

Public Accounts Committee

Oral evidence: Financial Sustainability of Local Authorities, HC 833

Wednesday 26 November 2014

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Members present: Margaret Hodge (Chair); Mr Richard Bacon; Chris Heaton-Harris; Meg Hillier; Mrs Anne McGuire; Austin Mitchell; Stephen Phillips; and John Pugh

Amyas Morse, Comptroller and Auditor General, National Audit Office, Sue Higgins, Executive Leader, National Audit Office, Aileen Murphie, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Sir Bob Kerslake, Permanent Secretary, Department for Communities and Local Government, Matthew Style, Director of Local Government Finance, DCLG, and Sharon White, Second Permanent Secretary, HM Treasury, gave evidence.

Q1 Chair: I am really sorry we are late, but we have two sessions this afternoon and we had to agree our programme for the new year, which is why we are running late.

I am going to start by looking at paragraph 6 of the summary, then ask you to think about it and comment on it. It says: “We do not think it is a contradiction to the government’s policy of localism to assess whether the Department and other government departments have enough information to make good decisions about the level of central funding provided to local authorities. In particular, we think it reasonable that the Department should put itself in a position to understand when local authorities are under threat of being unable to discharge properly the statutory duties placed on them by central government.” Do you agree with that?

Sir Bob Kerslake: Yes.

Q2 Chair: If you do, why are you doing so little to understand that in practice?

Sir Bob Kerslake: That is where I would part company, not with the facts of the Report, but with the conclusions. We have done a huge amount of work both in the lead up to SR13—the 2013 spending round—and in the way in which we oversee and track what is happening in local

government. I could go through that in detail, and I am sure you will come to it in your questions. We do a huge amount in that respect in all sorts of different ways.

The two key points are that, first, whatever we do must be proportionate, so we must focus on where the biggest issues are. For example, on the spending review and in terms of monitoring how local authorities are doing, we should draw on all the different sources of information. No one source gives the full answer on this, and I absolutely put my hand up to that. We focus on looking at all sources, so I disagree that we don't do a lot of work. In fact, we do a great deal of work on both issues.

Q3 Chair: Let me take one example, because I am surprised by your answer. I thought it would be, "It is not for us to do it, but for local authorities and through them the local electorate." One example on page 25, paragraph 2.9 says: "However, it"—that is, you—"no longer updates the assessment of relative spending needs that informed the previous distribution. Nor does it estimate whether the absolute level of funding each authority receives is sufficient to meet its demand for services." That seems to be pretty basic to understand, going back to paragraph 6 of the summary, to help you "to make good decisions about the level of central funding".

Sir Bob Kerslake: What we try to do is to provide ourselves with a good understanding of the aggregate impact of spending decisions or reduction decisions that we make.

Q4 Chair: But if you don't understand whether the absolute level of funding for each authority is sufficient to meet its demand for services—I am taking that as an example and I am sure there are others that Aileen can draw to my attention—how can you then know that the Department's decision about the level of funding is right? If you don't know the relative need—it doesn't even say that; it talks about the absolute level of funding.

Sir Bob Kerslake: Let me deal with the absolute level of funding. My personal view is that it is almost impossible for us to reach a precise view about exactly the amount of funding each authority needs, because local authorities do a mix of services, many of which are for them to decide on the level of service they provide and how they provide it. Forming a view about what is the right amount for an individual authority in terms of how they might deliver their services—their absolute need—is very difficult and, indeed, I think impossible. What we have to focus on is whether we adjust the current needs-based formula, which after all has had a huge amount of work gone into it to develop it. Do we have an understanding and aggregate of the potential impact of different decisions in relation to spending and saving? I don't think that is in any way contradictory to what I said earlier.

Q5 Chair: I don't follow that. In an odd way, you haven't answered the question. You have partially answered it, but not properly. If you are going to take a decision at the centre on how to distribute your contribution to local authority expenditure—the revenue support grant—and if you do that having decided no longer to update your assessment of relative spending needs, how can you ensure in the decisions you take centrally that the level of funding that you give to authorities will leave them in a position to be not 100% certain of what they are going to spend but sufficiently sure to meet the demand for services? You cannot.

Sir Bob Kerslake: Let me just go through that again. I have two or three points to make. First, when we moved the system to localised business rates—

Chair: I think Austin would like you to speak up a bit.

Sir Bob Kerslake: I beg your pardon, Austin. I always have this problem here.

Chair: It's the room.

Austin Mitchell: It's just that you are becoming Whispering Sir Bob.

Sir Bob Kerslake: I am doing my best to avoid that.

Let me deal with the question directly. First, we undertook a major change to how the financial system worked. We introduced the retention of business rates, and at that point we fixed the way in which we handled the formula grant as part of that set of changes. One big thing that came back from local government was, "We need a period of stability as to how the system works," so that is what we have done.

Secondly, as I said earlier, we are not able to do a fine-grained analysis of each individual authority's absolute figure for spending because they will all make their own decisions. It is important to talk about the fact that when we last did this exercise in the 2013 spending round we focused on where we expected the spending pressures to be greatest: adult care and children's services. We did a lot of fine-grained analysis of those issues with the two Departments. I think that that is a fairly comprehensive answer to your question—

Chair: I don't think it is.

Sir Bob Kerslake: It would not have been either practical or sensible to do a complete reassessment of need at that point.

Q6 Chair: I don't think that that is an answer. What I am trying to get at is that I cannot understand how the Department does its allocation without thinking about need. It does not matter how you then assess it—I accept that how you have regard for it is a matter for Ministers to decide—but I cannot understand the idea that you do allocations but have junked the issue of need.

Let me ask it in a different way, otherwise we will go back over it. There is a paragraph somewhere in the Report, which perhaps Aileen can help you with, that says that, to date, the way in which you have allocated money takes it away from those authorities with greatest need.

Aileen Murphie: The most grant-dependent authorities, yes. The more grant-dependent you are, the bigger—

Chair: No, it's the greater your need.

Meg Hillier: It's the same thing.

Chair: Okay. Although not necessarily, because you might have a big income from rates. I imagine that Westminster has a big rate income so might have a lot.

Aileen Murphie: Paragraph 1.9, on page 14, Chair, makes the point about grant-dependent deprivation.

Chair: That'll do. Okay: "Local authorities with the highest levels of deprivation"—another way of describing need—"have seen the greatest reductions in spending power." You agree with that fact.

Sir Bob Kerslake: Yes, that's a factual statement.

Q7 Chair: Okay, and I link that to the fact that you have stopped collecting data, which is what I was pushing you on. I am left wondering whether it is therefore a specific policy intent that local authorities with the highest levels of deprivation should see the greatest reductions in grant. Is that the policy intent?

Sir Bob Kerslake: No, let me go through this—

Chair: No or yes?

Sir Bob Kerslake: No, it is not the policy intent. Let me go through why I say that. You asked about the updating of the assessment of relative need and the question of being able to say what is the absolute amount that an individual authority might get. I was raising with you the challenges of those two questions, because that is not the same thing as asking, "When we make the settlement, do we explore and understand the impact in terms of different levels of authority need?"

Let me give you two examples, because it is really important. First, if you take the 2011-12 settlement, the Government used banded floor damping—a very technical phrase—to limit the falls in grant for individual authorities. In that particular year, we took specific actions to dampen the effect on those with the highest dependency. Secondly, when we did the business rate retention scheme, we again took specific action to protect the position of those in highest need. So it simply is not correct to say that the Government have not, on the right occasion, taken account of the relative impact of different authorities and the relative need of different authorities.

Q8 Chair: I put two points to you. If need matters to you in the allocation of your resources you ought not to have junked the analysis. You will know that Barking has greater need than Richard's authority in Norfolk. You might know that relatively, but to have the clear data on which to place clear decisions you need to continue collecting it. You have junked it. On the other hand, this report tells us that local authorities with the highest level of deprivation have seen the greatest reductions in their spending power because of their grant. So it is gone. Then you tell me that is not a policy intent. So if it is an unintended consequence—*[Interruption.]* Well it is either an intended or an unintended consequence. If it is an intended consequence it is a policy intent. If it is an unintended consequence then you've got to collect the information to be able to make judgments on allocation of revenue support grant that relate in some way to need.

Sir Bob Kerslake: Let me go through it again. There are two distinct things here. One is the question of whether the policy intent is to disproportionately take money away from those of highest need. I am saying there are clear examples where the policy choice of Government was actually the opposite. In fact it was to take less away—

Q9 Chair: No, it dampened the impact of its policies. It is a different thing. You dampen the impact. Governments have done that for ever. When they change the way they allocate they guide it in gradually.

Sir Bob Kerslake: No, this isn't the same point. I am saying that the Government took conscious actions when the funding reduced in particular years to take account of the impact of more deprived authorities. That is a different question from the updating of the relative needs index which was a choice that was taken by Government at the time we introduced the new business rates retention scheme. They are two different points and you cannot draw the conclusion you have from one to the other.

Chair: I don't agree.

Sir Bob Kerslake: I hear what you say, but I would still say that the local authorities in the most deprived areas get 50% more per head than those in the least deprived areas in terms of spending power.

Q10 Chair: Just one more question, then Meg wants to come in. How much has been raised through that? 2013-14 is the first year of the business rate. How much has been raised in that year?

Sir Bob Kerslake: I don't have a figure.

Matthew Style: I will get the figure for you.

Chair: The other thing that would be interesting to know is how much has been redistributed through new homes payments.

Q11 Meg Hillier: We have covered two areas. I want to pick up first on the issue about the hit on the most deprived areas. You talk about dampening, but the figures are incredibly stark. From 2013-14 to 2014-15, Hackney, my borough, lost £156 per dwelling in grant. Newham, neighbouring me, lost £175 per dwelling. Compare that to Wokingham, Windsor and Maidenhead, which lost £5 per dwelling, and lucky Surrey, which lost only £3 per dwelling. You may talk about the extra money that was there in the first place—I am sure you will put that in your answer—but given the impact how can that be value for money? You are dealing with some very deprived areas with real need. That brings me on to the issue around cost shunting. If we don't put money into social care in areas like those where it is very necessary, people go somewhere else for it. It has an impact on the health service. I am moving on to a second point there. Perhaps you could answer the point about those figures first of all.

Sir Bob Kerslake: As you know, this is a policy choice of Government as to how they take decisions on the formula. It is not for me to get directly into that particular debate. What I would say is that the bulk of the money that goes into the local government funding system goes to authorities with higher need. That is the way the system works, basically. When you are reducing, those that are less deprived get less money and are likely to come down less. It is just a consequence of the system.

Q12 Meg Hillier: But Sir Bob, they are staggering reductions per household. I know the need. I am out on doorstep all the time talking to people, seeing people where they live and seeing their challenges. It is making the pips squeak. Let us look at the alternatives for Hackney, for example. In 2014-15 and 2015-16, Hackney will incur a funding loss of £50 million. I do not want to alarm Hackney residents because I hope the Mayor will somehow find a way round it, but to backfill that through other revenue sources would require an increase of 90% in council tax income, an 180% increase in business rates income, or a combination of the two. That is the way they backfill to meet the need. That is not sustainable. You may not agree with every conclusion in the Report, but it is blindingly obvious that there has not been a proper analysis about the long-term financial sustainability of councils. Those figures demonstrate that starkly. Who in Hackney can afford a 90% increase in council tax?

Sir Bob Kerslake: The first point to make is that I am not in any sense denying that the scale of reductions in terms of funding for local authorities in general has been large and for those that are more dependent, larger still. The facts bear that out so I am not suggesting that at all. I am clear that, and we agree with the NAO on this point, local authorities have done very well in managing some very tough times. The point that I was making is that there has not been a conscious decision, in the way the funding formula works, to disproportionately move money out of deprived areas. That is a consequence of how the formula currently works and, indeed, worked previously, because we haven't reviewed the whole formula, and where the funding lies.

I guess we will come on to the issue about how we assess whether local authorities are sustainable or not in a minute, but if you have reduced the scale of grant by the amount that has happened in this period, it is inevitable that that affects authorities very considerably. There is no other way through it.

Meg Hillier: I appreciate that candour, but it is blindingly obvious on the ground.

Chair: Meg, ask Sharon your question about—

Meg Hillier: Okay, but I want to get to what Sir Bob thinks poor services are.

Chair: Let's do the sustainable because it is a Treasury issue as well.

Meg Hillier: If councils go bankrupt, it is the Government that bails them out. Sadly, we know that in Hackney from the past. What are you doing to ensure that DCLG is not just carrying on swinging the axe?

Chair: It is the longer-term financial sustainability.

Q13 Meg Hillier: In five years time, where will we be? How will we ensure they are not going bankrupt?

Sharon White: As you know, the Government have got spending powers that run through this Parliament to 2015-16. We work very closely with CLG, as we do with all Government Departments, to have an understanding of how different parts of the public sector are bearing up under the changes that have happened over the past five years. Obviously, it is a difficult issue, but

one of the consequences of the Government's choice to protect the health service, schools and the overseas aid budget is that other parts of the public sector are bearing more of the cuts.

Interestingly, as the Report bears out and Bob has mentioned already, we have not been surprised, but the story for most local authorities has been positive so far. Not to understate the impact—as you have talked about with Hackney and there are lots of councils, particularly in inner-city areas and some metropolitan boroughs, where the cuts have been quite big as we see can from the charts—but it has been really interesting to see the degree to which some councils have managed to grow their local tax base. It has been really interesting to see the degree to which efficiencies have been made.

Q14 Meg Hillier: So your answer is to tax people, businesses and other sources more?

Sharon White: No, I guess all I am doing is observing what has happened over the past five years. For the large part, local councils' services have—broadly speaking, even with the differentiated picture, even with some councils bearing bigger cuts than others—held up. One reason we introduced the Better Care Fund at the 2013 spending round is that social care is the single biggest—

Chair: We will come back to social care, Sharon, because it is a bigger issue.

Sharon White: It is an indication of wanting to provide some support.

Chair: Just to pick up Meg's point, the Report says that more than 50% of auditors are saying it is not sustainable in the medium term. Yet, for 2015-16, you have agreed a further 10% cut in the grant you are given.

Q15 Meg Hillier: I will quote Paul Woods of CIPFA—you must know him—a highly respected local government officer. He has criticised all Governments of all colours over the years, as he sees fit. He said: "Having looked ahead over the next few years, I believe that there is a significantly increased risk of accelerating the point in time at which councils will become financially unviable." He is not someone who has an axe to grind. He is a highly qualified individual. What have you got to say to that?

Sharon White: I will answer briefly, and then I am sure Bob will want to come in. There will be an election next year. It will be for any new Government to decide what its overall public spending objective is, and then, as we have discussed in the Committee before, how it wants to take that forward: whether it wants to continue with the protections that we have now and the degree to which local government takes a share of any further changes. That will be a decision for a new Government.

Certainly from the Treasury's point of view, we are very interested in data, not just on the financial viability of councils, but on what is happening in terms of the delivery of public services. The conclusion of the Report says, broadly speaking, that some councils have done some rationing of services, but so far a lot of the savings have been done through back office and efficiency, and the fact that local councils have—

Q16 Chair: How do you know?

Sir Bob Kerslake: Because we have done surveys.

Q17 Chair: But you do not collect the data.

Sir Bob Kerslake: That is simply not true. We get annual survey data of where expenditure is reduced.

Q18 Chair: You get survey data on satisfaction. Hang on a minute. All I am trying to get is the honest truth. You get data on satisfaction. I know my local people think the council is doing a jolly good job and they blame the Government for the cuts. So if you have a survey asking them whether they are satisfied or not, they will say they are satisfied with the local authority. It does not mean that they can tolerate the cuts.

Sir Bob Kerslake: We surveyed local authorities' expenditure on individual services. In fact, the whole of the supplementary document that you have got is largely based on data that come from the Department. It is simply not true that we do not collect data.

Let me come back to the point you raised about the medium-term viability question, which is an absolutely fair question. It is worth saying that the review on which this number is based is done annually. If you go back to previous years—let us say '12-'13—what you see is that concerns about the short-term delivery of budgets was 13%, and medium-term delivery was 43%. So yes, those numbers have gone up, but what that shows is a pattern—I can remember this from when I was a director of finance—where you are less certain about your ability to deliver in future years than you are in the immediate year. That is not to say that this is not a very tough set of decisions for local authorities, but, when we started this process in 2010, there were the same predictions about the inability to achieve this, and local government has done it.

Q19 Meg Hillier: But the pips are squeaking, Sir Bob.

Sir Bob Kerslake: We know from a lot of conversations with local authorities that the bulk of the savings they have delivered have been through efficiency savings in the way they operate.

Q20 Meg Hillier: The efficiency frontier, as the NHS call it, only has so much to offer.

Sir Bob Kerslake: That is a very fair point. That is the reason why in the last settlement we introduced the Better Care Fund and the transformation fund, because we recognised that for that process to continue—on the current forecasts, that may be the way it goes, following the election—there has to be not just the efficiency savings, but the transformation of the way services work.

Chair: Let us move on.

Q21 Meg Hillier: Before we move on, this fits best here. Sir Bob, in your accountability system statement, you talk about your accountability and how the purpose of the grant is to support the delivery of local authorities' core services. Given the conversation we have just had, how do you define core services? However you define them, surely the Department is responsible for ensuring that councils have enough money to deliver them.

Sir Bob Kerslake: The core services can be defined in different ways—different authorities will do that—but, fundamentally, for the Department, there are duties on local authorities to provide. Some of them specify the level of service, but a lot are for the local authority to decide on the level of service, the type of service, and how they organise it. So there are core services, but there are choices about the level of those services. Of course, it is part of our responsibility when we are advising the Treasury on the settlement to look at the impact of different funding decisions for local government. That is precisely what we do through the spending round.

Chair: Meg, I will come back to you because I know you have lots more, but I have Austin, John, Chris and Anne.

Q22 Austin Mitchell: I want to say first of all that it seems a shame that Sir Bob, as a well respected practitioner in local government, and a former chief executive of the Socialist Republic, should now be taking on the usual attitude of central Government, which is that local government can always face a bigger burden of cuts than central Government. Why do believe that, Sir Bob?

Sir Bob Kerslake: I did not say that at any point.

Austin Mitchell: Could you tell me in words I can hear? It is like "Mrs Dale's Diary", "Your lips is moving, Mrs Dale, but there ain't no sound coming out."

Sir Bob Kerslake: There are two or three points I would make. First, where Government make savings is a policy choice of Government. The second point, as Sharon said, is that decisions were made as part of the settlements to protect certain services: the health service, international development and so on.

Once you make that decision, local government is unavoidably a major part of the unprotected budgets. That is just a piece of arithmetic. It will be the same for the next Government as it has been for this. You are unavoidably in a discussion about reducing funding to local government if you have a conversation about reducing overall funding and you protect major budgets like health. That is an inevitable consequence of the arithmetic. It has nothing to do with me and what I might feel about it. It is a just a fact of the maths.

Q23 Austin Mitchell: Let me revert to the question about the cuts falling on the areas with the greatest problems. I have a nice note here supplied by the former city treasurer of Newcastle city council. He points out that Birmingham, which the Report regards as being under pressure, will see a spending cut of £147 per dwelling. That is 5.7%, which is three times the England average of

£45 per dwelling, which is 2%. It contrasts with the increase in spending power of up to 3% for the wealthiest areas in the country, some of which might happen to vote Tory. Why is that?

Chris Heaton-Harris: Before you answer, Sir Bob, I am loving the bourgeoisie over, here giving us all this political rubbish. I think it is completely unfair the way that we are asking you these questions at the moment. There has been a policy decision to rebalance some of this rural against urban stuff, where my constituents have been underfunded by local government deliberately and politically over a period of years.

Austin Mitchell: The question is: why should the poorest areas get the biggest cuts?

Chris Heaton-Harris: I have rural deprivation in my constituency that matches areas of yours, Austin. I get sick to the back teeth listening to some of this stuff, because you have abused my constituents and milked them for taxpayers' money for a long time. I don't like this line of questioning; I think it is political and it is policy-based.

Austin Mitchell: We are not playing party pat ball here.

Chris Heaton-Harris: It sounded like it.

Austin Mitchell: It is a question of why areas with the most problems are getting bigger cuts than wealthier areas. Why is it?

Sir Bob Kerslake: I did cover that question earlier but I will go through it again. The first point is that if you cut the overall funding, the impact in absolute terms will be higher on the most dependent authorities. That is even if, as the Government did do—

Mr Bacon: It will be higher on which?

Sir Bob Kerslake: The most grant-dependent authorities. It is again a piece of arithmetic, I'm afraid. If you take the top 10% of deprived areas, the total grant they get is £5,588 million. So they are already very big parts of the grant system. Therefore, if you cut the overall grant they will be affected in the way that they have been. That doesn't mean that Government have decided to take money from them disproportionately, in fact quite the opposite. One two occasions the Government have dampened the effect, as I said earlier. It is just a consequence of where the funding is and where you start from in those authorities.

Q24 Austin Mitchell: Why was there such a cut in the basic council tax resource allocation? Equalisation. Why was that cut?

Sir Bob Kerslake: I am struggling a bit with the question, to be honest.

Matthew Style: What was—

Austin Mitchell: This is again the report from the former city treasurer of Newcastle city council, who gives as one explanation of why Birmingham suffers in the way I have just illustrated that it was partly due to the New Homes Bonus to fund that, which transfers wealth to areas which are building. The other reason was the hidden cut in base council tax resource equalisation.

Matthew Style: As Sir Bob said earlier, when the business rates retention system was introduced, as well as increasing the weight that was put on the relative needs in the formula that determines allocations from 73% to 83%, we increased the weight put on the ability of councils to raise council tax. So the formula takes account of the fact that authorities can grow their own council tax base. That is one of the other ways in which more grant-dependent authorities were protected. So we increased the weight put on that capacity when the business rates system was introduced.

Q25 Chair: So the more they raise, the less they get in grant?

Matthew Style: The greater their capacity to raise additional council tax. But conversely for an area that would find it harder to grow its council tax base, greater weight was put on that fact in determining how much grant it should get. So it helps those areas.

Q26 Chair: Giving them more or less?

Matthew Style: Those authorities who would find it most difficult to grow their council tax base were protected, relatively speaking, and so we took account of that.

Sir Bob Kerslake: I am happy to come back to Mr Mitchell's direct question but what I tried to get across here was that in the points where Government have made decisions, they have made decisions that have aimed to protect, to a degree, those who were most vulnerable to the impact of reductions in grant. That is the point I was trying to make.

Q27 Chair: Can you just answer that question about business tax, and then I will go to John?

Matthew Style: In 2013-14 the local share of business rates, which I think is what you are after, was around £11 billion.

Chair: The local share of business rate?

Matthew Style: Yes.

Q28 Chair: And that includes the new retention of the 50%?

Matthew Style: That is the 50% they were retaining.

Q29 Chair: Is that £11 million or £11 billion?

Matthew Style: Billion.

Q30 Chair: That is the extra money?

Matthew Style: That is the total of the local share—so the 50% of the total revenue. Then there is around £3 billion that is recycled between what we call top-up and tariff authorities.

Q31 Chair: Sorry. I am a bit muddled on this. The new rule, which allows local authorities to retain whatever it is—I thought that was just of any addition to business rate. Is that of the existing rate?

Matthew Style: It is 50% of both the baseline level of business rates that were collected before the system was introduced and 50% of any growth.

Q32 Chair: And that brought in an extra £11 billion—

Sir Bob Kerslake: No, it is really important to say that there was no extra income. The change on business rates was to allow local authorities to retain a proportion of the income that they previously gave over in total—

Q33 Chair: And that gave them an extra what?

Sharon White: The £11 billion is the global figure. The question, Matthew, is whether we have the addition.

Matthew Style: No, we don't have estimates—

Q34 Chair: Why don't you? One of the ways in which you say the new system is working is, "Okay, we've cut the grant but local authorities are able to secure extra money from the 50% retention of business rate." All I am asking is how much extra money were they able to secure from that? That is not an unreasonable question to ask you.

Matthew Style: It is hard to say how much is extra growth as a result of the introduction of business rates retention. The business rates tax base grows in line with the multiplier—RPI—every year. So the total amount collected varies every year.

Q35 Chair: I understand. But you make an assertion, in looking at the financial viability of local authorities, that this is extra money coming to them which protects them to some extent from the cuts that they are experiencing in revenue support grant. I understand that argument in theory. All I want is what does that mean in terms of extra money that has gone to local authorities?

Sir Bob Kerslake: We can't give you the number today. We are happy to give you the number—

Q36 Chair: Have you got a number?

Sir Bob Kerslake: We have a number about what the changes in the overall level of growth of business rate income have been. It affects individual local authorities differently because of the top-up and tariff system. Because this was a new system, and because we wanted to protect those who could be adversely affected, the system was damped in the early years, so the extent to which it has produced extra income is affected by that.

Sir Amyas Morse: Can I see if this helps? There is nothing automatic about a new system of business rates that means business rates as a total quantum will increase. You are relying on future growth. The assumption is: if you let people retain business rates, it is an inducement to build their tax base. That is it. It is not automatically extra money. It is an incentive to grow your tax base.

Sir Bob Kerslake: There is a small extra. If people succeed in growing the business base more than would otherwise have occurred, they get the extra from that.

Sir Amyas Morse: That is true. If a local authority grows as a result of retention—its incentive to grow its rates base in future—it gets to retain some of that in its retained share.

Sir Bob Kerslake: I think what Matthew was saying is that it is very hard to know what the incentive effect is, but we can tell you outside the meeting what the actual growth in rates has been.

Sir Amyas Morse: I am just trying to clarify—it does not automatically produce more money. It simply means it is distributed in a different way and some of it is retained by the authority.

Sir Bob Kerslake: The only caveat I would make is that if local authorities become more effective at growing their economies in aggregate, it could lead to more money.

Sir Amyas Morse: Sorry, I was not trying to exclude that.

Sir Bob Kerslake: It is not just a distribution of money.

Q37 Chair: If that is the case, to suggest that this in any way compensates local authorities for their loss of grant is wrong. Is that right?

Sir Amyas Morse: It is not designed to be compensation.

Sir Bob Kerslake: It is not explicitly designed. It is made clear in the Report that it should not be put as a compensation factor.

Q38 Chair: I know, but it might have been an unintended consequence. I know Chris is upset about this; I am upset as well.

Sir Bob Kerslake: It is important to say that we have never argued that the business rate change was in some way a compensation for the overall reductions in grants to local government.

We have been very clear about that point. The whole point of introducing the retention of business rates was as an incentive to local places to grow their economies. That is why it was done.

Q39 John Pugh: What I am struggling with, Sir Bob, is your calm mien in what seems to be a crisis-ridden situation. A delegated budget that is handed to DCLG to eventually give to local authorities—I do not know whether my question is more properly for the NAO—has taken a cut of what? What is the delegated budget cut for local authorities?

Matthew Style: The local government DEL was reduced by 10% in 2015-16.

Sir Bob Kerslake: Which year are you talking about?

John Pugh: Choose any year.

Sir Bob Kerslake: In the last settlement, it was a 10% reduction on the local government DEL.

Q40 John Pugh: And what has it been over the period of this Government?

Sir Bob Kerslake: That is the figure that the NAO calculated in the Report.

Chair: 37%.

Q41 John Pugh: That is very dramatic. Is there anything else in government that compares with that level of cuts? What is the cut in the delegated budget as opposed to other sorts of budgets?

Sir Bob Kerslake: I do not have the numbers in front of me. Sharon might be able to say.

Sharon White: Broadly speaking, the bit of Government spending that the Government has not chosen explicitly to ring-fence or protect.

Q42 John Pugh: Is it the biggest cut in the delegated budget?

Sharon White: It is broadly in line with the sorts of cuts we have seen in other areas of so-called unprotected spending, of which the biggest areas are local government, Business, and the Home Office and Ministry of Justice.

Q43 John Pugh: So the cuts are comparable.

Sharon White: Broadly.

Q44 John Pugh: If you took out this cut and you looked at the whole amount of cuts in delegated budgets, what percentage of Government savings does it make up—the reduction to local authorities in terms of cuts in delegated budgets?

Sharon White: Broadly speaking, by the time we get to the end of 2015-16, the Government will have saved about £120 billion against a world in which spending continued to grow in real terms.

Q45 John Pugh: And the local authority's slice of that is?

Sharon White: About £20 billion of that is tax and about £100 billion is—

Q46 John Pugh: I am asking specifically about the delegated budget. What is the delegated budget saving that you want to make? Put them all together and say what percentage is the locally authority's slice.

Sharon White: I am just getting to that. I want you to understand the bit of the pie—

John Pugh: I do understand. I just asked the question.

Sharon White: It would have been about just under 20%.

Q47 John Pugh: That is quite a frightening scenario. If you look at the Report, you can see that the auditors are concerned; that local authorities, as Austin said, were deprived; that we have seen the greatest reduction; and income has fallen. Paragraph 2.9 says you do not really know the exact effect of per capita reductions. Earlier, the Report says, on a year to year basis there is “a lack of clarity over funding for local authorities” over anything more than one year at a time. Given all that, I ask you once again: why are you so relatively calm and relaxed?

Sir Bob Kerslake: I am calm in front of this Committee, because that is the best way to be. We take the issues involved very seriously; I said that right at the beginning. We do a great deal of work and have a great deal of conversation individually with local authorities about the impact of these decisions on local government. What I am saying is quite important. Notwithstanding what have been some very significant reductions, local authorities have delivered those. The level of their balances, if you look at the analysis, has gone up considerably. It has not gone down.

John Pugh: Can I just ask—

Sir Bob Kerslake: If I could just make this last point. Our analysis shows that they have achieved this so far certainly through some savings on services but actually through a great deal of efficiencies as well. All I am saying is, if I have any level of calm it is because local government has done extremely well in this process.

Q48 John Pugh: In terms of delivery, the monitoring you have done seems to establish that what has happened in local authorities is that they have got more efficient but not reduced services, even though, for example, there is a dramatic decrease in cultural spending by local authorities. That presumably means closed libraries and the like.

Sir Bob Kerslake: As I say, it has been a combination of some service reductions and a lot of efficiencies and reducing staff. Both have gone on. I am not suggesting it is one or the other; both have occurred. To be direct with you, if there is a policy decision of Government, as Sharon said, to reduce the level of public spending, and you protect major parts of that budget, then where else do you go other than these unprotected areas?

Q49 John Pugh: I absolutely accept that. I just wanted your view on the balance between efficiencies, which are good things, and reductions in services such as closed libraries, which in most people's book are bad things. You are basically saying that there is a balance between the two.

Sir Bob Kerslake: Both have happened. I would say that local government have tried very hard to avoid the service reductions, especially in the area of care.

Q50 John Pugh: Finally, on the issue of balances, which is always cited as a consoling factor. Maybe the reason you are so calm is because you are looking at local authorities with quite substantial balances and/or reserves; they are slightly different. The figures are always churned out that such and such an authority has x amount in reserves. Have you done an assessment of how much of the reserves currently held by local authorities are genuinely disposable reserves—that is, could be used in a crisis or to support service spending if that were threatened?

Sir Bob Kerslake: There are two types of reserves in local authorities. There are the non-ring-fenced reserves and there are reserves that are earmarked. If you look at the numbers, the non-ring-fenced reserves increased in 2013-14 from £19.1 million to £21.2 million.

Q51 John Pugh: To what do you attribute that?

Sir Bob Kerslake: It is a combination of things. Local authorities know that they have some very big challenges ahead. They are making quite big changes, which involve risk, and therefore they see it as appropriate to hold a different level of balances.

Q52 Mr Bacon: Did you say million?

Sir Bob Kerslake: I meant billion. I beg your pardon. That would have worried me.

John Pugh: That is very helpful. Thank you.

Q53 Chris Heaton-Harris: You say that local government has done well so far in administering the cuts in money it has had. I have seen in my local area services being delivered in a very different way—some are good, and some are “suck it and see” with a lot of learning to be done.

My constituency includes county and district, so it is a multi-tiered authority, not a unitary authority. It seems to me that county councils now are being used much more to passport money through in non-discretionary spending terms. They are local commissioners of local services based on national policy objectives. All the money is essentially ring-fenced, whether it be on child social care or adult social care—we are going to talk about the Better Care Fund—and it seems the local authorities have very little left in their discretionary spend budget.

I do not know how much you feel your Department understands the financial pressures that that puts on local authorities, or whether you see it as a good thing if they have little discretionary spend, perhaps because they are wasting it or whatever. But looking forward, and knowing what you do about the state of the economy and what the next Government on 8 May 2015 might come into, how confident are you in local authorities’ ability to absorb further reductions, especially when the discretionary bit of their budget is relatively small already?

Sir Bob Kerslake: I absolutely understand the point. If you take local government as a whole, nearly half of it is in adult or children’s care. If you take the upper-tier authorities, it is an even higher percentage, so I absolutely buy the point you are making. They are also the two services that have faced demand pressures on their expenditure. That is why we put a huge amount of effort in the last spending round into the work we did with the Department of Health on creating the Better Care Fund. We could see that unless you could find ways of transforming the way service was delivered, it was going to become challenging for those authorities. We are having similar conversations with the Department for Education as well.

We are still in the early days on this. We have not yet demonstrated the potential scale of savings. At the moment, the Better Care Fund plans talk about roughly half a billion pounds of savings across health and local government. We are still in the foothills of this transformation agenda, but it is precisely because of the point you made that we have focused our efforts on how you can bring those services together, transform how they work and save money.

Q54 Chris Heaton-Harris: The Report, I think in paragraph 2.30, talks about inter-departmental work on this. I know the level of conversations that have gone on with the Department of Health. In fact, Northamptonshire, which is my authority, is one of the authorities that has not got to the stage where it can sign off, or have signed off by Government, what the Better Care Fund moneys might be. Your discussions with the Department of Health are, I assume, fruitful, but what about other Departments where there are similar conversations?

Sir Bob Kerslake: We have had joint board meetings at Education. We have done the same thing at the DWP. We have had some fruitful conversations about the so-called blue light services and whether there are savings there. We have got a range of areas that we are looking at. We have formed what we call the transformation network, which is a small team of people drawn from across different Departments. They are working with 16 local authorities to see what we can learn about

transforming services. We are looking at as many different areas as we can, but we started with health and care, because that was the biggest area of spending. I think those are the main areas we are looking at.

Q55 Mrs McGuire: One of the criticisms in the NAO Report related to your analysis of local authority spend and how you missed out quite a number of statutory services when you did that analysis. Can you tell us why those elements were missing? That is paragraph 16 of the report.

Sir Bob Kerslake: Yes, I know the paragraph. There are two or three points to make on this. First, we acknowledged that the SR10 review was incomplete and needed further development. When we came to SR13, we improved our analysis considerably. Yes, it was incomplete, and I put my hand up in saying that, but it was stronger than the previous round.

I make a couple of other points. First, in 2013 it was a spending round, not a full spending review. It only had one year of further spending on it, and the clear steer from the Treasury was that the focus was on continuity rather than a complete turning-up of the whole system. What we did—this is my third point—was focus on those Departments that were the biggest in terms of their impact on local government spending: Health and, as I said earlier, Education. That inevitably meant that some bits did not get as much time and attention as others; but the ones that we focused on were the biggest ones in terms of their impact.

Aileen Murphie: I think the point is that we do acknowledge in the Report that there was an improvement from SR10. This was only one year, but nevertheless we think the Department—and across Whitehall—could do better.

Sir Bob Kerslake: I will put my hand up and say we will always try and do better. I am sure for SR15 we will look to improve it further, but I do want to emphasise that the areas where there was incomplete data were by and large the smaller areas in terms of their impact on local government.

Q56 Chair: What about youth services, which have been completely slashed?

Sir Bob Kerslake: I did mention DFE, and we actually have had a lot of conversations with DFE, but relative to their size things like the Food Standards Agency are relatively small in their impact.

Q57 Chair: I do not think in my community they think all the slashing of the youth services is relatively small, Sir Bob, with the greatest respect.

Sir Bob Kerslake: With respect, I did not say youth services; I said food standards. Youth services form part of the education responsibilities—

Mr Bacon: Did you say youth standards or food standards?

Sir Bob Kerslake: Food standards. Youth standards would be a different service.

Mr Bacon: “Let them eat horse” is the Government’s policy, is it?

Sir Bob Kerslake: What I said was that actually on those services covered by DFE, which up until recently included youth services, we did have an extended conversation with them about—

Q58 Chair: It did not have an impact, though, did it? They have all been slashed.

Sir Bob Kerslake: In the end the choice is about the overall envelope for spending, as I said earlier, but that does not mean to say we did not do work with those Departments. All I am saying is, if I can just emphasise the point, that we do accept that it was not complete, but we focused on those areas that were the biggest in terms of their impact.

Q59 Mrs McGuire: I accept that point. I wonder if I could just move on to this tension between how you make your assessment and what we as parliamentarians do. Over the last five years, and over many years before that, we continued to put more statutory responsibilities on to local authorities. Can you tell me how you make your analysis as to whether or not, in terms of what Parliament wants, you can expect local authorities to deliver?

Sir Bob Kerslake: Yes. I would make two points on that. The first one is to say what we have sought to do, really since 2010, is actually reduce some of the burdens on local government, both in terms of regulation and in terms of information they have to provide us, and indeed in terms of the ring-fencing of money—so we have given them more flexibility in the way they use their funding. If we give them additional responsibilities, which they are all required, as a duty, to carry out, then there is a clear mechanism for costing that duty, and additional funding being put into the settlement. That has existed for some time now.

Q60 Mrs McGuire: I know the Chairman might want to come on to social care later. Local authorities are saying, “We have a statutory responsibility in terms of delivery of social care; we have a statutory responsibility in terms of assessments that we have to do for carers; we have a statutory responsibility under the Children and Families Act 2014 in terms of supporting children in schools with significant support needs, but we are pushing that the financial commitment for that support, down to schools.” How do you factor all those things in? Those are all statutory duties that local authorities have to accept, notwithstanding all the other ones that we know about, so how do you balance that tension? Does the Department see itself as a champion for local government inside Government, or does it see itself as an administrator of what are effectively Treasury and political decisions? I accept that there are political decisions. What is your role in terms of saying, “Sorry, Sunshine; we actually cannot expect a local authority to deliver any more of this?”

Sir Bob Kerslake: I think Sharon will testify that we had some pretty robust negotiations through the spending review, so I think we make the arguments pretty forcibly inside Government about the impact of changes; but what I said earlier was that in 2013, the last spending round, our focus was on saying, “There is an overall reduction on spending, there is a reality of that impact, and what we should do is to look to ways in which you can change the way services are delivered to help local government manage that impact.” That is why we focused on better care and the transformation fund. Absolutely, our job is to ensure that there is a full understanding of the issues

in the negotiations with the Treasury but, crucially, it is to define the creative ways in which you can help local government. That is what we sought to do.

Q61 Mrs McGuire: Yes, but there comes a point where creativity will no longer pay for the social care deliverers' delivery of a policy and so on. So I suppose what I am trying to figure out is what your role is—or what the Department's role is—in saying to Government, and, indeed, perhaps having the responsibility to say to Parliament, "Actually, you may have put all these statutory responsibilities on local authorities, but they are no longer in a position to deliver them."

Sir Bob Kerslake: As I said earlier, that is not a one-way conversation; that is a three-way conversation with the Department of Health, who take overall responsibility for care, with CLG and with Treasury, and that is exactly how we did that process in the last spending round. So there was a lot of intensive discussion about the impact of what would happen in terms of funding reductions, and how you might mitigate that through different ways of delivering services—hence the Better Care Fund.

The second point I would make on statutory duties is that there are the existing statutory duties, and there might be ones that are added as new duties by Government. What I was saying was that when they are new duties, there is a process of costing them as an additional burden on local government.

Q62 Chair: I think we do need a discussion on social care. This might be the point at which to go to it, but I just want to focus, with Anne, on youth services, because there are statutory duties around youth services. In most authorities—I do not know if it has happened in Chris's, but it has in mine—the youth services have gone. They have basically all gone in the financial cuts. That, I think, is Anne's point. It is no good having a conversation—we can have endless conversations in government. It is actually about what is your decision, and the impact of it. When you took the decision, and when Sharon took the decision—both Treasury and CLG—did you understand that the impact of those decisions would mean that most authorities up and down the country, or maybe just the urban ones, I don't know, would slash their youth services? They are not there. They are not fulfilling their statutory duties there. Did you know that?

Chris Heaton-Harris: They are delivering in a different ways, though, aren't they? So we had the same budget cut in Northamptonshire—

Chair: No you didn't, Chris.

Chris Heaton-Harris: We did, and we come from a lower base in the first place, but they decided to use local voluntary groups and other things. It took three years for it to bed in properly, but now the provision of youth service across Northamptonshire is pretty damn good. It all depends on how you deal with the factors that you find yourself in.

Sir Bob Kerslake: To answer your question, of course we were aware that one of the services that would potentially lose funding in local authorities was their spending on youth service. How much it would affect individual authorities was impossible for us to calculate, and, as has just been said, a number of authorities have changed the way they deliver those services in order to retain services at a lower cost.

Q63 Mrs McGuire: I take Chris's point that there are innovative ways in which services can be delivered, but harking back to the earlier questions and comments about local authority auditors now identifying the real stress on local authority budgets, will there come a point when you will have to say to Government, "I am sorry; we—our Department, ostensibly as the champion of local government inside this particular Government—cannot guarantee that statutory services will be delivered"? Is that something that you are looking at given the mounting evidence, and certainly given the evidence coming from the auditors of local authority accounts, which they are currently flagging up to us?

Sir Bob Kerslake: I do not want to diminish the story we are hearing from auditors, but, as I said earlier, it has been the case for a number of years that the medium-term assessments tend to be more cautious than the near-term assessments from auditors. Just moving on from that, though, the questions you are raising, as Sharon said, are about decisions that will be made in the next spending round and, indeed, the next Government. That is a further conversation. What we are doing inside the Department is further analysis of the potential issues. We have started the thinking about potential choices for a future Government, of course, and we have started the conversations, both inside and outside the Department, about the issues that might arise for a future Government, but I cannot predict that. Clearly, our intent, alongside the other Government Departments and the Treasury, is to ensure that local government is able to fulfil its duties—of course that is what we are there for.

Q64 John Pugh: But inside local government there is a reporting officer whose job it is to say of any local authority budget, "This budget simply won't fly—it'll run into serious trouble whatever." What is being argued is that there should be a parallel function in central Government for you to report back to the Treasury and whoever and say, as Anne said, "Services cannot be delivered on this particular basis." You are saying that you do not perform that function and that no one would want that function in central Government.

Sir Bob Kerslake: No, what I said was that in each spending event or spending review, we work with the Departments and the Treasury to understand the impact of different funding decisions that might be made. We have a conversation about the choices and how they might be mitigated. The same conversation will go on again when we come to SR15—that's what I am saying. Of course we have a conversation with the Departments and the Treasury about the impact; that is a key part of the process.

Sir Amyas Morse: Just to be clear, we absolutely accept the difference between policy and performance, and we are not challenging that at all in the Report. Nevertheless, if I can take you to figure 7, Sir Bob, where we are discussing what you actually did in 2013, we see quite a varied performance in terms of the detail of information that was developed—this is in the agreed Report. We can see that it was possible for DEFRA and the Department of Health to estimate potential impacts of savings in local service, but not, apparently, for the Department for Education, the DWP or the Department for Transport. No statistics were developed at all to show different types of region or local authority. Is that an omission for one year? Is it something that you intend to do differently in future? Those are gaps in quantified analysis, rather than simply qualitative, narrative-type evidence, which I am sure you would accept is of lower quality.

Sir Bob Kerslake: I would say that you need both, but on your point, of course we want to continue to strengthen the analysis and the data that we have available to us. I fully expect that the analysis for 2015 will be better than it is this time around. As I said earlier, this was a one-year process and we focused in on where we thought the most impact was likely to be.

Sir Amyas Morse: But we do not regard it as impossible to develop quantitative estimates of local impact, because quite clearly some Departments were able to do that. In fact, we were told by some that did not submit that information that they could have done more.

Sir Bob Kerslake: In certain areas they did, but yes, of course we can do better—it is not impossible to do better. Indeed, as I said earlier, this round was better than SR10, so there is a continuous path of improvement here.

Matthew Style: We have also built in to the transformation challenge award, and other expenditure on transformation, much stronger requirements for evaluation and analysis, so that we will definitely have a stronger evidence base on the potential for savings in these areas next time around and going forward.

Sir Amyas Morse: We really welcome that, I must say.

Sir Bob Kerslake: Including, of course, the Better Care Fund.

Sir Amyas Morse: I appreciate that we are including that in each part of the conversation.

Q65 Mr Bacon: I would like to turn to the other side of the equation for a minute: things that councils can do to mitigate the problems and challenges that they face. The Localism Act 2011 provided for councils to have a general power of competence, which they had not had previously, so that essentially they can do anything if it is not unlawful. For example, if they want to buy property and get income from it, they can; if they want to buy land, give themselves planning permission, build developments and get income from that, they can. They also have the New Homes Bonus, which, if they are active in producing more housing, can produce greater income—in fact, that is referred to in the Report.

Figure 3 on page 18 shows where the median change in budgeted spend has been at its biggest. Way at the top is a 55% reduction for high-cut authorities, but a 47% reduction even for low-cut authorities, and immediately below that a 40% reduction for housing services. Those are the very areas where, if local authorities were more active in producing more housing, they would get additional income because of the New Homes Bonus, yet those are the areas that have seen the biggest cuts. Obviously, that is a decision for them locally, but how do you account for the fact that some local authorities seem to be cutting most of the things that, were they more active in them, might do most to mitigate the problems they are facing?

Sir Bob Kerslake: I see your point. It is difficult to form a single answer to that question, which will vary from authority to authority. I will make two or three points. First, one of the most striking features is that if you try to correlate spend against performance, you often find no correlation in individual services, so some of this may be people both reducing spending and in some cases improving performance. Secondly, if we look at the absolute data on planning approvals, the

speed and number of approvals has gone up since the NPPF, so whatever else is happening, we are seeing a rising performance. I cannot say exactly how these two things fit together. It may be a combination of more efficiency and cuts in services that didn't impact directly on the actual planning performance. However, what I can say is that on the data, individual authorities are taking decisions faster and giving more approvals.

Q66 Mr Bacon: The other thing I want to ask on this question of what they can do in the very challenging circumstances they face and what scope they have to mitigate the problems they face is about the role of local enterprise partnerships. LEPs are increasingly a channel for money to go from your Department and other Departments into local government, and LEPs will mostly not achieve what they need to achieve without collaboration with local authorities. What do you see is the role for LEPs here?

Sir Bob Kerslake: I think the LEPs can be helpful in a number of ways. First, we go back to the point about local growth. If the LEPs can help local authorities to grow their economy, there is a benefit for the local authorities in business rates, as we talked about earlier. Secondly, we have channelled quite a lot of funding through local enterprise partnerships. In particular, growth funding has gone through local enterprise partnerships, as well as the growing places fund and so on. That can be a direct benefit to local authorities in unlocking schemes that in turn unlock new housing and the New Homes Bonus. Thirdly, across the country we have successfully done local growth deals that enable local authorities to tackle issues that they see as particularly important—for example, employment and skills. There are a number of ways in which LEPs can help local authorities in managing some of the pressures they face. I am not suggesting that that is the total answer, but it is a useful answer.

Secondly, in terms of how local authorities can save money, we have seen a marked growth in the number of authorities sharing services, and often sharing with an overall LEP gets a more consistent approach to planning, for example.

Q67 Mr Bacon: We are about to see John Manzoni to talk about skills in central government. Do you think the LEPs have the skills they need and the ability to get in the right full-time staff? It is one thing—in my personal view it is very welcome—to have more involvement from business people, but most of those business people are also running businesses. The LEPs need very high quality staff themselves. You are giving them £2 billion in the most recent settlement spread across a range of different local government areas. Do the LEPs have the wherewithal in terms of skills and the ability to pay high salaries to attract the right people to run those organisations internally to deliver what you are asking them to do?

Sir Bob Kerslake: I think they vary enormously. Some are excellent and have the skills. Some are less so. They are usually pretty lowly staffed in terms of number of staff—they have only a small number—but the best of them have people with very high business skills and business experience. That is what I have seen. It varies. That is one reason why we have put in a quarter of a million pounds to give them support. But we would not want to suggest that LEPs carry all the skills needed to drive growth in a local area. They have to work with local businesses and their local authorities to make things happen.

Chair: Meg, could you keep it short? We have a vote at 4 o'clock.

Q68 Meg Hillier: I just want to move on to cost-shunting, because we talk about value for money and your budget going to local authorities, but we see this quite a lot in this Committee. I'll give just a couple of examples. Greater Manchester has demonstrated that, since 2010, public expenditure in the region has increased, while local government spend has gone down. Probably some of that is due to the fact that the number of benefit claimants has gone up, and there is no incentive, in any of the settlement, to reduce that figure.

Unison has provided a raft of examples, but I'll pick out just a couple. The Family and Childcare Trust did some research that shows that almost one fifth, 17%, of parents had to call in sick last year to manage child care during the six-week summer holiday, at a cost of nearly 1 million working days across the UK, so cuts in services such as summer holiday provision have an impact.

British Heart Foundation research, also cited by Unison, says that NHS providers in England spent more than £900 million in 2009-10 treating people with diseases that could have been prevented if more people were physically active. It is highlighting the cuts in sports and leisure provision, which I won't detail in this question. Do you take account of that? We are also hearing police officers saying, "We're taking people to hospital instead of ambulances." We see it in other sectors, but cuts, particularly in social care, hit the NHS, and there is a winter crisis looming or happening in A and E. Do you take any responsibility for that?

Sir Bob Kerslake: If the partners at local level are not working together well, there is always a risk that one will take a decision that just passes the problem on to another—

Meg Hillier: But—

Sir Bob Kerslake: Could I just finish the point? It's quite important. The work done in Manchester showed that if you can focus on those highly dependent residents and change their lives, there can be a benefit across the whole system. The challenge is that sometimes the cost is in one organisation and the saving is in another. That is why we had the initiatives about community budgets. It is why we are very supportive of local transformation initiatives and why we think there are a lot of things of interest in the transformation panel's report today. You need to have mechanisms whereby the public bodies work collaboratively, not just to pass on costs but to identify savings that they can all share.

Q69 Chair: Let's move to Sharon on this, because what the Report actually says, in paragraph 1.16 on page 17, is that there has been a 12.7% cut in spending on adult social care. The Comptroller and Auditor General reminded me in my briefing that we dealt with a Report last week or the week before on financial sustainability of health bodies and we dealt with a Report on A and E admissions, and all those Reports demonstrate that there has been an increase beyond the demography. It's so ruddy obvious that a cut in adult social care is connected to an increase in A and E admissions, so you, the Treasury, should be ensuring that you don't cut and have an unintended consequence elsewhere, creating a financial crisis in another service. I just don't get why you don't do that.

Sharon White: I have a couple of things to say on that. A small point is that I agree with you about the numbers for A and E admissions. It's stronger than demography; it is not clear that this is all driven by admissions from social care. From a Treasury point of view, we are really keen to give more priority to the joining between social care and the health service. This conversation has been going on for the last 20, 25 or 30 years, but it was quite a big decision for us and there were a lot of conversations between our Ministers and with Jeremy Hunt on the idea of the Better Care Fund.

Chair: We're dealing with the Better Care Fund next week, so don't let's get on to—

Sharon White: It's early days and it's not perfect, but the idea is that if it works well, it means that the NHS, not just its acute services but the NHS in the community, is working in closer partnership with local government. As I said, it is not perfect, but some of the early signs are that we are getting conversations between CCGs and their providers and local authority social care that we were not having a year ago.

Q70 Chair: I have to challenge that. We will consider the Better Care Fund; I think it is on Monday. That had an assumption of a £1 billion saving for health. The figures you are now talking about are in the £300 million area, so it is hardly there. It stares you in the face. I am all for great conversations; actually, what we are interested in here is real impact and the real impact is a nearly 13% cut in adult social care. You talk to any local authority leader; they are all telling me that they expect to see litigation around their failure to meet their statutory obligation on adult social care.

Sharon White: And I have been to lots of local authorities too, because this is the first topic of conversation from Newcastle to Cambridge to Wandsworth—lots of places I've seen over the last year. As I say, the mechanism is not about having some airy-fairy conversation, and the mechanism is not perfect, but what it does give us is a chance to have better integration between the health service and social care, which we have not had, and I think we would be weaker and poorer, and I think local authorities would be in a tougher situation, without it.

Sir Bob Kerslake: Three quick points. Number one, we all get out and talk to local authorities. I have seen over 20 chief execs in the last couple of weeks, one way or another. Secondly, I want to say that, by and large and in relative terms, local authorities have protected adult care, as you can see from this graph—not completely, but they have protected it as far as they can. Thirdly, just to reinforce Sharon's point about the better care plans, one of the requirements in signing the better care plan off is their commitment, if they make savings, to maintain overall services. We will cover that next week.

Q71 Meg Hillier: Figure 4 does not back you up, Sir Bob. It does on residential and nursing, because once you have got someone in a facility, although the cost has gone down a bit, it is a fairly fixed cost. They either leave or they don't—

Sir Bob Kerslake: If you look at the picture on the left hand side, on figure 3, you will see that in percentage terms adult care is one of the lower ones. In fact, in the case of children's social care, the spending in some cases has gone up.

Meg Hillier: Okay, relatively. Small comfort.

Q72 Chair: We saw the acute trusts last week and 80% of the foundation trusts, which should be the ones in a better financial situation than others, are heading for a deficit this year. So, while you carry on having conversations and plans and delay bringing in things like the Better Care Fund, the impact is out there, and it's not just finance; it's the impact on people's lives.

Sir Bob Kerslake: We will return to this on Monday, Chair.

Q73 Austin Mitchell: Does the Department for Communities and Local Government have to reflect needs and resources in its local government funding for statutory services? Is there an obligation on it?

Sir Bob Kerslake: The way in which the formula works takes account of relative need of local authorities, yes.

Q74 Austin Mitchell: Why then does it not update its funding in line with the pressure on services? There is an example here in this little document given us by the former treasurer of Newcastle; bless his little Newcastle Brown socks. On the number of children looked after, nationally and outside London—all increasing, substantially increasing, apart from in the south-east. Now, if that is increasing in that kind of way, why has spending—the core funding for core social services support for children in social care—been cut by up to 40%? Why is there not an obligation to update the funding in line with the need?

Sir Bob Kerslake: I dealt with that point earlier, but I will just go back through it again. When we came to revise the whole system with the localising of business rates, there was a trade-off between updating the relative needs formula and maintaining some consistency and stability in the system. On balance, our judgment was to maintain the stability; that was very much the view of local government, by the way. When we come to the reset in 2020 or thereabouts, then we will revisit the issue of the relative needs formula, but at the time we made the changes to introduce the localising of business rates, we felt that there was one set of changes—very big changes—already going on—and it made sense to anchor the issue of relative needs assessment within the formula.

Q75 Austin Mitchell: Okay. Let me talk about other services. What you might call quality-of-life services have been cut. They are regarded as disposable, and when a council is under pressure they tend to be disposed of, such as trading standards. I am Chairman of the all-party parliamentary group for consumer affairs and trading standards, and there has been a 29% fall in the total number of prosecutions and a 26% fall in the inspections programme. On environmental health, there is now less emphasis on preventive work and there has been an increase in fly-tipping. Regarding food law enforcement trends, the number of official food samples taken fell by 18% over the three-year period.

There is a similar trend in children's centres with more than £82 million being cut from their budgets and 285 children's centres have closed or been merged. More than 2,000 jobs will have been lost in youth services between 2011 and 2015. Parks have seen similar losses. Sports and leisure has also seen similar losses. Councils have cut almost one fifth of library budgets. The number of street lights switched off overnight has increased to 1 million.

Chair: Austin, we have five minutes left.

Austin Mitchell: I know. This is a very moving moment and I want to draw out the full majesty of it.

I am a liberal kind of guy and I believe that street lighting should be kept on so that women do not fear rape at night and I believe that libraries should be open for kids. I should also be able to know whether I've got horsemeat in my meat pie from Tesco. According to the Report, the Department for Communities and Local Government says that "it does not monitor local services directly. It relies partly on local democratic processes to keep a check on the quality of council services. In line with the government's policy of localism...councils that do not deliver for their local communities can be voted out." As a liberal guy who hates all that, what can I do about it?

Sir Bob Kerslake: I said earlier that what we have seen here is a combination of efficiency and service changes. What we were trying to say in that statement is—I don't know which way you have drawn it—that basically there is a combination of local accountability and review and challenge on very specific services, such as children's services and adult care.

Chair: Bob, we have three minutes left and we are trying to bring the session to an end.

Sir Bob Kerslake: What I am saying is that there is a mix of local democratic accountability and central duties that we have put on local authorities.

Q76 Chair: Can I just ask about three things that I think we haven't covered? One is the balances situation in local authorities, which are up to deal with uncertainty. Would it not be better to deal with the uncertainty, rather than to allow them to keep a growing amount of money in balances?

Sir Bob Kerslake: I do not think that you can reduce uncertainty at one level, because we are seeing radical change and reductions in funding, which are bound to bring with them some uncertainty.

Q77 Chair: Well, you were late in giving the 2014-15 settlement, for example. You could give them more than a one-year settlement.

Sir Bob Kerslake: Two points on that. First, we have done a two-year settlement where possible, which gives greater certainty. Secondly, we have tried to make the settlement announcement as early as possible, but we are constrained, as you know, by the timing of the Chancellor's decisions.

Q78 Chair: That is something for Sharon, then. If you are going to demand so many cuts of local authorities, I can see the trend: “They’ve done well. We’ll get more out of them next time.” That is the way the world works. You should at the very least ensure that you give them certainty and proper time, so that they do not leave all this money in balances and instead use it to provide services. It’s obvious.

Sharon White: I do not disagree with that. Looking forward, certainty and the degree to which people have flexibility to move pots across areas will all be part of the mix of helping local authorities live with whatever funding settlements they get.

Sir Bob Kerslake: I think multi-year settlements are raised in the transformation panel’s report. Clearly, the more certainty that you can give local authorities, the better.

Q79 Meg Hillier: I want to raise an important point about the New Homes Bonus grant and better care funding. They are accounted for in local government as though it all goes to a particular council. In my borough’s case, for example, a £17.4 million New Homes Bonus grant is assumed to have gone to the council despite the fact that £5 million goes to the Greater London authority. For better care, the budget assumptions assume that £18.6 million went to Hackney, but £11 million of that will actually go direct to the health sector. The resources are overstated by £16 million, and the true loss is 10% not 5.4%. That seems really unfair.

Sir Bob Kerslake: I have two points to make on that. On the New Homes Bonus in London—this is a particular issue for London, as you know—the GLA has an obligation to spend money in the area where it was collected, so there is a direct benefit back into the area. On better care funding, our judgment was that local authorities, through their health and wellbeing partnerships, do have influence over the whole of the funding.

Chair: Okay. We have to vote now—we didn’t finish everything, but never mind. You have been let off.

Mr Bacon: We will see you again before you retire