

Public Accounts Committee

Oral evidence: Financial sustainability of local authorities, HC 970

Wednesday 9 May 2018

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Members present: Meg Hillier (Chair); Bim Afolami; Sir Geoffrey Clifton-Brown; Chris Evans; Caroline Flint; Luke Graham; Gillian Keegan; Shabana Mahmood; Layla Moran; Anne Marie Morris; Bridget Phillipson; Lee Rowley; Gareth Snell.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, and Marius Gallaher, Alternate Treasury Office of Accounts, HM Treasury, were in attendance.

Questions 1–247

Witnesses

I: Mark Lloyd, Chief Executive, Local Government Association, Martin Reeves, Spokesman for Local Government Finance, Society of Local Authority Chief Executives, Rob Whiteman, Chief Executive, CIPFA, and Duncan Whitfield, President, Association of Local Authority Treasurers.

II: Melanie Dawes, Permanent Secretary, Ministry of Housing, Communities and Local Government, and Jo Farrar, Director General, Local Government, Ministry of Housing, Communities and Local Government.

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Examination of witnesses

Witnesses: Mark Lloyd, Chief Executive, Local Government Association, Martin Reeves, Spokesman for Local Government Finance, Society of Local Authority Chief Executives, Rob Whiteman, Chief Executive, CIPFA, and Duncan Whitfield, President, Association of Local Authority Treasurers.

Q1 Chair: Good afternoon, and welcome to the Public Accounts Committee. We are here to look at the financial sustainability of local authorities. We are thankful for the National Audit Office's Report on the issue, which highlights, among many things, the funding reduction to English councils, which has been around 49% in real terms over the past eight years. That is at the same time as we have seen an increasing demand for social care and a third more people homeless and in need, plus other duties such as those under the Homeless Reduction Act being put on local government.

We are keen to hear from our first panel what life is like at the coal face. We are then going to have a panel with the permanent secretary and her officials. We are also having a separate little bit at the end to get an update on our report on homelessness, which we published a while ago. We have had a response from the Department and we are keen to ask about that.

So, it is going to be a packed session; I say that in advance to encourage witnesses to be brisk and brief. If someone has already said it, you do not need to repeat it to make the point.

On our first panel, I am pleased to welcome, from my left to right, Duncan Whitfield, president of the Association of Local Authority Treasurers Societies. He is also the strategic director of finance and governance at the London Borough of Southwark, where I think he has been since 2012. Mark Lloyd is from the Local Government Association, where he has been chief executive since 2015. He was previously chief executive of Cambridgeshire County Council and Durham County Council.

We then have Martin Reeves from the Society of Local Authority Chief Executives—known to us mostly as SOLACE—where he is the finance spokesperson and a former president. I will not list them all, but he has also been a chief executive. We have a suite of chief executives who are all men, but we will sort that out for next time. That is a mission of ours.

There is then Rob Whiteman, who is known to many of us as now the chief executive of CIPFA, the Chartered Institute of Public Finance and Accountancy. He, too, has been chief executive of local authorities such as Barking and Dagenham, but has also worked in central Government.

I welcome you all. We hope to get through this session within 40 minutes. That is not because we are not interested in what you have to say. Some of your organisations have put in evidence. We do need to cover ground. It is your opportunity to tell us a bit about the situation on



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the ground. I will ask you all to answer an opening question about what the pressures are now that were not there five years ago. What has changed in recent years that has made life more difficult or more interesting in local government? Mr Whitfield.

Duncan Whitfield: There are probably three things that I would focus on. First, we have fewer reserves than seven or eight years ago—that is manifest within the NAO's Report. That leaves us less room for manoeuvre as we move into some difficult financial planning decisions and choices to be made of one service over another. As we have been through the austerity period for the last seven or eight years, we have taken the fat away and there is only lean left. That means that any local decision we take is more likely to have an impact on direct service delivery on the ground. That could be the protection of children, looking after old people or filling in holes in the roads, for example.

We have even greater uncertainty now about our futures. In 2010-11, we started off on a journey of front-loaded, significant funding reductions. That in itself was a shock, but we had a direction of travel that we understood. As we sit here in 2018, knowing what the financial landscape is like beyond 2019-20 is still quite difficult for us because of activity across a whole range of Government services.

Mark Lloyd: The National Audit Office Report provides a great insight into life in local government right now—an insight we recognise. Councils across the country have done an amazing job in responding to what has become perma-austerity. They have seen a £16 billion reduction in their core Government grants and funding between 2010 and now.

As we have heard from Mr Whitfield, they have seen increased demands on children's services and adult social care, and homelessness places very significant pressure on them. They have done the cutting, the efficiency, the sharing and the productivity improvements, but the harsh reality is that, by the end of this decade, councils will be short of funding to the tune of £5.5 billion. That is excluding the money that needs to be injected right now to prop up a very vulnerable care system for the adults we are all concerned about across the country.

We need to grow the available funding we have got in local government. Business rate retention offers us one option, but the strong view of local government across the land is that the eventual retention of 100% of business rates should come with no new duties, so we can plug the funding gap of £5.5 billion and prop up the care market.

Martin Reeves: Given your clear steer to be brief and not to duplicate, I will pick something slightly different. In the period from 2009 onwards, there has been a diminution in local government workforce in areas containing the very people who have got the skills, the capacity and the capability to deliver the change and intervene in the right kind of outcomes.



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For example, my authority of Coventry has said goodbye to almost 1,500 colleagues across all areas, both statutory and non-statutory—particularly those who can understand where investment can best be placed to deliver value, rather than just deliver reactive services. That is a real issue on the ground.

The other thing, alongside the massive spikes in demand around homelessness and adult and children's social care, and particularly the transition point between them and the complexity, is the context we are dealing with in our places up and down England, which is uncertainty in our communities. We are trying to understand exactly how people are living their lives while we deal with, as Mark and Duncan said, significant change in our sector.

There are clearly a number of challenges, and because of that there is clearly a need not to have the short-termism that has characterised that period. We need a sense of the medium to long-term and of enduring sustainability so we can tackle some of the issues we have just outlined.

Rob Whiteman: CLG can get assurance from a very robust financial set-up for local government with the legal requirement to balance its books. The last five years show that councils are able to use that robust framework to balance their books and make productivity savings. CIPFA is working with the Department to further strengthen that regime, and I will gladly talk about that later.

Although councils can make significant savings because of that framework, compared with other parts of the state, there is a normal distribution curve, and some councils are better than others. Northamptonshire, which is much in the news at the moment, is as much about financial management and management failure as it is about austerity. The NAO Report highlights that 10% of authorities with social service responsibilities could deplete their reserves after 10 years.

We need to look at the system to make sure it operates robustly. I highlight to the Committee the very important role external auditors play in local government. We need to be careful that they fully understand their public interest reporting responsibilities, because large amounts of reductions have been made in their fees and we need to ensure that there is not a race to the bottom in terms of the quality of external audit.

Finally, while the sector is good at balancing the books compared with many other parts of the public sector, and will make savings, that does not necessarily mean that it affords value for money in the long term or the medium term. There is very little evidence about what effects the savings made will have. Individual organisations have made their savings, but the NAO Report highlights that we do not necessarily understand the consequences of that. For example, individual councils will balance the books by cutting their youth service, but do we understand what the country looks like after 10 years of not having youth services in many places? And in preparation for CSR in areas such as children's services, it



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will be very important to establish as good an evidence base as possible in order to understand what resources are needed.

Chair: That is really helpful, and you have set a great tone for brevity—thank you.

Q2 **Gareth Snell:** Briefly, all too often revenue spending power is used to demonstrate that there is an increase in cash going to local authorities. Can I get briefly your opinion on that descriptor as a way of demonstrating how much money councils have available to them?

Rob Whiteman: Spending power is a descriptor which takes into account that councils can put up their council tax or other fees and charges and to some extent can be used to mask the fact that councils are suffering harsher reductions in their bottom-line resources. However, spending power is a legitimate means of assessing councils' ability to tolerate cuts, because there is an ability for them—within limits—to put their council tax and other sources of income up. I think we would all say, though, that it is important not to look at it in isolation and always to look at spending power as well as hard cash, hard grant and real effects of savings.

Mark Lloyd: Just to supplement, I agree it is a legitimate measure. To get to that positive position that you describe is dependent on councils maxing out their ability to generate council tax, which of course in some cases means councils at a local level increasing tax in this last year by as much as 6%, which allows us to make that track.

What the spending power does not do is track the increases in demands that councils are grappling with: a 44% increase in the number of homeless households; the numbers of people living in temporary accommodation; the number of children going into care every day, which has increased by a third since 2010; and the increase in over-85s by 14%. All those factors do not feature in the raw spending power which may look neutral, but the demands councils are having to address are very significant.

Martin Reeves: The truth is, while we can think about the spending power, as we heard in the introductions, the reality on the ground is around a 50% reduction in revenue over the period, with significant challenges not just in the workforce capability and capacity in the way I mentioned in my introduction; it takes us right into the heart of the debate and evidence about the requirement for a sustainable medium to long-term strategy for funding local authorities, which is always about a relationship between taxation base including council tax and business rates—which is very hard earned in the current climate with Brexit and uncertainty in some of the markets—as well as other systems for being able to create income locally in dependency.

Unless you understand the round, it is very difficult. We find ourselves almost immersed in a sense of, "Well you could argue there is some spending power improvements." That is not how communities are feeling



it, with the kind of impacts on those high-demand services we have already heard about.

- Q3 **Chair:** Can I chip in and pick up the point Mr Lloyd was making? Have you or anyone in the sector done an analysis of whether there has been an effect from the reduction in funding on some of the increases you talked about, like homeless households and so on? That is obviously tied to wider national housing policy—we are not talking about that particularly—but have you done any analysis of the direct impact of these extra costs coming from the cuts?

Duncan Whitfield: We certainly had a go at that at a local level, but it becomes almost a timeless test of trying to get out a figure that is at odds with the spending power calculation. From our point of view, actually trying to do that reconciliation of spending power against funding reductions is a very difficult one for us to manage with our local members. It is a very difficult issue to understand given those omissions from the spending power calculation.

On the issue of what is missing, increases in national insurance contributions, which can be very significant for a local authority, and the apprenticeship levy, for example, are costs to the local authority that are not necessarily evident in the spending power calculation. Over and above that, there is the extent of ring-fenced money.

- Q4 **Chair:** Under new duties rules, you are supposed to get some money from the Government. I can't remember whether that covers national insurance contributions.

Duncan Whitfield: It is not evident in the funding we receive.

- Q5 **Gareth Snell:** Mr Whiteman, can I ask you about CIPFA's role in looking at local authorities? I know that your organisation recently took an in-depth look at Worcestershire County Council as part of its councils plan. That report, which was recently debated at the council's scrutiny committee, suggested that the council had used 47% of its reserves over the last three years, and said that there was no sense of urgency about the real challenge.

CIPFA suggested that there should be a "nowhere to run, nowhere to hide" attitude to the budget. It said that if the authority was able to make half of the £60 million of savings it needs in three years, that in itself would be a success. That information was not, it would appear, something the authority itself had picked up on. From your professional experience, how do you think the auditing of local authorities missed that? What is the Department's role in making sure local authorities in a situation like that of Northamptonshire and possibly Worcestershire are being dealt with?

Rob Whiteman: As I said at the beginning, there is a normal distribution curve. Many, many councils have strong financial management arrangements, which would have picked up the risks to their long-term financial sustainability. What happens in some councils, and what we saw in Northamptonshire, is that they can develop an over-optimism that they



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will make all their savings, the budget pressures will not be as bad as they fear, and that they have a blueprint for transformation that will work. In the meantime, they deplete their reserves to get them through the transition. Clearly, in some cases, that doesn't work, and we have to guard against that.

CIPFA sets the accounting standards—the reporting standards—for local government. In the light of where we are as a sector, we are now going to develop a financial management and planning code—we did not feel one was needed before—to deal with the application of reserves so we can draw on best practice and set that as a guideline for all councils.

Q6 Gareth Snell: Why do you feel that code is needed now when it wasn't needed previously?

Rob Whiteman: The sector is under greater pressure than it has ever been before, and we have to move with the times. On the whole, we set an accounting code for financial reporting and a prudential code for borrowing and investment decisions for the future.

Bearing in mind the 49% real spending loss, we are setting something in the middle to deal with financial planning and financial resilience in order to draw from the best councils and regulate that into the performance of all councils in the way they plan their finances. That hasn't been needed before, but it is needed now.

Q7 Gareth Snell: Mr Whitfield, from your membership base across the country, what sense do you have of the number of local authority treasurers and section 151 officers who are now genuinely at the point at which they do not feel they will be able to balance budgets in the next couple of years?

Duncan Whitfield: I don't have that data, to be totally honest. All I can report is the growing level of nervousness and uncertainty, moving into the next period. We have lower levels of balances and more ring-fenced money coming into our authorities for social care, in particular, which gives us less confidence and less flexibility about setting a balanced budget year on year. I couldn't comment on how many are that close to the precipice.

Q8 Layla Moran: Mr Whitfield, I want to pick up on a very small comment you made right at the beginning, which was about potholes. The local elections have just happened, and I dare say they were the No. 1 thing that came up on the doorstep, as ever. You made that comment slightly flippantly, but it is perhaps symptomatic of the wider picture. Are we now seeing a managed decline in assets—in road infrastructure, for example—across the country?

Duncan Whitfield: It is bound to be an issue of the normal distribution where you are and what your resources are. If you are in a relatively capital-rich authority, you are more likely to be able to stay in your programmes for any kind of infrastructure arrangements that are in front of you. If you don't have the capital in place or that level of asset resource



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to actually address those issues, you will naturally shift towards revenue, and you are then in a revenue competition with all the other statutory services, and indeed the valued discretionary services, that your local authority is providing.

Q9 Layla Moran: Is that why we have seen a massive increase in parking services as an income? Is that, in your view, something that has been actively pursued by councils to fill that gap?

Duncan Whitfield: Certainly a lot of parking income is directed straight back into street activity and highway-related activity, so that will certainly be part of the reason for that kind of increase in income to cover those costs. However, I would hesitate to say that it is the absolute reason, because there are many other street services that parking income can be used to help support. It is not only holes in the roads.

Q10 Layla Moran: Mr Lloyd, you were nodding at that. Is that something that you recognise?

Mark Lloyd: Mr Whitfield's point is absolutely right. Councils have, in essence, four ways of generating their resources. First, council tax. Second, business rates. Third, fees and charges, which includes parking, and, as Mr Whitfield made the point, that is reinvested back into transport services. And fourth, commercial income—the way it invests resources to drive revenue streams into councils, which is a very important addition to the mix that we have traditionally had. I know that Mr Reeves would like to add some comments about that later.

If I may, I will just pick up on the question about the nervousness among Mr Whitfield's colleagues across the country. I think it is fair to say that councillors and officers across all councils share a nervousness about the cliff edge that they face in terms of the uncertainty around their financial situation. We have a four-year deal, which is good, but the end of that four-year deal is in sight and we don't know what will come next. With the move away from 100% business rate retention, we have a shared endeavour with the Ministry to come up with a new approach. We haven't got one yet. When treasurers, like Mr Whitfield, and professional bodies, like Mr Whiteman's, are saying we should have a three or five-year plan, we will have no idea about the financial arrangements towards the end of that plan.

Martin Reeves: To answer your question around spend on highways, there is clearly an arithmetic issue when you look at up to 70% of spend within local authority areas now being across those statutory adult and children's services. However, we should say that, across the sector, we have seen differential responses to the capitalisation of improvements on the assets. That is right, in my view. You can find choices being made locally, within the wriggle room, to be able to deliver that kind of improvement to an asset base.

Remember that local authorities are, by and large, doing very well to improve digital access. In many ways, our residents are able to get into much closer contact with us about, for example, the poor asset base that



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they see. At the end of the day, this is actually about the differential approaches that we are seeing in different parts of the country, which is useful, but it is absolutely a factor. I cannot emphasise enough the arithmetic and where the money is going, in relation Mr Lloyd's point around needing that certainty and flexibility when thinking about 2020.

Chair: We have got that message. That has been repeated. The permanent secretary is even in the room listening, so we hardly need to repeat it.

- Q11 **Sir Geoffrey Clifton-Brown:** Mr Whitfield, are any of your members currently using the Government's relaxation of capital-to-revenue rules and at the same time going out and borrowing money, from the Public Works Loan Board or wherever, for different capital projects? Do you have any members in that situation?

Duncan Whitfield: Again, it is a mixed bag. There will be different circumstances locally that are actually driving councils down different routes. There is certainly more flexibility around the capital accounting rules and what you can borrow for and what you can use those resources for. Naturally, from a section 151 point of view, we are prudent people, and we would edge against any indication of borrowing to pay for revenue costs. That is not a good place to be. However, that flexibility is there and it exists, and I am sure some have used it.

There is also, if you like, the commercial side of the local authority business. Where do you run when times are tough? That may be into commercial portfolios. Local authorities have had commercial portfolios since they first existed. They provide revenue that helps provide services. With interest rates low and other sources of funding restricted, there is bound to be a temptation across local authorities to look at investment opportunities to get a return on property. Over and above the revenue stream that that can create, it can also help you build a place. In terms of regeneration, either large or small-scale, it can be invaluable in giving those local authorities a landscape that they can map out a place on.

- Q12 **Sir Geoffrey Clifton-Brown:** You bring me neatly to my next question. There is surely all the difference in the world between local authorities accumulating land banks for regeneration and local authorities simply investing in such things as shopping centres. Do you have a concern—I might also address this to Mr Whiteman—that local authorities are becoming a little bit like sheep in investing in shopping centres? We hear of four local authorities bidding for one shopping centre in Darlington, therefore bidding up the price and reducing the yield. Is there not a danger that they are investing in a bursting bubble?

Duncan Whitfield: The shape of local authorities is naturally changing. Because of that change, it is inviting some local authorities to look more widely than they would have previously looked. We have a prudential code for borrowing that has recently been enhanced sensibly. It has put an additional challenge back on us to say, "Is this really a good use of local money and investment?" Over and above everything, there is a report at



the end of these decisions that says, "This is actually generating a revenue stream for a local authority." I am sympathetic in many ways to a local authority that is having to go down that route when other resources are limited for them.

Rob Whiteman: There is a risk of poor commercial decisions, so we have just strengthened the prudential code. I think everyone recognises that borrowing for services is a good thing, and everyone recognises that borrowing for regeneration and renewal within the borough's boundaries is a good thing. Purely commercial decisions to buy retail estates in other parts of the country carry an additional level of risk.

CIPFA's view is that, in the same way there is very strong governance, for example, on pensions investments—having to have a pensions investment committee with independent advice on that decision—there needs to be, through the prudential code and the amendments we have just made to it, rigorous and strong governance around out-of-borough investment, because there is a risk of some poor decisions. You could be borrowing for 40 years, when the covenants on the retail estate are for less than a decade. They are on the market because of the internet, and they may not be a long-term investment proposition. I hope that the strengthening of the prudential code means that we are creating a permissive environment for borrowing under the right circumstances, but we are trying very much to improve governance and decision making.

Martin Reeves: I will be brief, Chair. This is a really important debate, and I welcome that question, because there is probably a slight difference of opinion across some of the bodies. It is not a surprise that the fiscal economic funding climate that we have referred to means that there is a different risk portfolio happening in other places. It is equally evidential that there is abnormal distribution, as Mr Whiteman said. There is no doubt at all that some local authorities have made unwise decisions about investment, potentially out of their place. However, evidentially there are also a number of examples where very prudent risk profiles have been made on investments that have returned the kind of revenue yield that we are referring to, which can frankly deliver strong responsive services in our places.

Evidentially, we need to move beyond a polarised view where, on the one hand, we have local authorities being seen as engaging in casino finance, which is palpably untrue and non-evidential, and, on the other, they are being seen as not doing anything commercial at all to try to find headroom in the current climate, because that is not true either. There is a real need to understand things through the code and through local audit, advice, the risk portfolio and, perhaps most importantly of all, local political decision making. Throughout this country, different organisations and different political administrations of different sizes and different geographies are making, in my view and in SOLACE's view some very shrewd decisions. Those decisions are not distorting the economic market; they are making markets, and they are making their places.

Q13 **Gillian Keegan:** I have a technical point for Mr Whiteman. I have heard



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some concerns around local authorities and pooled investments, where instead of investing in a single property, there is an overall property portfolio. Some of the latest changes are going to require them to realise losses and gains within year, instead of when they disinvest from the portfolio. That will effectively make their budgeting complete stochastic. They will have very little control if this starts to become a large part of the budget. How on earth are they going to do this? If this is a way to get genuine income for services, how on earth are they going to guarantee those services, with that accounting change?

Rob Whiteman: The short answer is we are asking the Department to make a statutory override on behalf of the sector. International accounting rules—this is IFRS 9—are, as you have just said, that one realises changes to these portfolios into one's revenue account. UK law is that international standards have to be built into public sector accounting, so it is right that CIPFA has set these standards into local authority accounting.

However, there is a concern in the sector that they have used these property instruments for a long time in order to invest cash and other reserves, and that there could be a real revenue hit from the ups and downs. Therefore, the LGA, CIPFA and others are inviting MHCLG to consider whether it wishes to make a statutory override, so that those accounting changes do not apply to local authorities. But it is right that we made the changes, because, as I said, UK law is that we have to follow international accounting standards.

Q14 **Chair:** So, it is possible for the Department—the Government—to make that statutory override.

Rob Whiteman: Yes. It can say, "These are the accounting standards that have been set, but we can make an override on that provision."

Q15 **Lee Rowley:** I would also like some detail on the statements that were made. Mr Whitfield, can you tell me the purpose of reserves, in one sentence?

Duncan Whitfield: It is twofold. I think we would all have a slightly different definition. For example, I carry earmarked reserves, which are for specific purposes. They are for transformation projects, capital projects and regeneration. They are sometimes ring-fenced money that has simply not been spent yet but will be spent at some point in the future on a project. I also have unearmarked reserves. In Southwark that is £80 million, which is effectively "rainy day" money. That is for when all other resources are exhausted, and that is what is in the back pocket, as it were, to run to.

Q16 **Lee Rowley:** Why are lower reserves inherently bad, as you said in your initial statement?

Duncan Whitfield: Lower reserves mean you are running on an annual budget that is unpredictable, as I set out, year on year. We are just setting the budget for 2019-20 at the moment. It is very difficult, given what we understand about key funding places, over and above the 2019-

20 settlement, which is fixed. We have uncertainty about devolution pools; we have—

- Q17 **Lee Rowley:** Those are just a load of statements about potential uncertainty and risk that happens in all industries and sectors. Why are lower reserves inherently bad?

Duncan Whitfield: We are required to set a balanced budget. If we are required to set a balanced budget without risk, then we need reserves to cover off that risk. We also need those reserves to fulfil the capital programme projects and other transformation activities.

- Q18 **Lee Rowley:** I really want to drill down on this point, which I inferred from your first statement, that lower reserves are inherently bad. If I take you to figure 21 in the NAO Report, that demonstrates that single tier and country councils built up an additional set of reserves from 2010-11 of £4.5 billion, of which less than £1 billion has been released in the subsequent period. Why is that a bad thing?

Duncan Whitfield: Why is that a bad thing?

- Q19 **Lee Rowley:** Yes. Why should I have concerns about the fact that a build-up of £4.5 billion, of which only £1 billion has been released, is a bad thing, which is what I infer from your initial statement?

Duncan Whitfield: I guess that in a business where your revenue stream is so uncertain moving forward, what you would naturally do in periods leading into that period is build a reserve that you can call upon to get you through that unstable period. As we have moved from 2010-11 through to 2018-19, it would be my claim that uncertainty has far from gone away. In fact, it is probably greater now than it was then. In terms of holding back reserves to mitigate those risks, it is very important for a section 151 officer to be mindful of that. I would add that I do not know what proportion of those reserves are earmarked.

- Q20 **Lee Rowley:** But £3.5 billion was retained at the end of the last financial year just gone. Both you and I were at Westminster Council years ago. We know we inherited, in that example, a high level of reserves at Westminster Council pre-2010, so I do not understand your point about how less reserves are inherently bad. I think we should be spending down some of these reserves. They seem very high.

Duncan Whitfield: We take a normal distribution view again about reserves and the prosperity or health of individual authorities. What may apply in Westminster certainly would not apply in a northern inner-city area. The level of balances from reserves would be very different.

- Q21 **Lee Rowley:** Moving on, you stated a moment ago in answer to a colleague's question, "I don't have any data. I have a growing level of nervousness." As a Member of Parliament and a member of the Public Accounts Committee, am I supposed to accept your level of nervousness as meaning it is something we should deal with? Where is your data?



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Duncan Whitfield: Our data could improve. We certainly have evidence of cost across areas from homelessness, through to no recourse to public funds, through to education, as high needs block spend increases. Sometimes we could be a lot better, articulating the numbers that underpin the volumes—

Q22 **Lee Rowley:** I'm glad you are self-aware enough to know that you need better data, but how can I take your statements on the basis of that if you do not have that data?

Duncan Whitfield: I would like to say trust and the track record of local government finance over the last years.

Q23 **Lee Rowley:** Would you accept there is an omission of data in this discussion? I have heard a lot of statements from three out of the four of you, but there is very little data underneath it.

Duncan Whitfield: I concede that point. We need to put more effort into data provision so that we can put forward cases to the Treasury, the Cabinet Office and across all Government Departments of the stresses that we bear.

Rob Whiteman: Reserves are a proxy for risk sometimes. I know it seems counterintuitive, but at a time of making savings one should push up reserves. Otherwise you run the risk that you do not make all your savings, and you don't understand your budget pressures. Very often reserves are said to be the reverse. There is a description of local authorities not having to make these cuts because they hold reserves, as if they are deliberately squirrelling away money in order to inflict savings on their communities. And the reverse is true. Had councils not built up reserves in anticipation of the savings that were going to be made now, more councils would have been in the position of Northamptonshire. Please remember that about a third of reserves are what you would think of as what Mr Whitfield called "unearmarked". The majority of them are for capital purposes or against specific projects.

Q24 **Lee Rowley:** I understand your point. The underlying point with this is not the level of reserves, but the level of risk that you are willing to accept, and the political strategy that you are willing to apply to it. Mr Lloyd, you made a comment about perma-austerity. Could you explain to me why central and core services in councils have seen a dramatically smaller reduction in spend than potentially some of the frontline services in the last six years?

Mark Lloyd: There is a core operating cost in all organisations. Pre-2010, councils were already in a period of reviewing for best value and driving out costs from their core operations. As we have moved into austerity since 2010 onwards, councils have had to focus on the big-number savings—around where the big numbers are—which are in the frontline services. With some 54% of council spend being in social care, for example, inevitably a big proportion of the reductions will come out of that area.



Q25 Lee Rowley: I am asking about proportions, not absolutes. The proportion of reductions in frontline services has been up to 50%, and beyond 50% in some locations. The proportion of reduction in core services has been 14.6%, to my recollection. That seems to be a very large job loss; would you not agree?

Mark Lloyd: No, I wouldn't. Councils have done their utmost to drive efficiency into what you might think of as centralised services in their organisations. They then have to ensure that they are able to service their members, keep the organisation running, and all the things you would expect. They have done that through shared services, with more than 500 examples of shared services in operation, to ensure that those core costs are as low as possible. The reality is that with the level of cuts that councils have needed to make, it has had to come out of frontline services.

Q26 Lee Rowley: On that very point—the level of cuts that councils have had to make, and the permanent austerity that has been identified—why do you think we have not seen a reduction in the ratings of councils over the past four or five years, in terms of satisfaction?

Mark Lloyd: That is a huge round of applause for councillors and the staff in councils, frankly. During the period from 2010 to now, the level of public satisfaction has seen only a very small percentage-point decay, but there has been a decay. The public remain most satisfied with councils' waste services, and least satisfied with councils' road maintenance services, but it is all on a very slight trajectory downwards across the piece, as councils have had to do the rationing and reduction of services.

Q27 Lee Rowley: It's within the margin of error, though. Do you not accept that there is a causal link between councils becoming more efficient and retaining high service satisfaction levels?

Mark Lloyd: Undoubtedly councils have driven incredible levels of efficiency. Look at the improvement that they have had in their planning services, with increases in the numbers of planning applications that they process, and a halving in the cost of the planning service. I could go through a whole range of such examples where councils have absolutely shot for productivity and efficiency, and maintained or delivered improvements in public satisfaction. The point is that the pips are squeaking right now, and we have to plug that £5.5 billion funding gap by the end of the decade.

Q28 Lee Rowley: If I cannot see from data how the pips are squeaking, how can we make a difference to that for you?

Mark Lloyd: To give you an example, if I may, I was talking just last Wednesday to the local government ombudsman. He was setting out to me his work dealing with complaints about local government. The ombudsman was saying that they have seen a 140% increase in complaints about social care between 2010 to 2017-18. In itself, that is not an indication, but are those complaints being upheld? The upheld complaints have increased significantly in that time, to a 64% uphold rate now, from 44%, from memory. We are seeing public dissatisfaction



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increasing, and justifiably so, if you take the local government ombudsman's evidence for that.

Chair: I will bring in very briefly Mr Reeves and Mr Whitfield, and then Caroline Flint. Please do not repeat what has been said.

Martin Reeves: No, I will be very brief. There is a structural question to Mr Rowley's point around whether we have seen a similar proportion of reduction in core, central services. If you look at the trends, certainly in local authorities now in England, what was once an outsource model for central, core support services—IT, HR, and others that sit within a core centre of those figures—has been increasingly insourced into local authorities. That creates greater value, but higher costs to serve for the organisation. They are clear patterns of change over the past five years.

Duncan Whitfield: I do not think we should underestimate the effort from offices and local, elected members to explain to the public what is going on. This is one-on-one dialogue with groups and individuals in local authorities. I think that has helped to manage the performance assessments from the public.

Q29 **Caroline Flint:** I want to ask a question about councillors and the scrutiny function. My husband is a councillor, and he is the chair of a committee in Doncaster—I am declaring my interests. It seems to me that when it comes to local authorities, on pretty much every scrutiny committee, including finance, the very people advising those back-bench councillors are the people who are also recommending to the cabinet, Mayor or leader what they should do. Do you think that the scrutiny function should be improved at local authority level, to ensure that those councillors have some more independent advice given to them, rather like the Select Committees in the House of Commons?

Chair: Ms Flint, who are you directing that to?

Caroline Flint: It could be Mark Lloyd or Martin Reeves.

Chair: Quick-fire round; we'll start with Mr Reeves, and work along.

Martin Reeves: I will be very quick. I absolutely think the efficacy of scrutiny—certainly we have seen this with devolution areas—is a challenge. The Committee was up in the west midlands not that many cycles ago. There is no doubt that the most effective scrutiny that I have seen as a chief executive has been when there is significant, rounded evidence—this comes back to Mr Rowley's point—based on independent expertise that holds to account in that area not just the local authority, but the health chief executives, the police commander and the voluntary and community sector, which provides significant services, and that creates a task and finish group that creates a proper rounded evidence base. You feel the heat when you are in that scrutiny environment, rather than, quite frankly, feeling like it is a platitude.

Q30 **Caroline Flint:** But why are so many local authorities not doing that? You are the Society of Local Authority Chief Executives. I do not think many

local authorities have a distinct budget to enable those scrutiny committees to do that work.

Martin Reeves: Again, evidentially, if you look at the spends on scrutiny, on supporting that and properly resourcing it—we had this conversation around the setting up of the combined authority in the West Midlands—our society and I are certainly seeing a waking-up to the importance of that scrutiny function, and to an early understanding of policy impact, for the many reasons that we have already discussed.

Q31 **Caroline Flint:** Would you agree that at the moment there is not a focus on trying to find the money for independent resourcing of that scrutiny function?

Martin Reeves: The scrutiny function in local authorities is variable, and it is not, in my view as a chief executive—the society would say this, too—getting to the heart of that pre-policy scrutiny with the kind of expert, independent advice and evidence, or holding—

Q32 **Caroline Flint:** Or even when you do a scheme and you say it is going to be cost-effective and it turns out not to be.

Martin Reeves: I agree with that.

Rob Whiteman: I think we should move on and review how much we do in scrutiny. Traditionally, remember that local authority chief executives serve all members, so it is different from the model here. When I was an accounting officer to Parliament, I served the Administration of the day. When you are a local authority chief executive, you serve all members. Perhaps we should move on from that, because actually, scrutiny members need some advice independent from our own, even though that is the traditional constitutional settlement. A risk of management, of us, is that we can look at our own silos. The more that scrutiny can look, at a broader level, at questions about why our overheads are not changing, and whether there should be reorganisation or asset rationalisation—some of those things could really be challenged by more effective scrutiny on behalf of the public—the better. We need to move on and do more.

Q33 **Chair:** Mr Whitfield, how many of your members are advising scrutiny committees?

Duncan Whitfield: Scrutiny advice comes from officers, not from elected members, but I think it is a mixed bag.

Chair: I know, but you represent the treasurers of local authorities, so you are pretty key in providing scrutiny.

Duncan Whitfield: Within our own councils?

Chair: Yes.

Duncan Whitfield: ALAT's view would absolutely be that scrutiny has a critical part to play, certainly in the finances of the organisation. The extent to which external, independent advice requires scrutiny is a matter for that individual scrutiny committee. I would hope that none of us would



have any barriers or obstructions to finding resources to try to provide that advice.

Mark Lloyd: A very quick footnote: the Local Government Association is the country's largest provider of political training. It trains politicians. We ensure that we invest in training of not just frontline cabinet members and leaders of councils, but those who have a scrutiny function. Through the LGA, we still sponsor the Centre for Public Scrutiny, which is about trying to build a strong scrutiny function.

Q34 **Caroline Flint:** To be honest, Mr Lloyd, I know the LGA does a lot of work in that area, and that is commendable, but that is not quite the same as providing to councillors who are on the back benches the ballast they need to challenge, when basically, they are approving reports by officers and they are having to scrutinise those very officers as well. It does not really work.

Mark Lloyd: I am not countering your point. I am simply trying to shine a light on the fact that we are also trying to strengthen the ability of councillors to provide that scrutiny function, and to provide—to use your term—the ballast.

Q35 **Chair:** Ms Flint is making the point—but I will reiterate it, although she can speak for herself—that without the data or the information that you get from within the council, you can be a brilliant councillor, but you are going to have to dig through the records yourself. It is not quite the same thing. What is the LGA doing to stand up for resources for good scrutiny? Is that the position you take?

Mark Lloyd: We have a wide range of training offers to councillors. We have not focused on the officer role in providing advice to members, and maybe that is a conversation that SOLACE and the LGA can pick up after today's Committee.

Q36 **Chair:** Do you believe in investing in scrutiny?

Mark Lloyd: Absolutely. That is why we invest in supporting scrutiny members through our work: because it matters a lot.

Rob Whiteman: There was a report, Chair, that the Committee might like to look at. The Centre for Public Scrutiny had an idea: should authorities let their audit contracts together, in order to ask their external auditor, rather like the way that the NAO advises this Committee, whether those audit contracts had the capacity to advise scrutiny members? You might like to look at that report.

Q37 **Chair:** Just a couple of quick questions from me before we have to move on. I want to ask each of you if you think more local authorities are going to go bust, like Northamptonshire, and, if so, in what time frame. Then, particularly to Mr Whiteman, picking up Mr Snell's point about audit warnings: are local government auditors up to the job? On the first question, one by one, will more go bust? Mr Whitfield?



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Duncan Whitfield: More will be at risk, and the outcome of the comprehensive spending review and the fair funding review next year will be critical, I think, to the numbers and the timing.

Mark Lloyd: The cliff edge that we have talked about at the end of the decade is key to this, in making sure that there is a sustainable financial arrangement for local government.

Q38 **Chair:** So basically you are saying it is preventable if the Government make certain decisions.

Martin Reeves: There is no doubt that risk profile will mean there will be more financial failure, unless we act with Government across all Departments, not just MHCLG. We need that certainty, stability and flexibility in our financing to be able to deliver the services that we need for our people.

Rob Whiteman: Northamptonshire wasn't Northamptonshire three years ago, if that is not a silly thing to say. It didn't make the decisions that it should have made three years ago to avoid getting where it has got to. There are other councils in that position now, and we need to work with them in order to help them not go down the same route.

In answer to your point about external audit, Chair, I think there is a risk. When I entered local government, the external auditor was quite an important player in the good governance of the local authority, and the DA would comment on individual decisions as well as the financial standing of the authority. There is a risk that they become reduced to signing off the accounts and meeting the regulatory requirements, but, remember, their public interest requirements are still on the statute book.

Q39 **Chair:** Do you think they are using them enough, then?

Rob Whiteman: No, and I think that NAO, CIPFA and other people need to encourage the firms to remember, "I know you have taken fee cuts here, but actually you are still the external"—

Chair: But—this is interesting—you are emphatic that they are not using the public interest requirement enough.

Q40 **Gareth Snell:** Unless I am wrong, most of the Audit Commission work was picked up by a couple of big companies that actually could, if they wanted to, do that piece of work anyway. I was going to ask, though: you said Northamptonshire was not Northamptonshire three years ago, so in your professional opinion, who is responsible for not flagging this up at the right time? Is it the Audit Commission, or the auditors of the council—the council auditor—or was there a role for the Department to be watching these councils?

Rob Whiteman: That is a really good question. Other councils have faced as difficult a position as Northamptonshire and got through it, but, very briefly, if you look at the figures, they are in the middle of the pack for grant reduction—about 15th out of 27 counties; they are in the middle of the pack for making savings; they were top of the pack for applying

reserves and spending reserves; and they were top of the pack of the 27 counties for increasing their council tax requirement, but that gave them very little yield, because they had had many years of freezing the council tax. In my view, they failed to address financial reality—that their model of making savings and transforming the council wasn't working.

I think, on CIPFA's part, we intend to produce some form of resilience index in order to advise councils if we think they have an alarming rate of spending reserves. I think we should work with external auditors to ensure that they understand their public interest reporting requirements, and I think we would all wish to work with the LGA around the training that is put in place for corporate planning.

Sir Amyas Morse: When you look at the report of Northamptonshire, what you see is that in the inspector's report, the auditors had raised red flags years before, and they were casually ignored—or they were treated casually. I have to say—I don't hold a brief—in favour of the existing auditors, that there are numerous qualifications and warnings out there. My question is: are they being paid attention to? In the view of many auditors, the answer to that is no. It needs fixing.

Duncan Whitfield: From the external audit point of view, I think they are more than well equipped to carry out a full and thorough financial audit, but I personally miss the additional scrutiny, for example around data, that the Audit Commission used to give us. They are not equipped to provide that at the moment, and I think it would be helpful to build that back into the mechanism to give us all the information that we need.

Chair: I remember years ago, on this Committee, sitting on the body that looked at the change to the audit landscape. Some of these things are warnings that were made then, including from the National Audit Office.

Thank you very much for your time. You are welcome to stay for the next session. The transcript of this part of the hearing and the rest of the hearing will be up on the website uncorrected in the next couple of days, so have a look out for that. Our report on this will come out in due course; I cannot give you a date. I call forward our witnesses from the Department.

Examination of witnesses

Witnesses: Melanie Dawes, Permanent Secretary, Ministry of Housing, Communities and Local Government, and Jo Farrar, Director General, Local Government, Ministry of Housing, Communities and Local Government.

- Q41 **Chair:** I welcome you back to the Public Accounts Committee on Wednesday 9 May 2018. We are continuing with our session on the sustainability of local government financing. We have Melanie Dawes, the permanent secretary at the Ministry for Housing, Communities and Local Government—I have to get your new title correct—and Jo Farrar, who is the director general for local government at the Ministry. Welcome back, both of you.



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Ms Dawes, I let you know that I wanted to ask you a little about the ministerial direction that you sought about the local government overpayment to certain councils for business rate retention. You felt that you needed to ask the Minister under managing public money to decide whether he wanted that overpayment not to be clawed back in March this year. Do you want to give us a little bit of background on that, and an update on what the situation is? A significant amount of public money has been given out in error.

Melanie Dawes: Yes. Thank you very much for inviting us to give evidence today. On the direction, I exchanged letters with my former Secretary of State on 20 March, as you know, and those are in the public domain. What happened was that there was a mistake in some figures that the Department used to indicate to local authorities and to pay on account to local authorities that were part of the 2017-18 100% business rate retention pilots. We effectively overpaid on account to the tune of £36 million overall. We discovered that that mistake had been made as we did the end-of-year reconciliation back in March this year.

We do have a process by which any overpayments can be corrected or underpayments made good. The rules of managing public money, which as you can imagine we scrutinised very carefully in the circumstances, were clear that we needed to recover the overpayment in order to be in accordance with those rules. Equally, there were wider public policy concerns that my letter set out. Our Secretary of State decided that he did not wish to seek the repayments, so in accordance with the normal procedures, he issued a direction for us to be able to do that.

Of course, we made a mistake. My letter acknowledges that and apologises on behalf of the Department to the Secretary of State for that. We have a review going on at the moment into our procedures and processes inside the Department to ensure that they are good enough to be able to withstand a complex system going into the future. That is going on now and it is being led by—

Q42 **Chair:** So was the mistake that you made the overpayment or that you discovered it too late?

Melanie Dawes: The mistake was made by the teams in good conscience in the first months of 2017. We would not normally expect to be constantly reviewing all our procedures. I do take some comfort from the fact that we have the end-of-year reconciliation, so we discovered it a year later. It was not that we should have done that work earlier; the mistake was simply made at that time.

Q43 **Chair:** So what is happening now? Is that now written off completely?

Melanie Dawes: Yes, that money was not recovered. Local authorities—

Q44 **Chair:** You're not planning to do any clawback in future years. It is actually written off.

Melanie Dawes: No. It has been written off in that sense, but we have not adjusted upwards the benefit to business rate retention pilots for



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future years, so the local authorities concerned have had to revise down by that amount. They are figures for the future; it was one year only.

Q45 **Chair:** So you're not clawing it back, but you are reducing their payments for future years.

Melanie Dawes: Yes.

Q46 **Chair:** You're balancing it in that way.

Melanie Dawes: No, not to balance out the £36 million. The £36 million was not recovered and will not be recovered. But what we are not doing is baking that into the numbers every year for the future.

Q47 **Chair:** So you have corrected the mistake for future pilots.

Melanie Dawes: We have corrected the mistake for the future.

Q48 **Chair:** So when the scheme rolls out and is no longer a pilot, this mistake will have been ironed out.

Melanie Dawes: This mistake will be corrected, yes.

Chair: Thank you very much for that. It is useful to get an update.

Q49 **Sir Geoffrey Clifton-Brown:** Good afternoon, Ms Dawes. Could you give the Committee an update on any particular problems that Carillion has caused to any local authority contracts?

Melanie Dawes: I'm going to ask my colleague, Jo Farrar, to answer that, because she has been actively dealing with the sector on those issues. It's something that we have definitely been looking at.

Jo Farrar: We have worked closely with the sector. There were issues related to Carillion, but the individual local authorities were managing that. It didn't have the impact on the sector that it might have done in other areas. We are confident that the local authorities concerned have managed the impacts that Carillion has had and have been able to replace the services, either by re-contracting or by taking services in-house. We have helped local authorities to do that.

Q50 **Sir Geoffrey Clifton-Brown:** The *Local Government Chronicle* reports that there was a particular problem with Somerset County Council, relating to the finishing of its bypass. Has that been resolved?

Jo Farrar: Where there have been particular issues, we have been working with the local councils to help them to resolve them. We would expect things like the issue in Somerset to be resolved through their future budgets and future planning, so that they could finish the work by re-contracting or by bringing the services in-house.

Q51 **Chair:** Has the Department provided any support financially, to cover over the gaps, or provided any loans to make sure that certain services are delivered on time? I ask because the hit to some local authorities could be substantial.



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Jo Farrar: That's something we are considering.

Q52 **Chair:** You're considering. At what stage is that consideration? When will you—

Melanie Dawes: Generally speaking, not very many local authorities had contracts with Carillion. The exposure was not great across the sector as a whole. The Somerset project is one example, but there are not very many, so we have not found that councils have come forward and particularly asked for a great deal of support.

Q53 **Chair:** That's interesting. You say you didn't know. So if another strategic supplier went belly-up tomorrow, would you have sight, in the Department, of how many councils up and down the country might be exposed to a risk as a result?

Melanie Dawes: We don't keep a list of all the contracts. As you can imagine, that would be a huge—

Q54 **Chair:** No, I'm not suggesting that, but do you have some oversight, some way of finding that out quickly?

Melanie Dawes: What we did in this circumstance was this. Obviously, the Cabinet Office were co-ordinating the overall Government response. We worked very quickly with the Local Government Association; they were extremely helpful, and we very quickly got a picture across the sector as a whole. Those councils that knew they had a contract with Carillion came forward very quickly.

Q55 **Chair:** But I don't suppose they keep a database of the information, do they? So how did you get that information?

Melanie Dawes: The Local Government Association asked councils very quickly, and councils did come forward.

Q56 **Chair:** There was a ring-round. So that's the buffer: a ring-round is what happens if there is a problem.

Jo Farrar: We have teams in each area that deal with resilience, and we worked through our local resilience co-ordinators and the LGA to make sure that we had a full picture. In fact, that information came through very quickly, as quickly as it did in any other sector, and we would expect the same. Local authorities monitor their contracts all the time, so they have very good data on that.

Q57 **Chair:** Of course we would all be worried if another strategic supplier collapsed, but you are not overly worried about how quickly you could find out information and support councils if you needed to.

Melanie Dawes: No.

Q58 **Gareth Snell:** Ms Dawes and Ms Farrar, a £5.5 billion deficit in council spending is projected by the end of the decade. There has been an almost £1 billion overspend in the last financial year. And £858 million-worth of reserves are being drawn down and two out of three councils are



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having to use reserves to balance their budgets. Are you worried about those figures?

Melanie Dawes: The figure of £5.5 billion is the Local Government Association's estimate, but—

Q59 **Gareth Snell:** Do you have a different estimate?

Melanie Dawes: We don't have a single figure here. At the moment we are starting our work towards next year's spending review, so that we absolutely can give our Ministers in the Treasury and in our Department, but also across the rest of Whitehall, a clear picture of the pressures and opportunities for local government. We are very aware of the fact that local government has experienced reductions in budgets overall. That is set out very clearly in the NAO Report, which is very comprehensive. It is a very good report. We are very aware of that, and we monitor a lot of these trends.

Q60 **Gareth Snell:** But do those figures worry you, in terms of financial sustainability? If we are seeing two in three councils having to draw down reserves to balance their budgets, an almost £1 billion overspend in the last financial year and, as you pointed out, £858 million taken out of reserves, does that worry you?

Melanie Dawes: On the question of reserves, the context is that reserves were built up quite significantly in previous years. Two thirds of social care authorities reduced their reserves in 2016-17, but in the previous year it was 50:50, and prior to that more were increasing their reserves than were drawing them down.

Q61 **Gareth Snell:** Okay, but the latest figures show that two thirds are drawing down. Does that worry you?

Melanie Dawes: They are, but that needs to be seen in the context of reserves having been built up.

Q62 **Gareth Snell:** So you are not worried.

Melanie Dawes: Were that to continue indefinitely, and were we to build the next spending review settlement on an assumption of reducing reserves to balance the books, I don't think that would be sustainable, but we are not in that situation right now. Certainly, our view is that for this spending review period, we are not in an unsustainable situation. Of course, it is hard for councils, but they are managing those budgets well. Where we see pressures, as we have on social care, the Government have responded and put money into the system.

Q63 **Gareth Snell:** So your expectations are that the use of reserves to balance budgets going forward should start to decline.

Melanie Dawes: Well, the Office for Budget Responsibility forecasts that they will decline their draw-down of reserves. We don't have a forecast for that inside the Department, but we keep it under close review. Looking at the reserves situation is an important part of our preparation for the spending review.



Q64 **Gareth Snell:** If it's an important part, why don't you have a forecast?

Melanie Dawes: We are halfway through a four-year financial settlement set out in the spending review. We gave that certainty to local government. We don't try to forecast every area of local government finance. What we try to do to the best of our ability is to track the key data, much of which is set out in the NAO Report, so we can keep an eye on trends, risks and patterns across the sector.

Q65 **Gareth Snell:** Is the use of reserves key data?

Melanie Dawes: Yes, it is.

Q66 **Gareth Snell:** So how come the Department hasn't been forecasting that? Given that you have a four-year spending review programme and a four-year settlement, what was the estimate at the beginning of that settlement period about what the reserve use would be over the four-year period? Is the current use matching that prediction?

Melanie Dawes: We don't make predictions for all of these aspects; what we do is monitor it. We have seen in recent years that, overall, councils have built up their reserves, and that they are now in fact nearly 50% higher—that is total non-ring-fenced reserves—than they were in 2010.

Q67 **Gareth Snell:** But would you accept that there are lots of big regional variations, and that the global figure does not accurately represent what is happening in individual authorities?

Melanie Dawes: It is very important to look at individual authorities and groups of authorities, as well as the total, but the total figures are as I have just stated.

Q68 **Gareth Snell:** In your monitoring, what trend would make you worried about the use of reserves as part of the day-to-day funding of local authorities? We heard in the previous evidence session that some of the large unitary authorities and county authorities are using their reserves at an alarming rate and are drawing down considerable sums of money. If that is to continue over the next two years, they will simply run out of reserves. Is that something that worries you?

Melanie Dawes: There are illustrative projections that the NAO have used in their Report to indicate what would happen were reserves to be drawn down at the rate we saw in 2016-17. While useful, they are illustrative projections.

Q69 **Gareth Snell:** But they are the only projections, because by your own admission, Ms Dawes, there are no projections from the Department.

Melanie Dawes: I don't think it is a forecast by the NAO, as I understand it. The point I would make is that, as I have already said, the context for this is that the reduction in reserves comes after many years of those reserves being built up. We are not complacent about the overall risks for local government here. They are in a challenging situation and budgets have been reduced overall, but it is important to get that change in reserves in context. As I said—I will say it one more time—if we were to



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see a trend of reserves continuing indefinitely into the future, whereby the only way for local authorities to manage their current budgets was constantly to deplete their reserves, I don't think that would be a sustainable settlement. We are very clear about that, going forward into the next spending review.

Q70 Chair: Can I just chip in? In response to Mr Snell, you said that where you have seen pressures in the system, as in social care, you have "put money into the system". Can we just be clear that you are talking about the council tax precept rise for social care?

Melanie Dawes: And also the increases in the better care fund.

Q71 Chair: The point is that these are one-off shots of money. It's all taxpayers' money, but this money comes in particular from local council tax payers. It is not long-term sustainable funding. You would agree with that.

Jo Farrar: It will take us to the next spending review, which is where we will look at all of this in the round.

Q72 Gareth Snell: To return to my previous point, were you to see local authorities having overspent by a billion pounds at the end of the next financial year, would that worry you—if it was a continuing trend of needs and demands not being met through the available resources from their allocated revenue incomes?

Melanie Dawes: We try to look across the whole system. We look at a variety of financial measures. We look at the service outcomes. We look at the data and information that other Departments have on services such as children's social care and adult social care. We look in the round at what is going on in the system. I cannot say how we would respond to any individual item, because it would depend on the overview. That is what we try to make as comprehensive as possible.

Q73 Gareth Snell: Could I ask something though, because our Chair referenced the 2% precept that is now available for local authorities? You interestingly said that the Department has made that funding available. What authority does the Department have to instruct councils to raise their council tax?

Melanie Dawes: We haven't instructed anybody to raise their council tax, but the Government made available the possibility of going above the normal referendum principle for social care authorities. That was making more money available in the system.

Q74 Gareth Snell: Well, no, it's not, is it? It is creating the opportunity for more money to be made available in the system, because the Government have not contributed any more cash than they have already contributed, and there was no additional income from the Department going directly to local authorities.

Melanie Dawes: Overall, half of the total spending power for the sector is from council tax. There is broadly the same pattern for the increases that



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have been facilitated or put in by the Government—whatever word you want to use—to support social care pressures. It is a reasonably balanced package in that respect.

- Q75 **Gareth Snell:** But there is no ability for the Department to say it has made more money available. That is not actually the case, is it? What it has offered is the opportunity for local authorities to put a 2% increase on their base. Would you also therefore accept that the differences between local authority bases actually means that the amount of money that is raised by a 2% increase does not necessarily mirror demand or need in those areas? It is simply 2% on an arbitrary figure that was calculated many, many years ago. What is the Department doing to ensure that the money that could be available for local authorities is going where there is a need and not just where there is already a large base for council tax?

Melanie Dawes: You raise a very good point, which is that patterns of council tax vary across the country and levels of council tax vary, even amongst quite similar local economies. That is why some of the money that we put in—the direct Government grant that was put in—took that into account. That was precisely in order to reflect the points you are making.

- Q76 **Chair:** Is that the direct grant or the better care fund money, or both of those?

Jo Farrar: It was the improved better care fund money. It takes into account that variation. I should add that local government has asked us for more flexibility in terms of council tax and the ability to raise council tax revenue.

- Q77 **Gareth Snell:** I don't doubt that they have, but it is not a useful indicator of whether that funding going into an authority is meeting need or demand, because of the way that council tax funding has been set up. The NAO Report points out that there has been a 9% increase in the amount of money that is used by local authorities to fund social care. It has risen from 45% to 54%. At what threshold would the Department start to be worried that too much money is being used for social care, putting greater pressure on non-social care services?

Jo Farrar: Actually, this is a pressure that local government has flagged with us. It is not only adult social care, but children's social care. We work really closely with DHSC to understand the adult social care pressures, and that is why we have given access to extra money through the budgets. We are doing the same now with DFE in terms of children's social care. We want to bring all this data together for the next spending review so that we ensure that we look at funding in the round. At the moment, councils have their four-year budgets and they are comfortable with those. We are looking at pressures as they emerge. Once we get to the spending review, we will need to look at the totality.

- Q78 **Gareth Snell:** From the Department's perspective, what proportion of a council's overall budget do you consider to be sustainable, in terms of



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funding just social care alone? Do you think that 54% is a long-term, sustainable amount that councils should be committing to their social care? And as direct Government grant continues to decrease, that percentage is only going to go up.

Melanie Dawes: I don't think we have a figure for what that proportion should be. The important thing is that overall the Government have a proper understanding of all the responsibilities that local government needs to carry out, and not just care services. I think you're hinting at other services being squeezed out and that is an important consideration for us, but councils will vary. County councils, for example, will be dominated by those upper-tier care services. The important thing is that there is enough money in the system to allow councils realistically to be able to carry out their responsibilities.

In some cases, you have got income increasing, which means that those services where income is not part of the picture—often, those are the care services—will be disproportionately greater. I don't want to overplay that, but it is one of the factors in affecting the numbers.

Q79 **Gareth Snell:** So, if hypothetically that figure was to rise and tier 1 local authorities were spending 60% of all their budget just on social care, that is the sort of figure that the Department would not be worried about?

Melanie Dawes: We don't have a threshold that would particularly—

Q80 **Chair:** What worries you? We were quite worried when we looked at this and saw the percentage increment. Mr Snell has explained it all; that is our concern. Do you worry about this when you go home at night?

Q81 **Gareth Snell:** If a council was spending 90% of its budget on social care, would you be worried about that?

Melanie Dawes: I don't really think I can say that there are numbers that worry us per se and I wouldn't use the word "worry"; sorry to be pedantic, but we're responsible here for overseeing a system and understanding risk. Clearly, what those rising percentages show is that increasingly councils are having to spend their money on demand-led services, where they can't always control the costs that they will have to cope with, and that shows that risk is increasing in the system.

So it is an indicator of risk and it is therefore one of the things that causes us to look harder, particularly at upper-tier authorities, which is what we've done. So it is an area of concern.

Q82 **Shabana Mahmood:** Ms Dawes, just directly—following on from that exchange—if you ask our constituents what their understanding of councils is, it relates to council tax. If that is becoming a de facto adult social care tax—say, a "living longer" levy—that must be a matter of some concern to you. It must make you realise that the current situation is unsustainable, does it not?

Melanie Dawes: You get into, in a sense, the democratic sustainability of local government, which is an important consideration. I do think that you



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do get into quite important policy questions here about how we fund those services—

- Q83 **Shabana Mahmood:** And therefore the percentage—the threshold, the amount of money—that is being spent on adult social care is a key thing for your Department and you personally to have a view on, is it not?

Melanie Dawes: Well, it is something that we do look at. As I said, an increasing percentage there is, for me, an indicator of more risk in the system, but we are—

- Q84 **Shabana Mahmood:** But you have no idea of what risk is bearable and sustainable, and what is not. What is the point, therefore, of having a sense of what the risk in the system is, if you don't grade that risk?

Melanie Dawes: What I'm saying is that we don't have point estimates here, where suddenly we take the view that the system has become unsustainable. I think that if, overall, the system had reached 90%, what that would show was that local authorities had no capacity for the other important services that they carry out, and that would be—clearly—a real concern. And it's possible that that could be a sustainable financial situation, but it's not very likely that it would be a sustainable financial situation. It would depend on a number of variables, but it would clearly be something that would flag more risk.

- Q85 **Gareth Snell:** What I want to understand is this. If the Department is not recording and does not have any particular forecast or predictions, depending on your terminology, for future user reserves, and it does not have the levers available to direct councils to raise council tax and it does not have a monitoring programme where it says, "Actually, going over a particular threshold for spend on one particular service will put you on a risk register", and it doesn't necessarily have an overview of individual authorities, how on earth can it be working to stop Northamptonshire cases happening again, because that is the danger set, which, according to the first panel and the NAO, was the red flag that indicated that Northamptonshire was failing? And by the sounds of it, the Department does not monitor any of those issues.

Melanie Dawes: I just don't recognise that we don't monitor those issues.

- Q86 **Chair:** Do you want to tell us precisely how, then, you do?

Melanie Dawes: Yes. The NAO has described in their fourth chapter the risk framework that we have put in place over the last few years, which includes comprehensive data on all the financial measures you would expect, including on commercialisation—particularly following this Committee's and the NAO's Report on that a year or so ago. We also look at service outcomes. We liaise very closely with other Departments—particularly the Department for Education and the Department of Health and Social Care, recognising the importance of those services and their dominance in the numbers. We look at leadership capability, and we work very closely, particularly with the Local Government Association, who carry out on our behalf activities of peer support with councils, which you have



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heard about earlier. We look at that across the sector as a whole. We look at patterns, different types of authorities, and we also look at individual authorities that we are concerned about. Northamptonshire was on our risk register, for all the reasons that you would expect.

Q87 Chair: How many other authorities are on your risk register at the moment?

Melanie Dawes: I can't give you a number, I am afraid. I am reluctant to do that. What I can say, and I think it is important to say, is that there is no council, we believe, that is in the same situation as Northamptonshire.

Q88 Gareth Snell: I'm sorry, Ms Dawes; what we heard from the panel before was that, in terms of its funding, Northamptonshire was sort of in the middle of the table. In terms of its use of reserves, it was in the middle of the table. In terms of its council tax, it was in one of the better positions. In terms of its direct grant from Government, it was in one of the better positions of all the councils that you may be monitoring. So if you had flagged up that council, even though the indicators that you just described were all looking quite favourable, and you can't tell us how many councils you are currently worried about, what are the indicators that you are looking at that would be worse than Northamptonshire's indicators, that would give you that list of authorities that you have concerns about?

Melanie Dawes: But it is precisely because Northamptonshire were in the middle of many of those league tables that the decline in their reserves and the fact that they had adverse auditors' warnings were of such concern—and the fact, also, that their children's services were not in a very strong position either. So there were a number of other things which were flagged on our risk register. The fact that their underlying financial situation, while challenging—we all acknowledge that—was not out of line with other similar authorities' made those other indicators look particularly concerning. The inspector's report has drawn out precisely concerns about the basic financial management in that council, which have led to the steps that we are now taking.

Q89 Gareth Snell: But Northamptonshire had three years' worth of questionable audit reports. Why did it take two and a half years for the Department to look into that, and what lessons have you learned from that, that mean you take greater intervention steps quicker in other authorities to prevent Northamptonshire? What we don't want is councils failing and the Department going in afterwards. In terms of the cost to taxpayers that is much greater than sorting it out to start with, surely.

Melanie Dawes: I agree with you that we don't want to see more councils in that situation. The step of a statutory inspection and of putting in commissioners, which our former Secretary of State said he was minded to do, and, indeed, of inviting proposals for restructuring, are serious steps to take and they are not ones that our Ministers take lightly. We need consistent and sustained evidence of failure before we do so. In those preceding years there was a lot of work done with Northamptonshire, including peer support—a quite hard-hitting peer



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review that took place straight after the local elections last summer, where the chief executive did resign after that report; but the council didn't put in place the measures very quickly in response to that report, and it was that and the further auditors' warning that triggered our Secretary of State's best value inspection earlier this year.

Jo Farrar: This level of systematic failure, when we look across local government, is very rare; and if you look at the inspector's report it highlights the failure of governance of the management of the council, and financial management.

Q90 **Chair:** The Northamptonshire picture has been well rehearsed. We are seeing if that is the canary in the mine, for other authorities. I am going to bring in, briefly, Anne Marie Morris and Sir Geoffrey Clifton-Brown, if we have got time, before the vote, on a couple of quick points, and then move on, and we will come back to Mr Snell later.

Q91 **Anne Marie Morris:** Ms Dawes, one of the challenges you have is unforeseen change. At the moment we have a system of unitaries, county etc., but there has always been debate about what might be better. In Somerset we got to a point where they have been squeezed so hard on finances that they now are going to try and put it all together and take out the layers of local government. How can you look at how you are going to provide financial support and advice—how much Government money goes to authorities—when you have absolutely no idea what the local government structure is going to be next year, never mind in three years' time?

Melanie Dawes: Jo might want to add more on this, having run two councils herself. In some areas, councils are coming together to see whether a unitary structure would serve them better for the future.

Q92 **Chair:** Yes, that bit we know. What are you going to do about it?

Melanie Dawes: They are doing that. We are not forcing that on any council. It could save money. What we are not doing is saying that we are assuming that all counties should—

Q93 **Chair:** Sorry, can we just be clear? Ms Morris was actually asking: when they are doing that, how can you judge what funding you need to give an authority as it is going through the transition? How are you judging what money to provide?

Melanie Dawes: My apologies if I was not answering the question quickly enough. I was trying to say that we are not assuming that all counties should unitarise and we are not building a spending review settlement on that basis.

Q94 **Anne Marie Morris:** Exactly, and therefore it is very hard for any council to manage its future funding and plan properly.

Melanie Dawes: But if a council or a group of councils then chooses to go down the unitary path, they will probably be able to make efficiencies that



they can put towards their local services. They would need to put that to their local communities, of course.

- Q95 **Anne Marie Morris:** Let me put this to you, Ms Dawes. I know you say that it is not a prescription of the Government that they should look at becoming unitary—you want it to be voluntary—but doesn't the very fact that you are squeezing them so hard for funds, that you do not have the tools to work out what they need and that this whole issue of restructuring is not taken into account effectively mean that the Government are forcing councils to evolve and unitarise because they are completely strapped for cash?

Melanie Dawes: I do not think the Government is forcing unitarisation. Our new Secretary of State has said that he believes there is space and scope for unitary local government. There is quite a lot to recommend it, but it is not something that we are forcing on any individual group of councils. But if they choose to go down that route and make efficiencies, they will be able to keep those.

- Q96 **Anne Marie Morris:** But why do most authorities make that decision? Is it not because they are strapped for cash?

Jo Farrar: There are a number of reasons why local authorities choose to move down a unitary route. Having managed two unitary authorities, I would say that some counties would find several benefits, not just in terms of efficiencies but in terms of being able to manage the whole of a range of services for their—

- Q97 **Anne Marie Morris:** That sounds to me like efficiency and economy.

Jo Farrar: No, it gives a more streamlined service to the public.

- Q98 **Anne Marie Morris:** That is efficiency and economy, Ms Farrar.

Melanie Dawes: It is also effectiveness. It is about being able to bring together functions like planning alongside strategic economic functions such as transport. There is quite a lot that can be gained through a unitary structure.

Chair: We will park that there. There is an issue, which Ms Morris was trying to get to, about how you then work out the funding model, but we will park that for now.

- Q99 **Sir Geoffrey Clifton-Brown:** We will have a vote any second, Ms Dawes, so I will ask a very short question. You may have been in the room when I asked the previous witnesses about investing in commercial shopping centres. Given that local authorities are like sheep, is there a danger that they are investing in a bubble that is about to burst?

Melanie Dawes: This is a topic that we had a very long and useful discussion of a little while ago. On the back of that and the NAO's Report, we have, as Rob Whiteman was explaining earlier, done some work to tighten up the codes. The important thing—Ms Farrar may want to say a bit more about this—is that when local government goes into those commercial activities, it does so with an eye to the medium-term impacts

and the necessary sustainability of its finances. That is what we have particularly tightened up on.

Jo Farrar: Yes. It is really important that local government understands the risks and makes sure that any investments are sustainable. That is one of the things that we have been concerned to make sure happens when we have updated our codes and worked with CIPFA on their prudential code. In terms of commercialisation, though, you heard quite passionately from Martin Reeves, and I am sure other local government chief executives would tell you about the investments that they have been able to make that have really led to great regeneration in their areas. They have been able to bring forward sites that the private sector normally would not bring forward and bring life to areas of their towns and cities, which would not otherwise have happened. It is important in terms of the way local authorities manage their business, but we want to make sure that it is done in a sustainable way, so we have been working with CIPFA, we have updated our own statutory framework, we have improved our data and we are improving our understanding of risks so that we can make sure that we are overseeing these types of decisions and that councils are not taking undue risk.

Q100 **Sir Geoffrey Clifton-Brown:** But past performance is not necessarily a guide to future returns, particularly with the impact of the internet on the high street.

Jo Farrar: No, that is right, and we would expect local government to take account of that. In fact, in a number of areas, local government is very sophisticated in the way that it makes judgments about where to invest. In my former authority, we made several judgments about where to invest, and we also used independent experts to advise us, to make sure that we were making the right long-term decisions for the area and not basing something on an industry that may not be there in 10 years' time.

Chair: We will pause there, because we are expecting a vote.

Sitting suspended for a Division in the House.

On resuming—

Chair: Welcome back after the Division to the Public Accounts Committee on Wednesday 9 May 2018. We were part way through our panel session with Melanie Dawes, the Permanent Secretary at the Ministry of Housing, Communities and Local Government, and Jo Farrar, the director general for local government at the same Department. I will ask Lee Rowley to come straight in.

Q101 **Lee Rowley:** I'd like to pick up on a few of the points that were raised with Mr Snell. Just so I'm clear, you stated that we are not in an unsustainable position, correct?

Melanie Dawes: Yes, for the spending review that we are in now, that is our judgment.



Q102 **Lee Rowley:** How are you judging that?

Melanie Dawes: Well, I don't want to use the Committee's time by repeating my description of our oversight from earlier, but I think we have comprehensive oversight. It is a databased oversight of the system that looks at trends.

Q103 **Lee Rowley:** But is your analysis entirely based on trends?

Melanie Dawes: No, it looks at what is going on in any one year. It looks at finance, services and leadership. It also relies on what the local governments themselves tell us. We hear the pressures that were described earlier.

Q104 **Lee Rowley:** For the previous financial year we have just completed, can you tell me what your assessment of sustainability was from a quantitative perspective?

Melanie Dawes: I don't have a measure for sustainability, so I can't give you a quantitative number in answer to that question.

Q105 **Lee Rowley:** If you don't have a measure of sustainability, how can you assert that the sector is sustainable?

Melanie Dawes: I don't want to rehearse all the numbers in the NAO Report, but we look at reserves—

Lee Rowley: They're the NAO's numbers, not yours.

Melanie Dawes: Reserves and the build-up of reserves would be one example. We have a sustainability tool, which Jo might want to say a bit more about. We have a variety of financial data and other data that we bring to bear. There isn't a single point—

Chair: Mr Rowley asked a particular question. Will you repeat it, Mr Rowley?

Q106 **Lee Rowley:** Please help me. How philosophically can you say that a sector is sustainable if you cannot assess sustainability? Those things are irreconcilable.

Melanie Dawes: I don't agree with that, in the sense that when we come to the spending review next year, what we will do is a very thorough quantitative assessment of the costs and pressures that local government faces and the resources it has at its disposal, including the distribution of those resources.

Q107 **Lee Rowley:** So tell me what that showed in the last financial settlement.

Melanie Dawes: I can't share with you the advice that we gave to Ministers as part of the last spending review, but what I can say as evidence of our keeping this under review is the fact that Ministers collectively decided to make available to local government allowing it to increase council tax—picking up on the debate we were having earlier—and so on in order to provide more resources for social care.



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Q108 **Lee Rowley:** If you cannot give me the exact number you gave to Ministers, give me a ballpark of the sustainability—they had 5% more money than they need, they had 5% less money than they need—

Melanie Dawes: I'm afraid I can't give you figures like that.

Q109 **Lee Rowley:** But you have them?

Melanie Dawes: We have estimates of the pressures that formed part of our internal advice during the spending review. That is described by the NAO in its Report—

Q110 **Lee Rowley:** I hope you can see where I am trying to go. I am trying to make you give me a very clear answer about the assessment that you made for sustainability. I will concede the point that you cannot tell me—I don't know why you can't tell me, to be honest, but let us put that aside for the moment—but what is your methodology and how are you assessing?

Melanie Dawes: Our methodology is to go through all the different service lines that local authorities have to deliver. In some cases—in fact, in most cases—it is down to other Government Departments to do an assessment of the costs and potential revenue sources, and we also have quite comprehensive analysis of efficiency and productivity which has been led from our Department, by our chief analyst, over the past few years. We bring all that evidence to bear. We look then at the resources that local government has, both those that it raises itself through council tax and those where Government are involved at least in the redistribution, such as business rates or Government grants. Then we put that picture together, and we look at the sector level and at the individual authority level.

Q111 **Lee Rowley:** How can I as a Member of Parliament and as a member of this Committee have confidence that you have assessed the sector as sustainable if you won't tell me what the numbers are of your last assessment of sustainability?

Melanie Dawes: It is a fair comment that there is not very much transparent analysis of this type in the public domain. The NAO Report comments on that. Personally, I would like to see bodies such as the Institute for Fiscal Studies—we are also trying to engage the Office for Budget Responsibility—in some of these questions. Our own advice to Ministers is a confidential matter, but I am in favour of more transparency and openness on these questions. Typically in government, a good way to get at these things is for others to do that, to challenge the Government on their estimates. That happens in a number of different fields of public policy.

Q112 **Lee Rowley:** I am challenging you on your estimates, and you aren't telling them.

Melanie Dawes: I can't share with you the advice that we give to Ministers. That is just something that we cannot do. What the NAO Report has looked into is the process that we follow, and it said that in 2015 we



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had improved on what we did before. It also said, “Right, you need to improve further”—that is what we will try to do next week, because the tighter the finances get, the more important it is that our analysis is as comprehensive as possible.

Q113 Chair: Ms Dawes, there must be information that you can provide Mr Rowley and the Committee that is short of the advice you gave to Ministers—you have done numbers, you have methodologies, so you have facts and figures. That is not advice to Ministers; that is just facts and figures, some of which the NAO has reflected in its Report and projections. Is there anything you can help Mr Rowley and the Committee with in terms of your understanding of the level of risk and sustainability?

Melanie Dawes: I can certainly say now that many—in fact, all—of the indicators in the NAO Report are ones that we think are relevant to risk. We talked earlier about reserves, why it can be important and when it might not look like what it is initially. There is never in my view a single-point number. As a former analyst, I am never keen on single assessments of mixed matrices—

Chair: That’s not what Mr Rowley has asked.

Melanie Dawes: I am trying to give you a flavour of the things that we look at—at the data sources that we look at—and we recognise the picture in the NAO Report.

Q114 Lee Rowley: Let’s go to the point you made a moment ago: paragraph 4.30 of the Report and the local authority sustainability tool. I don’t particularly want to dwell on exactly what it does and does not support. I want to know the methodology behind it. What is the definition of unsustainable according to that tool?

Jo Farrar: What we do—

Q115 Lee Rowley: What is the definition of unsustainability according to that tool?

Jo Farrar: We don’t have a definition—

Q116 Lee Rowley: You must do, because you say, “inform the Department’s assessment of the level of risk of widespread financial failure.” That is a subjective assessment. I want to know what the subjective assessment is behind.

Jo Farrar: On the assessment, we take all of the data that the permanent secretary mentioned and we would then put that on to a distribution, and then that would allow us to look at outliers, and we would work then with outlying local authorities—

Q117 Lee Rowley: The tool—

Jo Farrar: Yes, that is what the tool does.

Q118 Lee Rowley: On the tool, you stick in a load of data and it comes out with an output?



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Jo Farrar: It comes out with a distribution.

Q119 **Lee Rowley:** And therefore within that distribution there will be a range of outputs that are acceptable or “sustainable”, and a part of that distribution will be to define unsustainable. What is the definition of unsustainable?

Jo Farrar: No, that gives us an indication of their financial sustainability, but we then talk to the local authorities to balance that against their leadership, governance and culture, and their use of reserves and why they are doing certain things at certain times, to get more of a picture of those individual authorities. We do not look at the sector as a whole and say the sector is sustainable.

Q120 **Lee Rowley:** What triggers the requirement to have a discussion with the authority?

Jo Farrar: We talk to them all the time using this tool. We talk to all local authorities, but we would definitely talk to—

Q121 **Lee Rowley:** We can go round in circles, but I am going to get an answer to this. So there is a tool. The tool provides an output.

Melanie Dawes: It does not provide a point estimate or a yes/no answer, though. It tells you some indicators.

Q122 **Lee Rowley:** In this process that has a tool embedded within it a subjective assessment is made about sustainability. You have defined where it is in the process for me, but tell me what that subjective assessment is.

Melanie Dawes: It is not the case that we look at these numbers and say, “Yes, sustainable” and “No, not sustainable.” What we look at is things like levels of reserve use and the amount that is available and left for particular types of authority. We look at that against underspends and overspends.

Q123 **Lee Rowley:** I don’t know how you can state that the sector is sustainable. You cannot have it both ways where you say, “We don’t do all this to assess sustainability, but trust me, it is sustainable.” Those points cannot be reconciled on a philosophical basis. They just can’t.

Melanie Dawes: I think that assumes that sustainability is something that you can measure in a point way. To my mind, it is a risk judgment. It depends partly on looking at trends, and it is not just about finance. It is also about instructions and actions and governance.

Chair: I am going to bring in Mr Snell briefly on this point.

Q124 **Gareth Snell:** I think the question that Mr Rowley has asked is quite pertinent. What I want to ask is: if you are not doing it on a numerical basis, how are you determining consistency in that analysis if one person’s outlier is another person’s acceptable level of sustainability?



Jo Farrar: That's why we would test against a number of factors. We would not just take a pure number. We would then look at a number of other factors in order to get a judgment about that individual authority.

Q125 **Gareth Snell:** I understand that, but if you have got that distribution that you have just described, and that distribution includes outliers who are the ones that you want to speak to, how are you ensuring that a local authority that is an outlier for one person within your team, whoever is analysing this data, is consistent and that everybody sees that as an outlier and then takes the necessary steps to follow up those conversations? If that is what happens, then by definition you have a criterion against which you judge outliers.

Jo Farrar: We would bring a lot of data together not just from our own Department but from other Government Departments, including Ofsted judgments and other information, to make sure that we have a rounded picture of local government and individual local authorities in particular. We have to remember that local authorities are independent elected bodies that are responsible for their own financial sustainability, and that is why they have 151 officers and statutory responsibilities. If we have authorities that we are concerned about, then of course we will have a discussion with them, but we will also expect the LGA to work very closely with those authorities that they are concerned about.

Melanie Dawes: Perhaps I can try and help a little more here. We would be happy to write and explain what we can about how the model works. We map distributions on a number of different criteria and then we look at those authorities that are outliers on more than one criterion. That will generate a group of authorities, sometimes, in similar circumstances, such as, for example, social care authorities, but then we put that against other information that we have and we keep a very regular oversight of what that is showing for us, and I look at that once a quarter. But, as Jo said, it is often the case that when you place that financial data against what we know of service outcomes and from Local Government Association work and so on about individual authorities—and what they often tell us as well—a risk that looked like it was there is no longer as apparent. But we keep that very actively under review.

Lee Rowley: I think the challenge we have is that you are collecting a lot of data, doing a lot of analysis and investing taxpayers' money in sustainability tools. Out of those come impact points, whether they are ranges or distributions, in order for you to make an assessment. What I have not heard in anything either of you have said is what the subjective analysis is behind that assessment—when you decide whether it is sustainable or unsustainable, and how you conclude the sector is sustainable on that basis. I will leave it there, as I don't think we will make any further progress.

Melanie Dawes: I don't think there is much more I can say—sorry.

Q126 **Lee Rowley:** On a separate point, what is the point of a long-term funding settlement in local government? Why is it a good thing?

Melanie Dawes: Well, the settlement is needed in order to make sure that local government has the funding it needs to deliver services.

Jo Farrar: A long-term funding settlement allows an authority to plan over time, so it can make longer-term decisions in terms of its investment or how it will manage its services. So longer term settlements—the four-year settlement—have been welcomed by the sector. I think you heard that.

Q127 **Lee Rowley:** If that is the position—in order for it to plan—how can local government plan with the constant tweaks that we see in figure 3 in the Report?

Melanie Dawes: We are halfway through a four-year settlement—

Lee Rowley: So this table will be doubled by the end of it, then? There will be even more tweaks coming?

Melanie Dawes: Exactly.

Lee Rowley: Exactly. Is that not a real problem?

Melanie Dawes: As Ms Farrar said, we have given local authorities more certainty than usual. That was quite a big change in the spending review in 2015—it is not normally the case that local authorities are given that degree of certainty, but it was something the Government did. You are talking here about policy decisions, and that was a choice that Ministers made. We are coming up to this next spending review—it's next year—and Government does usually budget around four-year budgetary cycles. The Treasury have been clear that that is when the decisions will be made—in 2019—and we are preparing for that.

Of course, it would be nice for local government to have greater certainty over a long-term time period, but all public services would say that and, in the end, the Treasury have to preserve that ability to look across the piece every four years. That is what we are preparing for next year.

Q128 **Lee Rowley:** Do you accept that certain behaviours are generated from constant one-off payments within the local authority population?

Melanie Dawes: There is a case on value for money terms for giving longer-term certainty, but that has to be weighed against the flexibility that Government needs and the importance of Ministers being able to take a view every few years as they reset the budgets. If we simply gave everybody the money for 10 years and then did not look again, that would create other problems. It is always a balancing act, but of course there is a case to be made for longer-term certainty wherever we can give it.

Q129 **Lee Rowley:** There's a slight conflation here, isn't there, between policy decisions—of course, politicians change—and actual changes to methodology as in figure 3 of the Report? How does the Department walk into a four-year funding settlement and then change some of the methodologies two years into it?



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Melanie Dawes: I don't think we have changed our methodology.

Lee Rowley: "A new model of allocating revenue support grant".

Jo Farrar: What we have done over the four-year period—if you give local authorities long-term funding certainty, you also have to give assurance, because it is good practice, that you will continue to look at things over years because of changing circumstances. That is what we have done. Working with the sector, we have looked at changing circumstances and the pressures they have identified to us, and we have placed our analysis on that. That is why we have made changes throughout the period.

Melanie Dawes: We have increased funding—that is what figure 3 shows—where the Government has responded to concerns raised by the sector and by others that more money was needed, including the NHS of course, particularly on social care. These are the increases that were put in afterwards.

In the end, what you are seeing here in a spending review is the Government—in particular, the Chancellor of the Exchequer—taking a view on the overall fiscal situation of the country and the need in the last few years to bring down the deficit. You are potentially always going to see some changes as things change.

Q130 **Chair:** Once again, you said we have increased funding, but let's be clear. The better care fund is from central taxpayer funding for a short term, but a council tax precept is not the Government increasing funding; it is saying, "You can go to the pockets of your taxpayers locally and take money out and use that, if you choose to." It is not quite the same as increasing funding; it is giving them permission to raise their council tax.

Melanie Dawes: I accept that they are slightly different ways of responding to the pressures.

Q131 **Chair:** Quite significantly. There are also some quite significant issues with the council tax base, as Mr Snell highlighted. We just need to nail this, because we heard quite emphatically from Ms Farrar last time that the Government were giving lots of money, and she gave figures. However, it is not the Government giving money; it is taxpayers' money to start with, let's not forget.

Jo Farrar: I said "access to".

Chair: "Access to". You are clever in your wording. You are getting to be a good civil servant. Mr Rowley, carry on.

Q132 **Lee Rowley:** All the local authorities out there listening to this should expect a similar level of change in the second half of this financial settlement, as has been demonstrated in figure 3, should they? Would that be acceptable to the Department?

Melanie Dawes: No, not necessarily. We have a budget this autumn, but that is very close to the spending review, which will take place at some point during next year. We will have another local government settlement,



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which will go through the House in the normal way this winter. There is no particular expectation that they should have.

The Department of Health and Social Care's work on social care is relevant, as it will relate to local government. That is obviously a big set of policy decisions, and as you will be aware the Government are looking at that right now.

Q133 Lee Rowley: A final set of questions on demand. Let's take one of the examples from figure 4—priority need and homelessness. What was the Department's assessment of the rise and fall in the expected demand for that over the last few years?

Melanie Dawes: As we have discussed in the Committee before, and as we may come on to a little later, homelessness has increased over this period. These figures are one indicator that show that.

Lee Rowley: Could you just answer the question?

Melanie Dawes: That was part of our thinking at the time of the spending review.

Q134 Lee Rowley: But what was your assessment?

Melanie Dawes: I'm not going to give you the figures that we used.

Q135 Lee Rowley: Why not?

Melanie Dawes: Because they are part of the advice that officials give to Ministers, so they can make their policy decisions in the spending review.

Q136 Lee Rowley: That therefore probably means that absolutely everything you do that ends up anywhere near Ministers cannot be shared with us.

Melanie Dawes: The advice that we give to Ministers is something that we can't release the details of.

Q137 Chair: Can we just be clear: advice is advice, but numbers are numbers. If numbers are available through the work that you do, I could probably do an FOI request and get them—I just couldn't get the bit that advises Ministers what to do with them. I would rather get it out in a Committee room than have to do that.

Melanie Dawes: On all these areas, including homelessness and the other figures shown in the table and a variety of other services as well, we talked to the Department that owned that policy—in the case of homelessness that is actually our own Department anyway—and asked what the pressures were likely to be. We looked at demographics, which in many cases were projected to increase. In the case of homelessness, it had increased, and that was part of the context for the spending review. We did look at those things. In the end, Ministers make the allocations to local government that they can, along with other services, as part of the spending review.

Q138 Lee Rowley: Did you expect homelessness to increase?



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Melanie Dawes: It had already increased, and—

Q139 **Chair:** Answer the question that Mr Rowley asked: did you expect it to increase further?

Melanie Dawes: I can't comment on what the Department expected.

Q140 **Lee Rowley:** You can, because it is your Department.

Melanie Dawes: It is part of the advice that we give to Ministers in the spending review.

Q141 **Chair:** Ms Dawes, what you see from the figures isn't advice to Ministers. You must be doing trajectories, forecasts and projections. From all that work, surely you can answer Mr Rowley's question directly?

Melanie Dawes: I don't think I can share with you the forecasts that we have for these particular measures as part of the advice that we give to Ministers in the spending review, which is what you are specifically asking for.

Q142 **Lee Rowley:** How can I have any confidence in your ability to declare that a system is sustainable if you will offer me neither forward views of what is happening or retrospective views of what happened and how close you were to that? How can I? I can't.

Melanie Dawes: We can describe to you how we do the work, which is laid out in the NAO Report. I have described to you, in what I think was a reasonably comprehensive way, the sort of analysis that we do. I hope that gives you some assurance about the nature of our work.

Lee Rowley: I think I'm done.

Chair: Thank you, Mr Rowley. I'm just going to bring Mr Snell in before I bring Shabana Mahmood in.

Q143 **Gareth Snell:** I apologise if this is flippant or glib, Chair, but Ms Dawes, when you are doing new homes bonus funding projections, you presumably have population growth projections. Do you consider those numbers to be advice to Ministers that you are unable to share with us?

Melanie Dawes: We have population growth assumptions; we have assumptions—

Q144 **Gareth Snell:** But, Ms Dawes, would you consider that number about population growth to be protected advice to Ministers?

Melanie Dawes: I think there are some published data like that, where we will be using—

Chair: Answer the question—yes or no.

Q145 **Gareth Snell:** Would you consider a number demonstrating a forecast of population growth, which you use to work out the potential future funding for the new homes bonus, to be protected advice you give to Ministers?



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Melanie Dawes: No, because in that case the data is published by the Office for National Statistics.

Q146 **Gareth Snell:** In which case, Ms Dawes, why on earth would the possible number of homeless people in the country and your own projections be considered protected advice you give to Ministers?

Melanie Dawes: Because where the Government routinely publishes assumptions behind its fiscal projections, which I think is what you are asking for, that is set out, in the main, by the Office for Budget Responsibility's work and by the Treasury. Where those figures are in the public domain, they are already in the public domain. There are lots and lots of other sets of analyses that we do not release.

Q147 **Gareth Snell:** I'm very sorry; I don't want to sound belligerent on this point, but the Government does projection work on the universal credit benefit count, on the number of children entering school, on the number of patients going into a hospital and on the number of motor vehicle owners, all of which are based on forecasts that are not routinely published. None of those would be considered to be protected advice to Ministers, so I struggle to see why one particular figure on homelessness would be, unless of course there is something the Department does not wish to share publicly because it is damaging.

Melanie Dawes: I am not familiar with exactly which data other Government Departments publish in the way you describe. Some are published and some are not, in my experience.

Q148 **Chair:** But open government is something I understood Whitehall is trying to embrace. Clearly not at MHCLG.

Melanie Dawes: I am very happy to see which of our data are already provided for in the Office for Budget Responsibility projections. In some cases, that is what we are looking at, and in some cases it is other Government Departments' projections. As I say, most of these services are the responsibility of other Departments.

Chair: Which we seem to get quite readily from other Departments.

Q149 **Gareth Snell:** If I go back to my office after this session and put down a written parliamentary question asking for the projection for the growth of homelessness, and a figure comes back, would you consider there to have been a breach of the advice you have given to Ministers? What I don't understand is this. Either you don't know the figure and are trying to cover the fact that you don't know it, or the figure exists and it's very damaging. I cannot see any other reason why you wouldn't want to share it.

Melanie Dawes: I certainly don't have a figure in front of me.

Gareth Snell: Evidently.

Q150 **Lee Rowley:** Paragraph 4.14 on page 58 says: "The Department expects" the Homelessness Reduction Act 2017 "to reduce the cost of



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homelessness, with savings outweighing additional costs by April 2020.” That statement says to me that you have a forecast, you have a number, and you are willing to put some of it into the public domain. Please could you tell me the number behind it?

Melanie Dawes: You asked me about this last time we came to give evidence. I don’t have the impact assessment in front of me, but we have given some figures and I am happy to send them again to you.

Q151 **Lee Rowley:** No, I’m asking you to give us an example.

Melanie Dawes: They show what our assessment was of then impact of the introduction of the Homelessness Reduction Act. Yes, we have those figures, and we have used them to calculate the new burdens estimates, which are in the public domain.

Q152 **Lee Rowley:** Who makes the decision, within the Department, about what is defined as advice to Ministers, and therefore cannot be put into the public domain?

Melanie Dawes: It depends. Where Ministers are making policy decisions, as I have said, there are protocols about the publication of analysis of fiscal events, such as the spending review. There is a variety of different factors at play in those decisions.

Q153 **Lee Rowley:** You ceded the point that some of this information can be released. Within this document, there are projections that have been released. Who is making the decision about what is permissible to go into the public domain versus not permissible to go into the public domain?

Melanie Dawes: I have explained the information we have already provided about the assumptions that lay behind the specific policy changes of the Homelessness Reduction Act, but that is different from the questions about what underlies the Treasury’s and our Department’s decisions in relation to the spending you.

Q154 **Lee Rowley:** I am asking you who in your Department makes the decision about what data you are able to put into the public domain?

Melanie Dawes: Often, it is a decision for Ministers. Sometimes, it is a question of national statistic protocols.

Q155 **Chair:** Ms Dawes, I am afraid that you are in danger of looking a bit silly here, because some of us have been Ministers. The sort of data I was seeing routinely, a long time ago, if any hon. Member had asked a question in the House to see that, they might not see it in real live immediate time because there might be some restrictions, but those would be very little really and you would have to produce it eventually. If it was not produced that way, an FOI would wrench it out of us. Isn’t there a move to open government and to provide data? I don’t understand what the problem is.

Melanie Dawes: I think we may be talking somewhat at cross-purposes.

Chair: Help us to clarify.



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Melanie Dawes: I am very happy to send you the information that we have about the spending review assumptions that we made in 2015. I do not have in front of me a list of all of those assumptions.

Q156 **Chair:** Do you test these assumptions with local government? Do you run them past them?

Melanie Dawes: We did extremely close working with local government during the last spending review—

Q157 **Chair:** So people like the previous witnesses can see that?

Melanie Dawes: A lot of the time we are listening to the analysis that we are getting from others. In the case of population statistics, it is very straightforward—everybody typically uses the ONS projections. The same is true for things like prices and so on. It was a very close and open engagement with local government during the last spending review, which is what we are doing right now as well.

Q158 **Chair:** My point is where the challenge comes. All those assumptions that you are providing as advice to Ministers, are you also providing to people in local government so that they can say, “It doesn’t work for our area” or “We think you are wrong there”? Are you getting any external challenge, because we are not getting very far and we are the Public Accounts Committee, so we are a bit concerned? Who is seeing this other than the Department officials and Ministers?

Melanie Dawes: In the end, there is analysis of scenarios and then there are assumptions about things like productivity changes and efficiencies that might be able to be realised. All of those things go into advising Ministers on the various options that they may be considering and the different risks and advantages of those. It is a spectrum from stuff that is out in the public domain, which is very straightforward, to things that are in the end very much about the final decisions on fiscal applications, where, as you will know, that advice to Ministers, even if it has numbers in it, is usually confidential.

Chair: Well, not forever.

Melanie Dawes: I am very happy to write and try to explain it. I do try to be as helpful to the Committee as I can. I am somewhat surprised by the difference of view—

Q159 **Chair:** We could flog this one, but it sounds like we are not going to get very far with you. The advice that you are given as civil servants when you come in front of Committees is that the presumption is that requests for information for Select Committees will be agreed to, and where you can’t do that, you should make it clear, if appropriate, in terms similar to those in the Freedom of Information Act, without resorting to the Act itself. It seems you are, but you are reading “advice to Ministers” very widely. “Advice” is the advice bit, but the numbers are fact. Some of my colleagues are very clever guys and girls—men and women, I should say—and we could go through local government figures and begin to extrapolate this, but it is a very long-winded way. We could ask the NAO



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to look at it, but it is a very long-winded way round. It would be easier if you just told us.

Melanie Dawes: As I said, I am very happy to see what we can provide you with. I don't have the figures here today in any event, but I don't think numbers are always factual. Projections and scenarios do involve a large element of judgment and that is a lot of what you were asking for in terms of what we were expecting to happen to homelessness levels. That, specifically, is more in the question of judgment and analysis and advice.

Q160 **Chair:** But we have seen one local authority go bust. We have another at risk. You won't give us an idea of further numbers, but you say you are watching it. We are just trying to gauge, and Mr Rowley pushed the point, how you are assessing whether something is sustainable. If it is not, there are lots of council tax payers and service users out there, and businesses that are working with those local authorities, which are at risk. It is all very well for it to be kept centrally in the Department for a Minister to eventually take it out of their red box, but that is a long way down the line. There a lot of other people out there who I think have a right to that information, including this Committee. Is there anything else you want to add before we consider moving on?

Melanie Dawes: I don't think I have anything else to add.

Q161 **Gareth Snell:** This is my very last point, which echoes something Mr Rowley said. The opening gambit from your Department, Ms Dawes, was that local government is on a sustainable footing. What we have had in the last hour and a half is that you cannot define what sustainable is, you cannot explain the methodology for how you get to sustainability and you won't share with us the assumptions made to determine the level of financing put into local government to meet those demands. If we are not allowed to know what your definition is, how you calculate that definition and what assumptions you make to determine whether something is sustainable, how on earth can we believe that we are in a sustainable place? As much I have respect for civil servants, just telling us that is not enough.

Melanie Dawes: I don't think there is very much I can add to the points that have been made.

Chair: We're going to move on, but we will pursue this outside the Committee Room.

Q162 **Shabana Mahmood:** Ms Dawes, I think you can expect some parliamentary questions and FOI requests first thing tomorrow morning at the very least.

We have obviously had a lot of discussion about financial pressures. I want to discuss service pressures and what happens with the oversight of the range of services that are provided by local authorities. When a service, in terms of policy, sits with another Government Department but is delivered by a local authority, what is your role, your job, in that scenario?



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Melanie Dawes: Jo may want to add something, but our role is to oversee the system as a whole. It is to make sure that that picture of the whole is there and that the Departments that are responsible for their individual services are aware of it and they take it into account as they think about their own particular service areas. My accountability system statement, which is published each year with the accounts, sets out that role in a little more detail, but that is essentially what it is about.

Jo Farrar: And we work really closely with other Government Departments—

Q163 **Shabana Mahmood:** Please don't say "really closely". It's a real bugbear of mine.

Jo Farrar: We do.

Q164 **Shabana Mahmood:** Yes, but be specific. What does that mean? I know about the two that you meet regularly, and we'll come on to that, but what about everybody else?

Jo Farrar: I would have meetings with directors or directors general from across Whitehall on a number of different issues. Depending on what the issues were, we would determine the regularity of those meetings. But we do have close contact with Government Departments across Whitehall—I'll try to think of a different definition.

Q165 **Shabana Mahmood:** We will, I'm sure, get to it in a moment!

The National Audit Office Report tells us that you meet the Department of Health and Social Care and the Department for Education "regularly". I am minded to assume that the NAO has a better definition of regularly and I can trust that it is in fact what most people would consider to be regular. It also says, though, that you do not have structured engagement with other Government Departments. Why is that?

Jo Farrar: No, we do have structured engagement with other Government Departments. We—

Q166 **Shabana Mahmood:** The NAO Report, at paragraph 4.44, specifically says: "The Department does not have structured engagement in the same way with other departments, although other Departments may volunteer information, and the Department can draw on information in the public domain."

Jo Farrar: So maybe not in the same way, but—

Q167 **Shabana Mahmood:** This is why we should be precise with what we are saying. You said you work "really closely"; here, the word is "regularly". What are we talking about?

Jo Farrar: With regard to adult social care and children's social care, which are the two areas where local government have told us they have the greatest pressure, we have done some very intense work with them, right across our teams, to look at what the pressures are in those systems. With other Departments, we also have a good working



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relationship, so we do meet regularly with other Government Departments.

Q168 **Shabana Mahmood:** Once a quarter? Once a month?

Jo Farrar: With the Home Office, we meet once a month, particularly on our integration strategy and on some of the issues that we are facing in community services, for example.

Q169 **Shabana Mahmood:** Of all the other Government Departments outside Health and Social Care and Education, is it the Home Office that you meet with once a month, or are there others that you meet with once a month?

Jo Farrar: We will have quarterly meetings with a range of Government Departments, particularly on the sustainability of local government, and they will become more frequent in the run-up to the spending review, so we are putting in additional meetings now. Melanie will be chairing a meeting of directors general very shortly, and that will trigger a series of meetings, to look specifically at issues relating to the spending review, across Whitehall.

Q170 **Shabana Mahmood:** Can you say specifically that every single Government Department that has some sort of service that is delivered by local authorities has either a monthly or a quarterly meeting with you and your team? Is that what you are saying?

Jo Farrar: Yes, with me or my team; they would meet with us at least—they would have contact with us at least quarterly.

Q171 **Shabana Mahmood:** What is your assessment of whether you should be meeting more regularly although you currently do not, given what we know about service pressures and concerns that other Departments have raised?

Jo Farrar: We are really concerned about service pressures, so for example, in adult social care and children's social care, we will have more regular meetings.

Shabana Mahmood: Yes, we're all very well aware of adult social care and children's social care.

Jo Farrar: And we would do that with other services if they became of the same concern. But in the run-up to the spending review, we are putting in a series of very regular meetings, because we want to look at the whole package together. That is critical.

Q172 **Shabana Mahmood:** Do you wait for the Departments to come to you or do you take in your information from local authorities?

Jo Farrar: No, we would talk to other Government Departments and local authorities. We would not wait for other Government Departments to come to us at all.

Q173 **Shabana Mahmood:** How many other Government Departments have come to you specifically—the NAO Report mentions a few—to highlight



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concerns that they have about the delivery of services for which they have policy responsibility but which are delivered by local authorities?

Jo Farrar: These issues will come up when we meet with—

Q174 **Shabana Mahmood:** I asked you a very specific question. How many other Government Departments have come to you?

Jo Farrar: I am afraid I don't know how many.

Q175 **Shabana Mahmood:** Will you write to the Committee with that detail?

Jo Farrar: We can have a look at that.

Q176 **Shabana Mahmood:** We are the Public Accounts Committee—

Jo Farrar: I will have a look at what information we have.

Q177 **Chair:** Perhaps you could just give us some examples of Government Departments that have come to you. Presumably the Department of Health and Social Care has come to you with concerns about that. It has come to everyone else with concerns, so I would be surprised if they hadn't come to you.

Jo Farrar: We have been working regularly for a long time.

Q178 **Chair:** But have they come to you and said, "We are worried about the sector"? Because presumably there have been machinery of government changes to reflect the worry of that sector. There have been announcements by the Prime Minister.

Jo Farrar: Children's services is a good example. The sector is raising it as an increasing demand not only with us, but with the Department for Education. This was an issue that I discussed with the director general in the Department for Education. We have set up a piece of work to try to understand the pressures in that sector as a result.

Q179 **Shabana Mahmood:** Ms Farrar, adult social care and children's social care are very specific points of vulnerability. With older people and younger people, if you don't get it right, they die and the public is rightly outraged—it's a big deal. Issues such as the relationship of the Department for Transport and the failure to have proper local transport plans, and issues that BEIS is facing—food standards issues are not going to make the news every day unless there is a horsemeat scandal. I am trying to understand how these things get escalated up to you, so that you can take a proactive approach in seeing off some of these service pressures. It seems to me that unless it will be on the 10 o'clock news and some Minister might lose their job, your Department is not escalating it.

Melanie Dawes: We have definitely prioritised the two care areas that we are all familiar with, for good reason. As the NAO says in paragraph 4.44, we have not been as structured in our engagement with other Departments. Ms Farrar has had a regular meeting where every Department can come and find out what is going on and raise any concerns. In my opinion, Departments need to get a bit more engaged



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with what is going on in local government—if I am honest. You can see that a bit in what the NAO is saying. We are particularly concerned to ensure that that happens as we prepare for the spending review. As we are all aware, this is an important spending review for local government.

Q180 Shabana Mahmood: Do you feel that you personally and your Department as a corporate entity bear some responsibility for the failure of you getting other Departments engaged in what local government actually does?

Melanie Dawes: I honestly do not think we have failed. I think we have engaged them. But is it as high up their radar as it needs to be in the year ahead? No, I don't think it is. We have already taken steps to address that, because the spending review is coming up next year and we really need to ensure that everybody understands the pressures on the sector that are set out in this Report.

Q181 Shabana Mahmood: With respect, they are not difficult pressures to understand. You just need to walk the streets to see bins not being collected or potholes, which we have had some mention of. It seems to me that the issue is not of assessment or projection ahead of spending reviews, but one of clout within Whitehall. Would you accept that your Department simply does not have enough clout in Whitehall to get your issues to the top of the agenda?

Melanie Dawes: No I would not accept that.

Q182 Shabana Mahmood: So then why would it fail to get on to the top of the agenda?

Melanie Dawes: I would say that in the case of bin collection, for example, a Department such as DEFRA has a huge amount going on. Does it need to understand the pressures on local government as it thinks about its strategy towards waste and bins in the coming years, as part of that strategy? Yes, it does. Do we need to knock its door down a bit more to get it to come to our meetings? Yes, I think we do. We are doing that. But government is a complicated thing and we are always trying to have debates about that.

Q183 Shabana Mahmood: On that specific point, when you have gone to DEFRA to say, "Hang on a second folks, you have clearly not understood the whole panoply of issues around bin collection. You are worried about recycling, but here is a whole host of other things to worry about," what has DEFRA said back to you?

Melanie Dawes: Well, we have good engagement.

Q184 Shabana Mahmood: You can't have it both ways, Ms Dawes. You have done that throughout this hearing and I have to say it is really irritating. You are not answering with sufficient clarity and they are not difficult questions. You cannot have it both ways. You are going to DEFRA saying, "Folks, you don't get the whole thing around bin collection and here is what you need to do instead." Either DEFRA is telling you, "Yes, thank you very much. We will now act on that"—it clearly isn't, because you are



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telling me there is a problem—or it is telling you to go away. So which of those two things is it, Ms Dawes?

Melanie Dawes: I am sorry, but I do not accept that we are not answering your questions. It is not the case that DEFRA is either not listening to us or listening to us brilliantly. It has many priorities. Sometimes we have to push it to listen just a little bit harder and we are committed to doing that, particularly over the next year. I do not think we have failed here; I think we need to do more. That is what I am saying.

Q185 **Chair:** What Ms Mahmood is highlighting is that there are many attacks, threats or pressures—whichever way you want to put it—on local government at different times. As the one Department responsible for championing local government in Whitehall, do you really have the clout you need when a vigorous Secretary of State in another Department is intent, for example, on changing the way recycling works, or on championing health over social care or social care over health? When you are at that table, surely those dominant political figures and those dominant Departments, because they have huge budgets that they spend themselves rather than sending them out to local government, have the clout. Has MHCLG got the real oomph behind it to deliver?

Melanie Dawes: I think we do have the clout that we need. We of course need to keep pushing hard, but I do not find, when I go and talk to my colleagues in DEFRA or Transport or elsewhere, that they are not listening. I really don't find that. Everybody is interested in these numbers. I have already said to a number of my colleagues that they need to read the NAO Report, because it is a very helpful description of the overall finances of the sector. We have already had those conversations, and I am not experiencing a lack of engagement on their part, but it is something that we need to do more on over the coming year.

Q186 **Shabana Mahmood:** When a service is being poorly delivered by an individual local authority or system-wide, whose responsibility is it in your Department to worry about that? You said you do not like the word "worry", but I do. We are politicians, and we worry about this stuff a lot. In your Department, whose job is it to worry about poor performance in service delivery where the policy responsibility sits with another Department?

Melanie Dawes: Well, it is the responsibility of Jo and her teams to pick up those signals and to worry about them, to make sure that we do something about them and to bring them to the right people's attention. That might be our Ministers or it might be another Department's officials or Ministers. It is our job to pick that up. It is primarily the responsibility of the Department to do that themselves, but if we think they are not doing that, it is our job to try to bring it to their attention.

Q187 **Shabana Mahmood:** You said in your very first answer to me that you have overall oversight of service delivery across the whole range of what local authorities do. I am trying to establish exactly what that looks like in practice. Ms Farrar, how do you go about co-ordinating what those other Departments then do in order to improve the performance of those



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services? Is there any co-ordination that happens?

Jo Farrar: Yes, shall we take a specific example?

Shabana Mahmood: Yes, I love specific examples.

Jo Farrar: One of the things you mentioned was the burdens on local authorities. If we felt that Government Departments were creating a burden on local authorities, we would see it as our responsibility to help to do something about that. We have a team within my team, and we have strengthened our internal processes. We have launched a cross-Whitehall training programme. We have established a cross-Whitehall working group that brings people together to talk about the combined impact on local government of policies and changes that they are making. We have engaged the sector to look at where they feel the burdens on local authorities lie, particularly where they are changing, and we have also provided some independent analytical quality assurance so that we can see what is going on in local authorities.

Q188 **Shabana Mahmood:** I thought you were going to give me a case study, with proper specifics, of where another Department came to you and you had this process of action.

Jo Farrar: I have given you the example of children's services, which is more—

Q189 **Shabana Mahmood:** I would like it to be outside adult social care and children's social care services, only because they get a lot of attention already.

Melanie Dawes: We are certainly talking to DEFRA about recycling, air quality and some of the other policy issues they have, about the role of local government, about getting the new burdens right, and so on.

Q190 **Shabana Mahmood:** DEFRA, if I remember rightly from the NAO Report, indicated to the NAO that "it could use its powers of direction in relation to local authorities' duty to prepare a local flood risk-management strategy." That is an example of them taking some action to make something happen that they need to happen. What are you doing? What is your role in that picture? Do you stand up for local authorities? Do you see it as your job to let DEFRA carry on and do what they need to do?

Jo Farrar: If that is a new burden on local authorities, we would use the process that I just outlined to you.

Q191 **Shabana Mahmood:** Okay, so it will go into that process that you just outlined—there will be this cross-Whitehall talking group and some action therefore will flow.

Melanie Dawes: There is a specific process on new burdens, which this Committee discussed a little while ago, which requires Departments to estimate the cost to local government and make sure that funding is available to publish their analysis, and ideally to review it, and so on. That is the process that we are responsible for.



Q192 **Shabana Mahmood:** What about case study examples on burdens that are long-standing, and are not new? What happens there?

Melanie Dawes: Another example, perhaps, is planning fees, which happen to be the responsibility of our Department. There we were concerned at what we were hearing from the industry—that planning departments were not sufficiently funded to be able to progress housing planning applications fast enough. So the Government has introduced the ability for local authorities to increase their planning fees as a result. That was something the industry, by the way, supports, because they would rather have well-funded departments than not. So that is an example, albeit of our own Department, where that was brought to our attention and the Department concerned acted with a policy change to make sure that the services were on a sound footing.

Q193 **Shabana Mahmood:** Perhaps you could write to the Committee with just one example of something that is not your own Department. That would be helpful, just to help us understand what the roles and responsibilities are, if that is okay.

Melanie Dawes: I am sure we can do that. I think there will be several new burdens dialogues that we have had with many Departments over recent years.

Q194 **Chair:** Do you think the new burdens machinery gives you more power, or is it just seen as a pain in the neck for the other Departments to have to navigate that—because they pay for the new burdens, don't they, for the first couple of years?

Melanie Dawes: Well, no Department is going to want to hear "Hang on a minute; you need to think about this"—so that's life. I think that we do have the clout we need to push that forward. Sometimes it is quite a heated debate about what the costs actually are.

Q195 **Chair:** I am not asking you to give information about advice to Ministers, or any very specific information, but have you ever seen a Department back off because the new burden just was something they had not thought through properly? Hopefully by now they have worked it out, but can you think of an example on your watch?

Jo Farrar: No. They might engage us early on—in fact, this is happening more and more regularly—to say what would the burden be on local authorities, and what would be the most effective way of implementing this policy.

Q196 **Chair:** So they might change and modify it.

Jo Farrar: We have seen this with, for instance, policy on asylum-seeking children, or the work that we have done together with the Home Office on Syrian refugees. We also asked policy Departments to publish new burdens assessments alongside their main impact assessments, so we can certainly make those available for you. An example is the Prevent duty. The Home Office has recently published that on the Home Office website as a result of a burden on local authorities.



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Q197 **Chair:** I think we are going to pause, but I just have a couple of quick questions to ask. One—there was a very specific point made by Mr Whiteman in the earlier session about statutory override of an accounting function, which, it was pretty clear, is something that is pretty much in your gift, Ms Dawes, or the Government's gift, to do. Are you considering that?

Melanie Dawes: Yes, we are. We have been in discussion with Rob Whiteman and others about it.

Q198 **Chair:** Is that likely to happen?

Melanie Dawes: It is under consideration at the moment.

Q199 **Chair:** And it is as easy as he suggested.

Melanie Dawes: It is certainly something that we can do, yes. It is a decision for our Ministers.

Q200 **Chair:** And then, we obviously heard quite a lot of concern about the answers needed for post-2020 funding. I think you have said—just to be clear, though—that by this time next year, or certainly by the end of the financial year that we are in, the spending review will have taken place. Will local government have its figures then, or when will they be released to local government?

Melanie Dawes: The Treasury have said the spending review will take place during 2019, but have not given a date.

Q201 **Chair:** A great civil service window of opportunity. Can the Treasury officer of accounts give us any idea on that?

Marius Gallaher: The spending review is planned to take place during 2019. A firm timetable has not been established.

Gareth Snell: There is an echo in this room, isn't there?

Q202 **Chair:** I think it is in the civil service training school to be very unspecific about dates.

Melanie Dawes: I don't think Ministers have named a date, to be honest, but we are getting ready for it at any time.

Q203 **Chair:** No, we understand, and clearly we are working with our sister Committees on this. We have also received from Government a list of all the areas of work on Brexit that you are working on. In terms of Brexit what are your top concerns at the moment, about preparations for Brexit? What is keeping you busy in the Department?

Melanie Dawes: Yes, we sent you a brief paragraph as part of the wider return, as I am sure you are aware, and we have 10 workstreams.

Q204 **Chair:** You have got relatively few workstreams, but there are other issues around staffing—social care cuts across two Departments—and that sort of thing. Tell me what your big concerns are.



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Melanie Dawes: As a Department we don't hold much legislation that comes from EU law, so for us this is more a question of implementation as much as anything else. Big issues include how we come out of the structural funds, which we deliver on behalf of Government, because the expectation is that we will stay during the budget until 2020—that is less complicated than it might otherwise have been. We are also the lead on the shared prosperity fund, which is the policy system that will be in place to replace that later.

Another important issue is the overall impact on local government. My new Secretary of State has written to the chair of the Housing, Communities and Local Government Committee—I think today—on that, setting out a response to that Committee's report on the impact on local government. That's something that I think is an issue that's growing in importance, although we will be doing more engagement with local government.

Q205 **Chair:** So you are—frankly—a Department with fewer worries than many of your colleagues across Whitehall, but you're not really worrying too much. You feel you've got it controlled, from what you've said to me. Is that a fair summary?

Melanie Dawes: We have got plenty of work in train and I think we have the work under way that we need to have under way.

Q206 **Chair:** And are you lobbying the Migration Advisory Committee or putting messages through to the Home Office about any issues around immigration skills needs that might arise as a result of Brexit?

Melanie Dawes: There are certainly some important sectors that we have where there is a lot of migrant labour. Of course, housing and construction is one of those, so we are working with other Government Departments to make sure that that evidence is there, yes.

Q207 **Chair:** Okay. So you've got some sort of analysis of the exposure in those sectors?

Melanie Dawes: Yes. The questions of the social care workforce are, as of course your Report today on that topic says, primarily the responsibility of the Department of Health. We work with them, but it is primarily their responsibility—in fact, it is entirely their responsibility.

Q208 **Chair:** Is that analysis in the public domain?

Melanie Dawes: Of what?

Q209 **Chair:** Of certain sectors that you talked about—for instance, the construction sector for housing. These are tangential to your Department but pretty important for the delivery of your Department's objectives.

Melanie Dawes: I am not at this stage aware of what is and isn't in the public domain, to be honest. I am very happy to—

Q210 **Chair:** If you could write to us to clarify, because we're keen to see these figures—



Melanie Dawes: Yes.

Q211 **Chair:** That would be very helpful. And then the other thing was the issue around the 100% retention of business rates. Can you give us any further information about when the decision will be made on that? It's part of the spending review, but this is very much in your Department; it's not just the Treasury. Have you got any timetable on when the decision will be made about that policy area?

Melanie Dawes: I don't think we have much to say that isn't already pretty widely known in the public domain. As you know, the Government are committed to 75%. That doesn't rule out going further, although we haven't introduced legislation to that effect, so this is very much part of the spending review conversation. I don't think—

Q212 **Chair:** Just to be clear, does it require primary legislation, or can it be done through secondary legislation?

Melanie Dawes: We had planned primary legislation, in order to put in place the system. We can do quite a lot of the changes without legislation, but at some point it will probably be necessary to have something in law that sets out the way the system works—

Q213 **Chair:** Right. So you could do it, because waiting for legislation is a bit of a—

Melanie Dawes: To get to 100%, we would need legislation.

Q214 **Chair:** But you're getting quite close, though.

Jo Farrar: Yes, and that's why we're looking at 75%.

Q215 **Chair:** Okay. So how far could you go? You could go to 99%, could you?

Jo Farrar: Sorry—I'm not entirely sure. But we would definitely need legislation to get to—

Q216 **Chair:** The problem is because legislation—well, we won't go through it, but there are problems with legislation. We live with that reality every day.

Q217 **Gareth Snell:** My final question, Miss Dawes, is this: can you give this Committee a categorical assurance that before the next spending review no councils will issue a section 114 notice, based on your monitoring to date?

Melanie Dawes: No, I can't give any categorical assurance.

Gareth Snell: Okay. That's fine. Thank you.



Examination of witnesses

Witnesses: Melanie Dawes, Permanent Secretary, Ministry of Housing, Communities and Local Government, and Jo Farrar, Director General, Local Government, Ministry of Housing, Communities and Local Government.

Q218 **Chair:** Now we are going to pause—well, not pause; we'll just move straight on, if that's all right, to the update on homelessness.

We produced our report in September—sorry, the NAO produced its Report in September last year. We then produced our report in December on this issue—chapter 2 in our series on housing and homelessness issues. And we just really wanted to pick up on some of the Treasury minute responses that you provided us with.

Before I ask about that, according to the *Huffington Post* recently there was an underspend in your Department of £292 million over two years that didn't get spent on affordable homes. And I think that in March the then Secretary of State, who is now the Home Secretary, sent £72 million back to the Treasury, which had been allocated for affordable housing in that financial year. Do you recognise those figures? And if that's true, why on earth wasn't this money being spent on housing?

Melanie Dawes: What we did as part of the Budget was that we agreed a package with the Treasury that increased the overall spend on affordable housing, and it did reduce the amount that was spent in 2017-18. There were a number of reasons for that, which I can explain, but it put in more money in later years. So that was the overall package that was agreed.

Q219 **Chair:** So what happened? This money hasn't gone back to the Treasury irrevocably?

Melanie Dawes: Well, it has for that year, but we've got our budgets increased in future years instead—

Q220 **Chair:** By the same amount?

Melanie Dawes: By more.

Q221 **Chair:** By more. How much money was spent on properly affordable homes in the last financial year?

Melanie Dawes: I am sorry, I just don't have those figures in front of me. We can provide those; they are in our estimates.

Chair: If you could provide that and, for clarity, if you could tell us the money that has been spent in the last three years, your projections as far as they go, and the definitions of affordable, that would be helpful to know. The Secretary of State for Foreign and Commonwealth Affairs, the right hon. Member for Uxbridge and South Ruislip defined affordable across the country as 80% of private rents. Certainly in some areas, that is not affordable.

Melanie Dawes: In some areas, that is the definition. But in parts of London it is often very much lower.



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Chair: Well, certainly 80% of private rents in London is not affordable by anyone's estimation.

Q222 Gillian Keegan: Ms Dawes, you can tell there is a thirst for detail in the room. We are very much looking forward to the cross-Government strategy for reducing homelessness, which will have clear targets and specific actions and will be delivered in seven weeks' time. Can you tell us how confident you are that this plan will be produced on time?

Melanie Dawes: As we said in our Treasury minute response, we are expecting to produce a strategy, in the first instance on tackling rough sleeping. We then expect to move on to the wider questions of homelessness after that. That is under way. There is a great deal of energy around this work at the moment and a lot of extra resourcing.

Q223 Gillian Keegan: Perhaps we can take those two separately. What is the date that we will get the plan for rough sleeping?

Melanie Dawes: In the Treasury minute, we committed to produce a strategy by July. That is our current expectation.

Q224 Gillian Keegan: And what about the wider homelessness question, which probably is the bigger driver of cost on local councils?

Melanie Dawes: We haven't given a date on that in the Treasury minute response, but we have an advisory group with representatives from the sector, which is working with us on all of this. I can assure you that the challenge will definitely be there to look at those wider questions. We are very much expecting that we will turn to those. In the meantime, councils are also implementing the Homelessness Reduction Act and we are working with them on that. That is immediate work that we are getting on with. That, with the rough sleeping strategy and actions, are our immediate priority in the next few months.

Q225 Gillian Keegan: Will you be able to write to us to give us a date when we should expect to receive the temporary accommodation part of the homelessness problem?

Melanie Dawes: We can certainly look at that for our July response. We will have to see where our Ministers want to go in terms of timing. It is a big priority for our ministerial team.

Gillian Keegan: We defined the problem as not just being rough sleeping, but largely the bigger problem—we were all quite surprised by the size—of people in temporary accommodation, so we expected the strategy to encompass the bigger part of the issue.

Melanie Dawes: We are very happy to get back to you on that. The implementation of the Act is a really big step. We are hoping that it will have a big impact on homelessness numbers, including temporary accommodation numbers.

Q226 Gillian Keegan: Only if the Act has the actions and they are facilitated, which is what we will come on to now. How confident are you that the



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rough sleeping element, which we will get in seven weeks, will have a clear plan with specific targets to eliminate rough sleeping? There is a definite target by 2027, but I guess a plan and a strategy may even give us greater clarity on milestones.

Melanie Dawes: We are hoping for and working towards a strategy that has facts and milestones in it, which fleshes it out and explains what we expect to achieve and by when, not just a longer term ambition, which is there already.

Q227 **Gillian Keegan:** Have you personally seen a draft of the plan?

Melanie Dawes: I have not got a draft of the plan yet, no. But we have a huge amount of work in train on it. We have our new advisory teams in the Department, which are working with local authorities already on different elements. We also have a commitment from other Departments to play their part in this. We cannot do this on our own. That includes the Department of Health on mental health services, and work with the police and with the MOJ on prisoners. We are assembling all of that expertise and resourcing across Departments.

Q228 **Chair:** Are you adding costings to that? We talked about rough sleepers, and Ms Keegan also talked about homeless households that are in temporary accommodation, which includes the hidden homeless. In the strategy, will there be costings attached to what you need to spend to deliver this solution?

Melanie Dawes: Yes, there will. We already have some additional money in the system, but if there needs to be more—particularly from that other Government Department contribution, which we are drawing together now—we will set that out.

Q229 **Chair:** So you are confident that this will not just be a plan on a piece of paper sitting on a shelf in your Department, and that funding will be attached and it will be delivered?

Melanie Dawes: Where that is necessary, yes. It is our Minister's intention that this is a proper strategy that will deliver results.

Gillian Keegan: If it is a proper strategy that will deliver results, it will almost certainly have to include the funding of the Prevent strategies.

Chair: Prevent is a slightly different thing. You mean preventive strategies.

Q230 **Gillian Keegan:** Preventive strategies to prevent people becoming homeless. Homeless prevention strategies, as opposed to the other Prevent.

Melanie Dawes: We have £73 million of new burdens funding.

Q231 **Gillian Keegan:** That was more of a temporary measure, as opposed to a strategic plan.



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Melanie Dawes: It is a two-year deal, but we are absolutely committed to reviewing it. If it turns out that there are longer term costs, I am sure that local authorities will make that clear to us and it will be something that we need to take into account. That is the new burdens system working.

Q232 **Gillian Keegan:** So what are the targets against that £73 million? For example, we know that there are so many homeless households a day. Will you target that there will be no more or a decrease or a 50% reduction? Do you have actual preventive targets? We talked about data before, and you have some kind of trajectory if you just look at what happened. The NAO Report gave the drivers very clearly. Do you have a clear target for how many families you will prevent—

Melanie Dawes: I'm sorry that I didn't bring the detailed numbers with me today, but we have published in our new burdens assessment, as I think I shared with the Committee last time, the expected reductions that we could see as a result of the implementation of the Act. Those reductions are important, because if we don't achieve them, some of the savings that we expect local authorities to make will not materialise. It is all part of the same analysis that we have set out. I am sorry that I don't have that with me today, but we can either write or draw your attention to whatever is there.

Q233 **Gillian Keegan:** Yes, and to any progress that has been made or any indicators by which we can measure it.

Melanie Dawes: Yes. Because the Act only came in a few weeks ago, we don't have any new data yet, but I take your point that we will want some.

Q234 **Chair:** Ms Keegan raised the drivers. In our report we went into the interrelationship with benefits and the drivers towards homelessness quite a bit. Will you include in the strategy the issue of benefits and working with the DWP, to make sure that they are absolutely a key part of this? We had some quite strong denials from the DWP that it was anything to do with them.

Melanie Dawes: As we said in the Treasury minute, we are doing a piece of work on the causes of homelessness, which certainly includes the DWP. We are looking across the piece at all the potential causes of homelessness, recognising that affordable housing, welfare systems and so on are relevant. We are doing that work. We are doing a feasibility study right now and we have committed to get back to you in December with an update on that. We will do that.

We do have the DWP engaged. We also have them very closely engaged in the implementation of the Act at a local level. There will be a new requirement on them to refer to council homelessness services anybody who they think is at risk of homelessness who they have as one of their clients. That is a new statutory requirement on them that comes in in the autumn. It is a close engagement. You are right to keep challenging us on that, but I think it is a significant improvement.



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Q235 **Chair:** How often will local government have to report that indicator about people at risk? You say there is a new statutory indicator about people at risk of homelessness that local authorities will have to report. How often will they have to do that? Will it be quarterly? Monthly? Annually?

Melanie Dawes: This is about them alerting council homelessness teams to any individual or family that they come across, rather than reporting data. It is about referral, rather than reporting patterns.

Q236 **Chair:** So there is no requirement for local government to say to you that they have analysed from their casework that this number of families are at serious risk of homelessness that day or every month or quarter, to give you real-time data?

Melanie Dawes: No, it is not a data reporting system, it is a caseworking referral mechanism. What I can say, and I think this goes beyond what we said in the Treasury minute, is that although we disagreed with your recommendation that we should formally link our caseworking system with DWP's caseworking system, which I believe is what you were recommending—we cannot formally link those, which is why we disagreed with the recommendation—but what—

Q237 **Gillian Keegan:** Is that a technical limitation?

Melanie Dawes: Yes, it is a technical limitation at this stage. We are looking at where we can join up the datasets. There will be data protection issues around an automatic link that we will need to take into account. What we did not say in the Treasury minute, which I hope will reassure you, is that the new homelessness caseworking system will require all caseworkers to ask people coming forward for homelessness support about their benefit status and that of their partner. Through that casework system, we will be able to record patterns in relation to benefit status. That will help us quite a lot in the future, as we start to draw out those trends.

Q238 **Gillian Keegan:** What was quite clear in the Report, apart from housing affordability and probably getting the wrong measure of affordability that related to the market as opposed to earnings, was the changes in some of the policies that have been introduced by the DWP, particularly in relation to housing benefit and universal credit. From the results, it seemed like the two Departments had operated almost completely in isolation—it was a surprise to everybody. What have you changed in the way you work to get ahead of being able to plan any changes that are made by the DWP and how they may have an impact on homelessness in the future?

Melanie Dawes: Some of this goes back to what we are creating by way of the new operational caseworking systems, in the way I just described. Some of it, with apologies to Ms Mahmood, comes back to joint working across our Departments, I am afraid—I cannot quite remember which phrase it is that you dislike—but it is about—

Chair: I am sure it will be struck from the lexicon of civil servants from now on.



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Melanie Dawes: I shall check the transcript to ensure that we are aware of it for the future. We have much stronger engagement with the DWP than we had a few years ago. You saw my colleague, Peter Schofield, who gave evidence with me in December, and who is now the new Permanent Secretary. We used to work in our Department on those policies. We have strong working relationships there.

Q239 **Gillian Keegan:** Do you have targets? I am from the business world, so I do not quite know how it works in the civil service, but we always used to ask the questions, "Whose problem is it to solve? Who gets fired if it is not solved?". What are your interdependencies? Do you have any targets that you are mutually tied to together to make sure that it is more than just a cosy meeting, which I think is where we were fearful? It is not just about meeting; it is about meeting the expectations based on what you discuss at the meeting.

Melanie Dawes: That is a fair question. One of the difficulties with these very complex systems is that it is genuinely often very hard to pin down what change it was that led to a certain outcome—

Gillian Keegan: Or very easy for nobody to take responsibility.

Melanie Dawes: Or easy for nobody to take responsibility. I accept that. At the operational end, which I think is the easier one to answer your question on, the requirement is the statutory one on DWP caseworkers to refer people in the way I described. When it comes down to who is accountable for delivering any targets that the Government decide to set on wider homelessness and the milestones they set out when we publish our strategy on rough sleeping, those will be the responsibility of my Department, but I will need help from other Departments for us to achieve them. So it is our Department that is on the line for achieving those, but we cannot do it without others.

Q240 **Gillian Keegan:** The reason we are so keen on pushing this is that there are 80,000 families living in really substandard temporary accommodation and about 8,000 people living rough on the streets. Somebody needs to take that responsibility very seriously, because they are real people every day now living in that awful situation. It needs some firm action to turn their lives around—from you.

Melanie Dawes: That accountability is my Department's accountability. We need work from other Departments to help us in doing that.

Q241 **Gillian Keegan:** Hopefully they will have their accountability measured in the same way, because if you fail, we all fail. I notice that next year, your Department has the largest increase in capital spend budget for any Department, and most of that increase relates to housing incentives. Will we see an increase in the building of truly affordable housing—probably more social housing—as a result of that? I think £1.8 billion has just come in the new capital budget.

Melanie Dawes: Quite a large chunk of that is the increase in the budget for Help to Buy, which is the equity loan scheme for homebuyers.



Q242 **Gillian Keegan:** But that won't really address this problem, then.

Melanie Dawes: It's not about building affordable housing, no, but in answer to your question about what is driving the increase, a chunk of it is coming from that. There is also an increase in affordable housing budgets, as well. I have not got that data in front of me, but we are happy to set it out. We have allocated the money to London in the past few months, and we are about to allocate the money to the rest of the country for affordable housing over the next few years. Some of this is coming through the system right now.

Q243 **Gillian Keegan:** This whole problem has been caused by getting the definition of affordable housing wrong. Having a standard definition and not relating it to people's incomes in high-priced areas—that is what has caused this problem, in a nutshell.

Melanie Dawes: Affordable rents, as I said earlier, are set at more generous levels.

Q244 **Gillian Keegan:** But there is not the quantity. That is why we wanted a housing supply matching the need—that plan so that you would have the right quantity in the right area, such as London, Chichester, Oxford or other places that are high-cost.

Melanie Dawes: But the Government has acknowledged that in some cases more deeply discounted rents are needed. That is why there is allowance now for social rent. In particular, we are expecting to target that in areas where there are particularly big problems with affordability.

Q245 **Gillian Keegan:** So you will be coming up with a plan for social rent in those areas that at some point you will be able to give us more information on.

Melanie Dawes: Yes. We are expecting to announce more on those allocations of funding and where it will go quite shortly.

Q246 **Chair:** So last question on this: when do you expect people to be able to turn the key in the front door of a properly affordable rented home? How fast will this happen? We have talked about the strategies, working together and how it will all be very lovely and the Ministers will make decisions and announcements. When will people actually see the difference in their lives?

Melanie Dawes: You are asking when that social rent funding will actually materialise into homes. I cannot give you a precise—

Q247 **Chair:** I am asking for a window; I don't expect you to give us a date.

Melanie Dawes: I cannot give you a precise year right now, but I am happy to come back on that. As I said, we are about to say more about those allocations. It will take a number of years for us to allocate the funding and for the homes to be built. You are talking two to three years down the line for that new social rent funding. The affordable housing programme more generally though is continuous. In some cases, we are expecting homes that might have been built for affordable rent in the

relatively short term to be built for social rent instead. I can see if we can come back to you on that.

Chair: Thank you very much. Thank you for your patience. Normally we don't like to go on for three hours, although the vote obviously interrupted things. The lesson to everyone is that the quicker you answer Ms Mahmood's or Mr Rowley's questions, the less time you will be here. There is a lesson for us all.

The transcript will be up on the website uncorrected in the next couple of days, as ever, and we will produce our Report in due course. Local government is really squeezed, and some of the challenges we are seeing here are ones we have seen in the health budget, with capital turning to revenue and so on. There are a lot of systemic issues that worry us about the ability of the sector to cope. You are the Department that is supposed to be championing local government, so in that we wish you well, but we hope that you are empowered to champion local government and all that it delivers day-to-day for people, including many vulnerable people. Thank you.