we would meet their expenditure pressures at a sectoral level, and the latest data, which I think takes us up to September, shows that we have done that. Looking at the period from 2020-21 and the full year projection for 2021-22, the sectoral level shows that we have provided the support that councils needed to meet both their reported expenditure pressures and losses related to sales fees and charges, and for tax. That is the current position.

Sir Geoffrey, I am tempted to pause there before moving on to the spending review, to see whether you have any questions first.

Q8 **Sir Geoffrey Clifton-Brown:** Would you like to just cover the spending review first? Then I will certainly have further questions.

Jeremy Pocklington: Of course. Then we move on to the spending review that was only recently announced. Again, we think the position is that the spending review gives local government, looking at the sectoral level, the resources that it needs, and leaves the sector in a sustainable position. The spending review allocated £4.8 billion of new grants to local government. That is £1.6 billion each year, including funding for family health and other resilience, as well as £3.6 billion for adult social care reform. We think that this enables the sector to respond to rising demand

and cost pressures, although it is important to say that we are not complacent about the sector. We all recognise that the sector is under pressure at the moment. It is well publicised, and we are continuing to monitor closely and engage carefully with the sector, particularly the councils that need it the most.

Q9 **Sir Geoffrey Clifton-Brown:** You have acknowledged that you have put in an extra £12 billion for covid, which more or less just covers the costs that they lost over covid, but given that the sector is 50% down in real-terms spending without council tax between 2010 and 2019, the sector was well under pressure before covid. It is now under increasing pressure with things like adult and children's social care. Isn't the only thing that is really keeping it afloat the allowance for people to increase the council tax?

Jeremy Pocklington: There are two things to say. First of all, the history of spending reviews is well known in relation to the sector, and the role of the sector in fiscal consolidation during the coalition period is of course well known. The position, though, has been reversed in recent spending rounds, providing significant increases, and this spending round, which was only just announced, provides £4.8 billion of new grants, so it is not a case of simply relying on increases in local taxes. Actually, the increase in taxes through this spending review I think will be lower than they have been in recent years.

Q10 **Sir Geoffrey Clifton-Brown:** But is it not a fact that this new round of expenditure allows the sector to just stand still? Any new expenditure arises from the ability to increase council tax. It is council tax payers who are bearing the brunt of any new expenditure, isn't it?

Chair: I think we should also highlight, for people who may be following, that figure 5 on page 13 of the National Audit Office Report rather illustrates the point that Sir Geoffrey is making.

Jeremy Pocklington: I am tempted to find page 13 of the Report and have a look. As I said, the history is well known. A significant new grant is being provided in this spending review for future years. Actually, the council tax increases looking forward are projected to be smaller than they have been in recent years, so this is a Government that are providing resources to local government.

Saying that, we understand that the pressures that the sector is under are real. Demand is increasing for adult social care and children's services, for example. We have factored that into our spending review, as I am sure we will discuss. We are also providing additional support for improvements in quality of services, for example, through funding for family help—additional funding from my Department for the supporting families programme, which is providing additional resource for targeted improvements in services.

Q11 **Sir Geoffrey Clifton-Brown:** Thank you very much. Perhaps I could go to you, Mr Garton. Clearly, there is some small number—I hope it is small—of local authorities that are in significant financial difficulties. You are monitoring these quite carefully, I gather. Can you tell us how many there are in your urgent watchlist?

Will Garton: I could certainly hazard an answer, but did you not mean to direct that to Alex?

Sir Geoffrey Clifton-Brown: I'm sorry, yes. That was meant for Mr Skinner.

Alex Skinner: As you know, there are 10 local authorities that we are very closely engaging with, that have applied for exceptional financial support. That is over the course of 2020-21 and '21-'22. Those are all very familiar; they have all been published and all the details are available on our website. In addition to that, you are right: we do keep monitoring and closely engaging with a range of other local authorities.

Over the course of the pandemic, we have engaged with over 150 local authorities. I want to be very clear that that is not suggesting that 150 local authorities have serious financial difficulties but, as a part of our proactive programme, we have been engaging with them. As you would imagine, there is a smaller list of those that we are more closely engaging with, and I would describe it—potentially at the risk of suffering what happened last time when I discussed this—as a relatively small number of authorities within that that we are engaging with more intensely.

Q12 **Sir Geoffrey Clifton-Brown:** I don't want to trespass on colleagues who will come in on the really delayed audits, but some of them have not just been delayed for this year; they have not even been completed for previous years. You have not published your monthly data for October and November, I gather, and you will cease collecting it in the summer. Is that correct? How do you know that you've got the data to be looking at the correct councils?

Alex Skinner: We have just published round 16, which takes us to the end of September. Round 17 closed on Friday and we are hoping to publish that very shortly. The intention is to keep doing that monitoring until the end of the year. As you say, the longer-term future is a question for Ministers because, as we move out of the emergency phase, there is a question about the fitness for purpose of something so closely focused on covid, but we are certainly having discussions with Ministers about the most effective monitoring that we can do. We may get there later, but there is a range of actions, which we have already taken, on capital data—in response to questions that you have raised, Sir Geoffrey—broader accessibility, use of statistics, and risk metrics, where there are particular concerns, which were raised in the commercial report that we discussed some time ago.

Those things are all ongoing. In answer to your question about whether we know what is going on in the sector, I am confident that we do: first, from the monitoring form; secondly, from the internal data that we are now collecting in response to challenges that you have given us; and thirdly, from the 150 authorities that we have been engaging with over the course of the pandemic, and particularly those we have more concerns about—with which we have had very frank discussions and I think we have a very good understanding. On that basis, I am confident that we understand the risks that are in the sector, and we are managing them.

Q13 **Sir Geoffrey Clifton-Brown:** I am glad that you are confident. That is the first thing, but where is the trend going? Is the number of authorities that you are monitoring—that are applying for special assistance—getting higher or lower?

Alex Skinner: Apart from the 10 local authorities that you already know about, there are no other local authorities that we are currently in discussion with about exceptional financial support. I would also note that all local authorities have agreed their budgets for 2021-22, and we are confident that they will reach the end of '21-'22. They are in the middle of setting their budgets for '22-'23. They took account of the results of the spending review, and we are talking to authorities that would like to share their concerns with us. Again, I would stress that those are authorities that want to come and talk to us because they have questions or concerns about their sustainability. That is very different from saying that they may need exceptional financial support.

Q14 **Sir Geoffrey Clifton-Brown:** I am wondering whether you are basing any of those assumptions on local authorities' reserves? Figures 19 and 20 on pages 40 and 41 show a slightly conflicting story. Figure 19 shows that reserves over the last 10 years have generally got better. Much more worryingly, figure 20 shows that the top 20 districts are 51.4% higher in their indebtedness. That could reveal that the general picture, particularly of the smaller district councils' financial health, is getting worse.

Alex Skinner: On the reserves data, that is the latest position that we have because of local authorities failing to provide us with the data that is needed, which we are now chasing. We do not have more recent data than that. As you have said, the picture on reserves is currently pretty stable. There were some complexities because we paid some grants at the very end of the year as a pre-emptive measure to support local authorities at the start of the pandemic—but broadly, you are correct. With district councils and spending increases, it is very hard to disentangle what is going on because we have been through the pandemic. The latest data, for example, on PWLB borrowing from March '19 to March '20, shows that local authorities borrowed £8.3 billion from the PWLB; from March '20 to March '21 they borrowed £1.3 billion. The total borrowing over the same period fell from £11.9 billion to £582 million.

Now, I do not want to overstress the relative role of covid-19 in the actions that we took. However, it is certainly the case, as acknowledged in the Report, that the reforms we have made to the PWLB, as well as to our guidance, are expected to have a very significant impact on borrowing. I would attribute at least part of that change to the reforms that we have made, both to PWLB and to the wider local government finance framework.

There are then things that are happening now, which I am very happy to go into if you would like.

Sir Geoffrey Clifton-Brown: Okay. You have opened up my curiosity.

Alex Skinner: I have whetted your appetite.

Sir Geoffrey Clifton-Brown: Yes, you have.

Alex Skinner: In terms of what is happening now, we published a policy paper on capital in July that set out the framework we were going to operate within. That talked about three lines of control: detecting and monitoring, managing risk, and preventing risk. On detection and monitoring, as you know, we carried out an initial survey earlier this year to improve our understanding of capital activity. One of the crucial things that the Committee highlighted previously, which we have responded to, is the risks emerging not just in commercial property but in local authority companies and investments. Now we have done that, we are going, from the beginning of next year, to have a full data collection based on the initial survey that we have done. That will collect data on an ongoing basis and allow us to understand what is going on. At the same time, we are also going to amend the statistical forms that we put out. You raised an issue about reserves and our understanding of reserves data—we discussed that at the previous Committee hearing. We are now breaking reserves down into five more classifications, which means we will really understand why people are holding reserves and why they are increasing.

On managing risks, we have done a lot of work as part of the exceptional financial support process; all the authorities who applied for that have been through an assurance review, and some of them have been through a governance review. That is a very rigorous process, which is being conducted by CIPFA on our behalf. As I said, we made the changes to the PWLB, together with the Treasury, and now colleagues who work with me review all the capital plans from every local authority for the next three years to ensure that they are compliant with that. If they are not, then we would advise the Treasury that they should not be able to borrow. The final thing is prevention. As we said in the July paper, we are looking at the statutory powers that we have to cap borrowing, and we will continue to look at that.

Also, on minimum revenue provision—I am sure this is dear to your heart because we have discussed it on many occasions—we will be issuing the consultation tomorrow, and that will be taking actions. Two issues were identified with minimum revenue provision: one was that people were using capital to pay the minimum revenue provision, in clear contravention of our guidance; the other was that they were not paying minimum revenue provision for all activities, particularly things like investments in local authority companies. The consultation, which comes out tomorrow, will say that we should be introducing secondary legislation which will change that "have regard to" to "must comply with". Those are examples of the actions that we are now taking.

Q15 **Sir Geoffrey Clifton-Brown:** I read that, and I am pleased to hear you confirm it now. Will it be the usual eight-week consultation? After that, how long will it take you? This can be done by secondary legislation, I gather.

Alex Skinner: Yes. We will do the consultation over eight weeks. Obviously, we will need to advise Ministers on the outcome of that. Depending on what they say then, because it is secondary legislation, I imagine it could be very swift. The only thing we will want to be mindful of is where we are in local authority budget-setting procedure and the fact that what we want to do is change behaviour—what we do not want to do is trigger unintended consequences—so we may just want to think about the exact date of implementation. But in previous cases local authorities have taken the change from the time that we have introduced the legislation, even if it does not come into effect until later.

Q16 **Sir Geoffrey Clifton-Brown:** I have another two or three questions, and then others may want to come in. I am glad that you mentioned capital funding. May I take you to figure 4 on page 11? It comes up with the staggering statement that "most capital spending"—this is for 2019-20, which is why I am wondering whether the damage is already there in the system to cause trouble—in the year was around 64% and "was resourced by borrowing and central government grants." Then it comes up with a fairly horrific bar chart, which shows that 42.4%—this is in 2019-20, admittedly—was prudential borrowing. I am wondering whether that is connected to how much money—this is for 2018-19, which is a slightly different year—was spent on commercial property, as shown on page 14. I am wondering whether that huge increase in commercial property in those years—'16, '17, '18 and '19—is going to store up big problems for us in the future. Presumably, some of those commercial property investments must now be pretty dubious.

Alex Skinner: Yes, and I think there are two things that are relevant to that. One is that CIPFA has just closed its consultation on the prudential code, which makes it very clear that local authorities should not be borrowing to invest. There is some controversy on the consultation. Having read the consultation myself, I actually think that it is relatively clear. It says that local authorities should consider it very carefully and they should not be doing new investment, but at the same time they should not be fire-saling commercial investments, which I think we would all agree is the sensible thing to do.

Q17 **Chair:** I think that was covered in *Public Finance* magazine recently. Is that what you are referring to?

Alex Skinner: Yes. It has had a lot of coverage. That is the first thing.

The other thing is that I think you are right: many of the measures that we have done are about the flow rather than the stock. That is where the statutory cap is a relevant question. As I say, we talked about it in our July paper as something that we were actively considering—that is something that would be relevant. In the CIPFA consultation, one of the really interesting things was not just that they talked about it in principle, but that they said that local authorities should very carefully consider the proportionality of their borrowing, not just affordability. What that means is that if you are local authority and you have borrowing of 100 times your net income—even if it is affordable—you should be thinking very carefully about the borrowing that you are doing and whether you would be better served by repaying that debt and selling the commercial assets.

Sir Geoffrey Clifton-Brown: But my question was about the huge amount that has already been put into commercial investment. Let's take the 12 authorities that you are considering for special assistance.

Chair: Do you want to give the reference? I think it is figure 13.

Q18 **Sir Geoffrey Clifton-Brown:** The big commercial investments are shown in figure 14 on page 31. Has that already stored up a problem for those authorities in particular, but others in general? They would have put a large amount of money into commercial property that may now not be viable.

Alex Skinner: Yes. It is worth noting that in the vast majority of cases the exceptional financial support cases have not been triggered by commercial investments. There are some well-known cases that have been: for example, in the case of Nottingham, you have Robin Hood Energy; in the case of Croydon, you know there were investments in things like the hotel. But in the vast majority of other cases, it was not triggered by what you might call speculative commercial investments. In the case of Luton, there is obviously a very big commercial enterprise—the airport—and we have had discussions about that previously.

In answer to your question about whether we are concerned about others, it is the case that some local authorities have significant commercial borrowing but also have relatively well-developed risk management processes and procedures, so they have not come to see us. Some of the authorities that we have discussed in the Committee before, who you might think have come to see us because they have large commercial investments, have not done so. As I say, they have very well-developed risk-management processes. That is not to say that we are complacent about the risk. As I say, we are actively considering the work that CIPFA is doing and the work that we are doing ourselves, to see what we can do to manage that risk going forward. But I absolutely recognise that the risk is there. There is a flow risk and a stock risk, and we are conscious of both.

Q19 **Sir Geoffrey Clifton-Brown:** This is my final question for now. We have referred in the past to what I call "the more exotic investments", such as investments in renewables and the securitisation of the income. Will your consultation paper cover those as well?

Alex Skinner: Much of that has already been covered because, for example, it is no longer permissible for a local authority to borrow to invest in things such as renewables as a commercial investment and then still borrow from the PWLB. Given the role that the PWLB play in funding local authorities, that has effectively ended that already.

There are then some areas that, I agree, are not impacted in the same way, including local authority companies, for example. That is exactly what the data we are now getting and the processes we are now putting in place are designed to tackle and address.

Q20 **Shaun Bailey:** Mr Skinner, to come back to the point that Sir Geoffrey was making, particularly on MRPs, one thing that the NAO Report noted was the deferring of payments on borrowing by local authorities and how it has been utilised to give a bit of headroom. What is the Department's assessment of the impact that has had, and are you not concerned about a potential ballooning effect as a result of local authorities continually delaying and deferring payments on borrowing?

Alex Skinner: I agree; that is potentially worrying, which is exactly why the consultation that we are going to launch tomorrow will address exactly that issue and make clear that local authorities must ensure not only that they are paying the MRP from revenue, but that they cover the full suite of assets.

As part of that work, we looked at what local authorities declared they were making in MRP and at what we expected that they would have made in MRP. That is an art, not a science, so there are risks associated with it, but that highlighted a discrepancy in a number of local authorities. We have been in contact with all those authorities to understand the issue. Going forward, we need to make sure that we address the issue and that, at the same time, we do not have any unintended consequences that could affect local authorities' ability to deliver the services that we rely on.

On the consultation, yes, we have done the internal work, and we have a clear understanding of the local authorities that we think are at risk. The consultation will give local authorities another opportunity to come back to us and to raise any issues that they might have. I think we are then in a good place to understand and make sure that we tackle the issue of MRP and under-provision.

Q21 **Shaun Bailey:** Do you think that would have been picked up sooner if local government audit had been done in a timelier manner? Figure 13 shows that this is not a new phenomenon; it has been going on for a number of years given the way borrowing and revenue provision have happened. Could this have been picked up sooner? It looks like a considerable risk for local authorities and for the Department.

Alex Skinner: Local authority audit is not my area of expertise, so I am very happy to hand over to Catherine.

Chair: Ms Frances, the money woman—well, you are both money people, frankly.

Catherine Frances: I think you are highlighting the trends in borrowing and in commercial investment, which we have covered in this Committee before. On the commercial side, we know that although there has been widespread use of commercial instruments by the sector, most of them are used for things such as housing and regeneration. A small chunk of the sector are the real outliers in terms of their commercial investment and borrowing for it. That has been visible to us for some time—I think I first appeared before the Committee in 2015 or 2016 and we discussed that issue—so there has not been any shortage of understanding about that flow coming through the system. As Alex said, we have taken a really quite extensive range of steps to tighten up, including by thinking about MRP and access to PWLB. The Committee can just visualise that as local authorities wanting to borrow from the PWLB, and our teams actually sitting there with them and saying, "What is your next three-year plan?"

Audit will pick up retrospectively what is happening. I think the issue on audit in these cases is actually where MRP has come out as being a real cause for concern—that is particularly striking for one council. It is the auditors who have picked that up, which is great, but where the problems have been long standing, they may not have been picked up in earlier years; they are being picked up only now. Audit is a critical part of our landscape in terms of looking at the sector, but it is not the only thing.

Q22 **Shaun Bailey:** I have one final question. When did this become such an issue for the Department that you felt it necessary to introduce secondary legislation? I note that the NAO reported back in 2020 on these issues, and has highlighted them back as far as 2016, but when did this become such an important issue for the Department that you felt you had to go for this consultation, ultimately with a view to introducing secondary legislation to combat the problem?

Alex Skinner: I think we have recognised that it has been an issue for a while, and you will remember that we made changes to the MRP guidance, CIPFA made changes to the MRP guidance and we ran a post-implementation review. We have taken an incremental approach because of the risk of unintended consequences. I think it was Clive Betts who said, "Don't use a sledgehammer to crack a nut" when it came to commercial activity. We have been mindful of that. Having done that, and having recognised that there are still some local authorities that are not complying, we took the decision we did. What I would say, though, is that even the announcement has led a number of local authorities that we may be concerned about to come to us and say, "What do we need to do and how do we change our provision? We understand now that we need to be behaving in a different way and taking account of MRP properly."

Q23 **Sir Geoffrey Clifton-Brown:** Can I just quickly come back in? We have heard at previous hearings that some local authorities, I think when they borrowed from the public loan board, did not have an MRP at all. Will your legislation be retrospective to make sure that they do have to have an MRP so that they can properly assess these investments?

Alex Skinner: That will be one of the questions in the consultation. Our thinking at the moment is that we should apply this prospectively because of the risks in some cases; not only would we correct the behaviour going forward, but we may have very serious impacts on the financing of the local authority. Catherine spoke about Slough, where MRP has been a significant issue. We know where it has led. At the moment the plan, and the question we are consulting on, is whether this should be prospective. Obviously if people come back and think it should be retrospective, that is something we would advise Ministers on.

Q24 **Sir Geoffrey Clifton-Brown:** Surely it ought to be retrospective. If someone has put in an investment—it doesn't really matter whether it is from the public loan board or a commercial source of investment—they ought to have a plan to repay the money, because if they don't they can't assess the investment properly. If it puts them into some form of difficulty, it is going to be a difficulty sooner or later anyway, so surely the sooner it is recognised, the better.

Alex Skinner: I think the question is just about the speed at which the risk crystallises. I do not disagree with you, Sir Geoffrey; I think you are making absolutely the right point. The question is the speed with which the problem crystallises. If we change the legislation, that means that on 1 April from the year it comes into implementation, the local authority would potentially have to take full account of all historic MRP underpayments. Our approach is to say: let us consult on the legislation being forward-looking, then let us engage intensively with the local authorities that have an underpayment problem historically, and let's fix it by that route, because it gives us more time to fix the problem, which hopefully squares the circle.

Q25 **Chair:** This highlights the challenges of how different local authorities have approached financial management, and the risks for council tax payers. I want to come back to you briefly, Mr Skinner, on the monthly monitoring data. You talked about data that had arrived on Friday, but why did you not publish anything between August and October?

Alex Skinner: I can only apologise. We had new Ministers and it took some time for us to engage—

Q26 **Chair:** If this is financial monitoring, is it a ministerial decision?

Catherine Frances: I think part of the irregularity of publishing this is that we gave local authority staff a month off over the summer, and we also gave them time off at half-term and asked them to account for a double month together, because we had feedback that they were a little bit lightly staffed over the summer holiday, and it seemed helpful. When we have brought in the double month, we have of course accounted for both; we have not lost data.

Q27 **Chair:** Okay, so we haven't lost anything. That is an interesting reason for delay, but never mind; we won't go into that too much. Both you, Mr Skinner, and the permanent secretary talked about how you are confident in certain things. You are confident about your knowledge of the sector. You have got these 150 local authorities that you have been talking to. But how can you be really confident with the audit delays that we are concerned about on this Committee? Local authorities themselves, and councillors, are having now to think about their budget for next March/April, but in some cases they do not have two years of audited accounts. How can you be confident if they are not?

Alex Skinner: Again, I will defer to Catherine on the broader question of audit. On the particular question, Catherine wrote a letter to the sector at the end of last week to discuss exactly this issue. The local government finance implications are obviously very serious, and it would be much better if we had the audit. I think we recognise that we are where we are—

Q28 **Chair:** I think that is an understatement, but yes, much better. It is rather necessary.

Alex Skinner: We recognise where we are. There is a lot of work needed to fix it going forward. The practical answer to your question is that local authorities will use estimates where they do not have signed-off accounts. Clearly, that is not as good as having signed-off accounts, but it is the practical answer to the question. There is then all the activity that was in both the permanent secretary's letter and Catherine's letter to the sector, which then set out how we are addressing it. I defer to Catherine on the detail.

Q29 **Chair:** The detail is pretty clear, Ms Frances; I don't think we need much information about the fact that we have had these delays. Do you concur with Mr Skinner? I imagine you do.

Catherine Frances: We are really worried by the 91% figure, as you will know. It is not acceptable, and it is a very hard way to run the system. It is hard for us nationally and it is really difficult for the local councils—no question about that. Practically, I think they will do what Alex has said, and we have talked to section 151 officers about that. I know the Committee has, quite rightly, pushed us strongly on this in the past, but we are pulling out all the stops and doing everything.

In terms of the system leadership role, I am now chairing a liaison and leadership committee across all the various regulators, bringing people together. We are assuming that role wholeheartedly. Commercially speaking, the PSAA is partway through its procurement processes; it has made it known that it will put 80% balance on quality this time, so rather than making a quality-price balance it is giving a very different signal to the sector. FRC, CIPFA and colleagues are working on the workforce piece and—

Q30 **Chair:** We do not want to reprise our work on this. We have known there was a problem for some time, and yet we still have the problem. Going to you, Mr Pocklington, as permanent secretary: at the beginning of the session you said very firmly that your assessment is that the current funding is sustainable, but then you leaned weight on saying that you are not complacent and you know the sector is under pressure. What do you actually know, if nine out of 10 audits are not completed and finance returns are coming in unaudited? Can you give us some confidence about where you get your own confidence from that the sector is all doing fine?

Jeremy Pocklington: As Catherine said, we, like the Committee, are deeply concerned about the delays in local government audit. I am sure we will come on to discuss—

Q31 **Chair:** We know you are concerned, but you have also said that your assessment is that the current funding is sustainable, when you do not have the information. Let’s bank the concern about audit and the fact that you are doing a consultation and that things might eventually one day improve. In the here and the now, practically, how can you tell us that everything is okay and that local government finance is sustainable?

Jeremy Pocklington: That is based on our financial monitoring data, our close engagement with the sector—as Mr Skinner has said, we are talking to more than 150 local authorities—and our own analysis. We do have grounds for the statements we made, but none of that takes away from—

Q32 **Chair:** I am sorry to interrupt you so often, Mr Pocklington. You are talking to 150 local authorities and we know, from some of those that have had challenges—Croydon springs to mind—that there were issues that, even though they had been emerging over years, were not apparent to the leadership and officers of those local authorities. If they did not know, how do you know? In fact, in that case and others you did not know. I am just concerned to know how you can be sure that everything is fine when you do not have the audited accounts. You are relying on local authorities, and they don’t know either, as we have seen in some cases. Some may be more on top of it: it sounds as if Luton, from what I have heard, is very on top of what its issues are, but that is slightly different and directly covid-related, to do with the airport. What about the others that just do not have the information and knowledge?

Jeremy Pocklington: As ever, as I think you are alluding to, it is often a mixed picture in local government. There are some very good councils and local authorities that are on top of their situation. Our argument in the Department is that we are confident that, at a sectoral level, the sector is sustainable, but there may be individual issues in local authorities that we are unaware of. Ultimately, that is the responsibility of local authorities, but we have considerably increased our monitoring and our engagement with the sector through the course of the pandemic, enabling us to have the confidence that we have in the judgments that we are making. We are rightly highlighting the importance of audit and the need for local authorities to have appropriate financial management in place.

Q33 **Chair:** I just feel that we are dancing around on this issue. Basically, you are flying blind on a lot of this, as are many local authorities. In some of the evidence we had from the ICAEW, Grant Thornton’s statutory recommendations report for Slough highlighted how significant weaknesses in the finance team led to audit delays and, as a consequence of errors in unaudited accounts, the local authority lacked an accurate picture of its financial position, which eventually led to the 151 officer being forced to issue a section 114 notice. In today’s “Public Finance” update, “Auditors raise worries over Nottingham's procurement”—that was internal audit at least, so at least something is going on there to suggest that something is happening in the council. But you do not know this. The auditors are saying that in some cases, councils do not know this.

I just worry that you are being overconfident about a sector that has had a reduction in funding for a decade, until recent increases—but still underfunded, compared with where it was 10 years ago—and it has been hit with covid. We have also heard about the MRP, refinancing basically to get through, and building up reserves because of a lack of understanding. Add that all up and on what are you basing your confidence? Is the £4.8 billion from the Treasury in the last spending review enough?

Catherine Frances: May I come in on this? We are not flying blind, although the data is imperfect, because the audit is not there. If you look at reserves usage in this sector, I think every year since 2011 or so, the sector has said to us, "We're really worried about our reserves," and every year except for two they have added to their reserves, as an overall sector. If we look at our covid monitoring data, the last time we saw this Committee about covid you were rightly worried that there might be a gap in what we provided in the first year—there is a very good NAO Report on that. We made the point that the data was actually swinging the other way, and our end-year out-turn data now shows that it swung quite strongly the other way, and that in fact we funded the sector more than it needed.

We totally recognise what you are saying, that council by council we are dependent on a strong accountability framework kicking in locally, and we know that some councils are not so good at that. What is in some senses uplifting in a very difficult context is that, when you talk about Nottingham or Slough having issues, these are councils that we are now very intensely engaging with. As a Department, we have taken some remedial steps. For example, we have looked back over which councils have not had audit completed for a few years, and we have phoned around those councils and we have reviewed the position in them. We have taken exceptional interest if the notes of previous auditors said that they lack finance capacity. Then we really phone and ask, "What is going on?", and have properly done a bit of a deep dive with them.

Q34 **Chair:** Will you tell us about that? That is interesting. You have done a deep dive where there is not finance capacity. That is important and interesting, but what is the practical programme of support you have put in? Have you sent in commissioners? As far as I am aware, you have not—sending commissioners where there is a lack of finance capacity. Have you sent in a crack team from other bits of local government? What have you done?

Catherine Frances: It depends where you fall on our radar. For those who have come through the exceptional financial support scheme and said to us, "We're really troubled", we basically have a graded sort of process. We had those processes in Nottingham—

Q35 **Chair:** At least they are aware—in a way, although it is bad and it is difficult for them, they are aware. It is the ones that are not aware that worry us.

Catherine Frances: Absolutely. We go down through a sliding scale. We have Croydon, Nottingham and Slough now in a really difficult position, where we have improvement panels in there or, in the case of Slough, a "minded to" decision from our Minister. We have Peterborough and Wirral, where quite an intensive governance look was done by an independent person, as well as a finance assessment. In other cases of exceptional financial support, we had CIPFA go in to look at their finances. Alex's team, when we have reached out to those councils we can see have not had completed audit for some time, are now talking to the councils in more intense ways to ask, "What is going on?", or, "Do you know what is going on?" Where we are concerned about them, we will quite happily pick up the phone to CIPFA or whomever to say, "Will someone please go in to support these people?" But it is quite an involved conversation with those councils, going through them, and sometimes there will be quite legitimate reasons why audits have not been completed from a few years ago, perhaps because there is a particular asset there is a debate about or something and that is not necessarily a cause for concern, but something that the auditor—

Q36 **Chair:** We recognise that there will be different situations, but it is that overview of the sector that concerns us as a Committee.

Catherine Frances: And don't get me wrong: we are also concerned to lack this fundamental pillar of oversight in the sector that is audit. That is why we are taking a huge number of steps to try and fix it. It is something that Jeremy and I talk about on a very regular basis—Comptroller and Auditor General and other significant leaders in the sector. We are talking about things; we are sorting out whether there is anything else we can do.

For the Committee, we have so far taken a lot of steps—there are not that many more steps that many experts in the sector think we should be taking. I can talk you through some of the things that we are considering for the future, but actually we have taken most of those steps with all parts of the sector—whether that be the market, local councils or the big regulators of audit. Our assessment is that it will take some time for this system to come right.

Q37 **Chair:** You are talking some of the talk, Ms Frances, but between 2010-11 and 2019-20 there was a 37% cut in real terms in support for governance arrangements in local authorities; that is highlighted in the first paragraph of page 37 of the National Audit Office's Report. Do you think that has contributed to this, and if so, will you try and boost that investment?

Catherine Frances: I don't think it is for us to tell local councils exactly how much they should spend on their governance support, but I do think it is for us—

Q38 **Chair:** But if there is not enough money, this is one of the things that gets cut. It is about the sustainability of the sector as a whole.

Catherine Frances: I absolutely understand that. However, coming back to Jeremy's points at the start of the hearing, we think that the spending review settlements put in place for both last year and the year we are going into actually are enough for the sector, recognising all of the difficulties.

As a Department, we have taken various steps. Recently, we said that we should have independent members of audit committees sitting in local government, and we have consulted on that. I would expect a good council to operate with a totally well-functioning audit committee, and scrutiny committees and all the rest. However, we also have to acknowledge that they are locally accountable. We are dependent on them having good governance. We all depend on that—local and national taxpayers alike.

Chair: I think we all recognise the importance of local voters in deciding what happens to their council. Nevertheless, you have an overarching role.

Q39 **Mr Francois:** Look, first, for the record, since 2010—since the start of austerity—the vast majority of savings in public expenditure have been made by local government, rather than central Government. Central Government have endlessly lectured local government about being efficient and effective but, in reality, local government has saved far more money than Whitehall. Let's get that firmly on the record. Secondly, Ms Frances, you said that reserves have increased overall, which is good, in a way—but not for the councils that go bust, and it is the ones that go bust that we are particularly worried about. It is suggested that your Department keeps a watchlist of those councils that are pretty close to having to issue a section 114 notice. Is that true?

Catherine Frances: We do exactly the process that Alex Skinner has talked about. We are in touch with loads of councils and, as Alex said, we are not aware of any councils, outside of the list of 10 councils that we have offered support to, in that level of difficulty at the moment.

Q40 **Mr Francois:** In layman's English, does that mean that any of those 10 councils could potentially have to issue a section 114 notice, say, within the next year?

Catherine Frances: That is always a decision for local officers in a council. A section 114 is not issued against the Government; it is important to understand that. It is for the officers in a council to say to the elected individuals in a council, "We are holding—"

Q41 **Mr Francois:** With respect, I think we understand how that works. In layman's English, are you saying that there are about 10 councils who may be fairly close to having to do that? We take your point that it is a local decision, not a Government decision.

Catherine Frances: I am not saying that. I am saying that there are 10 councils on the Government's exceptional financial support scheme, which is fully published. Whatever they do in their own financial management, beyond that, is not a question that I can comment on in this Committee.

Q42 **Chair:** The names of councils with known financial difficulties are obviously published. Going back to Mr Francois's point—just to hammer it home—what percentage of the other 150 councils are of real concern to you because they could be tipping into that exceptional financial support bracket? Mr Pocklington, I am turning to Mr Skinner and Ms Frances, as the money people in the Department.

Catherine Frances: I think Alex answered that question earlier in the hearing. There are 10 councils that we have offered exceptional financial support to. We don't have anyone else saying that they want to come to us for exceptional financial support—

Q43 **Chair:** That is not quite the question. Which ones are you worried about? Because they might not have asked you. Given the information and data that you have, what percentage of those? We are not asking for names of authorities. Mr Francois has been clear on that.

Mr Francois: I have.

Catherine Frances: We don't have a percentage like that. We have individual councils coming to us, and then we have thematic concerns: for example, if we look at MRP and go, actually, we are thematically concerned about that, we will take a step; or, thematically, you could look at borrowing, and take a step to change the PWLB regulations; or, thematically, you could look at commercial access and say, "Have we got the regulations in the right place?"

Q44 **Mr Francois:** I will not go into any individual case, for the avoidance of doubt, but part of the reason we are worried is that there have been some historical examples where the officers of the council were, shall we say, very slow to inform the politicians running the council of the financial difficulty that they were in. Sometimes the politicians were confronted with the horrendous revelation that they were just about to go bust. That has produced some extremely difficult circumstances. Now, how can the politicians be sure that what the officers are telling them is accurate if, in some cases, they have not had an external audit for two years? Because some officers are better than others.

Catherine Frances: I think we are dependent on the statutory leadership in councils, where you have the three statutory officers: the head of paid service, the monitoring officer and the section 151 officer. Fundamentally, the whole system rests on the propriety and the competence of those individuals. I absolutely acknowledge your point that you also need audit coming over the top to say, "Yes, that was in retrospect correct." But in the real day-to-day decisions, it is those officers who are going to be advising the council. I absolutely agree with you on their centrality to that process, and that elected people should be able to rely on good-quality information from those of us who are unelected; there is no doubt about that. Jeremy, do you have anything to add?

Q45 **Mr Francois:** Before we trouble the permanent secretary, do you believe that there are councils beyond the 10 that we have already established that are in financial difficulty?

Catherine Frances: Not to the point that they would seek any help from the Government. Councils all over the place will of course be asking themselves very hard questions about how they prioritise their funding and what they are doing with their commercial portfolios and those sorts of things, but no, we don't have anyone else on our list about to come to us saying that they are talking to the Government about exceptional financial support.

Q46 **Mr Francois:** There have been occasions in the past when the section 151 officer was the dog that didn't bark. There are checks and balances in place, but if the officers aren't up to it, they don't work. That is why having that external audit is absolutely vital. Forgive me, but I think you are being slightly complacent about the fact that you are flying blind, because you have not got the external assurance that councils are being well run. There are very large numbers of councils in this country, and some are run better than others.

Catherine Frances: I am really strongly going to resist the suggestion that we are being complacent. On audit, we are in a position where we are reprocuring the audit via the PSAA. We have redefined the value of quality versus price in there very clearly with the PSAA to give a strong signal to the sector. We have communicated with local government our expectations about having good governance processes and good systems in place. They are absolutely clear that they should be speaking with one voice about all of those things. We have issued a consultation on how they strengthen their audit committees. We are working with the NAO and the FRC on the quality of audit and whether there is anything we can do there. We have been advised by the Comptroller and Auditor General and by others that we should not drop the standards—*[Interruption.]*

Sorry, can I finish? We are also asking CIPFA/LASAAC to work with Her Majesty's Treasury to look at some questions about how local officers can bring material forward to speed up audit. That is something that this Ministry does not lead, but CIPFA must lead on it with Her Majesty's Treasury. We are also meeting the firms. I have a meeting with the firms tomorrow. This is not a Ministry that is complacent about this. I am going to be really strong on this point: we are worried about the lack of audit, we are taking steps, and in the intervening period we do have to rely on the good practice of local government, because it is actually an accountable sector.

Q47 **Mr Francois:** Well, let me push back on your pushback. If the system is going as well as you say, why recently have three councils basically gone bust?

Catherine Frances: I think it is quite strongly on the public record why. Those councils do have very particular issues, and I want to be accurate about how I describe them. Croydon Council has a very difficult history of its governance—particularly of its commercial investments, particularly Brick By Brick. In Slough there is the issue that it has not accounted for MRP properly. There has been an issue about governance, and Ministers have made a set of decisions about what they are going to do. In Nottingham City you have some governance issues that were highlighted, some of them by the auditor, and the Robin Hood Energy company. Those are councils with significant issues.

Q48 **Mr Francois:** I am trying to keep the party politics out of it, but we have three that have gone bust, 10 that have come to you for emergency financial support and about 150 that are talking to you about their financial position. That, to me, shows that it is not all rosy in the rose garden, is it?

Catherine Frances: I think we acknowledge that there are 10 councils that have really exceptional things going on with them and, for different reasons—and it is really different reasons—are coming forward. In some cases, it is a commercial investment such as an airport; in some councils, it is the context that they just happen to have a very heavy dependence on tourism, and sales fees and charges hit them; and in these three councils that I have just talked to, there are really particular financial concerns that are—

Q49 **Mr Francois:** My last question is this: you are talking to these 10 councils very closely. In fairness, you have raised this repeatedly. From your conversations, do you anticipate that any of those 10 will have to issue a section 114 notice before the end of the next financial year?

Catherine Frances: I am really not going to say what officers in a council are going to do. Sorry, I am just not going to speculate on that.

Mr Francois: I am sorry, but I think it would be helpful if you did.

Catherine Frances: I do not think it would be appropriate.

Q50 **Chair:** Let me put it another way. In the last decade—

Jeremy Pocklington: I don't think it would be—

Chair: Sorry, Mr Pocklington, can I just finish my question? Ms Frances or you can answer. In the last decade, have there been any departments that have issued section 114 orders that you were not aware were in difficulty?

Catherine Frances: No.

Jeremy Pocklington: To be very clear, our advice to councils about to issue a section 114 notice, if that is something they are considering, is that they should come and speak to the Department first. Obviously, it is a decision for local authorities.

Chair: We are clear about whose decision it is. You have said to us before that they must come and speak to you.

Mr Francois: With respect, I did not ask your colleague to nominate anyone individually. I was very careful in the words that I chose, sir. I just said, "Do you think any out of that 10 are going to go bust by the end of the next financial year?" I did not ask for a name; I just asked for a possibility.

Chair: They are certainly receiving exceptional financial support. We will leave that there for now, but we are going to go into it some more. I just wanted to bring in Mr Craig Mackinlay briefly.

Q51 **Craig Mackinlay:** On the issue of reserves, we have been discussing 114 notices, which is certainly interesting. There have been 114 notices issued over the past few years. Your reckoning of your antenna on whether people are on the special—I cannot remember what you called it now—

Catherine Frances: Exceptional financial support.

Craig Mackinlay: Yes. Have they been on that list? Have there been other measures of things you would expect to have been going wrong, and lo and behold, they did go wrong? What I am asking is, have your antenna measures that you have relied upon in the past proven to be right, or when you have had a 114 issued that maybe came out of the blue and you were not quite expecting, have you said, "Ah, well, there's another measure that we ought to add to our 'at risk' antenna measures"? I know these things are never definite or absolute, or something that you can be sure of, because you will not know what is happening in every local authority any more than I would, but are there things you could add to your list? Is your list right, so that you tend to be pre-warned and know when these things are likely to come out of the woodwork?

Jeremy Pocklington: Perhaps I can start, and Ms Frances can follow. Thank you for the question. As Catherine, I think, was about to say, we have talked before to the Committee about the sorts of things that we look at when we are reviewing local authorities. We look carefully at their financial position—for example, their level of reserves. We also look at their leadership and their quality of service delivery, looking at, for example, what we learn from the CQC and from Ofsted.

However, this is an area that we constantly keep under review and challenge ourselves—"What are the new things that we are seeing that we have not necessarily seen previously?" We have already talked in this hearing about the importance of MRP in relation to Slough, for example, and as we have seen that, we have made a very conscious decision to look ourselves at other councils and how they are using MRP. As Mr Skinner said earlier in this hearing, we conduct our own estimates and see where there is a discrepancy—where what we think the situation should be does not match what the local authority is saying—and then explore that with local authorities. There may well be a reason why the local authority is right to take the judgment it is taking, but we have a constant process of learning and iteration, hopefully continuously improving our assessment, oversight and stewardship of the sector as a result.

Q52 **Craig Mackinlay:** Thanks for that. Can I come back to you, Ms Frances, on the audit and accounts and that type of thing? When I was first elected to local government in 2007, I asked to see the equivalent of the finance director and said, "Can we have a look at the reserves?" He said, "That's the first time anybody has ever asked me for that." I always say to new councillors, "If you understand what's happening in the reserves, you'll understand the council, because you have so many earmarked reserves and reserves for this, that and the other. You'll know that there are a vast number of reserves in there, whether it's the crematorium renovation reserve or whatever else."

Are you seeing in some councils that may be in some stress what I might call some creative use or reconfiguring of some of those reserves into the general reserve? The 114 would always be triggered when your general reserve is exhausted, effectively. I have come across various councils that have done some slightly odd transactions through their earmarked reserves to try to free up into the general reserve some of these amounts. We saw a number of councils using the housing revenue account as a sort of one-off. I think that some even had to go to court for a direction to allow them to do that. Would some of these peculiarities in accounting, often mid-year, be one of these trigger points, in your view?

Alex Skinner: I think the answer is yes. You have highlighted a really good example of reserves. I talked a bit earlier about the fact that we are now going to ask for much more detailed data on reserves. This is one of those things where I would not say it was a surprise but we might have benefited from a bit more information, and that is exactly why we are doing it. For example, earmarked reserves are now going to be broken down into contractual commitments, revenue and capital expenditure, specific risks, budget stabilisation and "other". That is exactly designed to address the risk that you just highlighted. It will not be perfect, but I think that it will help us considerably.

The other one that I would talk about is on the capital where, again, it is not that we did not know that local authorities were potentially investing but, in hindsight, some more information would have been helpful. That was a recommendation from the Committee that we have taken very seriously. For example, now we are requiring a lot more data on financial investments by local authorities, because they could be an obvious risk. The other one that I would highlight is local authority companies, where again that is an obvious risk.

The basics are all in place. I do not think that any of them will be a surprise. That is why, as Catherine said, we have not had a section 114 that has genuinely taken us by surprise, but there have been areas where we have learned, both from the crisis and before, that actually more information would be helpful, and that is exactly what we are doing. On reserves we have done it. On capital we have done it. On MRP we have done it, and we are doing it on data more generally, so I think it is designed to address exactly the issues that you raised.

Q53 **Craig Mackinlay:** I hope you understood the point that I was making. It is not different authorities that have unusual commercial investments or any of those types of things; it is ones that have just decided out of the blue to do a bit of a rejig of their reserves. I have experience of this. In my local council, they have done exactly that. With my accountant's hat on, it just seemed a little odd, because they have been a bit skinny on reserves for a number of years.

It seems to be a pattern: you are skinny on reserves, and you have a fair bit in the housing revenue account and all sorts of earmarked reserves kicking around. Some of them are very historic, and the finance director has said, "We've got a reasonable basis to make to cabinet to do this rejigging of reserves to free up a bit more into the general reserve." It just seems to be a formula of a distressed council.

Alex Skinner: Yes, and that is exactly why having this more detailed data will help us, because then we will be able to see these movements. I would sincerely hope that all local authorities understand that there is a ringfence around the housing revenue account, which is completely separate from the general fund. If we started to see those kinds of movements, we would want to be talking to that authority, but absolutely, in answer to your question, that is why we are doing this breakdown. It will allow us to see the more granular pattern. If, for example, contractual commitments have gone down very significantly and "other" has gone up very significantly from year to year, we will be on the phone saying, "Can we just understand why that change has taken place?"

Q54 **Craig Mackinlay:** Can I ask something of Mr Pocklington, please? It is going slightly off-piste, but it is regarding the huge variety of grant funding that has gone down to local authorities over this whole covid period. Some has been managed because they have the business rates information to manage the various grants, et cetera, but other grants have been very discretionary based. Well, they are called discretionary until you see the guidance that came with them—they are sort of guided but sort of discretionary. Will the Department go back to the councils and look in some detail at whether these funds were disbursed in the way that you expected them to be? Are you expecting any clawbacks?

I have had a number of situations locally where a type of business has qualified in the authority up the road but not in the authority that I am in, which has caused a lot of dispute and argument and a bit of ill feeling. Are you looking at how these funds were disbursed, were they disbursed properly and do you think that there will be any clawbacks because they were done incorrectly?

Jeremy Pocklington: Our approach and oversight varies by funding stream, which is a simple answer to quite a complicated question. The first thing to say is that quite a significant portion of the funding for local authorities was unringfenced funding for them to spend as they saw fit. For 2020-21, of the £8.453 billion that we gave to local authorities for covid expenditure pressures, £4.6 billion was unringfenced and £3.8 billion was ringfenced. That gives you a rough sense of the proportion.

The oversight of that ringfenced expenditure varies by which funding stream it was. If I may share with the Committee a lesson for us from covid, we moved very quickly and, as the NAO Report notes, we got a lot of things right, but we possibly had too many separate individual ringfenced funds, with hindsight. But we were working at pace and under considerable pressure.

Whether there is clawback depends on the arrangements for the funding. I think the funding you are referring to, where there was clawback as I recall it—or if the money was not spent—*[Inaudible.]* It relates to an issue outside the numbers we are talking about in this Committee hearing, which is the discretionary business support—the BEIS business support grants—to local authorities where there were, as you put it, clawback arrangements in place. If they could not find the businesses to support under the terms of the scheme, they were not able to spend the money. That is because that money was specifically earmarked for that purpose.

Q55 **Chair:** Thank you. Let us move on to the spending review—I will come to you in a moment, Mr Garton. Mr Pocklington, in setting out your requests for local government in the spending review, as the champion of local government in Whitehall, did you consider the resilience of local government and any changes, particularly around the resilience of the sector as a result of covid, in putting together the bids to the Treasury?

Jeremy Pocklington: Yes, of course covid was in our minds as we prepared the spending review bids. I should stress that the overall approach and strategy we were taking was one of mainstreaming, to use a slightly bureaucratic word—

Q56 **Chair:** No, we would expect that for 2022-23. What did you take into account as long-term impacts that you would need to mainstream?

Jeremy Pocklington: Covid pressures. First, we start on the income side, where our forecast level for local taxes—for council tax and for business rates—took account of the impacts of covid both through the tax base we were basing it off, the 2021-22 tax base, and through reflecting the long-run impacts through the Office for Budget Responsibility forecast. The assumptions we use are the OBR assumptions for unemployment and, for example, for dwelling stocks. We take account of the weaker economic performance through our forecasts from income.

I now want to turn to the expenditure side. The overall approach that we took for this spending review was similar to that which we take in normal spending reviews, where we look carefully at underlying assumptions around demand, demographics and unit costs for key public services. We hold the ring in Whitehall, with other relevant Departments, for that process, and it is through that process that we took account of the impacts of covid. I will give you a concrete example—higher demand forecast for children’s services.

My final point is in terms of the additional targeted support that we provided. We also of course had the impacts of covid in our mind as we did that. I have already referred, earlier in this hearing, to the additional support that we provided to, for example, the Supporting Families programme and, of course, adult social care.

Q57 **Chair:** Mr Garton, the Treasury coughed up £4.8 billion over three years, so £1.6 billion a year. You have just heard our previous discussion about the woeful lack of audited accounts in local government, so was the Treasury confident, in giving that money, that it is going to be well spent, and what account did you take, when you were in discussions on the spending review, of the audit issue in local government?

Will Garton: Good afternoon. We are really confident in the numbers that we reached four and a half weeks ago. As Jeremy said, we go through an incredibly thorough process to try to bottom-up assess the likely pressures on adult social care and children's, waste—the whole spectrum—and assess the demand/need as a consequence over the next three years. Of course they are forecasts; they are only as good as the inputs, but that is a thorough exercise. But I completely agree with what Catherine, Alex and Jeremy said in other parts of the hearing. We obviously need a robust audit system to ensure that that money is spent wisely, to ensure value for that money; and we are working hand in glove with them to fix the current situation.

Q58 **Chair:** In the allocation, you were obviously taking into account the capacity to increase council tax. It is often presented as Government funding, but let's be clear: it is funding right out of the pockets of local taxpayers. So, in the discussions you were having with the Department, how much was it in play, as part of the negotiations, that you would expect local council tax payers to pay more through a potential uplift in council tax?

Will Garton: It was central to our work, obviously. We made an assumption, given, as the Report highlights, what an important piece of core spending power council tax makes up—almost 40%. There are choices for Ministers on the level at which you set council tax and there are implications, therefore, as to what you need to do from grant and the like. So of course we looked at the council tax rate throughout; otherwise, the thing would not have stacked up.

Q59 **Chair:** Did you take into account the spending of other Government Departments, because very often local government—

Will Garton: Yes.

Q60 **Chair:** So where you were looking at, for instance, health spending, you were looking at what local government might pick up as a result of that—the interactions?

Will Garton: Yes, but I am pleased to say that, in this spending review—it is one of the points that Catherine is always on the phone to me making—it is not just core spending power. As you well know, local government is at the heart of the delivery of so many public services, but in this spending review, the money that went into the Department of Health and the Department for Education—particularly for special educational needs but not limited to that—and on housing, transport, skills and the change to the universal credit taper rate will, I think, all have positive second-round effects for the sector. But yes, we absolutely discussed those settlements; they are a vital part of the overall calculation.

Q61 **Chair:** You have brought up universal credit. The taper rate change benefits people in work, but for those who are not in work, the removal of the £20-a-week uplift obviously has a big impact, so was it part of the calculation that you were looking at the level of employment in UC take-up and mapping those without work and those in work in different local authorities, to look at the balance and at the impact of your settlement?

Will Garton: We used the OBR forecasts for all of inflation, earnings, employment and the like, as you would expect us to do.

Q62 **Chair:** So you looked at it at macro level?

Will Garton: Yes.

Q63 **Chair:** So was there, Mr Pocklington, any analysis done about any particular local authorities that might lose out—say, where there was a higher rate of people on UC without employment, compared with other areas of the country where there might be people on universal credit but in employment?

Jeremy Pocklington: The analysis for the spending review is mainly done at sectoral level.

Q64 **Chair:** I know that, but at your level, you will know which are your outlier councils. There are sometimes unintended consequences: you make what seems like a sensible macro decision, but there is a small percentage or even a bigger percentage of councils that could be particularly hard hit. Did you do that analysis, particularly on the universal credit issue?

Jeremy Pocklington: The issue about the impact on individual councils of individual measures—including but not limited to that—is a matter to be considered as part of the provisional local government finance settlement.

Q65 **Chair:** Okay, so you will be considering that.

Jeremy Pocklington: We will be considering a whole range of issues. We need to undertake the work on the settlement first; that will be completed by the end of this calendar year—the final working week of the calendar year.

Q66 **Chair:** That is very late; we will come to the timetable in a moment.

Mr Garton, you raised a point about council tax. Figure 5 of the National Audit Office's Report on page 13 has a helpful graph that highlights the significant increase in council tax, which Mr Francois obliquely referred to.

A lot of the extra spending in local government is being funded out of the pockets of local taxpayers rather than the Treasury; that has been going up increasingly, particularly since 2015-16. It has been a deliberate Government strategy. Were you factoring in that increase—that graph, basically—into the spending review: the assumption that local council tax would increase? I know that councils have theoretical discretion, but when you are faced with the budget challenges in those lower lines—the dark blue line—you can see where pressure will come to raise council tax.

Will Garton: For the settlement, we assumed a 2% plus 1% council tax increase in each year. We needed to make an assumption to calculate core spending power, but yes we very much factored in the role that council tax would play, as you would expect us to do.

Q67 **Chair:** There is a particular issue about council tax and social care, but I will leave my colleague to pick that up a little later.

The spending review came at a time, over recent years—not just with covid—when we have had a lot of short-term measures, stopgaps, in local spending. I will go to the Treasury first. Is it the Treasury's aim for there to be a reduction in those stopgap, short-term funding solutions? Is this spending review supposed to smooth those out and provide sustainable funding over the next period?

Will Garton: Absolutely. We have had to do two one-year spending reviews because of the circumstances over the past couple of years, although there is a clear preference for doing three-year spending reviews. Like the National Audit Office, we think that that certainty can help deliver value for money so I very much hope that we are not back doing more and that we can concentrate on delivery.

Q68 **Chair:** So the Treasury hopes. Mr Skinner, do you agree with that hope? Do you think this settlement is sustainable enough to avoid having to go back to the Treasury and ask for short-term funding? *[Interruption.]* I see that Ms Frances is nodding her head, but you are the director general for local government finance so I will go to you.

Alex Skinner: As Jeremy said, we think it is a good settlement, so yes I am confident that that is the case.

Q69 **Chair:** Others will pick up on how deep-seated that confidence is.

There is obviously a lot of talk about the planned future changes. There is a useful section in the Report about the planned changes in figure 7. Let me give a quick recap: "Fair Funding Review"; "Business rates reset"; "Business rates revaluation"; "Business rates retention"; "Business rates reform"; "Social care finance reform"—all these measures will affect local government finance in a major way, yet none is yet concluded. This very useful diagram from the National Audit Office lays out those challenges.

Given all that, how long is it going to take until we have a financial settlement for local government that takes account of all these moving parts, Mr Skinner?

Alex Skinner: The answer to those in many cases was given by the Secretary of State before the HCLG Committee. On the fair funding review, he said that we were actively considering it now and that the plan was to come back to everyone before Christmas. When pushed about whether that was the local government finance settlement, I think he said that yes it was. I anticipate that that would be on the fair funding review.

On business rates, as you know, he said that it was something we should proceed with caution on and again that is something where I would expect him to come back at the local government provisional settlement, and on the others similarly. I would say that we would expect to get announcements about those at the provisional local government settlement in mid-December.

Q70 **Chair:** It is all running very late; there will either be a Christmas bonanza or a Grinch Christmas, depending on how it goes, for local government. It is all very late in the day.

But these are major changes. Let's just touch on business rates, for example. Retained business rates is a very challenging issue. A constituency like mine, in inner London and with very high office rates, would in normal times be a great place to retain business rates, but in other parts of the country—I was tempted to choose Wales, but we are obviously talking about local government in England—such as Redcar, for example, there is a whole different basis there.

This issue has been talked about now for such a long time and yet we are no nearer to having a solution. With this settlement from the Treasury, can we be confident that it will deliver against a measure that we don't even have the details of? Ms Frances?

Catherine Frances: My sense on this is that—with apologies—we just can't pre-empt what Ministers will decide, as you know. I really appreciate that if you are in a local Government context, you need to have clarity about the future. You also need to have time to review it.

I think that what we would say to the Committee at this point is that if we make changes, we anticipate that we would consult on them properly, so that the councils will be able to work them through and say, "What does this mean for me?"

Q71 **Chair:** Okay. So how long do you think councils will need to work this through?

Catherine Frances: The measures here on this diagram from the NAO range from adult social care, which has been progressed, but then these other pieces are pieces where you can do them faster or slower; you can do them more or less. We would actually want to do a full consultation on those with the sector, but we are not yet in a position to pre-empt Ministers' decisions on this issue and we need to see what they want to do and how far they want to take each of them forward.

I am really sorry, because I would love to be able to tell the Committee more—

Q72 **Chair:** So, Mr Pocklington, we are talking about at least a couple of years then, aren't we, before we will know about all these things? Put social care to one side for a moment, because my colleague, Sir Geoffrey, will come in on that in a minute.

Jeremy Pocklington: I don't extrapolate that timetable from what we have said, but it is important that we do—

Q73 **Chair:** Sorry—perhaps I am putting on my former hat as a councillor having to make decisions about this issue, many moons ago. However, we are talking about a December settlement for this year, which is acknowledged to be fast for 2022-23—that is an acknowledged challenge—and then, once you are into 2022-23, you have got to do consultations on these things. Those consultations will take some time. Then you will be getting into this period of time next year, at least, which again would be a very big challenge to do something as rigorous as dealing with business rates retention or revaluation; revaluation alone has its own very slow timetable. That process alone would get me to a couple of years, and that is being very optimistic, I would say; it is certainly what it would feel like on the ground if you are a local authority officer or councillor.

Can you give us a rough idea of when you might think these things could practically be delivered? Maybe give us a window, because I am sure there is a faster pace and a slower pace; give us a window of when you think they could be practically delivered.

Jeremy Pocklington: On the issue of funding reform, the so-called fair funding review, what the Secretary of State set out is the provisional settlement for 2022-23 this December. Then, we will engage further with the sector. Realistically, that would mean a significant consultation, as you suggest, in the first few months of next year. Then the process would go on from there.

However, we are getting ahead of ourselves here. Ministers need to make decisions and it would be wrong for me to pre-empt those decisions that need to be taken as part of the provisional local government settlement.

Q74 **Chair:** Can I just pick you up on that particular point before I lose track of it? So you are saying that it is possible—of course, anything is possible with a Minister; I get that—that business rates retention and business rates reform might actually just be shelved completely? These are things that you would say are not certain at this point.

Jeremy Pocklington: I was just coming to the issue of business rates retention. What the Secretary of State said to the HCLG Committee is relevant here, I think. He indicated that we would not be going ahead with increasing business rates retention on current plans, because his view is that the plans support those areas with the most resilient tax bases, so moving precipitously would run counter to levelling up. That is a concrete example of where the Secretary of State was coming from.

Q75 **Chair:** Okay, we talk about council tax and one concern about it is that it is okay—although perhaps not for the people having to pay it—in some areas, in that it is a formula that might work where you have a high council tax base, so a small percentage increase brings in a lot of money. Again, I pick up on Redcar, where council tax bands A to C form the predominant majority. A similar percentage increase in Shoreditch and in Redcar would bring in significantly more money in Shoreditch, although I should stress that we have high needs. My council does a great job spending its money, but let’s put that to one side for one moment. On its own, such an increase is not in any way near a solution. I asked Mr Garton earlier, but how have you factored that into the plans for future funding?

Jeremy Pocklington: That, at its heart, is a distribution question, which is a matter for the provisional settlement. You are raising the important question that Ministers will need to consider about how best to allocate funding and to prioritise areas with the greatest need that takes into account, if you like, the sustainability of the tax base. It would be wrong for me to pre-empt the finance settlement, I am afraid.

Q76 **Chair:** We have talked a lot about what Mr Gove has said and we are all waiting with bated breath, not least local councillors and council tax payers, but he indicated that he was keen to see less fragmented funding by other Government Departments that make decisions that impact on local government.

I will come to you first, Mr Pocklington, and then Mr Garton. There are other big priorities for Government: levelling up, which covers a lot of different issues and we are not even quite sure what it means yet in real terms; and net zero, which our sister Committee looked at particularly in relation to local government. You cannot give us your detailed advice to Ministers, but at least in terms of your early thinking, how are you ensuring that the funding formula for local government reflects those two big Government priorities?

Jeremy Pocklington: The first thing to say about levelling up is that it is fundamentally a distributional question. It is something that needs to be considered as part of the finance settlement in the usual way, and in any further reforms in future. Levelling up also speaks to the additional funding that is provided through our funds, such as the levelling-up fund and the UK shared prosperity fund.

You have rightly highlighted that my Secretary of State has asked us to look at whether there is a case to simplify and rationalise both the processes around those funds and the pots themselves. Our aim is to move to a system where the additional support around levelling up is focused first on the UK shared prosperity fund, which focuses on people, and that complements the levelling-up fund, which will focus on infrastructure.

Q77 **Chair:** Okay, I am not quite sure that I get that. That was a lot of words, but I am not sure there was an answer in that. Mr Garton, do you want to give it a try?

Will Garton: If I can play it back to you to make sure I have understood it, the question was, how do we make sure that in the coming years, in the spending review settlement, we prioritise levelling up and net zero, with reference to the funds that we have available? Is that right?

Q78 **Chair:** Yes, local government could end up paying from their own settlement if they are not properly factored in and funded. That was my point.

Will Garton: The first thing, as Jeremy said, is that getting the local government finance settlement right is absolutely key to levelling up. Depending on how you count it, there is £60 billion or £70 billion of spend there. We have talked about that extensively. Some of that will be done on a formula basis, which I think is right and proper, and some of it will be done through a competitive process. You mentioned net zero, where there are three big funds for local authorities to bid into as part of the spending review, on housing decarbonisation, on home upgrades and on electric charging.

Q79 **Chair:** That is partly what I was driving at. We know that is going to be on a competitive basis, but is that really a sustainable way for local government to be able to fund these changes that we know Government have said are a priority? On net zero, it is not just the Government; it is an international agreement that it is a priority.

Will Garton: Indeed. On net zero, I think it is the right thing to have a competitive process. The rationale for that, if you will forgive a stylised example, is that if a bid from Manchester could save twice as much carbon as a bid from elsewhere in the country, it would make sense to prioritise that bid, or to prioritise where a plan was particularly convincing. Competition in that space can lead to better outcomes for taxpayers, but I do not therefore think that everything should be done through a competitive process. A lot of funding for levelling up and social care, for example, should be done on a formula basis. The balance between those two things is something that reasonable people can disagree about. I am not saying we have got it exactly right, and there will be difficult cases at the margins, but I think you probably need a little bit of both in order to achieve the aims you are referring to.

Q80 **Chair:** Our sister Committee, the Environmental Audit Committee, which considered the National Audit Office Report on local government and net zero, had some good evidence suggesting that not all local authorities are behaving equally when it comes to tackling net zero. You could consider an audit of types of properties. For example, 19th-century terraced houses with single-skin brick walls will be a big challenge to green, and if you knew where those were, there are ways of encouraging—we will put it politely—local authorities that are not acting so well to deliver better on them. Is that something that you or Mr Pocklington have considered? How much of a priority is it? Net zero is not exactly a normal Treasury priority in some respects, as it is not about counting the cash.

Will Garton: It absolutely is a Treasury priority.

Chair: I am sure it is now, but it wasn't until very recently.

Will Garton: I am not sure I would agree with that; the costs of inaction are extremely high.

Chair: Well you have got the script; that is good.

Will Garton: We absolutely get that. We have committed to net zero and published quite a detailed analytical report.

Chair: Let us hope it is not just a report; it is the action that we want to hear about.

Will Garton: Indeed, but there is an awful lot of work to achieve it, and a thorough and detailed assessment. It does not fall into my remit and I am not an expert, but I think on the three funds in the spending review, we certainly looked at that matter; I think what you are describing is a uniform approach for properties of a certain draughtiness, if I can describe it that way. Instead we decided that competition was a better approach and we would get innovative ideas from local authorities that could potentially be replicated in future. I recognise that there is a debate about that, and that other people might have different perspectives on the best way of using the funding.

Q81 **Chair:** Because of time, I am going to move on to Sir Geoffrey Clifton-Brown in a moment, but I wanted to ask you, Mr Garton, about one last point concerning the interaction of Government policies. A lot of us on this Committee are keen to see the online sales tax, in many respects, although it is not actually a definite Committee position. That could have a big impact on business rates. Have you done any calculation of that impact in looking at what business rates would contribute to local government finance?

Will Garton: The honest answer is no—not because we are lazy; an online sales tax is a complicated thing to deliver. Many people are against it; it is not just a tax on the big tech giants, and there would be winners and losers. There is a consultation coming out shortly, which we announced in the Budget. We would need to do that consultation and work out how such a thing would be achieved. At that point, we would then need to factor in—I would be involved in those conversations—the impact on local government, and the question of how we would ensure local government financial sustainability.

Q82 **Chair:** So another example of how some of these other factors of potential change in local government funding are quite a long way down the line. From the Treasury’s point of view, my final question for now is: how long do you think it will be before you and the Department have a very clear idea of the potential impact of these measures, and when they can be practically be introduced so that you can remodel local government finance in the ways that Governments have been talking about for some time?

Will Garton: I hope that the Committee will agree that it is a good thing that we said on 27 October that we were moving to re-evaluations every three years. That is now concrete; it is the plan that is going to happen, starting in 2023.

Chair: That is one tick; you have a got a date for that.

Will Garton: On an online sales tax, I don’t want to sound like I’m trying not to answer the question, but it really does depend on where the work comes out. So I don’t know; I can’t give you a firm answer.

Q83 **Chair:** There is consultation next year, so it is at least a couple of years away, probably?

Will Garton: It is not immediate and we should not rush it. As Catherine and Alex have articulated on business rates, retention and fair funding, they are more matters for the Department.

Chair: I will move to Sir Geoffrey, who might help to winkle out whether the settlement was enough for some of the pressures that local government is facing now, let alone in respect of any future reforms.

Q84 **Sir Geoffrey Clifton-Brown:** Mr Pocklington, I don't know whether you are aware of the emerging crisis that we have in Gloucestershire. It concerns domiciliary social care packages. Eighteen months ago our county council was getting no referrals for domiciliary social care packages. They are now getting 44%. This means we cannot get people out of hospital, even though they are clinically fit. Your Department has very kindly recently given Gloucestershire £1.7 million towards a winter recovery fund. All that will do is help to stabilise the existing numbers of social care workers. It will do nothing to recruit new social care workers. So where do we go with this crisis? We are entering winter with a hospital that's full. If we have another covid or flu crisis, we really will be in trouble.

Jeremy Pocklington: Thank you, Sir Geoffrey. Although I am not aware of the specifics around your constituency, we are aware of the very real pressures on social care. We are working closely with the Department of Health and Social Care, which is of course in the lead on this issue, and with—*[Inaudible]*—sector to ensure—*[Inaudible]*—as far as we possibly can. In relation to the workforce, the Department of Health and Social Care has already provided an additional workforce grant for this year of £162.5 million to recruit and retain sufficient staff over the winter period, but the issue of domiciliary care that you have highlighted is an area that I think it is fair to say we are monitoring particularly closely with DHSC.

Q85 **Sir Geoffrey Clifton-Brown:** The money is one part of it, but if the people are not there, what is my local authority supposed to do?

Catherine Frances: I can come in a little on that if it helps. There is only so much to say because we are not the lead Department on this; it is the Department of Health and Social Care. They are very aware of the fact that the £162 million has gone into the system. We are waiting with them to see what effect it has because, as local authorities try and use it, the genuine question as it washes through the system is what benefits it has in terms of the impact on people going to do other things.

The DHSC have also had their central recruitment campaign, which they have really pushed, and I know that they have taken steps to do things such as accelerate DBS checks. They are doing very practical things because they are aware of the fact that they need people. I probably can't answer it more fully than that, but we are having a rounded conversation with them, which is around the money and the absolute practicalities of who you have working locally and who your competitor employers are. As Jeremy said, it is an area of work where we, local councils and DHSC are in very open discussion and watching what is happening. I think DHSC are completely keeping it under review at the moment.

Sir Geoffrey Clifton-Brown: I cannot expect any more than that, but I must re-emphasise that it is a really serious problem here and now.

Catherine Frances: Thank you. I absolutely understand.

Q86 **Sir Geoffrey Clifton-Brown:** Moving on to the more general issues about adult social care, Mr Garton, what were HMT's spending review assumptions about the additional funding needed to meet the core pressures of social care?

Will Garton: As I alluded to earlier, there is a model, run out of the Department of Health, that projects population and unit costs. We then take OBR numbers for inflation, wages and the like, and layer that on top. It is a model that we have used over many years. It is not a new model. We have found it to be accurate, give or take, in previous spending reviews, so we have taken into account the findings of that model and funded it.

Q87 **Sir Geoffrey Clifton-Brown:** I am sure my local authority is not alone. The proportion of its total spend on social care is going up and up, and that is putting pressure on other services. The Government statement in "Build Back Better: Our plan for health and social care" says, "We expect demographic and unit cost pressures will be met through Council Tax, social care precept, and long-term efficiencies". The assumption is that these council tax additions will go up each year.

Will Garton: I think you're reading from the document of 7 September, when we announced the implementation of our charging reform.

Q88 **Sir Geoffrey Clifton-Brown:** At the moment you have announced 2% and 1%, but moving forward, to meet some of these demographic pressures, which I am coming to in a minute, without considerable extra funding from Government, these additional precepts are just going to have keep going up, aren't they?

Will Garton: It is good news I think, if you are worried about council tax rates, that additional grant went in at the spending review, as well as council tax; so that statement is superseded by the spending review on 27 October. But I think what you are describing, and I agree with, is that we—the globe—face demographic pressures with an ageing population, which will put pressure on public finances. It is something that the OBR goes into in a lot of detail in its fiscal sustainability report every couple of years.

It is not just in the adult social care space; there are implications for the health service, and the pension system and the like. An ageing population, while having lots of benefits, also poses a risk to overall fiscal sustainability in every other country in the world. I don't have an answer for you as to quite what we do about that, and I would not want to go further than the three years for which we have set out plans now and what we are assuming for council tax, which is 3%—that is lower than inflation next year. We have set out plans for this spending review; thereafter I recognise the issue you are describing in terms of an ageing population.

Q89 **Sir Geoffrey Clifton-Brown:** I am extremely pleased, because I think that is about one of the first times that I have actually seen in open session a Government official alluding to this demographic change of a huge bulge in retirement, starting in the early 2030s, as a result of the baby boom of the 1960s—the correlation between a baby boom and retirement. The NAO Report makes a fairly stark statement on page 24: "if current patterns of care continue, around 29% more adults aged 18 to 64, and"—more significantly—"57% more adults aged 65 and over, will require care in 2038 compared with 2018." It goes on: "The publicly funded costs of care for all adults were projected to rise from £17.9 billion to £34.7 billion". Over a period of time, this demographic change is going to mean a huge increase in demand in social care, isn't it?

Will Garton: And health and pensions, and so on. It is set out: the OBR does an extremely good job of this in its fiscal sustainability report. There are implications for all of us as a result of an ageing population. I would not pin it all on council tax—I don't know what is going to happen in the 2030s—but it is certainly right that this is a profound change that you are describing.

Q90 **Sir Geoffrey Clifton-Brown:** Are you confident that a reasonably well run authority such as my own in Gloucestershire will, with this settlement and the council tax extras—precepts—be able to manage its social care budget?

Catherine Frances: The first point that Will raised—you raise a really important point—is really critical. The publication you were reading that statement from predated the spending review. The spending review then adds in additional funding for social care, over and above that which is in there. So social care funding—

Q91 **Sir Geoffrey Clifton-Brown:** Can we just be clear about that? Is this the £3.6 billion, out of the £5.4 billion?

Catherine Frances: Can I divide it for you into three chunks? It might be helpful. The first is, "How is busines-as-usual social care run?", in relation to which, as you said, the demographic pressures from both working-age and older people are quite significant. The funding for that will come from a few sources. The first is the council tax precept and the core council tax rise. The second is business rates, which just go up and are a fundamental part of the finance system, and the third is new grant going in.

We have not yet set out how big that new grant will be, because that will be set out in the local government finance settlement, but we have £1.6 billion of new grant in each year, and some of that will go to social care pressures, so the ultimate amount of that will have to wait until the LGFS.

That is what funds underlying demographic growth, if you like. The second chunk of social care spending is exactly the other one that you alluded to, which is the £3.6 billion, which sits atop the normal stuff that is in the local government settlement. That is to pay for changes to charging reform—to implement a thing called the fairer cost of care and the first run of charging reform costs. That £3.6 billion comes from the new health and social care levy.

There is then a third element of social care funding, which is the part of the health and social care levy which we have not allocated, when you think about that £3.6 billion, and that is available for improvements in adult social care and support for the care workforce, with up to £500 million for the workforce. That sits in DHSC’s settlement, and they are yet to announce how to spend it.

So there are three chunks: the underlying demography, which is tax and some portion of grant; reform to charging, which we have announced the numbers on; and then quality and workforce improvement, which DHSC are yet to make announcements on, but we have got an overall quantum for that.

Q92 **Sir Geoffrey Clifton-Brown:** That is very helpful. Can I stick with one element of what you have just said? The Government aim to move towards paying a fairer rate for care. Surely that will mean local government paying providers more—probably considerably more—because the living wage and that sort of thing are going up. The costs of social care, not the least of which are the extra costs imposed because of covid, will mean a considerable increase in local authorities’ budgets to pay for them. My question, to both of you again, is whether the council tax precept and this extra money you have announced in the spending review are going to be enough to sustain local authorities like my own to provide a social care budget over the next three years.

Catherine Frances: Yes, we think it is. The term “fairer cost of care” is used in the social care sector to allude to differences between the rates that private fee-paying individuals and councils pay. There are various estimates for how much that costs, none of which are based as yet—the ones the commentators have put into the system—on the details of what the Government intend to design that policy as, but DHSC will give further information on that in due course.

Q93 **Sir Geoffrey Clifton-Brown:** But as fewer people are self-funding, and there is a lot of cross-subsidy in the sector keeping the market going, that is going to impose another increase, isn’t it?

Catherine Frances: Absolutely. That is the fairer cost of care—sorry, we are running the risk of labelling slightly differently. Exactly that issue of potential cross-subsidy is the funding that has been put in the system. Fixing that to some extent is a precursor and part of the charging reforms that come through for social care. That is part of the £3.6 billion that is being put in over and above money that will be put in for demographic pressure. It is a separate line.

Q94 **Sir Geoffrey Clifton-Brown:** Let us be absolutely clear: is that £3.6 billion new money, or is it part of the £12 billion raised by the increase in national insurance? Either you or Mr Garton can answer that question.

Catherine Frances: The health and social care levy raises £5.4 billion for social care. That social care funding is split: £3.6 billion is for this charging reform work, which includes the fairer cost of care, and the remaining £1.7 billion is available for quality improvements, workforce improvements and other things that are in the Department of Health's hands at the moment, and they have not yet issued further information on that.

Q95 **Sir Geoffrey Clifton-Brown:** That is going to be the next question: when is that money coming out of the Department of Health budget into the social care budget?

Will Garton: It will start to flow from the next financial year.

Q96 **Sir Geoffrey Clifton-Brown:** That was not quite the question. I may be looking at a political answer here. The money is going to be raised now. It is going into the health budget for the next—allegedly—three years. When is it coming out of the health budget into the social care budget?

Will Garton: I am not trying to avoid the question; I am just trying to answer it. The health and social care levy will be introduced from April. Some of that money will go to the Department of Health, who will then immediately start passing it on to local authorities for workforce and integration.

Catherine Frances: I think there is a fear, that I have heard expressed to the sector, which may be where your question comes from, that, "All this money goes to the NHS. When will we get it out of the NHS?" That is not the case. What Will is saying is that the portion of that funding for social care has already been identified in the aggregate. Some portion of it is sitting in the local government finance settlement; another portion of it is sitting in DHSC's budget but is identified for social care, and all the numbers are published that it is identified for social care. I hope that helps.

Q97 **Sir Geoffrey Clifton-Brown:** Can I ask an associated question? It is nothing to do with social care, but it is on this NIC subsidy. We heard in a hearing that the recompense to public sector bodies was not funded in that £12 billion; it is an extra £2 billion. However, there was still a considerable amount of dispute about which bodies would be reimbursed for the extra cost of the employer's national insurance. Has that now been resolved? I used the example in that hearing of a local authority that had had in-house refuse collection as opposed to a local authority that did not, but had a company that was completely contracted to the council for collecting rubbish. Has that issue been resolved, Mr Skinner?

Alex Skinner: The Government have been clear that the funding from the Treasury that you talked about, the national insurance contributions, is available for direct employees of the council. It does not apply to people who are contracted externally.

Q98 **Sir Geoffrey Clifton-Brown:** So in the example I raised, one would be fully reimbursed, even though the taxpayer would be getting exactly the same service, but the company that was wholly contracted to the council would be disadvantaged?

Alex Skinner: That isn't true, because we are not clever enough to be able to finesse the funding at that level of specificity. What I think will happen is that the money is available from the Treasury and we will probably distribute it on a formula basis, so it will be blind to the extent to which a local authority does or does not do that, but in aggregate I am saying that the pressures will be met for the direct employees of the local authority, but not for the—

Chair: We got that the first time around, but it is still unfair.

Q99 **Sir Geoffrey Clifton-Brown:** Yes, it is still a problem. Going back to social care, may I take you to page 23, which reinforces the point I was making that the increase in social care spending is putting pressure on other services in local authorities? That graph in figure 9 shows it clearly. This is still going on: even though you are providing extra money, presumably it is not ring-fenced money. If the expenditure on both adult and children's social care goes on going up, as it seems bound to do, surely it will put more and more pressure on other services?

Catherine Frances: Exactly how we split up the £1.6 billion and put it into different grants will be in the local government finance settlement.

Q100 **Sir Geoffrey Clifton-Brown:** Will it be ring-fenced, or not?

Catherine Frances: That is the decision Ministers will take for the LGFS in December—sorry not to be able to pre-empt that. You are mathematically right, though, that there are two areas of public spending in local government where the demand pressures are such that they simply fill a greater part of the pie, and those two areas are adult social care, which is working-age and older individuals, and children's services. Those are the two services where there are particularly notable upwards pressures.

Sir Geoffrey Clifton-Brown: Chair, would you like me to go on to the audit questions?

Chair: I think I will go to Mr Mackinlay.

Q101 **Craig Mackinlay:** On a topic of massive current relevance, I am a Kent MP, and on the subject of unaccompanied asylum-seeking children, Kent was suffering a shortfall in the costs of looking after the numbers of children landing in Kent. That was only resolved when Kent MPs got involved and did what they could, as we do, and the budget from the Home Office was improved to ensure that Kent taxpayers were not losing out just because of the geography of where we are. There was a proposal for a voluntary scheme for the distribution around the country, but it obviously did not work, because otherwise we would not have moved on to a mandatory scheme. Is the money—from the Home Office or yourselves, I don't know which—going to follow those children to ensure that if children are relocated to Cumbria, Cumbria County Council will be properly funded accordingly?

Catherine Frances: We were just comparing notes to make sure we answered you accurately. This is the Home Office's lead, as I hope you will appreciate, and it has temporarily said that the national transfer scheme will not apply, in order to ensure that the children are placed across the country in a way that is in their best interest and best for their welfare.

Our understanding of the situation is that the daily funding will follow the child; if you would like, we can confirm that with Home Office colleagues, but it is a Home Office lead rather than a Department for Levelling Up lead. We are also aware of the increases in funding in Kent and obviously worked with the Home Office on that. There are a couple of other councils that have faced a particular pinch point at various points, in terms of looking after a lot of very vulnerable children who have needed help in the same way.

Q102 **Craig Mackinlay:** I just wanted to be sure that the proper funding would be following those children.

Chair: Can I be really clear on that? Often, Home Office funding is for a year or two; it is not always long term. Certainly for resettled refugees from the UN camps it was typically two years, and I think it is three for new settlements, as we were discussing earlier. At some point, as Mr Mackinlay is driving at, local authorities will end up picking up the tab, which will then come to your Department, Mr Skinner.

Alex Skinner: As Catherine said, on unaccompanied asylum seekers, two things are going on. First, in areas such as Kent, the Home Office is paying the higher rate per person per night, so that is £143 per person per night if you exceed the 0.7% threshold. Secondly, as you say, what has happened is that the transfer scheme has been now implemented, so that is doing that.

On care leavers, there is a separate payment, which is £270 a week. Those are in the system and they will continue as long as the individual concerned is either a UASC or a care leaver. There are then broader costs to do with children in care and unaccompanied asylum seekers, which are funded as part of the local government finance settlement that we have been discussing this afternoon. But on the individuals, the money follows the individuals.

Q103 **Craig Mackinlay:** I get that if they are proper minors, the money is there. It is the expansion of the requirement for local authorities to pay up to age 24, which came in about three or four years ago, which is often where a shortfall arises. You said it is £270-odd a week—

Alex Skinner: Exactly. That is the care leavers £270 a week.

Craig Mackinlay: Is that anywhere near enough to cover the real costs? I think I know the answer.

Alex Skinner: I am not the expert, so I would not attempt to answer it, but that is Home Office policy.

Q104 **Craig Mackinlay:** I obviously do not want to put local authorities off. They have now been mandated to take their share, but if they feel that they are going to end up with care leaver costs landing on them in future—they may be fairly secure up to age 18, but those costs will be more than £274 or whatever it inflates to in future—they may find themselves reluctant to take their fair share. Would that be a reasonable estimation?

Alex Skinner: Under the proposals that will be operating now, it is comply or explain. Local authorities have a short period to come back, otherwise they will be allocated. In that sense, I think your problem is not an immediate one. On the broader question about whether the £270 a week is enough, I am afraid that I don't know. It is a Home Office policy. I would be happy to speak to colleagues in the Home Office and ask them to provide you with a note if that would be helpful.

Chair: As Mr Mackinlay is highlighting, it may be a Home Office policy, issue and funding right now, but it ultimately falls to local government, which always ends up picking up everything. Thank you, Mr Mackinlay. Finally, we go back to Sir Geoffrey Clifton-Brown.

Q105 **Sir Geoffrey Clifton-Brown:** I am sorry that I am going to go over the ground again about the auditors, because it is so important. It seems to me that there are at least three or four problems: first, we do not have enough firms that are prepared to undertake local authority audits; secondly, they do not have the skills; thirdly, local government audits, as Tony Redmond said, are impenetrable; and fourthly, money.

I will quote from the evidence that we have received—I do not know whether you have seen it—from the ICAEW. They give a fairly frank example of why audit firms are reluctant to do that work. They tell us in paragraph 12 that, "the fee for the audit of Manchester City Council for 2019-20 was £159,000, compared to £500,000 for Premier Foods, a FTSE 250 company. Both bodies are classified as PIEs"—public interest entities—"but Manchester Council generated over double the level of revenue in 2019-20 and had 70% more in recorded assets."

Given that those audit companies can make a lot more money out of private sector audits, and they do not need the skills to do them, it was slightly surprising—this is all in the ICAEW's evidence—that in 2021, you provided £15 million of extra support for local authorities to carry out that audit work, but in the recent spending review, you provided only £34.5 million over three years. The ICAEW says that that is a 23% annual cut. If we really want to address this crisis, are we not going to have to provide more money for these local government audits?

Catherine Frances: Maybe I should come in on that. I think that when Sir Tony Redmond did his review, he absolutely reached the conclusion that when he looked at the balance of price, everyone's expectation would be that the price would have to go up. That is part of why we put the £15 million in, although that was also to meet some new obligations on the sector. With PSAA leading the procurement process right now, they have said that 80% of their decision making will be on grounds of quality, with 20% on grounds of price. That is a fundamentally different balance from the 50:50 that they went with for the previous one. Without wanting to pre-empt the procurement process, there is a general expectation that local government will have to pay more for audit than it has done recently.

We as a Department have not finalised our support for local government audit funding. I expect that we will—

Q106 **Sir Geoffrey Clifton-Brown:** So that £34.5 million over three years is not a fixed figure.

Catherine Frances: I think that is a reference to the spending review document, which has a range of things.

Sir Geoffrey Clifton-Brown: It is a reference to the spending review, yes.

Catherine Frances: It is not our complete view on audit. Local authorities they will actually have to meet some of the costs from within their settlement. We may make further decisions on funding as well. Will may be able to come in on the £34.5 million figure.

Will Garton: I think the £34.5 million is to help with the setting up of ARGA—the Audit, Reporting and Governance Authority. It is about setting up the system's leader.

Q107 **Sir Geoffrey Clifton-Brown:** So it is not even going in to assisting local authorities with the costs.

Will Garton: My understanding is that most of it is to set up the new body. Overall, the spending review settlement as a whole should help, because it is a large, real-terms increase.

Q108 **Sir Geoffrey Clifton-Brown:** Did the £15 million come out of the £101.6 billion that we were talking about earlier?

Chair: That was additional, wasn't it? That was for this year.

Will Garton: The £15 million was for '21-'22, and it was allocated in spending review '20, last year.

Q109 **Sir Geoffrey Clifton-Brown:** The basic thrust of my question, as you recognise, is that funding is a problem and costs will have to go up. When will you complete that analysis?

Catherine Frances: We expect to complete an analysis on all that when we do it. We may make decisions in the local government finance settlement, but I would absolutely anticipate that we will make decisions on that when we respond to our consultation that we issued earlier in the year, in which we talked about all the pressures in the system and proposed the new body for bringing together the various parts of the system. I think we will return to that issue when we finalise the consultation response. Jeremy might wish to come in. I do not have a hard date for you on that, but we are expecting to come back on the consultation shortly.

Jeremy Pocklington: I agree. Sir Geoffrey, the only thing I would add is that we agree: price is going to have to do some work here. That is why we support PSAA in moving to the 80:20 approach—quality versus price—rather than 50:50, which has been their approach in the previous procurement. The PSAA's procurement is inevitably a complex process, but spring next year will be the key time to be looking at that.

Q110 **Sir Geoffrey Clifton-Brown:** May I just ask two further questions? They are two points on the Redmond review. One is about the impenetrable nature of the accounts. You have made some changes to the requirements of the audit, but are you planning further changes to make them more comprehensible? Will councillors themselves have to make decisions on these accounts?

Jeremy Pocklington: I can say two things, if I may, in relation to that. First of all, we are taking forward Sir Tony's recommendation on having a simplified summary of accounts, but it is a relatively short and simple summary that we are taking forward, which is designed for use by taxpayers locally. In terms of simplifying accounts themselves, as we have referred to in this hearing, the thing of particular relevance is the Treasury's thematical review of accounting standards for non-investment properties, which is going to get under way at the start of next year, I understand. That will be a vehicle for simplifying the accounts, particularly as they relate to those things that perhaps do not always matter so much to decision takers in local authorities but do have wider implications and do matter for things such a whole-of-Government accounts.

Q111 **Sir Geoffrey Clifton-Brown:** I think they do matter to local authorities, because you have plenty of lay councillors out there who want to see what their council is actually doing. If the accounts are so technical and they are not accountants, they will not be able to read these accounts. Whereas if they were simplified, they might have a chance of being able to do so.

Jeremy Pocklington: I agree with the aim there. It is a similar thing that councils tell us, so I am not sure that we disagree here, Sir Geoffrey.

Q112 **Sir Geoffrey Clifton-Brown:** Great, we have clocked up one agreement. I am really pleased about that. Let us see if we can do another one. They also say in their evidence that CIPFA's guidance already clearly recommends independent members, and it says that the Government should make appointing independent members a statutory requirement, as it already is in Wales. Is that something you are looking at?

Jeremy Pocklington: Yes, we consulted on that. I am hoping one of my colleagues will tell you where we are with that consultation.

Catherine Frances: We have consulted on it. I do not think we have taken the next step. I am afraid I cannot actually remember if the consultation is shut at the moment, but we have issued a consultation for exactly that reason because it is very sensible that you would have an independent member on that Committee.

Q113 **Sir Geoffrey Clifton-Brown:** Surely that is not a very difficult thing to do. If you have already consulted on it, is it not a relatively simple thing to put in a piece of secondary legislation?

Catherine Frances: I think it probably will. I do not know whether it is in secondary legislation.

Q114 **Chair:** You are saying the consultation may not be closed yet.

Catherine Frances: I am not quite sure where we are in the process; sorry. There is no lack of agreement about the underlying principle here. We have consulted on the basis that, I think, it is an extremely sensible idea to have an independent person sitting on your audit Committee bringing that sort of scrutiny. We are also working with CIPFA/LASAAC, who themselves are working with the Treasury to simplify that.

Sir Geoffrey Clifton-Brown: Wonderful; we have a second agreement. Goodness.

Chair: Except that it will be very difficult to practically recruit, so what will be the sanction?

Craig Mackinlay: You might not find many volunteers.

Q115 **Chair:** Exactly. When the Audit Commission was being abolished, there was a Joint Committee of this Committee and the then-MHCLG Committee at the time. I remember Clive Betts and Margaret Hodge were responsible for that Committee hearing, and we looked then at the number of independent members. Oxfordshire could only get one when they needed two. If Oxfordshire can only find one, there are parts of the country where it might conceivably have been more challenging, so what qualifications do you expect this person to need? Would they have to be qualified in accountancy or audit, would you expect lay members without that kind of professional experience, or were you not going to be prescriptive?

Catherine Frances: I do not think we are proposing being prescriptive at this point. I can take away the detail of what was in the consultation. Sorry to have to get back to you on the detail of that.

Q116 **Chair:** One last question from me on the audit issues about the role of ARGA as system leader. It is quite stark, and in the letter that you sent us, Mr Pocklington—thank you for that—you reiterate the point that Sir Geoffrey made: on "the engagement with audit firms throughout the pandemic" the FRC has "indicated that it will take 18-24 months to deal with the backlog that has been created", so it is a serious and ongoing issue. Where is ARGA's role in trying to resolve the issues of audit in local government? It is starting with almost an impossible task.

Jeremy Pocklington: Thank you. Yes, we are all in agreement about the importance of this and the challenges we are dealing with.

Chair: We hear that, so where does ARGA fit in?

Jeremy Pocklington: Indeed, as Catherine referred to earlier, we have consulted on the detail of our system leader proposals, which we discussed at a previous hearing. We are going to be responding to that shortly, where we will set out further details of our approach. The Secretary of State set out at the recent CLG hearing, which we have referred to in this hearing, that he is open-minded in his views and is considering the responses to the consultation carefully. That is what is happening at the moment.

Q117 **Chair:** Ultimately, on all of these issues, everyone is waiting with bated breath for the Secretary of State to speak, then we will get a better idea. There is lots to pick up on there. You were, I think, appointing a director to start the work, taking forward what the FRC and ARGA would be doing. Have you recruited to that position yet, Ms Frances?

Catherine Frances: Do you mean our director or the leader within the FRC, which they are currently recruiting for?

Q118 **Chair:** I think it was the FRC.

Catherine Frances: The FRC are currently running a recruitment process.

Q119 **Chair:** But no one is appointed yet?

Catherine Frances: Exactly, and they are keeping us very well informed on that. They are recruiting someone who will head up the unit within the FRC. The aim there, as I understand it, is to have someone who is both technically excellent and knows local government, so that there is a strong sense of connection.

Q120 **Chair:** Do you know what the timetable for that is?

Catherine Frances: I do not know, but I think it will come through in the new year. I do not have any more detail.

Chair: There are a lot of moving parts to this, and it has got very complex, but let's not revisit our previous work on this. I thank you very much for your time. It is a vital issue for lots of people out there, who receive so much of their local and public services through local government. I think we all agree that it is a serious matter. We may not agree on whether local government has got enough funding to deliver, as you will appreciate from what Committee members have said. Our transcript of this hearing will be on the website in the next couple of days, dependent on our good colleagues at *Hansard*, and we will be producing the report likely in January, given the timescales coming up to Christmas. Thank you for your time, permanent secretary, Alex Skinner, Catherine Frances and Will Garton from the Treasury.