

# Public Accounts Committee

## Oral evidence: [Local Authority Commercial Investment](#), HC 312

Monday 11 May 2020

Ordered by the House of Commons to be published on 11 May 2020.

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Members present: Meg Hillier (Chair); Olivia Blake; Sir Geoffrey Clifton-Brown; Dame Cheryl Gillan; Peter Grant; Mr Richard Holden; Craig Mackinlay; Sarah Olney; Nick Smith; James Wild.

Housing, Communities and Local Government Committee member also present: Mr Clive Betts (Chair).

Gareth Davies, Comptroller and Auditor General, Aileen Murphie, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-64

### Witnesses

**I:** Paul Brooks, Executive Head of Regeneration and Property, Rushmoor Borough Council; Councillor Judy Pearce, leader of South Hams District Council; Councillor Richard Watts, Chair of the Local Government Association Resources Board and leader of Islington Council; and Rob Whiteman, Chief Executive of the Chartered Institute of Public Finance and Accountancy.

Written evidence from witnesses:

[Written evidence submitted by South Hams District Council](#)

[Written evidence submitted by Local Government Association](#)

[Written evidence submitted by Rushmoor Borough Council](#)

[Written evidence submitted by Chartered Institute of Public Finance and Accountancy \(CIPFA\)](#)

Report by the Comptroller and Auditor General  
Local authority investment in commercial property (HC 45)

Examination of witnesses

Witnesses: Paul Brooks, Judy Pearce, Richard Watts and Rob Whiteman.

**Chair:** Good afternoon, and welcome to the Public Accounts Committee on Monday 11 May 2020. The Committee is now in session.

I am delighted to welcome our witnesses, whom I will name in a moment. We are here to look at work that the National Audit Office has done and that this Committee has looked at a number of times before on how local authorities manage their commercial investments. Spending is concentrated in a small group of authorities, with 80% of spend in the last three years accounted for by 14% of councils. In total, councils spent £6.6 billion on commercial property between 2016, when this Committee first looked at this in detail, and 2019, so that is 14.4 times more than in the previous three years.

This is a growing area of investment partly driven through actions of Government, which is really important, but when you look at how councils are managing this and also at how Government and the Department—the Ministry of Housing, Communities and Local Government—watches how that money is being spent, there is a delicate balance between local councils having their freedoms and oversight by Government so that no one gets into too much trouble, and we have seen some difficulties along the way.

Today I am delighted to welcome four witnesses who have come from the coalface in local government to help us gain more understanding of the real challenges at the frontline and the gaps in the Government's role in this. I do not have a left and right today as we are doing this virtually, so I will introduce the witnesses and then I will ask them to introduce themselves in a little bit more detail. We have Rob Whiteman, chief executive of CIPFA, the public audit professionals body; Councillor Richard Watts, chair of the Local Government Association Resources Board and also leader of Islington Council in London; Councillor Judy Pearce, leader of South Hams District Council; and Paul Brooks, executive head of regeneration and property at Rushmoor Borough Council.

Will you each explain in a sentence or two what your role is to provide a little more detail and set it in context for anyone who has tuned in? I will start with Mr Rob Whiteman.

**Rob Whiteman:** Good afternoon, Chair. I am Rob Whiteman, chief executive of the Chartered Institute of Public Finance and Accountancy. We are a public finance professional body. We train and qualify accountants. Most finance directors in the public sector are members of

our institute, and in this setting we set the professional codes—the standards—on prudential borrowing.

**Richard Watts:** Good afternoon to you all. I appear here as chair of the Local Government Association Resources Board. As people will know, the LGA is the voice of local authorities nationally. We are a cross-party body, and the resources board sets the organisation's policy and practice around finance, resources, money, welfare benefits and a range of other issues. In my spare time I am also the leader of the London Borough of Islington, which people will know is a London borough council.

**Chair:** I cannot resist adding that I was a former first citizen of Islington many years ago when I was still a very young woman. Will Councillor Judy Pearce now introduce herself?

**Judy Pearce:** Good afternoon. I am the leader of South Hams District Council, which is a small district between Torbay and Plymouth in south-west Devon. I have been leader since last May. Previous to that, I was chairman of the audit committee at the time when we introduced our commercial investment strategy.

**Chair:** Finally, Paul Brooks.

**Paul Brooks:** Thank you, Chair. I work for Rushmoor Borough Council in north-east Hampshire—

**Chair:** Mr Brooks, could I ask you to lean into your computer? Your voice is a little indistinct.

**Paul Brooks:** I work for Rushmoor Borough Council, which incorporates Farnborough and Aldershot and looks after 100,000 people. [*Inaudible.*]

Q1 **Chair:** Mr Brooks, we will get someone from the sound team to contact you, so we may direct questions away from you at the beginning. We will try to find a way of contacting you, perhaps offline, so that we can hear you more clearly. If you have got a headset, that may help, but I am not an expert; I will leave that to the experts.

I want to kick off with Councillor Watts, because you represent a wider body of local authorities. The Government have given extra funding to local government, but we know that all councils are having to spend a lot of money on a lot of unpredictable expenses. Is the £3.2 billion extra enough? Do you think it is going to the right places, or are there areas where you think local government could spend money better than central Government because of local knowledge?

**Richard Watts:** The bald figures, as they have been put together by the Local Government Association, are that the £3.2 billion that we have received so far in two tranches of £1.6 billion is very welcome and making a significant difference. That it is combined with about £4 billion of cash-flow easement—payments to Government that will still have to be made but that are being deferred—which is helpful in managing local authorities' cash-flow issues, which are significant at this time. However, the best



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estimate the LGA can come up with for what the total bill to local government will be, just for this financial year, is somewhere between £9.6 billion and £12.8 billion. So the current cash funding will make about a quarter of what local government needs to be fully compensated for the impact of this crisis.

It is worth saying that, for most councils, about 30% to 40% of the financial pressure they are under at the moment comes from the out-of-pocket spending commitments they need to make, particularly around the social care sector. However, more than that is actually the lost income that councils are experiencing, given the large portion of income generated in local government's funding mix. Most of that is not from commercial investments—what we are talking about today; most of it is from a range of parking revenues, fees and charges, leisure centres and normal charges for people undertaking local authority services. It is that lost income which is really the critical factor.

That has been a particular challenge for many district councils. Districts welcomed the fact that a large part of the last tranche went to districts—that was necessary to prop districts up. However, particularly for all local government, the more clarity that can be provided as quickly as possible about what the Government's future intentions are, the better, to help chief financial officers and councillors plan for what inevitably will be an incredibly difficult financial period.

**Q2 Chair:** Can I turn to Councillor Pearce? Districts got an extra bit of money—I think an extra 5%. Can you explain how that has been allocated? Have you got complete discretion locally about where and how you spend that? Is it enough?

**Judy Pearce:** In the second tranche of unrestricted money to governments—the second tranche of £1.6 billion—districts did do considerably better, but we calculate that that will be less than a third of what we will need at the end of the year to balance our books because of the loss of income.

I think it is sometimes not fully appreciated that district councils are actually a cash economy, and we rely very heavily on earning money in order to be able to spend it. We have been heavily restricted over the years by not being able to put up council tax by more than £5 or 2.99%, the result of which is that we are very pushed for cash, so we have had to put up the cash we can earn in all quarters in order to balance our books. We have to balance the books by the end of the year.

We have taken a huge hit on all earning capacity since the beginning of the emergency, and there is not yet any clear route out of this as to when we shall be able to start charging again. What we have received so far was based on population but did not take account of any factors like rurality, where we have difficulties and extra costs for delivering our services. In fact, smaller councils have probably fared worse because the hole has nothing like been plugged. I would say that one of the big problems we have is on the collection fund. We are the authority that collects council



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tax and the precepts from the blue light services in our county. Then, at the end of each month, we have to deliver that money to those authorities, and to our town and parish councils—we do that less often. But we still have a contract with all those authorities to deliver the money.

The contract is drawn up in January, based on the previous year's collection rates. At the end of January, we signed that contract, on about a 98% collection rate for our council, only to find that a percentage of people—not huge yet, but we think it will increase—are defaulting on council tax payments, and yet we have to pay over 100% of that to the other authorities.

Q3 **Chair:** I can see the problem there; that is a huge issue, structurally.

**Judy Pearce:** It is, structurally, because our part of that money is actually only about 9%. So we have to pay the other 91% over to the other taxing authorities.

Q4 **Chair:** We may well pick up on that later, because I am just aware, everyone, of the time as well. We want to talk about covid-19 and we have some other questions, as well.

Before I bring in Craig Mackinlay, I will just ask Rob Whiteman, if I may, what the impact is going to be on this year's accounts and accounts filing—they are obviously a bit shot—but also what will be the impact, and what are you doing to try to talk to Government about that, for the financial year 2021-22?

**Rob Whiteman:** In terms of filing the accounts for the financial year that ended at the end of March, the deadline has been extended, so the preparation and then the auditing of accounts have been pushed back to November, which is welcome. However, in pushing them back, there is a risk that that process will run into the budget strategy this autumn.

I think councils will have the toughest year ever on preparing their budgets for next year, for many of the reasons that Councillor Watts and Councillor Pearce set out, in that we do not know yet how much costs will go up by because of this crisis. I assume that on the other side of the crisis social care costs will have gone up, both in terms of salaries and personal protective equipment, on an ongoing basis. We also think there will be a spike in care for children and vulnerable people. So, it is likely that costs will go up in future budget years, while—as the councillors said—income is clearly going to be affected as well.

It is going to be a very tough budget round this autumn for councils, and I think that we are trying to impress upon everybody—particularly the Government, and CIPFA is doing a lot of work with the Department— that the more certainty that councils can have about funding, the better.

**Chair:** Thank you. I will ask Craig Mackinlay to come in and then Clive Betts.

**Craig Mackinlay:** Indeed. I listened very carefully to what Councillor Pearce had to say; it was very interesting. I know the area of South



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Hams very well; I actually stood there for Parliament in 2001, unsuccessfully. I know the area very well, and I can see her thoughts on how different areas will have different demands on finances in the future. For instance, mine in east Kent, covering coastal towns, is not vastly dissimilar to South Hams. We are getting hit massively by loss of parking revenues, for instance. That would be one where we have a lot of on-the-hoof tourism, amounting to some £340 million a year.

In terms of the covid effect, I have been talking to the officers of both Thanet District Council and Dover District Council, and they estimate that their sort of loss that will probably never come back—they are only small authorities; they have income of about £18 million a year—will be about £1 million a year.

So what they have had so far is helpful—

**Chair:** Can you get to the question?

- Q5 **Craig Mackinlay:** The question is: are you sure that all authorities are looking very carefully at their cash burn and their needs? And we are meant to be discussing investment portfolios today. Are they doing this assessment of where they are likely to be, because it will be about now that the direct debits will be being ceased?

**Chair:** Is that to Mr Whiteman?

**Craig Mackinlay:** Yes; I think Mr Whiteman would be the best one.

**Rob Whiteman:** As the Committee has said, cash flow and budget are very different things. People may not be paying their council tax instalments at the same rate at the moment, in April and May, and that creates a cash-flow problem, but if they pay them later in the year, the budget is still being collected even though there was a cash-flow problem. Councils are looking very hard at their cash flow.

As Councillor Watts set out at the beginning, the money that has come through—the two lots of £1.6 billion but also some of the cash-flow easement—means that at the moment there isn't a cash-flow crisis. People are able to spend money that is needed on the emergency, but there is a growing budget problem developing for later in the year if some of those cash-flow problems actually turn into budget problems.

**Chair:** Can I bring in Mr Clive Betts? I welcome Mr Betts, chair of the MHCLG—Housing, Communities and Local Government—Select Committee, who is guesting on this Committee today. We welcome your expertise, Clive.

- Q6 **Mr Betts:** Thank you, Chair. This question is to both Councillor Watts and Councillor Pearce, and probably Rob Whiteman as well. It is very simply this. Councillor Watts, I think you mentioned the word "clarify" and Rob Whiteman "certainty".

Most councils haven't got so far from Government, despite the welcome £3.2 billion, enough money to cover the amount that they have spent so far and the amount that they have lost in revenue. Most thought, "Eventually, the Government will come in and help us through this." Last



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Monday at our Select Committee, the Secretary of State said that the Government were not committed to funding all the extra costs of covid-related issues, but merely those that the Government had specifically asked local authorities to engage in. Has that caused uncertainty and concern among councils, and how are you dealing with that situation? Indeed, did you know that such a list existed whereby you could get funding but not if the extra money that you incurred was not on the list?

**Richard Watts:** I have to say I am not aware of a single exhaustive list of everything that we have been asked to do by Government. If that exists, I am certainly not aware of it, and I would have thought I probably would be if it did exist.

I think it would be very helpful indeed, to allow Rob's professional colleagues to plan for the next nine to 18 months, if there was more clarity in what the Government was setting out as its funding intentions for local government, because there is quite a big difference between some of the early talk of funding whatever it took and the very specific funding commitments to fund out-of-pocket expenditure against a set list of topics, which I am not aware has ever been given to us directly.

Given the way the section 114 notice system works—Rob may want to say something about this as well—it is not about whether councils are running out of money now; it is not a technical bankruptcy test, but it is about whether councils can meet all their financial obligations for the rest of the financial year, which still has a long way to run and therefore we are very unclear about what the situation is towards the end of this year and at the beginning of the next calendar year as well.

I think chief finance officers and section 114 officers will be looking for more clarity about what more we can expect from Government. I think a lot of councils are in a position where we are holding off making long-term changes to budgets in year, because we want to protect public services, we want to do what is absolutely right by residents, in the current crisis.

However, it becomes harder and harder to resist that temptation the longer it takes to get clarity about what further financial support councils are going to get, because if we do not get further financial support and we really are going to be left with the funding that we think is between a third and a quarter of what we will need to fully manage this crisis, just for this financial year, then it will clearly have a significant impact if local authorities are going to hit their legal requirement to present a balanced budget for this financial year.

**Chair:** We will hear from Councillor Pearce on the same point and then Mr Betts may want to come back on this.

**Judy Pearce:** At the beginning, the message was very much, "Do whatever it takes." We have noticed a shift in that, but I agree we have never had a list: we were given the money and told to spend it; it was at our discretion what it was to be spent on. The whole of our first amount went on rehousing homeless people, of whom we don't have a huge



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number in the district, compared with other authorities, but it has been a very long and intractable problem.

We need some certainty, because at the moment, after a month or a month and a half of this, we are not entirely sure what the position will be for the rest of the year. There are many around us who say that it can only get worse, in that, as people come out of furlough—they may be released from their jobs and all the rest of it—we really do not know how great the problem will be, because we do not know what will happen in the future. However, we need some reassurance about the hole that we know is opening up.

**Chair:** Mr Betts, any quick follow-up on that?

**Mr Betts:** No; unless Mr Whiteman wants to answer that question, I am happy with that answer.

**Chair:** Very briefly, Mr Whiteman, if you have anything to add.

**Rob Whiteman:** I think we want to avoid the risk of a public negotiation over how much money is needed, with one side saying they think it is £12 billion and the Secretary of State saying, “Well, I am not going to fund all of that.” Local government, as Councillor Watts says, has a unique financial management system in which it is illegal to overspend. It is absolutely unique across public services. If a council is going to overspend its budget, the director of finance has to freeze expenditure for a period while that is corrected. That would be a disaster in the present circumstances, in which emergency actions are taking place.

I think we would invite the Government to say unequivocally that all costs related to covid-19 will be funded in full, and that they recognise that local authorities will make legitimate income losses because of the economic crisis, which will be covered. We also invite the sector to set out exactly what is needed, and then to talk to the Government about it. Councils are in the position of not wanting to breach their statutory requirements to balance the budget while there is a little bit of a public lack of clarity or spat going on about who is going to fund it.

**Chair:** That sounds far from certain. If Mr Betts has finished, I will move on to Richard Holden.

Q7 **Mr Holden:** Thank you, Chair. Many businesses in my constituency and across the country have really welcomed business grants. From a local government perspective, how much has been received from central Government, and how much has been paid out, in terms of business grants?

**Chair:** Who are you directing that to first, Mr Holden?

**Mr Holden:** To Mr Whiteman.

**Rob Whiteman:** I am afraid that I do not have up-to-date figures on that; those would best come from the Department. Mr Betts’s Committee took evidence on this last week. I think councils acknowledge that some areas have been quicker than others in paying out the loans, and we are



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therefore trying to learn good practice from where it has worked more quickly. Sometimes that is affected by the demography of the businesses. Some places have fewer bigger businesses, some places have a lot of very small businesses. However, I am afraid that I do not have an up-to-date figure on that for you. I do not know if Mr Betts does—his Committee may have been updated.

**Q8 Mr Holden:** Mr Watts, from the LGA, do you have anything? You [*Inaudible*] local councils on a daily basis on resources. Do you have any further information on that?

**Richard Watts:** Again, I will probably refer you back to the Department, which I think is keeping a quite accurate running total of the amount that has been given out and the amount that has been paid out. It has not been described as a league table, but there is effectively a table that has been published of the percentage of the grants available to them that each council has paid out. I think that the vast majority of grants have been paid out.

To take my own council as an example, within the first week or so, grants were paid out to all the organisations that we had pre-existing bank details for and so could pay grants to. Very quickly after that, within the first couple of weeks, they were paid to all the organisations that we could proactively contact to ask to pass their bank details on to us. The businesses that are left tend to be very small businesses that have no particular track record of engagement with the local council. We have been desperately trying to contact them, to ask them to engage with us to pick their grant up.

Those tend to be very small businesses whose staff are probably not at work at the moment and are not replying to the various emails, letters and phone calls that we are putting their way. It has been quite hard for us to finish off that last small percentage of businesses. My borough is relatively near the top of the league table, in terms of payment, but that gives you a bit of an insight into the work going on to reach the last small percentage of businesses who have not yet received that money.

**Chair:** I am going to bring in Mr Mackinlay briefly on that point, and then we will come back to you, Mr Holden.

**Q9 Craig Mackinlay:** This is directly to Councillor Watts. I think the league tables have been a bit unfair because some authorities have the direct debit details of a lot of big businesses that pay full rates and other authorities do not.

Have you had guidance yet from BEIS—I understand that it is coming from BEIS—about the additional discretionary fund? It is a bit of an odd one because there is meant to be guidance and then there is a lot of local discretion as well. My worry is that a lot of officer time will be spent coming up with a discretionary-type arrangement that then has to be agreed by council, and then you are going to have a row over the border when your neighbouring authority has a different discretion. As yet, have you any idea what that will mean in real terms?



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**Richard Watts:** I think there is a real risk that it will lead to quite different kinds of schemes across local authority boundaries. As a position of principle, the LGA tends to welcome local discretion over these schemes; however, we are talking about relatively small sums of money for each individual borough, understanding the pressure on public finances at the moment. Therefore, however you cut a scheme, you are looking at very small changes.

For example, in my borough, as in many others, quite a lot of the communication with businesses is about how they have not been eligible for various reasons—particularly to do with the relatively high rateable values of businesses in London—for the original tranche of grants. Although I completely understand the need for an amount of money to go to businesses that do not quite qualify for the original grants—I absolutely welcome that money—I think that there is a challenge in designing schemes locally, not least in very practical things.

For example, running that kind of thing through your business rates software requires your software provider to do a clever bit of coding for you. Those things cannot happen overnight at the moment because they place lots of different design demands on a relatively small number of software providers. There are some quite practical issues like that, so the roll-out of some of those local schemes will prove quite challenging. I would not usually say this, but my personal view is that I would welcome some guidelines from central Government about how that money is spent.

Q10 **Mr Holden:** There is concern that some councils have taken some time to pay out the funding so far and have been sitting on cash in the bank. Do you recognise that concern, Mr Watts?

**Richard Watts:** I am not aware of any council that has been deliberately sitting on money. There are some challenges, as I said. To give you an example, for the last small percentage of businesses in my own borough, actually trying to get the money out of the door to a relatively small proportion of currently pretty vacant businesses is quite difficult.

In the circumstances, local government has actually done a good job of getting those grants out, bearing in mind that that was almost certainly the only distribution mechanism available to Government. There has certainly not been any deliberate delay that I am aware of.

Q11 **Mr Holden:** I must say that my own local authority seems to have done a pretty good job of getting money out of the door and is chasing people down as well. The situation seems quite patchy across the country, and I wonder whether you, as the LGA, have issued guidance to local authorities? Obviously, for businesses this is a life or death time. What guidance have you, as the national body, issued to help small local authorities with best practice?

**Richard Watts:** We absolutely understand the massive pressure on businesses, which as you say are really struggling for survival in the current circumstances. The LGA has, in the main, reiterated Government guidance. There is a risk of too many people issuing guidance at once and



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it being confusing for local authorities. A lot of that work is to go through businesses. The challenge has been in supporting local authorities to track down a now relatively small proportion of businesses. However, Mr Mackinlay is right to say that the nature of businesses varies dramatically area by area, and some will be easier to track down than others.

I think there is a remaining question about what we do with a small number of businesses that are effectively not functioning at the moment—where no one is picking up the post and no one is reading the emails because effectively all of the staff are either on furlough or not at work. For businesses like that, physically or virtually getting hold of them has proved quite challenging. Certainly, if the LGA gets a request from member councils that further advice and support on that would be helpful, then we will respond to that.

**Q12 Mr Holden:** That was what I was going to come on to, actually, Mr Watts, because obviously, with the discretionary funding coming forward, that does give local authorities what they are constantly asking for, which is this discretionary funding so that they can respond to local need. I know it is something that my local authority will be looking at—how best to respond.

There will be different businesses in different areas. Obviously, London is different from County Durham. I was just wondering, have you issued, or are you working across local government and through the LGA to provide, some guidance on that, or to try to collate what local councils are doing or what their concerns are, and to put forward suggestions for where discretionary funding should be going?

**Chair:** Councillor Watts, could you be brief please? Thank you.

**Richard Watts:** Certainly. To answer the question straightforwardly, we have not yet given suggestions to local authorities. Largely we trust them to make the right judgments for their own areas. What we are happy to do as an LGA is to help broker solutions on some of those technical fixes like redesign of business rates software, because I do not want to underestimate the challenge of areas like that in complex computer systems in getting that many physically paid out.

That is what we have suffered from in a number of previous things like, for example, the pubs and hospitality discount a couple of years ago. It took a long time to get that paid out, largely because of computer challenges.

**Chair:** Thank you, Mr Holden. Is that you?

**Mr Holden:** That's me, thank you very much, Chair.

**Chair:** Thank you very much, Mr Holden. I am now going to move on to Dame Cheryl Gillan.

**Q13 Dame Cheryl Gillan:** Thanks, Chair. I would like to put a couple of points, probably to Mr Whiteman and Councillor Watts. Certainly, the emphasis on the certainty that is needed for local government is reflected



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with my own authority of Buckinghamshire Council, and it is really to their situation that I want to direct my questions to both of you.

We have talked about the loss of income to councils, but in the case of Buckinghamshire, it is now going down to a unitary authority, so it is not just a straightforward loss of income; it is a loss of those financial benefits that were factored into the budgets of the new council, which of course came into existence on 1 April.

How do you think government should deal with this? Because not only are they going to lose those savings that they have built into their budgets, but they also have the extra costs of the elections being delayed until next year, so, for example, they have a very large number of councillors on their books as well. How do you think government should deal with this, because isn't it going to be rather unfair if a council like Buckinghamshire is left holding the baby, particularly as the message at the beginning was "Whatever it takes, we will back you up financially"?

**Chair:** Perhaps I can ask Mr Whiteman to come in on the structural funding side of that.

**Rob Whiteman:** Yes. I think Buckinghamshire will not be able to make the savings that it expected to make. I would add, Dame Cheryl, that a lot of councils' medium-term financial plans, which are up for review this autumn, to make savings in the next year or two, are expecting to make structural savings in social care, which I don't think are now going to be deliverable in the new economy for social care post-covid.

So I think there will be a number of structural issues where councils are not going to be able to achieve the budget plans that they had made for future years; and, in the way that Buckinghamshire will need help to overcome the fact that its restructure savings are not going to be delivered on the timescale as planned, I'm afraid a number of councils are going to have issues of falling out of their budget plans because of this crisis.

**Richard Watts:** I completely agree with that. There are specific facts in Buckinghamshire, and I think there is a range of specific facts affecting lots of different councils across the country.

We have talked a lot about the out-of-pocket expenses in areas like social care and vulnerable carers hubs, and a whole range of other new services councils are offering. We have talked a lot about lost expenditure. There is actually a third leg of the stool, if that is not too tortured a metaphor, where councils are structurally struggling at the moment; that is, as Rob said, the inability to deliver medium-term financial strategy.

Every council will have gone into this year needing to make some savings and efficiencies this year—slightly less than previous years, but still £10 million in the case of my own authority. Delivering that will be very challenging and all councils will be trying to assess what that means. But, again, every top-tier council will need to make some sort of saving in their adult social care budget, given how dominant that is at the moment, and



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that simply will not be happening at the moment, because all the staff doing that are—quite rightly—off performing life-saving services on a daily basis. It is not just about the out-of-pocket expenditure and the loss of income; it is also about the failure to deliver plans that have been fundamental to councils' medium-term financial planning. Those three things are the structural problems for local councils in the current crisis.

- Q14 **Dame Cheryl Gillan:** I have a terribly simple question. Regarding the element of the budget for business support that is discretionary, if it does not get spent, will it go back into the councils' budgets and will they be free to spend that to help make up some of their shortfalls?

**Chair:** Mr Whiteman may know the answer to that one.

**Rob Whiteman:** I think not. I think BEIS will make the money available for it to be transferred through to businesses. I don't think it is entirely clear what would happen if it were not spent—whether BEIS would wish to see some clawback of that or it would be left.

- Q15 **Dame Cheryl Gillan:** Don't you think we need some clarity on this? Frankly, I feel very sympathetic to the local councils because the position is not clear for them. Having had a position right at the beginning that said, "Whatever it takes, we will back you up financially. We are here for you," the position has become increasingly uncertain. Surely, both Departments should be making it very clear what the extent of their support is for local government.

**Rob Whiteman:** I completely agree with that. Clarity is needed on the fact that the £3.2 billion given so far is the beginning of an assessment of what is required, rather than the end of the story. Councils are doing two things. They are passing money through to businesses from BEIS, which is urgently needed to keep the local economy going.

I would like to make a brief comment on the Public Accounts Committee that councils are doing that as quickly as possible and, in a way, making it a very short process. Remember, some checks are needed. When this crisis is over, I suspect that across the remit of all of government we will see that there has been some fraud and misuse of money, so let us remember that we want councils to transfer that money through, but we do need some check and control over it, because otherwise we will have a problem later on.

In terms of the things for which councils are responsible, I completely agree with Dame Cheryl. Councils need that certainty and for the Government to say, "We recognise that as with schools, the NHS, policing and other parts of the public sector, Government will have to make funds available to you," which they are currently not doing.

**Chair:** Thank you, Mr Whiteman. Dame Cheryl, we will move on, but we can write to the Ministry of Housing, Communities and Local Government and to BEIS to ask about that point, so that we can have clarity by Friday. We will move on to Olivia Blake. To remind you about the timing. I know you have some questions, so if you come in, I will bring Dame Cheryl in

after that, and then we will move into the main session.

- Q16 **Olivia Blake:** Okay, I will be as speedy as possible, Chair. My questions fall into two sections. The first section is about vulnerable people. On the support that you have been asked to give to vulnerable people in your local authorities, do you feel that your local authorities have had the capacity to do what has been asked of you?

**Chair:** Councillor Pearce, shall we go to you on that one? You have already commented a bit on people who are sleeping rough in South Hams. Do you want to take that point more broadly?

**Judy Pearce:** Yes, we have managed to get the majority of rough sleepers into accommodation. I'm afraid that there are some who will not accept any help, but that is a very small number.

On the rest of it, as far as distributing food parcels and that kind of thing is concerned, we have been pretty much on top of it. What we have found, though, is that the lists that came out from central Government have not been totally reliable and they are being continually added to by people who have not been picked up on the first round. The distribution has now been taken over by a national supplier and it is no longer our responsibility, but we are still picking up the odd person who has not received anything, for whatever reason, and we have to go out and take food to them. On the whole, it has worked pretty well.

**Richard Watts:** There is a range of different ways in which councils have been helping vulnerable people through this crisis. Again, there have been slightly shifting goalposts in what we have been asked by central Government to do on this.

For the most vulnerable tier of residents—the formally designated shielders, which is a nationally put-together list that I think was informed by the NHS and GPs—we were originally told that we should have some contact with them, and then the instructions were that actually, there would be a national food supply system going in for them.

In practice, however, it has transpired that not as many of those people as was hoped for got back in response to the original letter that they received asking them if they wanted to be part of the food distribution process. There has been a subsequent request to local councils to follow up with phone calls using our own staff and our own resources, which we are assuming is part of the things that we have been specifically funded to do. The data from that has somewhat dribbled through as well, so you get another tranche of data at the weekend for another group of shielders. The work on that carries on.

There is then a group of people who sit under that, who are vulnerable but not formally part of the shielders programme. We have been encouraged to put together hubs to support those people. We have been doing thousands of food drop-offs, financial support payments, gas and electricity pre-payment cards and a whole range of other things like that. Again, the services every council has put together are right for their own



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specific areas, but there is a significant offer there. Significant support is also going into care homes and very vulnerable populations in the social care sector, and an enormous amount of work is going in to support homeless people and get them off the streets. At the moment, the vast bulk of the services local councils are offering are for people who hit some sort of definition of vulnerability.

I think councils have responded incredibly well to all of this, and I think we have the capacity to do it, as long as there is a clear understanding that we do not have the capacity to do a great deal other than this at the moment. That is why many routine council services, such as libraries, have wound up.

- Q17 **Olivia Blake:** You have kind of stolen two of my questions. I was going to ask how good the quality of the data is, but you have both pointed out that it hasn't been fantastic. I am wondering whether you think that different authorities have been defining "vulnerable" either too narrowly or differently, and whether you have any evidence of having been unable to help some people who you would normally describe as vulnerable, because of lack of funding or anything like that.

**Chair:** Who is that question to first, Ms Blake?

**Olivia Blake:** To Richard Watts, please.

**Richard Watts:** Inevitably, different councils are defining the lower tiers of vulnerability differently. There is some stuff that is pretty well set—there are clear definitions of homelessness and clear definitions in the shielders' programme—but after that, there is going to be some local discretion. Again, I would argue that that is probably appropriate.

Speaking on behalf of my own council and that of other councils I am aware of, I am not aware of a resources issue at the moment. As I say, the two tranches of the Government grant and the cash flow easement mean we are not running out of money as we speak. The real questions are about what happens for the rest of this financial year, and without that clarity in the future, we are going to start coming under pressure to start winding some of those services up.

**Judy Pearce:** We have some pots of money that are discretionary for people who are really in distress. However, I agree that going forward, we do not have an infinite amount of money, and the evidence is that if anything, the distress is likely to get greater as we move forward. There is a question mark about how we are going to help people further down the line.

- Q18 **Olivia Blake:** Moving specifically to the £500 million hardship fund, do you think that your authority is fully utilising that money?

**Judy Pearce:** Yes, I think we are using it to the best of our ability. However, not knowing how much demand there is going to be in future, it is fairly heavily rationed to small amounts to help people in the immediate future: for instance, until universal credit comes through, with immediate



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getting to doctors' appointments, and things like that. It is not seen as any sort of long-term help.

**Richard Watts:** To clarify, this is the hardship funding specifically from MHCLG. For many boroughs, the vast majority of that has all gone to the mandated element, which is giving people a £150 discount from their council tax if they are on council tax support. To give you an impression from my own council, when we initially received the money, we thought about half would go into that and about half would be allocated into our pre-existing local welfare scheme, called our residents support scheme.

It transpires that since then, with a rapidly growing number of people on universal credit and therefore a growing number of people eligible for council tax support, almost all of our tranche of that money will support people by taking up to £150 off their council tax bill if they are on working income support. There is very little left to go into a more general local welfare assistance scheme. A lot of the work we are doing as a council with local charities is filling that gap.

**Chair:** Ms Blake, last question if you can. We will then move on briefly to Dame Cheryl's last question.

- Q19 **Olivia Blake:** Back to rough sleeping. Thank you, Councillor Pearce, for answering some of this. In the longer term, do you feel that you have a good exit strategy for how you will cope with the people who sleep rough who have been housed by your council?

**Judy Pearce:** As far as our particular council is concerned, we have an intractable problem anyway with affordable housing, because we have one of the highest housing-to-earnings ratios outside London, as far as market housing is concerned. Taking rough sleepers out of hotels and similar accommodation will not be easy, because we have huge waiting lists and there will be nowhere to put them. I do not know that we have even considered what the answer to that is yet, given the length of our waiting list as it is.

**Chair:** Thank you. Councillor Watts, anything briefly to add to that?

**Richard Watts:** I think the situation in many councils is exactly that. So much effort has so far gone into the day-to-day work of getting people off the streets and trying to sustain people with profound difficulties in long-term accommodation, which is, as Councillor Pearce said, really hard, but not a lot of thought has gone into long-term planning yet. Clearly, our attention will turn to that quite shortly.

**Chair:** Okay. One very short, sharp question from Dame Cheryl Gillan.

- Q20 **Dame Cheryl Gillan:** It is on the exit strategy. I am concerned not only about the welfare of people who have gone into accommodation and then left accommodation, but about the legal liability of councils for any damage or anything else that has occurred in that accommodation. Have you got any data on that? Do we know what councils are facing, and do we know what resources they are having to spend in trying to find people



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and bring them into safety once they have left the accommodation that was found for them?

**Richard Watts:** I do not have any precise data on the challenges that councils are facing. It is an enormously challenging bit of work to engage with the entirety of the homeless community. An important point to make is that, in almost every local area, the number of people presenting as homeless has significantly increased during the crisis.

A whole range of people were previously called the “hidden homeless”—the people who were sofa surfing, staying with friends or in sheds in back gardens and things like that—which was a really big issue. As people no longer feel confident in hosting their mate on their sofa for a while, they are now presenting as homeless, so we have seen a very significant increase in the number of homeless. They are relatively easy, actually.

It is the people with profound mental health challenges, substance misuse and a whole range of other complicating factors who we are really struggling to sustain, even in a hotel room, and who we are most worried about. Every council will reflect this. Lots and lots of people who we have found accommodation for—they have left it of their own volition after a couple of days. For whatever really difficult and complicated reasons, it was simply not working.

**Chair:** I think we will move on. Is that all right, Dame Cheryl?

Q21 **Dame Cheryl Gillan:** I asked about the legal liability.

**Richard Watts:** I am not sure about the precise position on legal liability. I think damages to hotel rooms and stuff like that will be relatively small elements of it. I am not sure that it is top of everyone’s worry list at the moment.

**Chair:** In the strange times we are in, relatively not.

We will now move on to the main session. I believe we have Paul Brooks back with proper sound. Obviously, he will have something major to contribute to the next part.

The main theme of today’s session is local authority commercial investment. For anyone who is watching, the National Audit Office produced a Report on this on 13 February this year. The National Audit Office and the Public Accounts Committee have done other work on this, in 2016 and 2018 in particular, but we are looking particularly at some of the issues raised in that Report, preparatory to a session with the Ministry on Friday, for which the transcript will be publicly available.

I am going to ask Sir Geoffrey Clifton-Brown, the deputy Chair of the Committee, to kick off on that. Members will be asking short, sharp questions. I urge witnesses not to repeat the answers of previous witnesses if they agree with them, and to keep their answers short, so that we manage to get through the important agenda today. Over to you, Sir Geoffrey.



**Q22 Sir Geoffrey Clifton-Brown:** Thank you, Chair. I will pose my first question to Rob Whiteman and Richard Watts. It is a very simple one, really. Before the covid virus came along, some of these commercial property investments were causing certain councils to have their debt hugely increased, and there must have been a worry at that point about their financial resilience. With the covid virus added to that, and the inability of commercial property tenants to pay the rents, what is your view on whether certain councils' financial resilience will be put at risk by commercial investments?

**Rob Whiteman:** I think some councils will be at risk. Before the crisis started, as the NAO Report shows, we are talking about relatively few councils. The majority of councils continue to use the prudential code very prudentially, and any commercial investments have been very proportionate. However, we are quite worried about a few councils that were overexposed through borrowing for commercial purposes.

There is a new concern, actually, that did not exist before covid-19, around some investments that have been around for a long time. They might not be funded through borrowing but through revenue reserves—airports or arenas, for example, which have been jewels in the crown for many local authorities. Actually, they may now be a concern for those councils as well.

I think we were worried about a lack of income from commercial investments on retail parks, offices, et cetera. Probably the concern will now be a bit wider, because there are some investments like airports that were not a concern before this crisis but will be now. However, I would remind the Committee that some of those investments were not funded through borrowing; they were funded through the use of historical reserves.

**Q23 Sir Geoffrey Clifton-Brown:** Councillor Watts, wearing your LGA hat, and having heard that answer from Mr Whiteman, would we know—would you know and would the Department know—which authorities are likely to be seriously at risk in this respect? Is there another Northamptonshire out there that might need a serious bailout?

**Richard Watts:** I don't think the issues in Northamptonshire were particularly to do with overexposure to commercial borrowing. I think there were deeper structural financial issues there—that is my understanding of it. However, the LGA will be starting to pick up through our intelligence network individual councils that are themselves flagging that this is a cause of concern. Ultimately, the first person who needs to flag this is their own council's chief finance officer.

Clearly, the Department will themselves be aware of some of that through the monthly financial returns that each council is expected to make to Government to track covid expenditure and covid risk at the moment. A picture will rapidly emerge of any individual council—as Rob said, I think it is going to be very small number—where there is particular exposure and risk here.



- Q24 **Sir Geoffrey Clifton-Brown:** Can I ask the next question to Paul Brooks? In my old investment hat days, we would only advise clients to invest in commercial property if they were a significantly large investor elsewhere. If they were a smaller investor, we would advise them to invest in a fund rather than investing directly in commercial property. Do you think that some councils have rushed into investing in commercial property unwisely?

**Paul Brooks:** *[Inaudible.]*

**Chair:** I'm afraid we cannot hear you, Mr Brooks. We might have to come back to you, if you can hold the thought. Sir Geoffrey, could you move on? We will come back to Mr Brooks if we can get the sound.

- Q25 **Sir Geoffrey Clifton-Brown:** Perhaps we could go back to Councillor Watts and Rob Whiteman. Has the rationale for investing in commercial property in some cases been one of purely looking for yield, rather than as a sound investment to further council policy in terms of regeneration?

**Rob Whiteman:** Yes. That has been the case in a few cases. Sir Geoffrey, remember that the prudential system has been in place since 2004 and these problems are relatively recent. Councils have a good track record of investing in services and regeneration, but as revenue cuts began to hit them, they started to look for commercial investments as a source of yield. That exposed the implicit understanding that we all had in the prudential code, in that you didn't invest outside your economic area purely for the purposes of yield, which in old money was called "in advance of need".

That was understood for a decade or more, but we started to see a small number of councils investing for the purposes of yield outside their economic area, and therefore not linked to regeneration. That is where we have now tightened up the code, in order to make it clear that that type of investment is prohibited.

The Committee will know that the Treasury has announced that PWLB will no longer be available for purely commercial and investment purposes. I hope that doesn't sound like closing the stable door after the horse has bolted, but I think the code and the Treasury's rules on PWLB mean that that the type of investment that Sir Geoffrey is referring to, one made purely for yield purposes, will now be harder.

Meanwhile, since 2004, local government have made very strong capital arrangements. The prudential regime has led to good asset management planning and good data, where councils know about the whole life cost, the replacement value and the use of its assets. It has led to a really good system, but the answer to Sir Geoffrey's question is yes, I'm afraid a few did that.

**Chair:** Okay. I am going to urge people to give slightly shorter answers or we will not otherwise get through the business. I am going to ask Mr Brooks if we can test his sound.



**Sir Geoffrey Clifton-Brown:** I was going to do that, Chair.

Q26 **Chair:** Do you need the question again, Mr Brooks, or are you ready to give your answer?

**Paul Brooks:** Can you hear me?

**Chair:** We can hear you now, Mr Brooks, loud and clear.

**Paul Brooks:** I would appreciate the question being repeated.

Q27 **Sir Geoffrey Clifton-Brown:** It was around local authorities investing in commercial property purely for yield. My next question, which I was going to ask you directly, is that paragraph 17 makes it quite clear that 8.5% of local authorities' median external borrowing levels grew "from 3% to 756% of their spending power from 2015-16 to 2018-19." Are a small number of these authorities getting themselves into huge levels of debt, and therefore potentially financial trouble, through commercial property investment?

**Paul Brooks:** From the authorities that I am in contact with, it is fair to say that a lot of them have been very prudent, as Mr Whiteman said. It could be that what we are concentrating on now is a few local authorities who are investing in large properties, with high risk. We need to be aware that if we close the stable door for everybody it would cause major financial problems. That is fair comment; we need to focus on what is the real cause of the concern.

**Chair:** Mr Brooks, we can hear you, but it is very indistinct. I'm afraid that might mean you have slightly fewer questions because it is difficult for anyone watching online. Obviously we want your experience, so if we do go to you, could you speak slowly and a little louder than usual? That might help.

Q28 **Sir Geoffrey Clifton-Brown:** I am going to come to Councillor Judy Pearce on this question. How credible is it that councils have been able to fund £6.6 billion of purchases, without extensive borrowing? Given the last statistics I gave, isn't it a real worry that councils are increasing their borrowing for buying commercial investments?

**Judy Pearce:** I would agree with you. It is something that our council has been very diffident about doing.

Q29 **Sir Geoffrey Clifton-Brown:** Moving on, perhaps to Rob Whiteman, what needs to change in the data collection to ensure that local communities and Parliament can oversee how these large sums of public money are used? This is all about your and your Department's code, basically.

**Rob Whiteman:** I think, Sir Geoffrey, a couple of improvements can be made. While councils have a lot of local data on the reason why they make their investment, of course they do not know what investment decisions other councils make. Therefore, if the sector overall becomes over-exposed to a particular asset class, individual people do not necessarily know that.



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The Department should put in place a means of data collection in order for us to see the shape and nature of the investments being made at the individual level. That falls to the Department in the first instance, to plan how it wants to do that. If it wants CIPFA to collect and publish that data, we will gladly do so, or it might be something that the Department wishes to do itself.

The second thing I would say is that at the moment the onus falls on the section 151 officer, the director of finance—

**Q30 Sir Geoffrey Clifton-Brown:** May we leave that for a minute? I will come back to that.

We know that you changed your code and that the Department changed its code and yet, 18 months on, authorities are still investing more in commercial property. Is your code and the Department's code having any effect on local authorities' behaviour?

**Rob Whiteman:** I think it is. A lag happens in these things. Very often, planning for investment takes a year to two years and, given the way in which we have tightened the code and Treasury has restricted PWLB, I think we will now see a change in data as it is published.

**Q31 Sir Geoffrey Clifton-Brown:** It is all very well the Department collecting the data, as you advocate, but should it go wider than that? Should more be in the public domain, so that individual members of the public can see what their council invests in? In other words, should they be FOI-able, should there be a public register of their purchases, should that come within the whole of Government accounts? How should this be dealt with?

**Rob Whiteman:** Transparency is a good thing. I acknowledge that at the time of purchase there is information that is commercially confidential, but once investments have been made with public money, I think the more transparency the better. That would be a good thing. There is a role for auditors in that, which I may have the chance to talk about—

**Q32 Chair:** We will come back to that later. May I ask Councillor Watts to come in on that point, before we go back to Sir Geoffrey?

**Richard Watts:** The principle of public accountability and transparency is incredibly important. The only point that I would want to make is that there are already significant amounts of information that councils are legally obliged to publish on this each year anyway—not just the information at point of purchase of any investment, but annual budgets, the council's medium-term financial strategy, capital strategies, investment strategies and treasury management strategies, as well as annual accounts. They are all publicly available documents. If a member of the public is so interested, those can be easily accessed, so there is information out there for people who have that level of interest.

**Q33 Sir Geoffrey Clifton-Brown:** To come back to both of you—you while you are on your feet, metaphorically, Councillor Watts—to ask about the governance.



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First, do chief treasury officers, section 151 officers, have the power to advise their councils against a particular financial strategy? In practice, do they exercise that power, or do they have such a relationship with the leader or members of the council that they do not dare exercise that power?

**Richard Watts:** It would be extremely poor practice at any individual local authority if a chief finance officer felt unable to do their job. There are significant statutory protections around that role, and disciplining the person who sits in that role, precisely to protect their independence. The reality is that there are often very robust negotiations internally, within local authorities, when this kind of strategy is being put through. That is absolutely right and proper, in my view.

Rob may wish to comment if he is aware of any specific examples, but in my own experience there will be individual examples cited of where that has not gone right, but in the vast majority of cases there is proper challenge and dialogue as those decisions are undertaken.

Q34 **Sir Geoffrey Clifton-Brown:** Rob Whiteman, presumably most if not all of these chief finance officers are members of your association. Do you have a comment on that question?

**Rob Whiteman:** It works well in the majority of councils. Good governance means that officers are not frightened of speaking truth unto power, but they respect that elected members make decisions.

But there are concerns, which we have seen, that some CFOs, given the proper advice, would see those roles relegated. I have spoken to the Committee before about my concerns of statutory officers frequently being demoted to a lower level. So I do have some concerns, but I must say that is not the majority of councils. For good governance to occur, I think it is important that the statutory officer is a senior director and therefore can give that advice.

**Chair:** Sir Geoffrey, we believe we may have Mr Brooks's audio back. At the moment, we will go for both sound and picture, but if it does not work we may ask him to switch off his video. If you have any last questions for him, now would be a good time. We then need to think about moving on, fairly soon, to our next questioner.

Q35 **Sir Geoffrey Clifton-Brown:** Mr Whiteman, given that paragraph 19 says that there were two qualified audits on value for money on commercial property investments, that must mean that in some cases section 151 officers are not giving that advice, with it slipping through to the local authority audit.

**Rob Whiteman:** I would like to see two things here. First, I think it would strengthen the system of good governance if the responsibility to adhere to the code fell on the council corporately—on members—and not just on the 151 officer. In the odd council, the councillor can say, "Well, I've listened to the 151, but we've taken independent advice from elsewhere



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and we're going to do otherwise." I think a corporate responsibility on the chief executive and members to follow the prudential code would help.

Secondly, I hope that the Redmond review strengthens local public audit so that we see more public interest reports. Perhaps external audit has reduced itself to commenting on the report rather than the wider role we used to expect of the auditor to play in good governance. So I think regulations can be strengthened, and I hope the Redmond review will further strengthen local public audit.

**Chair:** Thank you. Sir Geoffrey, please can you keep an eye on the time?

Q36 **Sir Geoffrey Clifton-Brown:** I have nearly come to a close. I will bring in Councillor Paul Brooks and try—

**Chair:** He's not a councillor; he may be a highly esteemed local government official, but he is not yet elected.

**Sir Geoffrey Clifton-Brown:** Let's bring him in, whatever he is. Are some councils' commercial property investment policies being skewed by a few members who are particularly keen on commercial property investments but not necessarily applying that policy in a financially prudent regime?

**Paul Brooks:** Can you hear me, Chair?

**Chair:** Yes.

**Paul Brooks:** Thank you. Not in our experience. We have gone through an extensive programme of training for councillors at Rushmore so that they understand the risks, they understand the process and they understand the opportunities. Yes, councillors are keen on making the books balance and keen on serving their residents, but I have not heard of incidences of undue pressure on section 151 officers and officials to invest in unwise investments.

Q37 **Sir Geoffrey Clifton-Brown:** One last question to Councillor Watts and Rob Whiteman. In earlier answers, you said that the Public Works Loan Board is not supposed to be lending to commercial property investments purely for yield. Will that be a sufficient deterrent so that really local authorities ought to invest in commercial property only when it is furthering development in their own area?

**Rob Whiteman:** Yes. We do not want to see commercial borrowing purely for yield at all and we do not want to see private money markets being raised in replacement of PWLB.

I think it helps that PWLB is now clearly restricted for that purpose. The Treasury is also saying that it is restricted on refinancing of commercial investment. I think that will help, because once money is on the loan book, councils don't want to have to keep tabs on what it was used for originally. The fact that refinancing is within that will assist us. But really, Sir Geoffrey, we want to see this activity stop. That will mean not only PWLB, but strengthening regulation and the other suggestions that I made in strengthening governance.



- Q38 Sir Geoffrey Clifton-Brown:** Councillor Watts, if a local authority applies the financial provisions properly and sets aside what is known as the minimum revenue provision, often the yields on commercial properties—there is some evidence to say that in only two out of 13 authorities did the actual investment have a positive yield. Is it really a prudent policy for many authorities to be investing in commercial property at all? Considering the risk and the very small additional yield they are getting over and above, they could invest in something pretty safe such as a bond or a gilt.

**Richard Watts:** Given that the vast majority of councils do not invest in this kind of thing, perhaps that answers your question. I would be very surprised if many councils were putting aside that minimum revenue position because that strays very close to breaching the prudential code. Individual councils can take a particular view around what they think is the right use for whatever resources they have. However, the fact that a very small number of councils are doing this kind of deal speaks volumes about that.

- Q39 Sir Geoffrey Clifton-Brown:** Finally, Councillor Watts, can you assure the Committee that there is nothing else around the corner—such as investing in revenue schemes in renewable energy, or some other such scheme—that is likely to cause similar sorts of problems in the future for local authorities?

**Richard Watts:** I am afraid that I am not in a position to reassure the Committee about other councils' budgets. It is not the job of the LGA to set councils' budgets for them. The challenge behind all of this is that a significant cut in local government funding remains. Councils were encouraged by Ministers to "be more commercial" a few years ago and have been looking at investments in the light of that.

My honest take is that there are lots of completely legitimate reasons for councils to invest in local areas. Some of that will involve purchasing commercial property, whether for regeneration, green energy schemes or a whole range of other stuff, which is completely legitimate and within the remit of local council responsibilities. Defining that must be done very carefully, because it would be easy to throw the baby out with the bath water and stop a whole range of completely legitimate activities by an ill-defined regulation.

**Sir Geoffrey Clifton-Brown:** Thank you and thank you to our witnesses.

**Chair:** I have an update on Mr Brooks: he will now be audio-only in the hope that that will enhance his sound. I do not want to stop Committee members from asking him questions. You may not be able to see him, but he can hear us and, hopefully, we can hear him. I will ask Olivia Blake to come in now.

- Q40 Olivia Blake:** Thank you, Chair. I am going to cover local understanding of risk, mainly. I want to start by asking this: how well do you feel that the sector understands risk in this area?



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**Rob Whiteman:** I see some very good practices in some places where risk is thoroughly understood through good governance systems. There are areas where that can be improved. Certainly, on CIPFA's part we are doing everything we can to raise the technical capabilities of finance staff to understand these areas. We also think it is important that elected members have independent advisers who can give them advice in plain English, so that they can carry out their scrutiny role. The short answer is that it varies, but on the whole I think that there is a good understanding of risk. What I want to see concerns some of the grey areas. If you are investing in a local asset, are you doing it for regeneration purposes to pump-prime the economy or are you making that investment because you want to see a return as well, in order to assist the local budget?

I want to see clarity on that through very strong performance management information. I think we now enshrine through the prudential code that the indicators that are set locally have to have absolute clarity on the reasons that the investment is being made, in order that that can then be monitored over a period of time, because risk is best understood when there are some performance metrics to assist.

Q41 **Olivia Blake:** Around that issue, do you feel that appropriate due diligence was being undertaken by local authorities on some of these investments?

**Rob Whiteman:** It is always hard, because you want to discourage people from spending a lot of money on consultants and independent advisers, but then again you do not want people to make a bad decision. On the whole, our advice to people is to have very good officer advice, good accountants, good surveyors, good regeneration specialists, and the capability to manage these things in house rather than always buying in advice.

However, for good governance purposes, spending some money on independent advice at the time of decision, in order to make sure that the professional capacity that you have built up within the council is giving elected members the full picture, is important too. I never want to spend money on consultants, so build up in-house capacity, make it fit for purpose, and have teams that save you money rather than always buying it in—but do get some third-party advice as well, in order to make sure that you are getting the whole picture.

Q42 **Olivia Blake:** Moving on, we have spoken quite a bit about debt. In all of the witnesses' view, how much debt is too much debt?

**Chair:** Shall we take Richard Watts, to give Mr Whiteman a brief break? Richard Watts, from the LGA's point of view.

**Richard Watts:** I think the prudential code is probably a pretty good indication of how much is an appropriate level of debt. The reality is that councils should be making infrastructure investments in their areas—that is absolutely part of our role—whether that is in green technology, improving transport links, improving broadband infrastructure or, particularly, delivering new housing. I think there is a broad consensus



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that we should be doing all those things, and that is going to take some debt.

However, the prudential code, with the amendments that Rob has talked about, is a pretty good framework to decide how much is right. It is actually, in international terms, relatively restrictive. We still in this country have a relatively limited ability to borrow compared with equivalent local governments in similar countries elsewhere.

Q43 **Olivia Blake:** Does anyone else want to come in?

**Rob Whiteman:** The right amount of debt is the debt that you can afford. That is an important point to make. Some councils can take on more debt than others because they have stronger financial management and they have fewer risks. CIPFA publishes something called the resilience index, where we look at reserve levels and at how much of the budget is accounted for by debt repayments in order to create a picture, because there is a link between revenue and capital.

As the National Audit Office Report points out, beyond the £6.6 billion that Sir Geoffrey referred to for commercial investment there was some £14 billion in total of new borrowing. A lot of that was refinancing old debt. At times, rescheduling debt and taking advantage of presently low interest rates is a very good thing to do.

Spelthorne borrowed too much—with a £10 million turnover a year, it borrowed £1 billion for commercial investment. You do not have to be accountant of the year to know that that is quite a lot of excessive leverage and commercial risk.

The majority of councils—if you look at the NAO Report, 49 councils accounted for 80% of the £6.6 billion. Taking out Spelthorne, that is less than £100 million for those 49 councils. Bearing in mind the size of their operations, as Councillor Watts says, that doesn't sound particularly excessive—and not in the Spelthorne league—but councils should not take on debt for yield that they can't afford if things go wrong. As covid-19 shows, we do have a rainy day at times and therefore overall prudential financial management with debt being an appropriate part of your budget that you can pay back if the markets alter is very important.

Q44 **Olivia Blake:** I am just wondering about the local council leaders here—if you have found or have experienced any sort of pressure from within the sector to look into making these sorts of investments and if you have felt that your authority has chosen to take on more risk in this area.

**Judy Pearce:** I would not call it pressure at all, but we have been looking at regeneration projects: for instance, building a supermarket near one of our town centres to regenerate—hopefully regenerate—the high street. Now, I think it is a sound project and a good idea, but on the fairly conservative model we use so that we know we can pay back the loan—and we put aside a reserve for repairs if needed—actually the recent increase in the Public Works Loan Board rate is making that project look very doubtful, because it won't bring it into profit. What we can't afford to



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do is to set out on a project that isn't going to also give us a small yield for comfort so that we know we are not losing money on it.

- Q45 **Olivia Blake:** And have you found any other local authorities coming in and bidding on things that you are looking to invest in, in your own area? Do you feel that there might be some issues with value for money here, at all?

**Judy Pearce:** Part of our project is that there are very few things to bid on in our own area and, actually having decided we would have a policy of investing in some commercial property in our area for regeneration purposes, it has actually been quite hard to find anything to invest in. So having decided that we have got a maximum amount we would borrow, and all the rest of it, it has actually been very difficult to pull any projects off.

- Q46 **Olivia Blake:** That is quite interesting, isn't it? What about Councillor Watts.

**Richard Watts:** Quickly, no, I haven't felt any particular pressure in order to do this kind of thing—in fact, quite the opposite. My members have been quite clear with me that if I proposed to buy a shopping centre somewhere out of Islington, they would have been pretty clear in saying I couldn't do that—and, happily, I was never intending to anyway.

I also haven't found competition between local authorities for commercial assets in my own area, I think because—and I think this point is worth repeating—very few councils are doing that kind of stuff; so the vast majority of councils are looking to invest in their own area, and their own area only, for a wider range of policy-driven issues, not least regeneration, new housing, green infrastructure and other legitimate sources.

So there really isn't a kind of bidding war, in my experience, going on between local councils for the same assets, because, when you take one or two small councils that took some interesting decisions a couple of years ago out of this, actually the numbers you are talking about are really pretty small, pretty proportionate, and feel to me to be not unreasonable given the size of the sector.

- Q47 **Olivia Blake:** I guess I am just kind of thinking about the Report, really, and the graph that quite nicely shows that a number of investments that have been moving—

**Chair:** Can you give a reference to that, Ms Blake?

**Olivia Blake:** I can't find it, now. It is the one which shows the movement of investment out of areas. I can't find the figure, I am afraid, but it is essentially just showing that there has been a bit more movement out of area in terms of investment—particularly in the south-east. I just wondered if Mr Whiteman had any insight into that kind of small area—I take that it is a small area of the sector—creating almost a bubble in public investment?



**Rob Whiteman:** Certainly institutional investors have complained that they have seen councils occasionally conducting bidding wars, which not only affords poor value for money for councils, pushing the price up, but also crowds out institutional investors from being able to make those purchases. I think that, because of a number of factors, we will now see less of that.

I will not rehearse everything said before, but I actually think that saying that out-of-area investment for yield is not allowed will stop that. I also think that the points made earlier about MRP and the business case, and the fact that PWLB goes up a little bit, actually puts councils and the private sector, as institutional investors, on a more level playing field, so I think we will hear fewer of those complaints in the future.

**Olivia Blake:** That is really helpful.

**Chair:** Last couple of points, Ms Blake.

Q48 **Olivia Blake:** Yes. We also wonder what the most discouraging thing would be. What could be brought in to prevent decisions from being taken locally about borrowing for yield? What do you think would be the most influential thing that could be brought in to prevent you from making decisions, as council officials and leaders?

**Chair:** Who is that to?

**Olivia Blake:** Councillor Watts.

**Richard Watts:** The reality is that, where councils have taken this decision, it has been driven by a need to do what we were encouraged to do, which is to be more commercial in order to offset lost revenue over the last 10 years.

The biggest thing councils could do to alleviate the need for this is to re-look at local government funding levels. However, I think Rob is right: there have been significant governance changes in this area already to address the concerns about the behaviour of a very small number of councils, and I think they are already going to make a significant difference. I am not sure that there is a need for significant further regulation in this area until we have seen the existing changes bed in and have understood fully the effect of them.

**Chair:** Thank you. Ms Blake, we need to move a bit faster.

Q49 **Olivia Blake:** Moving on to coronavirus, I was wondering specifically about commercial income and the impact that the virus has been having, and how worried you are about the impact on the delivery of services in your own local areas?

**Judy Pearce:** We are very much a district of small businesses. For instance, we own 270 small business units, which are really the lifeblood of our district. Normally they run at about 94% occupancy, which is about as high as you can expect occupancy to run from that sort of premises. We have some concerns that some of those businesses will fall into



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difficulty in paying their rents, which could mean a hit to council funds, but very few of those, if any—in fact, I do not think that there are any at the moment—depend on loans. They are all paid up, so it will just be an income loss.

**Chair:** Ms Blake?

**Olivia Blake:** I think that is it, Chair.

**Chair:** Thank you very much. I will ask Richard Holden for a short, sharp question, and then we are going to go to Craig Mackinlay, who will equally set that example. Can we have fairly quick answers from the witnesses? We have covered quite a lot of ground, so you can refer back to previous answers.

Q50 **Mr Holden:** Picking up a little bit on what Ms Blake and Sir Geoffrey were saying, I think some councils are in danger of their assets turning into liabilities as their commercial tenants can no longer pay their rents—  
*[Inaudible.]*

I just want to go back to the code, as mentioned by Mr Whiteman. He said that there is obviously a lag looking to the future. One concern I have in my area is that my council is currently in the process, funded largely through a sell-off of its current council headquarters to commercial property investors, of looking to build a new council headquarters. Are any of the issues around how councils finance some of those large-scale developments, even in their own areas, being considered as far as the guidance goes at the moment, Mr Whiteman?

**Rob Whiteman:** When these decisions are made, people look at the length of the covenants for existing occupier tenants. Generally speaking, the larger the investment, it tends to be that the occupiers are there for longer leases and the covenants are longer. As Councillor Pearce said, when you get to smaller business premises, the turnover tends to be greater in terms of occupancy and so the risk is probably greater. I think that some of the strategies of changing the corporate estate—  
*[Interruption.]* Sorry, that might be me. I will switch it off. Sorry, Chair, I thought I had switched Teams off. I obviously hadn't. My apologies. How embarrassing.

I think that, at the moment, if I were planning to sell my town hall and move it somewhere else all on the back of a property deal, I would probably be reviewing that because we cannot help but notice that the rental market might be affected in our area more than in some others. In answer to the question, I suspect that if those things are not completed yet, they will get reviewed.

Q51 **Mr Holden:** In answer to my question, do you think this is something you should look at for the code going forward? For this year and initially, can we get ahead of this one rather than it lagging behind?

**Rob Whiteman:** We are very keen to review the code with the Department and improve it further.



Q52 **Chair:** So you can do it? The answer is yes? Do you think the Department is open to it?

**Rob Whiteman:** I think so, with advice from this Committee that it is a good idea to review the code and take into account future events. There is one thing that I hope against. I learnt at the Home Office that when you change the rules, sometimes it is only the compliant that follow them, and the non-compliant carry on not following the rules. It is very important to remember that we have a principles-based system, and principles are better than rules. I hope that we do not move to rules that are easier to break.

Q53 **Mr Holden:** This question is for Mr Watts. You are responsible for resources at the LGA and you are a council leader. Would you look again if you were looking to rebuild your town hall with a £55 million commercial property investment?

**Richard Watts:** I am not really in a position to comment on other councils, particularly on investment and expenditure decisions. It would be right to say, though, that any major project would probably be reviewed in the light of these remarkably changed circumstances. I could not comment on any individual scheme.

**Chair:** Thank you. I think we will leave that one there. Craig Mackinlay next with short, sharp questions, please.

Q54 **Craig Mackinlay:** Mr Whiteman, given that you have got the new code and the PWLB cannot make investments that are purely for commercial margin, we do not need to worry in the future. Is that what you are telling us clearly and absolutely, and that we needn't be doing this session at all because the problem is solved?

**Rob Whiteman:** I am definitely not saying that. I am saying there are further changes that can be made to strengthen the system. The changes that we have made help, but in relation to strengthening regulation in order that the council has to comply with the code, and not only the 151 officer, there could be data that drives the system in order that we can see all the investments taking place so that councils are aware of what other councils are doing, and through the Redmond review strengthen the role of external audit to make sure that there is—*[Inaudible.]*

Q55 **Craig Mackinlay:** Do you think councils will then tend to stay more domestically? They will dress up their proposals to PWLB—well, they do not need to dress up their proposals to the PWLB, because if it has gone that far, they just say yes. They will be more dressed up as local and part of that placemaking and all the rest of it. Do you think that will be the focus of councils?

**Rob Whiteman:** It is a risk and I take the point. It is what I said earlier about how we need clarity by the code ensuring there is good performance data. If councils want to make a regeneration decision because they think that investing in some transport infrastructure will help the local economy, understand the numbers of that. If, however, people start buying up local shopping centres rather than shopping centres in another area, is that for



regeneration or commercial purposes, and what numbers are driving it? I think we can improve the code on that further.

**Q56 Craig Mackinlay:** Finally, do you think there are the skills—realistically? I was a councillor on a unitary authority. It wasn't committee based; it was—well, you had the cabinet base. Let's talk realities here. You get an officer-driven paper. It goes to the cabinet. The cabinet, you hope, have the skills and wherewithal.

I should say that the paper that Councillor Judy Pearce offered from South Hams was a great paper; they seem to have very good skills within that council. But realistically, you then have whatever colour paper the councillors use for their commercially sensitive papers—whether it's the pinks, the blues, the greens or whatever—and they go to councillors at the end of the line. They are not meant to be published. Do we really have the skills for multi-million-pound borrowings either within cabinets or among members of councils? I was a member of one and I would say, fundamentally, no.

Very finally, on the Spelthorne experience, there was nearly a billion pounds-worth of borrowing. You said it had income of £10 million; I have just looked at the paper that it gives its residents, and it's about £23 million if you strip out the investment income. Its borrowing was 44 times its income. For Woking, it was 26 times. If you are a person with £50,000-worth of income, where on earth could you sensibly and sustainably have £2.2 million-worth of borrowings? That is effectively what Spelthorne has done. It doesn't make sense.

**Rob Whiteman:** I agree, actually, that public bodies should not have greater commercial freedoms than the commercial sector and that actually, in the private sector, an organisation the size of Spelthorne would not have been able to attract that amount of leveraging and borrowing. So I actually agree with the point. We must remain public bodies rather than becoming property development vehicles with an ancillary local authority function, so I agree with the question.

The strength of elected members is that they are lay members acting on behalf of the public, rather than being experts, but that they do get good advice. That is why I think that, actually, not only taking officers' advice but making sure that, as a requirement, there is also external advice, independent advice, and that there is strong local audit to make sure that governance is operating in that way is all very important to avoid the fears that you have that things can get railroaded through very quickly.

A lifetime's experience on my part is that you don't want these things to go through in five minutes at the end of a meeting on a busy agenda. Actually, good governance is that meetings are set up purely for this purpose, they are taken very seriously and everybody's got the confidence to challenge the numbers and get independent advice on it.

**Chair:** Thank you.

**Q57 Craig Mackinlay:** May I make a very final point? Do you think that the



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PWLB should act a bit more like the bank? At the moment, they will say yes to anything that is put in front of them. If it has gone through the proper processes of a council, they will say yes; that is just what they do. If the council had its business plan and approached A. N. Other bank, they would have to go through a process. Do you think that the PWLB should perhaps have those types of internal processes and skills to assess business plans appropriately?

**Rob Whiteman:** I don't, actually, because I think the Treasury would have to set up a huge unit to then be marking the homework of these local decisions. I think we need to get local decisions right, and then the system will work properly.

**Chair:** Thank you. I will bring in Councillor Watts briefly on that point.

**Richard Watts:** I would also caution against over-bureaucratising the PWLB process. Again, it is worth remembering that the vast majority of PWLB investment goes into proposals that I think all of us would agree on. Actually, it is primarily new housing, and I think there is a big danger that you would significantly slow down new housing delivery if you significantly slowed down the award of money through the PWLB.

**Chair:** Thank you for that. We will move to Clive Betts, Chair of the MHCLG Committee.

Q58 **Mr Betts:** It seems to me that we have two potential problems here. The first one is local authorities borrowing, as an organisation, too much in relation to their budgets, and the second is specific activities and investments where an authority borrows and invests in a project, a building, outside its area simply for yield.

On the first, is it not the job of an auditor—an external auditor—to look at an authority's accounts and say, "For heaven's sake, this amount of borrowing compared with your budget isn't sustainable." Surely auditors still have those powers, don't they? That is probably one for Mr Whiteman. I know they have changed a bit over the years. If they do not have those powers, is that a key issue now from the Redmond review, to get not merely that issue dealt with at an individual authority level but also some joined-up auditing, so that where there are problems appearing across the board, an overview can be taken of them?

**Rob Whiteman:** I agree, Mr Betts. It has been a long session and no one has mentioned the Audit Commission. I think—

**Mr Betts:** Well, I nearly got there then—joined-up auditing, all right.

**Rob Whiteman:** I think that when the Audit Commission was abolished, the baby was thrown out with the bathwater in some instances, and I think that is why the Redmond review is needed. I do think that we want to see more active auditors, with the right skills, who understand local authority accounts, and who understand good governance. So I think the Redmond review is vital, because I do not think this system will work without swell, without stronger external audit, which I think drives better local decision making, but also acts as a failsafe for Government that



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things will be reported up in the public interest if good governance is not being followed.

**Q59 Mr Betts:** Right. As for the second concern I raised, it is actually illegal for local authorities to borrow purely for investment for yield, with no connection with their other direct responsibilities. But in reality, you cannot stop it, can you, for all the codes of guidance, because of course local authorities borrow an amount of money from the Public Works Loan Board? They do not go for each individual project to borrow, so you cannot prove directly if they have borrowed specifically for the purpose of buying a shopping centre somewhere at the other side of the country. Is that not the reality?

**Rob Whiteman:** I think you can stop it.

**Q60 Mr Betts:** Can you?

**Rob Whiteman:** I think that the changes that have already been made will stop it a lot, but I think a couple more changes can be made. I will not rehearse what they are, but I genuinely believe that, on the whole, the system works for the majority. For the few councils where it has not worked, I now think that we can tighten up on it.

**Q61 Mr Betts:** This is a question for Rob Whiteman, but maybe also for Councillor Pearce and Councillor Watts. Is it perhaps worth at the end of the day having one or two investments that fail as an acceptance of a system where local authorities have some discretion to invest in the regeneration and redevelopment of their areas?

I am old enough to remember, as a council leader in the 1980s, when councillors had to go to central Government for permission for every single scheme they borrowed on, and the bureaucracy and slowness of that system. Surely we do not want to get back there, so is not the occasional flaw of individual councils maybe worth it to have a system where councils have some discretion and some freedom to do good things on behalf of their communities? Councillor Watts first.

**Richard Watts:** I think it is always a mistake to set rules around a handful of small and quite extreme examples of council practice. So I think that while there has been a lot of talk about a couple of district councils who are responsible for a very large proportion of the borrowing, if your policy aim is to restrict that kind of activity, there are better ways of doing it, as Rob said, through the audit system and a range of other regulatory changes you could make, rather than clamping down on commercial borrowing per se.

Councils operating in an environment where Government Ministers encourage them to be "more commercial" have often done exactly that. But I come back to the point of principle in all of this. We are already in a very centralised country, possibly the most centralised in the developed world, where I think all of us are arguing that we need more infrastructure in areas and not less. If we are serious about levelling up, and I am sure we all are, then we need to be doing more infrastructure investment, not

less. And I think a key part of that will come from local Government, who have a democratic mandate from their local areas.

So, again, I would again strongly caution against systems that are really designed to clamp down on infrastructure investment and borrowing for good purposes by local authorities. I would argue that, if anything, we need more of that, not less, if we are going to achieve the kind of policy objectives of this Government, which I think are ones broadly shared across the political consensus.

Q62 **Mr Betts:** Councillor Pearce, would you like to follow up on that with your point of view?

**Judy Pearce:** The system of external audit could be far more effective than it is at the moment.

Q63 **Mr Betts:** In terms of local authorities having some discretion to borrow for purposes connected with their responsibilities for their own community?

**Judy Pearce:** Indeed. Local authorities should not be investing outside their economic areas at all. There is some case for investing just outside your area, for good purposes, because it can bring more investment into your area, but investing the other side of the country to me does not make any sense at all.

Q64 **Mr Betts:** Back to Rob Whiteman: if we do not want to put a straitjacket on local government, you think just one or two regulatory tweaks, and in two years' time, with the code tweaked and guidance slightly improved, everything will be fine.

**Rob Whiteman:** My worry is that we may overreact. I hope that we keep the broad basics of the system in place, which is a principles-based system that allows for good local decision making, with governance and professional skills in place to advise. I think that that can be improved, and that out-of-area investment purely for yield purposes—the concern that the Committee rightly has—can be stopped without stopping the innovation and creativity to service the regeneration purposes, which have been a benefit of the prudential system for local government since 2004.

I, like you, Mr Betts, remember the old system of getting the annual capital allowance as part of the local government settlement. It was a dreadful system, which meant that local authority assets got into a deplorable position. It led to poor value for money and meant that people went for operating leases and all sorts of off-balance-sheet activity. It is fantastic that all of that is long gone; we can now adjust the system to make it work in the way that we want.

**Mr Betts:** Having come from a system in which we literally installed tens of thousands of central heating systems in houses through a leasing arrangement because we could not borrow the money to put them in, which would have been a lot cheaper, I absolutely take that point. Thank you, Chair.



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**Chair:** If no Member has any other final questions for our witnesses, I thank you very much indeed for your candour. Our apologies to Mr Brooks that the sound quality meant that it was difficult for you to contribute—one of the challenges of this way of working at the moment—but thank you for your attendance. I wish you all, our council leaders in particular, all the best of luck in the very difficult months ahead. I think we have only seen the start of it, as you highlighted.

The Committee will take what you have told us, and a lot of evidence that we have received from councillors and MPs up and down the country, to raise with Department officials on Friday. For anyone who is following this, that will not be a public session, due to the limitations on broadcast facilities in the House at the moment—there is a limit of 20 broadcast sessions a week—but it will be fully transcribed by our fantastic colleagues at *Hansard*. That transcript will probably be available by the Tuesday of the week following. That will be a public session, but not held in public—if that makes sense—as we are all adapting to modern ways of working.

I particularly thank Clive Betts for sharing his Committee's expertise. We continue to work together with our sister Committee, the Housing, Communities and Local Government Committee, to watch this issue. We, too, are looking forward to the Redmond review, in the hope that that will shed some clarity on the points made.

Thank you all for your time.