Public Accounts Committee

Oral evidence: Assurance to Parliament on funding for local authorities, HC 456-i

Monday 30 June 2014

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Members present: Margaret Hodge (Chair); Mr David Burrowes; Guto Bebb; Jackie Doyle-Price; Meg Hillier; Mr Stewart Jackson; Mrs Anne McGuire; Austin Mitchell; Justin Tomlinson

Sir Amyas Morse, Comptroller and Auditor General, Gabrielle Cohen, Assistant Auditor General, Aileen Murphie, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Sir Bob Kerslake, Permanent Secretary, and Simon Ridley, Director for Local Government Finance, Department for Communities and Local Government, gave evidence.

Q1 Chair: We are starting a little early. We know you have a poorly back—I know how horrible those things can be. Are you better getting up or sitting down?

Sir Bob Kerslake: If I stand up and walk around, it's not to do with anything you have said.

Q2 Chair: If you want to stand up, do. I don't think this will be a very long session, Sir Bob. We accept the direction of travel of the Government's policy, but we are trying to draw out of it some of the challenges that arise from it. I don't think anybody is quarrelling with it.

I am going to start, then Justin will come in. Do you accept that tension inevitably exists between the Government's desire to decentralise power to local government and their desire to minimise reporting requirements, and between those two perfectly legitimate ambitions and your duty as accounting officer and that of your colleagues in other Departments—but yours more specifically—to account for that expenditure, particularly around value for money, to us in Parliament and from Parliament to the public?

Sir Bob Kerslake: I think there could be tension if we had not invested in the work around the accountability system statement, because that is the way in which we square those potentially competing aims. As the NAO Report says, there is, in the way in which Parliament approves this money now, a lot of flexibility about how the money is used. The issue, as you rightly say, is whether it is done with probity and the proper safeguards, and there is a lot in place in local government to back that up.

Secondly, how do we know you get value for money? We now have, through the work we have done on the accountability system statement and its subsequent improvements, quite a few assurances about how value for money is delivered at a local level. I will quickly go through them. First, the councils themselves are under a duty to promote best value. Secondly, we strengthened the section 151 officers' responsibilities, in terms of their having an obligation to promote value for money. They are subject to local audit, which includes a requirement to promote value for money. They have their own scrutiny committees—the local version of committees such as the PAC—that challenge expenditure, and they have pretty substantial transparency about how they spend the money. All those things assure us and the Departments that value for money is being delivered by local government.

Alongside that—I will finish after this point—we have a lot going on at a national level. The work by the Local Government Association has been strong—for example, in the creation of LG Inform, onto which every council is now inputting data, and the work that the LGA is doing on sector-led improvement. All that points to driving value for money at a local level.

Q3 Mr Jackson: Sir Bob, forgive me for having to leave early for the Prime Minister's statement, although I don't think the hearing will last long. I am ever so slightly concerned about the governance architecture around value for money at the moment. May I take you back to your comments about section 151 and value for money? The scrutiny chairs are appointed by the leader of the council, who often has the very important and influential position of forming a cabinet, and the section 151 officer appoints the local district auditor and pays his bills. My contention is that it is difficult for your average council tax payer, who is concerned about value for money and has a specific, discrete concern—not a general governance concern—to feel confident that it is being taken seriously, given that the council pays a district auditor, centralised scrutiny arrangements are in place and DCLG comes into the picture only if there is an egregious, serious and obvious example of inappropriate or even illegal expenditure. How do you respond to that?

Sir Bob Kerslake: There are two points I would make. First, the scrutiny committees at a local level are appointed proportionate to the parties in the council. Therefore, they will have opposition councillors there. They may not chair it, as you rightly say, but typically—

Q4 Chair: That doesn't work for Barking and Dagenham, where there are 51 Labour councillors, or, I am sure, for loads of other places.

Sir Bob Kerslake: I accept that there are some places where the overwhelming majority of one party influences that, but the general principle is that you appoint proportionate to the council. As I said, there are transparency arrangements for the public. The auditors are currently appointed through a process run by the Audit Commission, and, in the future, they will be taken through the remuneration committee. Therefore, there is a safeguard around the appointment of the auditors. Clearly, when councils are dominated by one party, that has an impact, but there are other safeguards in place.

Q5 Mr Jackson: What are the safeguards? To use an unfortunate expression—I can't think of a better one—they are marking their own homework.

Sir Bob Kerslake: Not in the case of the auditors.

Q6 Mr Jackson: In terms of the district auditor, the previous legislation we were looking at, up to the abolition of the Audit Commission, was restrictive. You had to have a very obvious example—a Lady Porter, Westminster city council, big issue—for expenditure to be questioned and for there to be any sort of forensic audit or sanction against the local authority. My concern is that there is not an easy way that is open, democratic and transparent for your average group of citizens, so one person—I don't mean a vexatious person—can say, "Who do I go to flag up what I think is a waste of money and not best value for the taxpayer?" I am not convinced that the district auditor, who gets the bills paid by the council and can say, "I'm sorry, we've looked into it and we don't think there is a problem", is the best way to safeguard value for money.

Sir Bob Kerslake: I hear what you say, but I think the auditors at a local level are more independent than you describe, Mr Jackson. They are independently appointed through a separate process.

Q7 Chair: They are appointed by the council and reappointed by the council.

Sir Bob Kerslake: They are appointed at the moment through a tendering process that the Audit Commission would undertake.

Chair: I know, but in the end—

Q8 Mr Jackson: Their bills are paid by the local authority.

Chair: And they will reappoint them.

Sir Bob Kerslake: The bills, you rightly say, are paid by the local authority, but my experience of external auditors is that that does not, in effect, make them prisoners of the council. They are independent and challenging, and indeed—

Q9 Mr Jackson: Yes, but if you go to an estate agent and he gives you half the value you were expecting for your house that you want to sell, you are very unlikely to go back to him again, aren't you, if you want to get it valued again? Because you are paying the bill, and you want—

Justin Tomlinson: But surely—

Chair: I will bring you in next, Justin.

Mr Jackson: I know you are the rapporteur, Justin, but if you can just hang on.

Sir Bob Kerslake: Let me come back a little bit on this. I would not suggest that you can have an absolute system, here, but I think the safeguards are stronger than I think you are describing, actually. I think the external auditors are more independent and more challenging. We know that—I think in 11 cases, Simon—they have raised points about the best value statement by a local authority, so there are examples that stop short of full qualification, where they have made a comment; so it is possible.

There are much higher levels of transparency now. Every transaction over £500 has to be reported by the local authority. Except in councils where there is overwhelmingly one party you do have all-party scrutiny committees that are there and often provide very robust challenge. From personal experience, I have often been on the receiving end of it; and it is, indeed, very robust. So I think, personally, you are underestimating the amount of local scrutiny that goes on in local authorities. I do not know if Simon wants to add to that.

Simon Ridley: I will just add that a section 151 officer is under a set of statutory obligations, so they are answerable through statute for what they need to do in terms of balancing the budget and ensuring value for money; and there is, as Bob said earlier, an increasing amount of comparative data through Local Government Inform, which is very widely available, and which people can draw from.

Mr Jackson: My final point, for full transparency: my local authority has spent over £3 million on a renewable energy programme for which they have not yet got planning permission. It is going to be called in when they deal with that permission, and my own local district auditor has failed to intervene on that issue in any meaningful sense, despite me writing to him—and a number of other people. I do have an axe to grind, if you want to use that expression; but from my own experience I have found the district auditor route to be less than inquisitorial and robust, if I may say so.

Q10 Jackie Doyle-Price: And on that, I have had feedback from representations made to the district auditor of Tower Hamlets that have fed back in a very similar way. We have all heard what is happening in Tower Hamlets, so there is an issue here with transparency.

I just want to challenge what you said earlier about the scrutiny arrangements and them being cross-party so there is robust challenge. In practice, it is the chairman of the scrutiny committee who sets the agenda that they are going to be looking for. The chairman of the scrutiny committee has been appointed by the leader. Basically, these chairmanships, together with cabinet positions, are a way of just dishing out money to whoever. How can that be giving real scrutiny? My concern is that as we have moved to these executive arrangements the transparency and challenge has just been completely undermined, because the people doing the scrutiny are themselves part of the machine.

Sir Bob Kerslake: They are clearly part of the overall structure of the governance of the council. I think you are making broad descriptions of local government, which I think may—I cannot say they don't anywhere—occur in local government; but I do not think I would say they are the norm or the experience I have. The auditors: of course, as you know, some of them are internally appointed, but increasingly, now, they have appointed external companies, actually. Private companies are appointed to do this job, and these companies do a wide range of audit business. They do not wholly rely on business with local government, and I think they bring—not always; I have seen examples myself—

Q11 Chair: But true and fair in the private sector, Sir Bob—you cannot get away with that one—is very different from ensuring proper probity and value for money. It is a different kind of audit. It is silly to say—I hate to tell you about the big four and their appearance before this Committee and whether they looked at Google's accounts properly, but leave that aside: the role they do in the private sector is very different from the role they do in the public sector. Public sector audit is different.

Sir Bob Kerslake: They have to work to the audit regime for local government, which has different expectations from them. My point about the private sector is that they are not exclusively local government auditors.

Chair: We all know that. They never were.

Sir Bob Kerslake: They have to work within the regime that we have set for them for local government. It is not the same as the private sector.

Chair: I am anxious to bring in Justin. Amyas, is it on this very point?

Sir Amyas Morse: Yes. I am bound to inform the Committee a little from my small lifetime's experience of private sector accounting and auditing. Firms that do not do their job properly not only can be sued—something pretty much unknown in the public sector—but if they fall down on their duties, they can be personally debarred from the institute and lose their practising certificate, and that happens a lot when things go wrong. I am not exaggerating.

It may not be as familiar, but on the idea that they are not able to make a reasonable job of it, you need to have some really hard evidence for that. It is a bit presumptive.

Chair: Okay. That is your view.

Q12 Justin Tomlinson: I will follow on from those points and then I will go back to before. I spent 10 very happy years as a councillor, and some of the time was spent on scrutiny. In my experience, it was the leader of the opposition who chaired scrutiny. It is disappointing to hear if some councils are not doing that. It always made sense to give that very powerful position to somebody without a vested interest, although it was often members of the ruling group on the scrutiny committee who were the most critical, perhaps because they were not in the cabinet. However, there was an opportunity.

We must not forget that local media probably play the biggest role in local scrutiny. Every time the council did something that was potentially not value for money, it was in the local paper, and then local residents, through the annual or four-yearly elections, and through the question and answer sessions and various other means, were able to hold it to account. I certainly know that Stewart Jackson regularly holds his own council to account for those sorts of issues, so it is not as if we are not having some form of auditing in that sense.

On the decision to give greater flexibility, paragraph 2.9 mentions a substantial reduction in the amount of reporting. Have you got any comment on what actual savings there have been to local authorities and to things like the Audit Commission—that is, the national taxpayer—in terms of less reporting? It is well documented that there is a smaller pot of funding going to local authorities. The counter-argument is, "We are not being so dictatorial now; we want to give you greater flexibility." Do we have any idea what that means in cash terms for a typical local authority?

Sir Bob Kerslake: I'll check with Simon. I don't know that I have personally seen a quantified number of the savings from reduced reporting, but I think it is significant. If you just look at what is set out in this Report in terms of the extent of the reduction of ring-fenced grants and the reduction of reporting expectations, you can see that the scale is significant and therefore the savings are, but I do not have a number.

Q13 Justin Tomlinson: I absolutely agree that the amount of reporting has been reduced substantially. I am not convinced that local authorities have necessarily reduced the number of reporting officers accordingly. I think local authorities have missed a trick in terms of getting full value for money on this change of policy. That is something that we need to challenge further.

Sir Bob Kerslake: That may well be right. Certainly, our ask of them is considerably down.

Q14 Justin Tomlinson: We are never about policy. We are strictly about value for money. The Government policy is for greater flexibility, so the only way to judge this is if local authorities are delivering greater value for money than if we had dished the money out. It seems there are no real examples of where local authorities are not. They might not necessarily be spending it in the spirit of perhaps what the Government wanted them to do, but if the rules say it is their flexibility, they are doing a very good job of that. That seems to be the case.

Sir Bob Kerslake: Two figures for me stand out. We have to date reduced the spending power of local government by some 14%. It will be 17% in the five-year period. If you look at the LGA's satisfaction survey of local government, it has stayed at around 70% for the last three years. In a period when they have seen substantial reductions in funding, they have nevertheless balanced the books and held residents' satisfaction. Something must be going on that tells us that they are improving efficiency in the way they operate.

Q15 Chair: Can I give you an example? I was thinking very much about whether there is proof that there is better value for money. If you look at some of the authorities that are most dependent on central Government funding—we here want to follow the taxpayer's pound—Barking and Dagenham come top of the list with nearly 85% of our money coming from central Government. For Birmingham, 81.3% of its money comes from central Government. If you look at some of the issues that have been around—for example, the contract it had with Capita on council call centres, which was a billion pound contract between 2006 and 2012—it brought it in-house in June 2014 and that saved £150 million. Who was doing anything in that interim period to watch it? It is asserted that it spent £256,000 on taxis in April 2014 for disabled pupils and that was on top of its home-to-school transport scheme. It is having to spend £1 billion to settle equal pay cases. All those are value-for-money issues and there is no way you picked them up, although £4 out of £5 of what Birmingham spends is your money. It is not money raised from council tax payers; it is money from taxpayers.

Sir Bob Kerslake: Let me make a few points about that. First, I don't think it would be realistic for central Government to try to micro-manage.

Chair: No one is suggesting that.

Sir Bob Kerslake: It would be required if we were to intervene on judgments about taxis and other contracts. Those are rightly and properly matters for local public debate and decision making. They are democratically elected bodies.

What I would say is that Birmingham has had its problems, and I think everyone knows that, particularly in relation to the single status issues, and they have required some quite tough decisions. My point is a slightly different one in that you take it in the round. Local government has, by some margin, had some of the biggest reductions in staffing and budget, and it achieved public satisfaction in independent surveys run by the LGA. You are bound to find individual decisions that are poor value for money, but for every one of those I can give you another example of where money has been saved. South Oxfordshire and Vale of White Horse district councils have saved £5 million a year by sharing services. If you go on to the LGA website you will find even more examples. Taken in the round, local government has delivered significant efficiencies comparable with any part of the public sector.

Q16 Justin Tomlinson: I think this is red herrings. When I started reading the Report, I was thinking the same thing. We can all think of the good things and bad things our own local authorities do. You only have to read the *Daily Mail* every day to see examples from local authorities, but if you take a step back, there is a big difference between value for money and effective use of money. Value for money is, if the Government give a local authority £5, how much of that £5 is spent on services? Whether they are the right services or not is its judgment because the policy is that local authorities know best. Locally elected councillors with their ear to the ground who are held accountable annually are more likely to make a better decision. The only thing we need to be judging is how much of that £5 is making it to the end of the system. The evidence seems to be that they are probably better than when grants were ring-fenced because the problem was that you might not have as much demand in a particular area but you were forced to spend the money when you might have had a bigger demand in another area but could not move the money over.

If we work on the assumption that local authorities can spend that money, I have a long-term worry about the supply of local councillors. In the good old days local councillors were elected to look after street cleaning and local parks. Invariably, as we all know from when we recruited local councillors, it was because they were annoyed about mostly street scene issues and we said, "Well, come and do something about it." Local authorities are becoming incredibly more complex now, predominantly in adult social care provision, and are told, "By the way, you will have to spend a lot of time reviewing complicated things and if you get them spectacularly wrong, you will probably be on the front page of the papers." The pool of willing bodies who have the skills and expertise to be those auditors is my first concern.

The second concern I have is that, rightly, the Government have opened up transparency with the armchair auditors and all costs over £500—I know you were all on the edge of your seats when I did my parliamentary speech on the subject—but the difficulty is that some authorities still have not made it particularly accessible. It will be somewhere on the website but you really need to have watched every episode of "Columbo" to find your way to it. Even if you do find it, the majority of local authorities drop it in accountancy speak, and the member of public cannot decipher that to make a judgment about whether it is good value for money. That is an area that the Government can tighten up. Potentially, the system is very good, because we trust local decision making, but we have not yet armed the electorate to be able fully to hold to account local authorities.

Sir Bob Kerslake: Two or three things I would say about that. The first point to make is that pre the 2010 changes, which is what we are talking about today, we saw councils run into severe difficulties. We should not think that councils, in a sense, were immune from those issues of value for money previously. I personally led peer reviews of Hackney and Liverpool at times when they had very severe problems and nobody would have described them, at that time, as delivering value for money. That was in a period where we had more micro-management, more data and more ring-fenced funding.

On your point about councillors, the real issue for councillors is that there is some sense in which—however much funding is available—they do have an ability to influence it. Reducing ring-fencing and devolving the decision making gives more of a task for local councillors. Sometimes there are some very tough decisions for them to make at local level, but at least they are making the decisions with maximum flexibility and not being, in effect, told what to do and how to do it by central Government.

On your last point, there is more we can do on data, but it is not just about the £500. The production of LG Inform has produced some really interesting data. Quite a few—some of the best—local authorities are now incorporating that data into their own websites, so that the public can see for themselves how their local authority is doing. I think that is correct, isn't it, Simon?

Simon Ridley: Yes. I would add to that the peer reviews—the LGA has done more than 200 of those—and the visibility of some of these shared service arrangements. I think the sector is getting better at transmitting best practice between local authorities and enabling councils to drive better value for money where they have not developed the process and the thought themselves. I think that that is improving all the time.

Q17 Justin Tomlinson: I think we should be naming and shaming local authorities that are not transparent with their data, for whatever reason. If we are going to presume that they have the potential to deliver value for money, the safety check is that the electorate can hold them to account. They can only do that if they have access to the information. If the electorate do not wish to do that, and they wish to continue electing poor-quality councillors, that is their choice. It is just that in some areas, that information is not fully available.

Sir Bob Kerslake: There are areas we can do better on as well. For example, data on the land and assets held by local authorities is not sufficiently visible and transparent at the moment. That is an area I think we are going to work on over the next year.

Q18 Justin Tomlinson: Which then leads on—I think this will bring the Chair back in—to, "It's all fine and dandy in local authorities, and all hail the councillors who are doing a sterling job. However, Government funding is now also moving more towards the partnership arrangements, such as the local enterprise partnerships, and that is where those democratically elected safety checks, with the public turning up to meetings and choosing who should be those key representatives, goes out of the window. How are the Government going to make sure that value for money is delivered with that part of the Government funding?

Sir Bob Kerslake: I think that is a point raised in the NAO Report, and I think it's a good one. We are going to produce a separate accountability system statement on local enterprise partnerships to try to set the issue out in a bit more depth. I think it is true to say that local authorities have always combined on issues that do not fit one local authority boundary. Waste management and so on have always been issues that go beyond one local authority boundary, and so is the case for local enterprise partnerships. The whole point of them is that they are natural economic areas, which do not necessarily fit local authority areas, but they are different: they are both private and public sector; they are partnerships, often not formal organisations, as such; and they often rely on one local authority to act as their—if you like—holder of the funds.

So there is something new about this and, particularly as we move into the local growth deals, which are big money now—£2 billion a year going through the local growth deal model—it makes sense to have a separate accountability system statement for LEPs, which sets out how this will work in practice.

Q19 Justin Tomlinson: How do we keep a check and balance on expertise and vested interest? If I was a local councillor and Swindon Town season ticket holder, I would be barred from sitting on any meetings that were talking about providing taxpayers' money to benefit Swindon Town on a football ground redevelopment. Yet, on the local enterprise partnership, if I am right, the majority of the meetings are behind closed doors, and I am not aware that they then have to declare an interest. Is there ever a temptation for those experts, who are brought in for understandable reasons, to want to focus economic growth around areas that they have knowledge of, which, maybe by accident, maybe by purpose, would then benefit their area? There are concerns there for me with value for money.

Sir Bob Kerslake: I would not want to give the impression that anything inappropriate is happening in local enterprise partnerships. I have not personally been on one myself, but I know that these partnerships usually follow very similar principles to local authorities in terms of declaration of interest, withdrawing from meetings and so on. They often work to those same public sector principles that you describe. Therefore, I do not want to give an impression that they do not do things in a proper way, but as part of the work that we are going to do in the next year we will test some of those points out.

Q20 Austin Mitchell: This argument between prescription and freedom has swung backwards and forwards over the years. I am old enough to remember the arguments over the block grant in the '50s. Isn't a time of cuts, which we have had since 2010, a bad time for introducing a system of greater freedom for local authorities to spend the money how they want? Everything is being cut, which forces local authorities and chief executives into a continuous process of juggling, with fire engines running towards the political hot potatoes, such as child care and social services, where particular problems arise, and shunting money out of more long-term purposes. Is that not making juggling a way of life for local authorities? And speak up somewhat—you could replace Whispering Bob Harris on the BBC.

Sir Bob Kerslake: I'll do my best. To be clear, local authorities have always juggled finances—it has just got a lot tougher. What I would say to you is that it is the best time in which to increase flexibility, because—

Q21 Austin Mitchell: The best time?

Sir Bob Kerslake: Yes, completely, because in a period in which funds are being reduced, you are giving the maximum choice at local level to make decisions on local priorities. The worst thing of all is—I have been in this role, as a former director of finance and then chief executive—if you have ring-fenced money that is going on something that you don't see as having the same impact as something else you are having to cut. It is much better to reduce the ring-fencing and the inflexibility that goes with it to allow local authorities to make the choices on local priorities. If they can deliver what we are seeking with particular funds but at less cost, why not give them the flexibility to use it for other things?

Q22 Austin Mitchell: It might be the best time for shifting blame, and surely that is what the exercise—from a cynical point of view—is all about. Local government is usually composed of or dominated by a different party from the one in power nationally, and if you can shift the blame for cuts on to local government, you are not particularly bothered about value for money, because they will get the blame—because things go wrong.

Sir Bob Kerslake: The reductions have affected every part of the public sector, central and local. No part of the public sector has not had to achieve savings. I am just saying to you that it is better for local government to have the maximum flexibility to make choices than for central Government to tie up the money in boxes and force councils to do things in a particular way. That is really my point.

Simon Ridley: If I may, the trend away from ring-fencing goes back to before the change of Government and the fiscal consolidation of 2010. In 2007, there were commitments to reduce ring-fencing by £5 billion, precisely to get the efficiency in allocation between services that had the most impact locally. That was then accelerated through the 2010 spending review, because of the pressures that grant reductions would bring, to allow local authorities to make the best decisions. The move away from central Government, as Bob said, tying funding up in particular boxes goes back much further than just 2010.

Q23 Austin Mitchell: How do you stop the juggling? It was disconcerting when we were told last week that money allocated for repairing holes in the road—they are appearing in large numbers all over the country, but particularly in Blackburn, Lancashire—can be shifted for any purpose. It can be used for mental health, social services or anything, except repairing holes in the road. How are you going to check the process of juggling? Who is accountable?

Sir Bob Kerslake: What I am saying is that juggling is a good thing. That is what local authorities are there to do—to use resources to best effect, according to the issues locally. On some occasions, we set out more specifically how we want them to use the money, but if they can deliver what central Government seek from a particular fund, do that at less cost and redirect the savings towards something else, why on earth would we find that a problem?

Q24 Austin Mitchell: Can you tell us that the ratepayers of Sheffield got greater value for the money spent by local government, and that greater attention was paid to value for money, when you were chief executive in the days up to 2002 or whenever, than is the case under the system now?

Sir Bob Kerslake: I think they have more flexibility on some of the funding than I had when I was chief executive of Sheffield city council. That allows them to make better choices than central Government were taking on their behalf.

Q25 Austin Mitchell: Flexibility is not value for money, necessarily.

Sir Bob Kerslake: Flexibility is more likely to give you value for money than if you fix things at national level and say, "You must spend this amount of money on this purpose, regardless of whether you need to."

Q26 Mrs McGuire: Notwithstanding the tension between central Government wanting to implement its strategic objectives and local government wanting maximum flexibility, could I ask you about the gap in knowledge and, effectively, in auditing? Are your strategic objectives being met? I will give you a case in point, although, in terms of your Department's budget, it is perhaps not significant.

On 19 April 2012, I asked a written question about the disabled facilities grant—expenditure increased to £200 million was an absolutely fantastic piece of news from the Department. However, because the money was dispensed in a non-ring-fenced way, your Department could not tell me how that money was being spent, short of putting in a freedom of information request to 400-plus local authorities. I am not asking you to have specific knowledge of this; I am asking you only about the principle.

The Department has a very positive strategic objective. It disburses the money for a good purpose—in this case, one that fits in with the Government's overall strategy on disabled people—yet it is almost impossible to find out how the money is being spent, whether it is being spent appropriately and whether you are getting the same value for money as you did when you managed the fund. How do you know what you don't know? I suppose that is what my question is about.

Sir Bob Kerslake: I take your point. There is clearly a trade-off between keeping the number of burdens on local government small and the amount of information you get. We take each grant and each fund on its merits, as do all Departments. If they want more information about how the fund is used, they can secure it through memorandums of understanding. If you look at the annexe at the back, you will see that a number of the funds are monitored by the Department in question. In other instances, we pay them the money only when they have secured the outcome.

The troubled families funding, for example, is a payment-by-results model—they get the money when they deliver what we are seeking. It varies grant by grant. In some cases we get a memorandum of understanding, and in some cases we seek information from the local authority, ideally as part of the national indicator set. In some cases, we pay them the money according to a task; in other cases we rely on the fact that they have a statutory duty to do what the money is being paid for. So it varies and, yes, on occasion you will ask the question, "How has that money been used?" and we cannot give you all the detail, but it is for us to make a judgment on our confidence that a local authority will deliver and on what other checks and balances are in the system.

Q27 Mrs McGuire: The NAO raised the gap in knowledge between your strategic objectives and, in many instances, an inconsistency in their monitoring. If I had to ask you today—I do not need you to know the details of that particular grant; I use it as an example because it is a small amount in terms of your overall budget, but it was crucial to improving the lives of disabled people and their families—whether you could provide the Committee with information about how you are monitoring the disbursing of this grant locally, are you saying to me that you could actually do that, despite my putting in 400-odd freedom of information requests?

Sir Bob Kerslake: I can't say on that particular grant because I do not have the details with me today.

Q28 Mrs McGuire: No, I'm not asking you for it today; I am asking whether you can give me that commitment.

Sir Bob Kerslake: What I'm saying is that how much information I can give you varies from grant to grant, according to how the Department judged it needed to satisfy itself that what it wanted for that money was being delivered, so it varies grant by grant. Let me give you another example. We introduced a grant to support local authorities through the transition of localising council tax benefit. There was a duty on every local authority to move to the new model. We calculated the cost of that across the country and funded local authorities according to a formula. If you ask me today whether I know if those local authorities spent the money on exactly that purpose, the answer is that I cannot tell you, but what I do know is that every one of them implemented the new local council tax benefit scheme, which was the purpose of the money. So it varies according to the funding stream and what you are trying to achieve.

Q29 Mrs McGuire: I think that is to do with administrative processes. I am asking about the outcomes and whether you can actually advise us on whether your system of devolving that particular grant, which I use only as an example, is giving better value for money, if you cannot tell me how you are monitoring it.

Sir Bob Kerslake: I cannot personally tell you about that grant.

Q30 Mrs McGuire: You keep saying that. I am not asking you to have all the facts today.

Sir Bob Kerslake: The reason why that is relevant is because each grant has a distinct regime that is determined by the Department responsible for the grant. The Department will make a judgment about how much information it needs to satisfy itself about the use of the grant.

Q31 Chair: Sir Bob, I have to come in on this because Anne is right. If you look at the Report, it says that there is no monitoring of more than a third of even your so-called targeted programmes, of which Anne has cited an example. You chose council tax support, and you cannot say on that. More importantly, you cannot say on local welfare grants because there is no monitoring. Although it is true that you monitor in some cases—and it says here that you do monitor the disabled facilities grant, so you ought to be able to tell Anne about that—in other cases you do not. The question from her, therefore, is whether it is good enough, when you have a specific proposal that ends up with a targeted grant, as you call it, that you do not monitor that grant. In those circumstances, you do not know whether you are getting the outcome you wanted, or whether you are getting value for money from the outcome you wanted.

Sir Bob Kerslake: Let me try again. How much monitoring you need to assure yourself of that varies according to what the grant is seeking to achieve.

Q32 Chair: But there are some for which you do none.

Sir Bob Kerslake: Let me go back to the example of the council tax support transitional grant. The reason why we don't need to monitor the spending of the money is because each authority is under a duty to introduce the new regime.

Q33 Chair: That's a form of monitoring. Let me take one that worries me: local welfare provision grant, which was presumably the old social fund that was devolved. You have no idea who it is helping and whether you are meeting any of the objectives set, because you don't monitor.

Sir Bob Kerslake: As the Report says, DWP, which took the view about the level of monitoring, took a view that it was going to end that grant anyway, so that is a different set of circumstances. It set the regime. There is an acknowledgement in this Report that, ideally, it would have put more monitoring in, but in any event it is being rolled into another grant. In effect, it is being ended.

Chair: That doesn't excuse that you don't know—I don't know how much money has gone out on that; £178 billion[1]—whether that money is meeting the purpose intended.

Q34 Mr Burrowes: Another example is that the public health grant is ring-fenced, but within it there are drugs and alcohol, which are not ring-fenced. Is there a special category of policy that leads to more monitoring and, from a policy perspective, more effective attention? For example, if drugs and alcohol were to be invested in obesity by the local health and wellbeing board, would that send particular signals up the chain, perhaps through civic monitoring channels, that would lead to some changes and some control from the centre?

Sir Bob Kerslake: I think it depends on the nature of the grant and how it is being set up. If we take the public health grant—a huge transition; a huge transfer of responsibilities; unknown territory; and a big amount of money involved—you can understand why the Department of Health wanted a tighter ring-fenced approach to that grant, at least in the early years. That was the debate that would have happened with health at the time. It wanted, during this period of moving responsibility in a big area, to have a tighter rein on it, hence why it was ring-fenced. Over time, you might want to review that, when it becomes a mainstream, predictable service within local government. Your question is: should you then ring-fence some element of that public health grant for drugs and alcohol—

Q35 Mr Burrowes: I'm not asking if you should; I know it's not. But, from a policy perspective, is there a special category, such as the Government's concern on drug strategy to invest in rehab, that means that if the funding gets into obesity, it would lead to a particular monitoring process?

[1] Note from Chair: Although Margaret Hodge mentioned a figure of £178 billion, she meant to say £178 million

Sir Bob Kerslake: What I am saying is that it is a matter of policy choice for the relevant funding Department. In CLG we tend to try to argue for the minimum amount of ring-fencing because we think you are going to get better outcomes at a local level if you have maximum flexibility and can set the expectations. If local authorities systemically fail to recognise a priority area, you would clearly have to revisit the issue, but I think the evidence so far is that very few Departments have felt the need to reintroduce a lot of extra monitoring. Some have—you referred to DWP; it did feel that. Similarly, Education has put some more monitoring on some of its funding. However, taken in the round, Departments have not felt the need to reintroduce a lot of extra monitoring.

Q36 Mr Burrowes: Payment by results still has a whole new swathe of monitoring with national agreed outcomes, such as for drugs. Is that element of control not called a ring-fenced element of control?

Sir Bob Kerslake: Yes, it clearly is. Again, I use the example of troubled families. It is a new initiative that has not been done in this way before, and we were looking for a complete change in how local authorities approach this issue with their partners. It is quite understandable that we would want a tighter system of payment by results than in another area where it is much easier to see that the task is being done. It is a much more experienced area, and it is much more of an administrative grant than a major new service grant. That is why I say it has to be horses for courses. It is a conversation with the relevant Department according to a set of guidelines that we have produced. If they feel later on that they need more monitoring to satisfy their needs, we have that conversation, and some has been introduced over time.

Q37 Mr Burrowes: Following that conversation with the relevant Department, the reality is that everyone looks at the holy grail of the issue of complex needs. Successive Governments are challenged with getting the right funding and the right care. The cost is over Departments and on a local level. Whether it is pooled budgets or personalised budgets, which transcend lots of traditional silos, they are seeking to do that. In terms of reporting, is there that level of communication across government—paragraph 24 picks up on that—that keeps in step with what is happening locally and, particularly, with what is happening in the lives of people with complex needs?

Sir Bob Kerslake: As I said earlier, the reporting is pretty substantial in some areas—for example, the ones we have quoted, where a lot of information is sought—but it is much less so in others. We have always argued for keeping the amount of reporting to a minimum to keep it proportionate to the grant and to the risk in terms of delivery by local authorities. That is the approach we have taken, grant by grant. Of course, there is a trade off. If you ask a question about some of these, we cannot give you every detail, but it is a trade off between how much burden—

Q38 Mr Burrowes: You are talking about grant by grant, but in issues of complex needs, it is not grant by grant. On a local level they are not operating on grant by grant; they are operating on people from a statutory grant level but—

Sir Bob Kerslake: Sorry; I beg your pardon. I missed your question. I was talking specifically about the ring-fenced, targeted grants. If you are talking about the broader base of funding—

Q39 Mr Burrowes: And does that deal with ring-fenced and non-ring-fenced funding?

Sir Bob Kerslake: As far as things like complex needs and the direct services provided, for example, to children, Education does monitor that, but it would monitor the whole service, rather than what is happening with the grant. It will look at how that service is being delivered in totality, not just at the funding bit.

Simon Ridley: I think it is worth adding that for the children's services and adult social care, which are big services, there are inspectorates in place at a national level that look at the service and performance of councils across the board, and look at what they spend across the board. Part of the reason why the general un-ring-fenced grant that DCLG provides is still the largest part of local government funding from central Government is precisely because councils are operating across a range of services. You need a general grant that councils can weigh so that they ensure they are delivering the services people need and are not constrained by the service focus of different Whitehall Departments.

Q40 Jackie Doyle-Price: I was interested, Sir Bob, in what you said about data on assets not being particularly transparent. That is of particular concern to me because I think there is a lot of risk from incompetence and from corruption, quite honestly. A lot of this does not come out. I want to illustrate it in the context of what has happened locally in Thurrock, because there has been a situation where there was a development corporation, which was funded directly by the Government. The ownership and liabilities of that corporation have been transferred en masse directly to the local borough council.

At the time, I specifically asked Ministers what assurances there would be for the use of what was handed over, because we were talking about £60 million of land purchasing at that stage. It was very much, "Once we have transferred it, it is up to the council. They've got complete freedom." From your perspective, is it fair to characterise that the reliance is on accountability to be delivered locally once central Government have said, "Right, over to you"?

Sir Bob Kerslake: If we take a decision to transfer responsibility to a local authority, it is in their responsibility—I would agree with that. I am saying that there are safeguards at local level about how they exercise their responsibilities. They have to do it in compliance with their legal responsibilities. They have to deliver value for money—as we have said, their duty is on value for money. They have to ensure that they are either taking the best value for a piece of land, or have transparently made a decision differently from that. When we have given a local authority a responsibility in that way and said, "It's your job now," that is their responsibility, but they do not have free rein—they work within a legal and financial regime.

Q41 Jackie Doyle-Price: Essentially, you are relying on the local authority machinery to provide the scrutiny to ensure that it is being done with reference to that. Ultimately, value for money is in the eye of the beholder, isn't it? As an elected councillor, doing this in six hours a week—or whatever you have to give—you are reliant on the information presented to you, and on your own native wit and cunning, to judge whether this is a sensible decision or not.

Sir Bob Kerslake: Some professional office is hopefully advising you as well, but you are right that councillors are not expected to be experts in the field in which they are making decisions.

Q42 Jackie Doyle-Price: Obviously we have effectively been moving from a committee system, the people within which I have just characterised, to a more executive-based system, which was actually designed to improve accountability because it was designed to tie members in with responsibility, and they would then be able to do the challenge. Where it is not working effectively, elected members are becoming little more than human shields for decisions taken by a cabinet and scrutinised by a scrutiny committee of perhaps just a small number of members. Have we actually gone backwards in terms of accountability? The expectation when we were initially looking at this was that we were going to have elected mayors and the buck would stop with one person, and you would then rely on that one person to ensure that the machine was delivering because they were doing it full-time. We have really ended up with a halfway house that is damaging accountability and scrutiny in a way that was not intended.

Sir Bob Kerslake: All I can say is that I have worked with both systems. I have worked with what was the traditional committee system and with the executive and scrutiny model. I must say that I did not personally experience one being more rigorous and open to challenge than the other—properly run and with proper standing orders. It is down not only to the committee process but, as I said earlier, to auditors, the public and transparency. All those things go to the checks and balances at local level.

Q43 Chair: I think Jackie raises an important point. Would you accept that your accountability structure does not respond to the different ways in which local government can operate? If you have an elected mayor, a committee system or a cabinet system, it will require a different accountability system from you. It does not appear to me that you have adjusted to those differences in local government.

Sir Bob Kerslake: I am very happy to look at whether there are intrinsically different issues here, but we drew up our accountability system statement in the knowledge that most local authorities now operate with a pretty common set of standing orders, and most of them are now run to an executive and scrutiny model.

Q44 Chair: If you are happy to take it away, that is appropriate.

Sir Bob Kerslake: I am happy to look at it in more depth if you want.

Q45 Jackie Doyle-Price: That is helpful.

It is becoming increasingly clear to me that the whole system ultimately depends on the quality of internal management in a local authority and the ability of its councillors to scrutinise. Let's be honest: there is a massive range of performance across our local government structure in both those—

Sir Bob Kerslake: That has always been true. Local government has already had variable performance.

Jackie Doyle-Price: Fair enough.

Sir Bob Kerslake: Underpinning it, however, is a very rigorous financial regime that stands in comparison with any other public sector body that I have worked with.

Q46 Jackie Doyle-Price: In terms of accounting, but when we are talking about value for money, we are talking about delivering intended policy outcomes, which is not managed by the financial regime.

Sir Bob Kerslake: I take your point.

Q47 Chair: I think that that is an important point. A theme that comes through the Report is that value for money in your accountability system is still an unfinished bit of work.

Sir Bob Kerslake: I think that the NAO Report says that our last assurance statement, which we did in June of this year, had a particular emphasis on the resilience of local government and its sustainability, which is true, because it was felt to be the strongest concern at that point. In our next assurance, I am very happy to look at whether we need to say more about value for money.

Chair: That is very helpful.

Q48 Meg Hillier: Sir Bob, you were talking convincingly and with enthusiasm earlier about the flexibility now available to local authorities, but one area that remains a big, knotty problem is the provision of housing. First, has any serious work been done in DCLG or across the Government to look at the housing benefit bill, which is an awful lot of money, and at whether there is a better way that local authorities could have flexibility in how it is spent? I am talking not about local housing benefit, but about capitalising that revenue stream.

Sir Bob Kerslake: It is a very complex area, as you know, and I cannot say that there is a big piece of work going on in government about that issue. You will know, of course, that there is a huge amount going on in relation to housing benefit and its relationship with other benefits.

What I can say is that we are looking at the role of local authorities in housing. We have a study under way at the moment, being led by Natalie Elphicke and Keith House, that is looking at how local authorities play their role, because at the root of the issue on benefits is the cost of rents, and the issue of rents leads to the issue of supply, so we are looking at the issue of supply, rather than a big study around benefits.

Q49 Meg Hillier: Just take my local authority area, for example. Hackney is one of the top two boroughs for procuring council housing—the old-fashioned council housing, if you like—in the country, yet in the last year we have seen house prices rising by more than a fifth, and rents are going up by a similar scale. We also now have public health in the council. If you looked at all that in a common-sense way, with having freedom with that huge amount of money that is going out—now in increasing amounts—to residents to pay these increasing rents, this is just not value for money in any possible way.

Sir Bob Kerslake: No. Rents have flattened a bit earlier than prices have, in the recent period—

Q50 Meg Hillier: We are still talking huge amounts—

Sir Bob Kerslake: But we are still talking about big costs. As I say, it goes to the heart of the debate about how we build new houses. You will know that recent announcements have been made about how we use brownfield land better. I think the review of local authority assets is part of this as well.

Meg Hillier: I wanted to come on to that as well—

Simon Ridley: I was just going to add as well that part of the local growth fund is some flexibility around the housing revenue account. It involves quite small amounts at the moment, but it will start to test how councils in local enterprise partnership areas can be more innovative about how they use a bit of increased flexibility around the housing revenue account to support growth, and housing is an important part of some of those growth deals as well. So we will see what comes out of that.

Q51 Meg Hillier: Overall that is a good news thing, but in somewhere like Hackney, most people would have to earn a very good income to buy, and renting is now increasingly difficult. Every week at my surgery, there are queues of people who are facing difficulties, both in the private sector and, indeed, increasingly in the social sector, because of rents and salaries.

You mentioned the asset base. There are some councils doing interesting things with pension funds. I wonder if you could tell me how widespread that is and whether you are doing any monitoring centrally about using pension funds to invest in property, not just housing. Also, what thoughts are there and what work has been done about borrowing against the asset base? I know that borrowing for local government is tricky because of the public sector borrowing requirement, but is there any serious thinking going on about trying to push the Treasury on that, because we will not solve the problems in inner London, for example, unless we grapple with these knotty, put-in-the-box, too-difficult-to-deal-with issues?

Simon Ridley: To take the second of those first, there is a lot of flexibility around capital and borrowing, through the prudential borrowing regime, which gives councils the scope to borrow in terms of the asset base they have. Of course, they need to be able to repay the debt, and there are regulations about the revenue stream for that, but that is an incredibly important financial flexibility in terms of investing in infrastructure.

We have also introduced, as part of support for council transformation more broadly from 2015-16, more flexibility to use receipts from asset sales. This is not specifically around housing. This is around council transformation to deliver more efficiencies, but it is trying to find different ways to use receipts from asset sales.

Sir Bob Kerslake: We have the bidding process under way as well, in terms of the HRA and giving more flexibilities to local authorities, so a number of initiatives are going on at the moment. I will not want to say to you that they completely change the regime, but we will learn from them and see what follows.

Q52 Meg Hillier: I suppose one of the reasons for my questioning is an impatience, really; in my borough, we have seen just an exponential increase, with the railway line we all wished for and the Olympics. These things have had the effect that people on quite good salaries, and certainly on hard-working low salaries, just cannot afford to live. We are in danger of hollowing out not just London but other cities, I am sure, of people who are core. We talk about key workers as in the public sector, but equally they are the chefs, taxi drivers and bus drivers—that sort of group—who are really going to struggle, and if we do not act quickly, we will see a big impact. You talked earlier, Sir Bob, with enthusiasm about the flexibility of a borough knowing best what is needed locally. In my area, if you could solve housing and public health issues for starters, you would solve a large number of the problems. Public health is now the responsibility of local government, but on housing freedoms, although you have spoken about some welcome steps, they are not enough. I do not know whether there is a real sense of urgency.

Q53 Chair: That plea from Hackney is the last slightly off-the-subject comment. I was going to relate that to an issue that is in the Report. Local authorities are currently allowed prudential borrowing outside local authority control, which nevertheless counts as public expenditure. The Report says that that currently amounts to £6 billion. The Treasury may want to say something on that, but it might interfere with the overall programme on financial controls and public expenditure. What is your view on that? Meg will welcome it—she wants more of it—but giving that flexibility makes it much tougher for Government to control its public expenditure limits. It is £6 billion so far—just under 1%.

Sir Bob Kerslake: I would make two points. First, the Treasury clearly monitors the amount of prudential borrowing and considers it as part of the overall borrowing position. Secondly, the rules on prudential borrowing are clearly and tightly defined for local authorities. There is a natural constraint because they have to be able to demonstrate that they can fund the cost of borrowing as part of the process. There are really two things going on.

Chair: Meg, would you like to ask anything else? Please keep it on the subject.

Q54 Meg Hillier: There is one thing. You talk about the savings, but have you looked at changing the length of the horizon for judging them? If you were to look at something, say housing, over 25 years, you could make huge inroads into public health and savings along the way, but if you look at it over one or two financial years you are looking at a whole different approach.

Sir Bob Kerslake: That is a fair point. When we make capital investments—there is a difference between capital and revenue—we are judging the savings over a much longer period. For the affordable housing programme, we definitely calculate the financial benefit over a longer period.

Q55 Chair: Austin's got a question, but first I want to pick up on some issues that have not been covered. When the new system of accountability was introduced, we talked about an army of armchair auditors. Have they emerged?

Sir Bob Kerslake: I think they have at a local level.

Q56 Chair: Have they?

Sir Bob Kerslake: I am sure that if you spoke to local councillors, they would talk to you about the extent to which local residents challenge what they do. We heard about one local resident, Mr Jackson—

Q57 Chair: He's the MP; you would expect him to challenge.

Sir Bob Kerslake: Well, he's one of the armchair auditors, I guess, and I suspect that there are many more at a local level, but it will vary across the country.

Q58 Chair: Have you got any evidence of that? It is one of those hope and pray things, so it would be nice to hear whether it has happened in reality.

Sir Bob Kerslake: We haven't measured it, but we can, for example, measure the number of people who have put forward requests to take over community assets and things like that.

Q59 Chair: Has that changed from the old system?

Sir Bob Kerslake: We have seen significant numbers come through on that.

Q60 Chair: Can you let us know whether that is really true?

Sir Bob Kerslake: We will let you have those data.

Q61 Mr Burrowes: My council did not know that that option existed until I told them. They have had to start the process of putting it on their website. They did not know that it existed in Enfield, perhaps slightly deliberately—they avoided even having any process for people to apply for a community asset until a few months ago.

Sir Bob Kerslake: The evidence nationally suggests—

Q62 Mr Burrowes: Does the Department not pick up when it is not happening, as Justin said earlier?

Sir Bob Kerslake: If we know about it, we will challenge the authority.

Q63 Chair: Give us a note.

I want to deal with two or three issues. One concerns the work we did on private providers providing public services: £45 billion of services in local government are now provided by private providers, such as Capita. Again, our obsession is with following the taxpayer pound. As Government, giving the money, how do you secure assurance over that spending when it gets further away from you and local authorities?

Sir Bob Kerslake: I think the first responsibility for securing, or ensuring there is, value for money from outsourced contracts by local authorities is with the local authorities themselves. They should take that first responsibility, to see whether they are getting value for money from their contracts.

Q64 Chair: But you do not think there is an issue here. What I am trying to say to you is that the money is getting further and further away. Do not tell me that there is the capability in local government to oversee those private contracts at the councillor level. It is getting ever further away. I often talk about the fragmentation and this is one example of it. In that context, although I can support local authorities having greater flexibility, we want to follow the taxpayer's pound to make sure that there is value.

Sir Bob Kerslake: Local authorities, for some time now, have bought from the private or independent sectors, so for quite a long time most of the residential and domiciliary care has been bought in rather than being in-house. Similarly, waste management and refuse collection have been provided by contractors, increasingly, over quite a long period—well before 2010. I think local authorities have actually got pretty skilled at managing contracts with the private sector, although not all of them to an equal standard, but this is now quite an established way of securing services.

We work closely with the LGA on this issue. We have compared notes on what we learn in central Government, through our contracting experiences, and they do quite a lot of work in terms of sector improvement in this area.

Simon Ridley: And we are seeing a move towards much more collaborative procurement at the moment, coming out of this, to try to make the most of the capacity or capability that is out there.

Q65 Chair: On that point, paragraph 3.19 on page 35 is so much about personal contacts. It is not structural; it is personal and I always worry when I see that. It says: "Personal contacts between departmental officials and local authorities" and mentions connections with the LGA and "Contacts with regulators". It feels flimsy to me and does not feel sufficiently structured. It also says, "Direct contact". I worry that your information, to know that the accountability system is working, is dependent on these vague, unstructured of ways of communicating.

Sir Bob Kerslake: It is not wholly dependent on that. We get information on expenditure back from local authorities. We get, through the Audit Commission, a report that summarises what has come out of the accounts of every one of the local authorities.

Chair: The Audit Commission is going. That is one of the things that we have not raised this afternoon. You are not going to get all that data from them, so you are going to be more dependent on the personal contact and your "Connections with", and all that stuff.

Sir Bob Kerslake: I think we will secure a way of bringing together the summary of accounts that we currently get from the Audit Commission.

I was trying to say that we get some structured information from local authorities—information on expenditure and inspections and on their accounts—but we do not just rely on that. We also do a lot of informal connection with local authorities, through our contacts and through the

Local Government Association, and so on. Those are powerful ways of picking up whether there are vulnerabilities in particular authorities. You pick that up more quickly through this route than you might do through the formal accounts, and so on. It is not one or the other; it is both.

Q66 Jackie Doyle-Price: Looking at these lists, Ofsted and CQC inspections are a really good source of intelligence as to whether local authorities are delivering, but that is a formal inspection regime. The rest of all this is really one-way information flow. It comes back to these issues: where the electorate are engaged, no local authority is going to get away with not emptying the bins regularly for long, for example, because the noise makes itself heard. We are talking about a lot of grants for things that are less transparent and about which people are not going to get so excited. If you are just relying on a desk-based report, we are still not getting that granular challenge as to whether we are delivering.

Sir Bob Kerslake: That is where I differ with you on this. You are quite right to say there are certain services—particularly those to vulnerable adults and vulnerable children—where you cannot rely on the electoral processes. That is why we have inspection processes to do that. With other services, you can rely on the democratic process and the local challenge to result in change if they are not being delivered well.

But what I am saying is that it is not just about that. We have the democratic processes, we have regular information on expenditure, we have the accounts coming back to us and we have the informal information described in the Report. All of those add up to the set of information that we have about local authorities, and they give us very good intelligence about where issues are emerging in a particular authority.

Simon Ridley: There is quite a lot behind some of this. To talk about contact with the Local Government Association, they have run 200 peer reviews; we have mentioned them a few times. Those are structured sessions with local authorities, with the leadership and with wider staff and people out there which bring intelligence back to the Local Government Association, and we share that. It is quite rich, and it gets added to the data that we collect and some of the direct forms of information that we get.

Q67 Chair: That might be giving you intelligence on a failing local authority, but it doesn't give you proper granular data on whether you are getting the outcome you wanted from the investment you gave them with a particular grant. It will tell you whether somebody is in trouble—I can see that, and I accept that has been your priority—but there is something about more structure.

Can I ask you something? Then I think Austin wants to come in on the same thing. On LEPs, there is an example here involving the health and well-being board. With LEPs, you have one local authority taking responsibility, but money coming from another local authority. The accountability structures there seem opaque at best. It is certainly hugely difficult to follow the taxpayer's pound. What do you think about that? Health and well-being boards are an example, which I accept has happened before, but we had the Audit Commission in place before to look after the VFM interest. In this new world with the health and well-being boards, how on earth are we going to be able to ensure VFM in that context?

Sir Bob Kerslake: I would make three points on this. One is that we have already adapted our model. If you take the local growth fund, the team overseeing that in Government straddles three Departments: the Cabinet Office, the Department for Communities and Local Government and the Department for Business, Innovation and Skills. I am the accounting officer for all that funding. So we have found new models that adapt to the kind of cross-departmental funding that we now have.

Local enterprise partnerships are new. As I said earlier, it is not new for local authorities to collaborate across area boundaries, but this is a new form, and we will produce an accountability system statement linked to local growth deals and LEPs. That is in preparation now.

Health and well-being is new territory. We are in the early stages of that. The fund, as you know, does not start until 2015-16. As part of the process, we will need to think through how best to manage the fund. At the moment, the accounting officer for the health and well-being fund is the chief executive of the NHS—that is where the funding is held—but we will need to think of new models to assure the delivery of that new fund.

Chair: Austin, one final question.

Q68 Austin Mitchell: It is not all the health and well-being boards. You have got pooled social care budgets, the troubled families initiative and that kind of stuff. The Report put it rather pedantically, I thought: "Departments' accountability systems need to complement one another in order to provide a sufficient degree of assurance to departments, and therefore Parliament, on jointly delivered local schemes", but the real question is who they are accountable to. Which Department are they accountable to?

Sir Bob Kerslake: As I said a minute ago, the better care fund is a budget held by the NHS for distribution to health and well-being boards. They will have to ensure a kind of accounting for the use of that funding, but we are in new territory. I have acknowledged that, and I think the NAO have a point that we will need to adapt our model on accountability system statements to take account of the health and well-being boards and better care fund.

Q69 Austin Mitchell: In some areas, the local authority will have a bigger input and be more dominant; in others, the health service.

Sir Bob Kerslake: At local level it is a partnership, as with a local enterprise partnership. The money is likely to be held through the NHS, through the clinical commissioning groups. They will be funded by NHS England. That is how the money is going to be routed. I am acknowledging that this is a different model from the one in the past. I think the NAO has a point that we will have to adapt our systems statement accordingly.

Q70 Austin Mitchell: Okay; but I think it is important that their work continues. I am strong enthusiast for it. I would like to ask another question about the LEP. As you will know, Humberside LEP—HumberLEP—unites the two banks of the Humber, who have long had a traditional relationship; it is called mutual loathing.

You are going to increase the financial provision, the money, coming into the LEP and one authority is going to be accountable. Now they don't trust each other. North Lincolnshire and north-east Lincolnshire don't trust Hull and there is probably a good reason for that. How are you going to ensure that local accountability is maintained in that situation, if it is coming through one local authority?

Sir Bob Kerslake: The thing about it is that they may have had a history of disliking each other or your phrase, loathing each other, but they have a common economic interest. The whole point of local enterprise partnerships is to create the incentives for the key parties in an economic area to come together. You will know that relationships have not always been easy between the different local authorities in the Sheffield, south Yorkshire area.

The point you are making is there across the country. I would say that those relationships have got immensely stronger in recent years, I think on the back of LEPs, creating joint authorities and funding incentives. It is not going to be easy but it is essential that it happens. Even with that historical mistrust, most places have found a way to make their LEP effective and most have reached a point where one authority hosts the funding. It can be done; that's all I'm saying.

Q71 Austin Mitchell: There will always be the suspicion that Hull is getting more out of it than the south bank.

Sir Bob Kerslake: It is always there. It was always true in Sheffield city region, that people thought Sheffield would be the great beneficiary. That is part of the challenge of local leadership and partnership. I am saying that I have been impressed so far at how well LEPs have risen to that challenge.

Q72 Austin Mitchell: I'll just give you a joke before we finish. Migration from Grimsby to Hull has managed to increase the IQ of both banks of the Humber.

Sir Bob Kerslake: I shan't comment on that.

Chair: What does that mean?

Austin Mitchell: I'll explain it later.

Chair: Thank you. Wish you better for your back.