

Public Accounts Committee

Oral evidence: Local Government Spending, HC 1775

Monday 26 November 2018

Ordered by the House of Commons to be published on 26 November 2018.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Nigel Mills; Stephen Morgan; Anne Marie Morris; Bridget Phillipson; Lee Rowley; Gareth Snell.

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

Questions 1–183

Witnesses

I: Melanie Dawes, Permanent Secretary, Ministry for Housing, Communities and Local Government; Jo Farrar, Director General, Local Government and Public Services, Ministry for Housing, Communities and Local Government; and Alex Skinner, Director, Local Government Finance, Ministry for Housing, Communities and Local Government.

Reports by the Comptroller and Auditor General

Departmental Overview: Local authorities 2017-18

Departmental Overview: Ministry of Housing, Communities and Local Government 2017-18

Financial sustainability of police forces in England and Wales 2018 (HC 1501)

Examination of witnesses

Witnesses: Melanie Dawes, Jo Farrar and Alex Skinner.

Chair: Good afternoon and welcome to the Public Accounts Committee on Monday 26 November 2018. We are here today to look again at local government finance, an issue we have revisited on a number of occasions. We thought it was worth keeping a close eye on, given the challenges facing local government funding and the fact that the last session we had on it was during local election purdah. We are hoping for forthright answers to our questions and concerns. We think that, if you are quick and we are quick, we can wrap this up reasonably quickly, because we do not want to rehearse what was in the NAO Report or what we discussed last time—we know that; we were all here. If you are quick with your answers, you can get away home. Well, I am sure you do not go home; I am sure you go back to the Department to beaver away, but you can go off to do your highly paid work effectively for local government somewhere else.

I am going to introduce our witnesses and then ask Gareth Snell to kick off. We have Alex Skinner, the director for local government finance at the Ministry of Housing, Communities and Local Government. Welcome to you, Mr Skinner. I think this is your first time in front of this Committee.

Alex Skinner: It is.

Chair: We are a very friendly bunch—just good, straight answers and you will do fine with us. We also have Melanie Dawes, the permanent secretary at the Ministry of Housing, Communities and Local Government, who is a frequent flier here, and Jo Farrar, who is the director general for local government and public services at the Ministry and of course was previously a chief executive in local government, so she is someone with on-the-ground experience. I am going to ask Gareth Snell to kick off.

Q1 **Gareth Snell:** Ms Dawes, when you were last in front of us, we asked you straightaway what your assessment was of the financial health of local

government. What would be your answer to that today? Has it changed since you were last in front of us?

Melanie Dawes: Thank you for inviting us back. We will endeavour to respond to your incentive by keeping our answers short.

It is pretty similar, in fact, to what I said last time. We know that the sector had cuts to their budgets. That has been a challenge for them. There are risks. You saw the Government respond to some of those risks in the Budget by putting more money into social care and children's services funding. But overall my judgment remains that the sector, for the remainder of this spending review, is on a sustainable footing. Of course the spending review will determine what happens thereafter.

Q2 **Gareth Snell:** When we last met, we talked about what sustainable looked like, and you were not able to give us an indication of what your Department uses as a metric to determine sustainability. You have just said the sector is sustainable, so what are you using to make that determination?

Melanie Dawes: By sustainable, what we mean is that the sector has the right resources and capability—because it is also about things like leadership, partnerships and so on—to be able to deliver the statutory services that are set out by Parliament. How do we assess that? We do two things. We look top down across the system as a whole. That is in large part a financial judgment. It is about fiscal metrics. I have said to you before—I believe we had this very debate last time—that we do not use a single metric, but we do look at cost pressures, inflationary pressures, demand and so on. We also look at income sources and we look at things like reserves and the percentage of adults' and children's services in the total, which can indicate resilience. We look across the piece at a whole range of indicators. We also look bottom up at some of those measures for individual councils, but more at things such as leadership and individual service stability as well. We do a double assessment and we bring it together to form those overall judgments, which are risk-based judgments.

Q3 **Gareth Snell:** So when Lord Porter, the chair of the LGA, makes public comments that he believes there are black holes equating to billions of pounds in the local government sector—not just for adult social care or children's social care, but for the sector as a whole—would that form part of your evidence base to determine the stability of the sector?

Melanie Dawes: We certainly always want to listen to what local government is telling us.

Q4 **Gareth Snell:** But would it form part of your assessment?

Melanie Dawes: It depends a little bit what people mean by that kind of judgment. Some of that is based on a judgment about what levels of service individual councils or the sector as a whole want to provide, and some of it is perhaps about a different view of cost pressures and so on. We would always seek to understand where those figures were coming from and whether it was a difference in view about what was appropriate



HOUSE OF COMMONS

or what the Government had determined in their overall fiscal allocations, or whether it was something underlying about the data that we were not aware of.

- Q5 **Gareth Snell:** Does your Department have somewhere in its papers or its collective thinking a baseline for what you consider an adequate level of service, which enables you to say whether a local authority is well enough resourced to meet that level?

Melanie Dawes: We certainly look at the services on a service-by-service line basis, and as we have discussed before, we rely particularly on the Departments that own those services to judge what they believe needs to be provided for. Some of that is a policy or a political judgment. We particularly, as you know, focus on health and education—those two Departments and the two big service lines that are delivered on their behalf by local government. We seek to have that dialogue with Departments to understand whether any pressures are coming from differences of view about what should be delivered or from differences of view about what can be delivered.

- Q6 **Gareth Snell:** I understand entirely and I am not going to steer into policy, I promise. Where a Department that is not your Department has determined that its policy is that it would like every local authority to have a particular level of service, it will fall to you to determine whether the resources being allocated to local government are sufficient to meet that service. What discussions are you having, and do you have, with other Departments about the provision and level of service versus the resources you are allocated from Treasury?

Melanie Dawes: We do discuss with other Departments, and my colleagues can describe how we do that in a structured way, particularly as the spending review approaches. We do that very regularly; some of that is to hear from them and to challenge them on whether they truly understand what is going on in their service areas, and some of that is to ensure that they have understood the top-down picture. Of course, previously we had more ring-fenced grants, so individual Departments could say, "I've got £400 million or £500 million here and I want to deliver that with it," and they could be clearer about precisely what they were going to be able to buy for their money. These days we give local government more discretion over where it targets its spend, and therefore that holistic top-down picture is more important.

- Q7 **Gareth Snell:** Some might say discretion; some might say that is devolution of blame in some ways. When we last had this conversation, you were unwilling to tell us which local authorities, if any, you were concerned about. I am not going to rehearse that argument, because I am sure the answer would be the same, but since then—

Chair: Just to check, you have nodded that the answer will be the same, but if you are willing to tell us we would love to know now.

Melanie Dawes: I certainly have not brought the list with me, no.

- Q8 **Gareth Snell:** Ah, but you have a list—that is an acknowledgment further



HOUSE OF COMMONS

than last time.

Melanie Dawes: We have a risk register, and we have a whole range of factors that might put different local authorities on the risk register. I think I have said before that upper-tier authorities are much more likely to be suffering from financial strains than lower-tier authorities.

Q9 **Gareth Snell:** How many upper-tier authorities are on the risk register now?

Melanie Dawes: Again, I am not going to give you a number, but I can add to that by saying that some are flagged because of individual service pressures, which are best dealt with by, say, the Department of Health and Social Care as a Department, and in other cases it may be about leadership, and in some cases it may be more than one of those factors.

Q10 **Gareth Snell:** Fine, but why not a number, Ms Dawes? I am not asking you to tell me who and I am not asking you to tell me what the problem is. What I want to understand is this: of all the tier 1 authorities that exist in England, how many appear on a risk register within your Ministry?

Jo Farrar: We have all of them on our risk register—I know that doesn't help. We look at all local authorities and we have all of them on our risk register. What we tend to do is look at the bottom 20, for example. That does not mean that they are all high risk; we just draw a line at the bottom 20 and do some analysis to see whether we need to look at any in more detail. Every local authority is on that register.

Q11 **Gareth Snell:** Now I'm intrigued. You are ranking them on that risk register—what are the ranking criteria to list the bottom 20?

Jo Farrar: We take all the financial data that the permanent secretary spoke about, plus information from service Departments and the information we have from inspectorates such as Ofsted and the CQC, plus the peer review judgments from the LGA. We also have informal information from the LGA. I said that we might look at the 20 we are most worried about, but they are not ranked in order. Some we are worried about for financial reasons and some may be for leadership and governance.

Q12 **Gareth Snell:** So why 20?

Jo Farrar: We just look at 20 because we feel that is a healthy thing to do.

Melanie Dawes: We do not have absolute numbers and ignore everything below the 20. It is about a risk judgment. I will often ask, "What about the next group?" I was explaining that the ones that worry us in our Department the most are the ones that flag a service, leadership or financial risk. Northamptonshire was certainly on all three of those lists.

Q13 **Gareth Snell:** Without giving me names, how many more local authorities are at the Northampton level of risk and concern in your Department?



HOUSE OF COMMONS

Melanie Dawes: There is no authority at the level of risk that Northamptonshire presented.

Q14 **Gareth Snell:** There is none?

Melanie Dawes: Not in our judgment at the moment, no.

Q15 **Gareth Snell:** In your judgment there is not. Okay. How many more authorities do you worry about now compared with the last time you were in front of us? Since we last met, councils such as Staffordshire, Worcestershire and Somerset have all come out and said that they have severe financial challenges that they are not sure they will meet. That number of publicly declared councils has grown, so by how many has the number of concerning councils grown?

Melanie Dawes: Jo might want to say something about the individual councils, but from the sector point of view we have put more money into those upper-tier services since we were last here. That was partly because over the summer some of the figures looked more worrying, but it was also because we already knew that there were risks in 2019-20. The Government have responded to those. That gives us a higher degree of assurance that the risks are manageable.

Some of those councils point specifically to risks that lie beyond this spending review period. That is slightly different from your question about the years up to '19-'20. It is a question of understanding whether they are on a short-term trajectory that is a concern—as Northamptonshire certainly was—or whether it is more about flagging longer-term risks, which clearly we need to look at as part of the spending review.

Q16 **Gareth Snell:** To be clear, no authorities have the same level of risk that Northamptonshire posed before it had its problems? You are not anticipating any section 151 officers this year making declarations that they cannot produce a balanced budget for February 2019?

Melanie Dawes: I can never give you a categorical assurance, but we do not expect that right now. Obviously, the local government settlement will be presented to the House next week, but on the back of the Budget measures and from what we have heard from the sector, we do not expect that at the moment.

Q17 **Gareth Snell:** You mentioned the local government settlement. The Budget announced £240 million for adult social care for this winter and another £240 million next year. It announced £410 million for various road and infrastructure projects and the settlement is coming up this year. What is the point of local authorities signing up to a four-year settlement and producing a medium-term financial plan if, in year, your Department and Government will constantly change the amount of money going into services?

Melanie Dawes: Let me clarify that the money for road infrastructure was for this financial year but there is also more than £400 million next year in grant. In the end, we gave local government a four-year settlement, as you say. They welcomed that. Fiscal judgments were made



HOUSE OF COMMONS

in the spending review at that time. The important thing is that we have kept that judgment constantly refreshed and analysed in the Department. We have been able to give Ministers the right information so that they can respond to increased risk and pressure as we go along. I would rather it was that way around than that we had not. In an ideal world, you would be able to see with absolute certainty what was going to happen and make those judgments up front, but I think it is better to respond to events effectively—we have tried to do that and the evidence shows that we have responded.

- Q18 Gareth Snell:** Forgive me for pushing this point but from a local authority perspective, two years ago they were asked to set a four-year process with you. The figures they used two years ago to calculate that four-year trajectory are now really not worth the paper they were written on. Why should local authorities have any confidence that the promises that your Department makes in the next spending review, or even as part of this Budget process, will still be the case in 12 months' time when they are being asked to set another set of budgets?

Melanie Dawes: I think the fact that we have responded to the concerns they have raised should give them confidence that it is worth raising those concerns. In some cases, the figures changed—we have seen that the number of looked-after children has increased, for example—and some of that is because of things that just weren't predicted at the time of the last spending review. In other cases, there was always going to be pressure on the system. Local authorities have done pretty well in managing to make reductions to their budgets, but in some cases those savings were not realisable in the way that they thought. Particularly with the two big-line Departments of Education and Health, we have been on to that so that we can respond.

Jo Farrar: I was discussing that very point with chief executives two weeks ago, and they still welcome a longer-term deal. They understand that we cannot predict exactly, and they understand that we therefore have to make adjustments year on year. However, they still prefer a longer-term settlement to the situation that we used to have, in which we would settle on a year-by-year basis, which makes it much more difficult for them to think about the long term.

- Q19 Gareth Snell:** When I have spoken to local authorities, the one thing that they always tell me—I used to be in their shoes—is that you make an assumption in February of the previous year, and you then wait until Christmas of that year to get your financial settlement. There can be huge variations in what you predicted in February and what you actually receive in the allocation at Christmas that year. You are then expected, in the 10 weeks between then and the next financial budget-setting meeting, to come up with a magic rabbit to fill that hole. Given that you are constantly tinkering with the numbers, and that the one-off pots are constantly being refilled for what are essentially one-off expenses, how confident are you that the money that you are actually giving local authorities is being efficiently spent, as opposed to local authorities reacting to holes that they didn't anticipate and therefore having to spend



HOUSE OF COMMONS

money on roads and other things that may not have been a priority in their original budget?

Melanie Dawes: As I said earlier, in an ideal world, you would give them as much certainty as far in advance as possible, but that is not always possible. I think what we have done is to give them the certainty that we could in 2015 and then to respond to events as they have come along. I don't know if my colleagues want to add any more on that.

Chair: For potholes and children's services, for example, you have given them settlements with more local discretion than when they got those odd payments through the Budget. It is okay if they have potholes that need fixing and can bid for it—it sounds like a lot of money but it is not actually when you spread it out. However, there are other areas of particular stress, which we will come on to later. It is not just that you are patching it up afterwards, as Mr Snell said—we understand that there are pressures and things that you cannot predict—but it is the manner in which that money is allocated, isn't it? It is ring-fenced, as opposed to the overall settlement, of which a lot is more discretionary.

Q20 **Gareth Snell:** How can you be certain, Ms Dawes, that the additional money going in for adult social care and roads and so on will actually be used to genuinely do more things, rather than—as I expect most will do—local authorities simply using it to close off an existing budget deficit and to make slightly fewer cuts than they would have had to make in the first place?

Melanie Dawes: In fact, this is precisely the debate that we have had with the Department of Health and Social Care. They wanted to know that the money they put in over the last few years, or that the Government have put in, is going to where the Government has prioritised, which is to relieve delayed transfers of care, in particular, and to make sure that pressures on the NHS are reduced. It is always a balance. In some cases—that is a good example—we have actually given the money out with targets and with conditions attached. In other cases, as with the increasing grant that went in in the Budget for next year to provide for generalised pressures, it has gone in without strings attached.

Of course, the allowance to increase council tax—I hope that that is acceptable language; we have a habit of getting that wrong—although only provided for upper-tier authorities is, in the end, for councils to use at their discretion. It is a mix.

Q21 **Gareth Snell:** I am very glad that you describe it in such terms. When we last had this session, your Minister was very good at talking about having given more money to local authorities, when in fact it is ratepayers giving more money to authorities through rates being raised. As I said, we are very glad that you have taken that on board.

Chair: I am glad that that message has struck home.

Melanie Dawes: We have been practising our answers in an attempt not to get it wrong.



HOUSE OF COMMONS

- Q22 Gareth Snell:** Let us just to go back to the money that is going in for winter pressures this year. My local authority is getting about £1.2 million. What specific actions are you as a Department taking to make sure that that £1.2 million actually generates £1.2 million-worth of additional capacity in winter pressure service and does not just reduce their overall funding gap by £1.2 million for next year?

Jo Farrar: That is a very good question. Local government has assessed with the NHS that it does need extra money for winter pressures so, as we had last year, we have a framework for delayed transfers of care. It is a good practice model, and we work with the regions to make sure that people are adhering to that it and will do something with the money this year. And we will work out an accountability framework for next year.

We have more flexibility around the £410 million, but local government has been very clear that there have been changes in adults' and children's services, so we have seen an overspend in children's social care, for example.

- Q23 Gareth Snell:** Sorry, Ms Farrar. This is all very interesting but it doesn't actually answer my question, which was this. If I am the leader of Stoke-on-Trent City Council, which thankfully I am not for the moment, I have had £1.2 million. What is the expectation on me to make sure that that is used to provide capacity additional to the already existing capacity, as opposed to simply reducing the reductions, because those are two very different things?

Jo Farrar: That is absolutely right. The money that we have put in for winter pressures is specifically that, and we would expect people to follow the model to reduce those that we have implemented with the DHSC, which looks at good practice in terms of reducing delayed transfers of care. The money has been put in to address pressures in the care market and to allow people to buy more provision, particularly for intermediate care, and we would expect the money to be spent on that type of provision, so they are buying extra intermediate care beds, for example.

- Q24 Gareth Snell:** How frequently are local authorities having to report back to you to demonstrate that this money is being used to actually increase capacity and is not just being absorbed?

Jo Farrar: For this year, we have not put very tight requirements around it, because we gave the money to local government quite late and we have listened to messages from previous years that they find it very hard to spend if we give them money for winter just before winter and have big reporting arrangements around it. But for next year, where they have more time to prepare and to plan, we will be—

- Q25 Gareth Snell:** I am talking specifically about this year.

Jo Farrar: There will be a very light touch, through the regions' assessment of how people are spending the money.

- Q26 Gareth Snell:** What does that mean, because it doesn't—



HOUSE OF COMMONS

Jo Farrar: We have joint teams in the regions, of health and social care and local government, and we use them to assess how money should be spent together in local areas. We will do something quite light touch to make sure that they are spending the money, but they have told us that the demand is there to—

Q27 **Gareth Snell:** When you say “something light touch”, what does that actually mean?

Jo Farrar: That, for us, will mean conversations with the regions to look at how they are spending the money that they have been allocated this year.

Q28 **Gareth Snell:** I’m sorry—no, I’m not actually sorry. Again, pretend that I am the leader of my local authority. What expectation is going to be placed on me or my officers to report back to you how that money has been spent?

Jo Farrar: There will be a low expectation this year that you have to report back to us, and we hope that local government will welcome that; they have told us that there is a pressure in this area. But for next year, there may be a higher expectation that there is—

Q29 **Gareth Snell:** So how confident are all of you—Mr Skinner, this is your area, I suppose, in finance—that this money is going to be spent efficiently? In February 2018, the council sets a budget. Most councils are looking to reduce their overall spending on adult social care, because they do not have the resource to do otherwise. They then get a very small, in proportional terms, increase in the few weeks before Christmas, with which they presumably go and buy in the market spot beds—as opposed to a longer-term package—for a short period of time. Therefore, they are at a higher cost per bed value than is in the long-term planning. How confident are you that this money is being used effectively and efficiently and is not simply going into the pot and will just wipe off a little bit of next year’s budget black hole?

Alex Skinner: I am confident that it is being spent efficiently. Local authorities are being asked to come up with a plan and then return that to the DHSC. They are doing that in conjunction with local NHS partners. On the basis that there has to be local agreement about what the money should be spent on, I am confident that it is being done efficiently. I think, as both Jo and Melanie said, the other important part is that they have been given money for this year and for next year, so when they are going out to do the contracting, they are not just contracting for this year—they are contracting for this year and next year. Local authorities have welcomed that and said that it enables them to get better value for money, because effectively they can operate over a two-year time span and not a one-year time span, which has been an issue in the past.

Q30 **Chair:** How are you going to make sure, as Mr Snell was pushing, that that is being spent on what it is intended for, rather than backfilling the cuts in local government or the reduction in funding for local government?



HOUSE OF COMMONS

Alex Skinner: The grant is ring-fenced, so there is a limit on what can happen to it, and as I say, it is being agreed with local partners. They will define what the most important priorities are. I think that is right, because it allows them to respond to the issues on the ground, rather than us trying to determine that centrally.

- Q31 **Chair:** A local authority's priority might just be doing what the local authority needs to do in basic terms, not doing extra.

Alex Skinner: It has to be agreed with the partners. If it turned out that they thought that that was the best thing to do, then that would be the best thing to do.

Melanie Dawes: To some extent, the money was to provide more of what it was already understood worked. It was not necessarily for innovation or a true additionality in that sense. The other thing I would add is that we have seen a big improvement in local authority DTOC rates over the last 9 to 12 months or so, reflecting that extra money that went in last winter, albeit, as Jo said, quite late in the day.

Chair: DTOC being delayed transfer of care. Try to avoid jargon.

- Q32 **Gareth Snell:** The money last year went through clinical commissioning groups into the acute sector, as opposed to going through local government into the residential and domicile care provision, so it is not exactly a comparison of apples and apples, is it?

Jo Farrar: Last year we used the better care fund.

Melanie Dawes: Yes, we did use the better care fund. That included a certain amount of monitoring.

- Q33 **Gareth Snell:** Is next year's allocation of £410 million enough to stabilise? Obviously, the LGA does not believe that that is enough for next year in order to potentially stave off what they say is a looming crisis in adults' and children's social care. Again, what are your expectations of what local authorities will do with the money and how will you monitor it?

Alex Skinner: In terms of what local authorities will do, as was already said, this money is not ring-fenced. There is an expectation that it will ensure that there are no additional pressures on the NHS, but it can also be used to support older people, disabled people or children. However, there is no ring-fencing and there are no additionality requirements attached to that, so local authorities will have discretion as to how they want to spend it.

- Q34 **Gareth Snell:** So if the local authority determines that the best thing it can do is to put it into its general fund and use it to fund everything that is going on, that is not a problem for the Department and you would be more than happy for local authorities to do that?

Alex Skinner: As I said, the Budget text was clear that local authorities needed to ensure that they were not increasing pressures on the NHS, and



HOUSE OF COMMONS

it set out where there was an expectation that it could be spent. If those were satisfied and the local authority wanted to spend money elsewhere, that would be okay.

Q35 Gareth Snell: Who determines whether they are satisfied?

Alex Skinner: Ultimately, that would be a judgment for the local authority.

Q36 Gareth Snell: So the local authorities are judging for themselves whether the additional money they are using meets the criteria that you set for them?

Melanie Dawes: That is happening against a context of very strong and sometimes quite robust dialogue at a local level between local authorities and the NHS.

Q37 Gareth Snell: You are very good, Ms Dawes, at saying “strong and robust”, but what does that actually mean? If I have a strong and robust conversation with my seven-year-old daughter, that normally means I am telling her off and sending her to bed. Is that the sort of conversation you are having with local authorities?

Melanie Dawes: No, a strong and robust conversation between the local NHS and a local authority would be more along the lines of, “We need to put the money here,” versus, “We need to put the money there”. It would be a conversation about whether, in the context that we are discussing, local authorities were playing their part sufficiently in investing in the kinds of things that the NHS believe would help them to manage the NHS pressures in the round. I hope that it would be an open and frank conversation.

Q38 Gareth Snell: But you and I both know—I hope we do—that local authorities are facing huge pressures across the piece. You give them a one-off hit in their budget that is not ring-fenced and then you expect them to be told by the NHS what to spend it on. Most local authorities are going to say, “That is lovely. Thank you very much. But we have this continuing budget black hole to fill over the next four years. So we will listen to what you say, but thank you very much.” When that happens, what role will the Department play in mediating those conversations?

Jo Farrar: Local government have told us that they have accepted that that money is needed for adults’ and children’s social care, so we are very confident that that is what they will spend it on. As we have said to you at hearings like this before, local authorities tend to prioritise adults’ and children’s social care, so that money will stop them from diverting money from other services that are also important, particularly to the public, so that they can spend this money on adults’ and children’s social care.

Q39 Gareth Snell: But that is not additional cash then, is it? If I don’t cut somewhere else, because you have given me money—

Jo Farrar: The local authorities need to balance their budget, so they tend to prioritise, because these are vulnerable people.



HOUSE OF COMMONS

Q40 Gareth Snell: I understand that, Ms Farrar.

Jo Farrar: So this money will help them to be able to prioritise those services without diverting money from other services.

Q41 Gareth Snell: I know. I was a council leader for a couple of years, so I know how local government finance balancing works. What I am saying is that if you give more money and they cut less elsewhere, that is not additional cash for those services. It is just a different revenue stream for those services.

Jo Farrar: No, the additional cash is for adults' and children's social care. That is the point that I was making.

Q42 Gareth Snell: No; I am sorry, Ms Farrar. Mr Skinner has just said it is unring-fenced, and the person who determines whether or not it is being used to meet the criteria set out by the Government is the local authority itself. Ms Dawes says that it is a firm and robust—was that it?—a strong and robust conversation. So there is no actual statutory or regulatory oversight of this, other than the local authority being content in itself that it is meeting the criteria.

Jo Farrar: And what I said is that their demand is such that they will need to spend that money on adults' and children's social care, so I am not disagreeing with my colleagues by saying the demand is such that they will need—

Melanie Dawes: You ask what role the Department plays. The key role here is for the Department of Health and Social Care, primarily, although with us alongside them; but they are concerned to make sure that NHS and social care services can be delivered as effectively as possible, and they look into the regions and make those judgments—increasingly so. We have CQC inspections, and so on. That is the main regulatory framework within which we are operating, here. Can I also add that it does depend a bit on what you think would otherwise have happened? In some councils they will only have been able to expect to sustain their adults' and children's social care services if they have significant reductions, perhaps in a service that is a real concern elsewhere. That is the sort of in-the-round assessment of financial sustainability that we are looking at in the Department, and we would be concerned about those things. If it is the case that they can then do a different budget trajectory that protects both of those aspects of spending, that might be a very effective resetting of their financial plans, but it does depend a little bit on what you thought would otherwise have happened.

Q43 Gareth Snell: That helpfully takes me back to the very first question I asked, about the criteria that your Department has about the service level, and the provision of service, before you consider it to be financially unsustainable. Really, isn't this additional cash actually an emergency injection into the local government system as a whole, as opposed to focusing on social care? By Ms Farrar's own suggestion—and if I am wrong, please do tell me—the anticipation is that this money will be used for adult social care and children's protective services and then, because



HOUSE OF COMMONS

of that, other services will not be cut as much, and therefore their provision is protected. Is that right?

Melanie Dawes: I slightly lost the beginning of your question as you went through.

Jo Farrar: As I have said, local government would prioritise adults' and children's social care, because they are dealing with vulnerable people. These services are set out in statute and they would need to balance their budget, so therefore they would need to move money to adult social care if there was a gap. What I am saying is that this money will help them to deal with the additional demand that has been assessed by DFE and DHSC, to prevent them from doing that. Does that help?

Gareth Snell: Not really, no, but I understand what you are saying.

Q44 **Lee Rowley:** Ms Dawes, you said at the top of the session that your personal view is that this sector is sustainable. Tell me what quantitative metrics you have used to define that.

Melanie Dawes: I don't have a lot to add to the answer I gave to Mr Snell earlier, which is that we look—

Q45 **Lee Rowley:** Tell me the quantitative metrics, then. No requirement for five quantitative metrics—any quantitative metrics.

Melanie Dawes: As I said, top down—Alex may be able to expand on this—we look at the cost side; we look at costs such as wages and prices; and we look at demand. From the top down we look at income in a variety of different forms, and we use that to assess what the trends are and what that might mean for the sector. We also look at things like reserves, and we look, indeed, at the capital account following the recommendations of this Committee. So that is one of the lenses. That is the top-down lens.

Q46 **Lee Rowley:** Okay, so let us just say that that is the top-down lens. How do you weight those? What is the weighting of each of those you have just described?

Melanie Dawes: You would multiply demand for, say, children's services, by the cost for those services—

Q47 **Lee Rowley:** No, you weight them. You say, "This is 10% of my analysis; this is 20% of my analysis." What is your weighting for those quantitative—

Melanie Dawes: What you are trying to do is to build up a pattern of service expenditure.

Q48 **Lee Rowley:** No. You have just given me half a dozen quantitative metrics. How are you weighting those—10% for one, 3% for the other?

Melanie Dawes: The aim of those metrics is to come up with an overall set of cost pressures, compared to income, for the sector as a whole.

Q49 **Lee Rowley:** By weighting them?



HOUSE OF COMMONS

Melanie Dawes: So you would weight them in accordance with the proportions of those services—

Q50 **Lee Rowley:** And what is your weighting of each?

Melanie Dawes: Well, I can tell you the percentage spend for different parts of local government—

Q51 **Lee Rowley:** No, I am asking for your weighting, not your percentage spend.

Melanie Dawes: The weighting depends on the percentage spend, and then you forecast. If you've got changes in demographics, then you would be giving children's a bigger weighting—

Q52 **Chair:** Are you saying this is the percentage spend by local authorities? If someone is way out of kilter on wages, or on costs of placements, for example, would you count that as a risk?

Melanie Dawes: No. I am talking about the top-down analysis, which is essentially a fiscal set of forecasts of what we think will happen in the sector and where the pressures might lie in future. That's what we do top-down. Bottom-up, we look at individual authorities. The two are done very much in tandem.

Q53 **Lee Rowley:** Let us just go through the basic principles of modelling. A basic principle of modelling is that we say we have got a number of characteristics. You have just described some characteristics to me. The second principle of modelling is that you then weight those characteristics. Could you weight those characteristics for me, as I asked? Don't tell me about percentages or proportions; just tell me what you are weighting. That is how models work. You cannot come to a judgment that you are sustainable without going through a model.

Melanie Dawes: I am drawing on my experience of running the Treasury model in my past, and what I am trying to describe to you—

Q54 **Lee Rowley:** Therefore, you don't have a current model to do it with?

Melanie Dawes: I'm not running the model myself, because I am the permanent secretary—

Q55 **Lee Rowley:** There is no model underneath your sustainability? It is entirely qualitative—

Melanie Dawes: No, that is absolutely not correct, Mr Rowley. That is not at all correct.

Q56 **Chair:** Ms Dawes, can you explain?

Melanie Dawes: Yes. I am trying to say that the top-down fiscal analysis that we do is essentially around projections of what the sector may need to deliver its services, and therefore you look at the cost of those services today, and you are making projections as to how those will change in future. That is the top-down assessment that we do.



Bottom-up, we look at what I think you are coming on to, which is looking at individual authorities, and we look more at risk factors. Alex may be able to explain how that model works, but—in fact, the OBR has published this—two of the key indicators that we look at are the percentage of reserves in relation to total spend, and also the percentage of demand-led expenditure, because those are indicators of resilience.

Q57 **Chair:** Mr Skinner, can you pick up on this modelling point?

Alex Skinner: In terms of the local authority sustainability tool, which is the tool that Melanie was talking about, the way that works is that there are different variants, but the last we tend to use in a top-down fashion. That would look at spending on adult social care, added to spending on children's social care, added to spending on debt servicing—that's your numerator. Your denominator is then un-ring-fenced reserves. So that is the model: those three things on the top and that thing on the bottom. That is the local authority sustainable tool. But as Melanie said, that is one input and it is not used in a rigid way; it is used as one of the inputs into the overall process, because it will depend on the circumstances of the local authority.

Q58 **Chair:** You have got some numbers to play with, Mr Rowley.

Q59 **Lee Rowley:** Are you weighting any of those numerators or denominators?

Alex Skinner: It is a simple addition. You need to know the percentage of spend—so, percentages of income on adult social care, children's social care and debt servicing. That's the top line.

Q60 **Lee Rowley:** Okay. CIPFA has come out with a resilience index, which I understand from a Treasury minute you have welcomed. Which element of the CIPFA index do you particularly welcome and where do you think its proposals have shortcomings?

Alex Skinner: The CIPFA model is in many ways very similar to our own—the local authority sustainability tool, which I have just described to you. It includes a number of other metrics, which we don't, which are more judgmental about issues around governance, which Melanie touched on. We are working closely with CIPFA on that. We think it is a very helpful addition. The sector itself has been more cautious and it is very concerned that attempting to encapsulate the totality of sustainability within just one set of indicators is not the right approach. So that is an ongoing conversation—

Q61 **Lee Rowley:** But there has to be that in order for Ms Dawes to say that it is sustainable. You ultimately have to boil things down to something.

Alex Skinner: I don't think so.

Q62 **Lee Rowley:** Then we are in a very circular conversation. Unless you boil something down, you cannot make a value judgment. A value judgment was made at the beginning of this hearing, which means you must be able to boil it down.



HOUSE OF COMMONS

Alex Skinner: I think you can make a value judgment that is based on lots of inputs, which requires you to make a professional judgment rather than an arithmetical one.

Q63 **Chair:** Does the arithmetic have any bearing on that judgment?

Alex Skinner: The local authority sustainability tool is an input into the judgment. However, I will give you an example. If we look at those two ratios, they may vary for different reasons. For example, Melanie has just described how we have injected more money into the sector in the Budget. Now, the consequence of that will be that total expenditure on adult social care may rise. That could be interpreted in a very crude way as meaning that there is a problem in the sector that we have been unable to address, whereas in reality, what has happened is that we have responded to an issue that the sector has raised with us and we have injected funding. All I am saying is that—

Q64 **Chair:** Which of the financial metrics would give you a particular worry? We talked about reserves in our report, as has the NAO, and Ms Dawes mentioned that earlier. Is dipping into reserves a financial metric that would give any indication of councils that have problems?

Alex Skinner: It could do, and that is exactly why it is the bottom half of the local authority sustainability tool.

Q65 **Lee Rowley:** All I require is a sentence. Perhaps you can fill something in: "Local authorities are sustainable because I have examined x and I have determined that y comes from that. Therefore, it was sustainable yesterday, it is sustainable today and it will be sustainable tomorrow."

Melanie Dawes: I will repeat what I said at the beginning, which is that top down—it is quite close to your sentence—we believe that the sector as a whole is sustainable if the amount of resources available to it can deliver the statutory services that it is required to deliver. In order to make that judgment, we have to, to some extent—this is what I think you were asking us in the last hearing and that you were concerned we were not doing adequately in the spending review—cost those services and do that assessment. That is one of the things we do. Then we look across the sector at risk and see if we are missing something. So we look more at individual authorities and risk factors. If we find that we have a lot of authorities that, despite our top-down analysis, look to be in a very risky situation—if their reserves are moving too fast in one direction and so on—that would give us a lot of cause to go back and look. We are constantly doing those two things together.

Q66 **Lee Rowley:** Your entire evaluation, therefore, is on the basis of statutory services only. Our entire conversation to date has been that they can deliver statutory services only—correct?

Melanie Dawes: That is what Parliament has set out that they are required to do, and that is our primary focus. We also have an eye on whether there is some flexibility in the system for responding to events, emergencies and so on, or indeed to be able to provide that broader



HOUSE OF COMMONS

leadership of their area. You would not want to only boil it down, but that is primarily what I think our role is.

- Q67 **Lee Rowley:** Good. So give me a broad-brush view of how sustainable local government is, beyond the statutory services. Is it 10%, 15%, 1% or 0.3%?

Melanie Dawes: You cannot put a number on it.

- Q68 **Lee Rowley:** We are not putting numbers on much, so that is not a surprise. Give me a qualitative view, then.

Melanie Dawes: We have said, on the basis of our analysis, that overall the sector is sustainable for the remainder of this spending review period. That assumes—

- Q69 **Lee Rowley:** But that is on the basis of statutory services, and I am asking you to tell me—

Melanie Dawes: That assumes their ability to respond to events, as well as to deliver the statutory services. Obviously, we are working particularly closely with them at the moment on Brexit. That is the judgment that we have formed.

- Q70 **Chair:** Most people watching this would think that their councils were also there to provide things such as libraries, youth services and shaping the place in which they live. Those are not statutory; they are what you would call the general responsibilities of local government. From what you have been saying to Mr Rowley, you are really boiling down your measurement of sustainability to just those statutory services that Parliament lays out in Acts of Parliament that have to be provided by local government. The rest is what makes local government a living, breathing organism that serves the public, surely.

Jo Farrar: That is what the sustainability tool does. It looks specifically at the statutory services and the inflexible spend. On top of that, we also talk to other Government Departments about the services for which they provide, such as waste, litter and the roads. There are a number of provisions that they make and things that they have set out in guidance that we also look at. We bring that—

Chair: They are statutory, too.

Jo Farrar: Well, there is a mixture.

- Q71 **Chair:** Collecting waste is statutory, is it not?

Jo Farrar: Yes, but the level. There is different flexibility.

Chair: Okay—fortnightly or weekly collections—but collecting waste itself is still statutory.

Jo Farrar: Yes. We would then work with other Government Departments and bring all that together before we make a judgment.

Chair: Can I just ask specifically about the non-statutories? Of course,



HOUSE OF COMMONS

when we talk about statutory, we are assuming that the other Departments' statutory functions are part of that. You have an oversight of that. I will let Mr Snell pick it up.

- Q72 Gareth Snell:** Using the word "statutory" to describe providing a service is somewhat misleading, because, in theory, you could have a local authority that was currently doing a weekly recycling collection that then moves to a collection once every five weeks. That is still provision of the statutory service. It still meets the criteria. You could have a planning department that is stuffed full of officers doing good stuff, or a planning department that is one person and a protractor. That still meets the requirement of the statutory service. How, when you are using this metric that you have just described, are you gauging whether the statutory service is actually meeting any baseline of expectations, as opposed to its pure existence?

Jo Farrar: That is where we work very closely with organisations such as CIPFA and the LGA—particularly the LGA—to look at things like the peer reviews that we fund to look at the level of service and public satisfaction in that area. That is why it is bottom-up as well as top-down, so we can look in more detail at the individual local authorities and what is going on in those areas.

- Q73 Gareth Snell:** You have explained that you are now basing all of your judgments about financial sustainability on the provision of statutory service. Does your Department have a series of baselines for which it considers a statutory service to be viable in terms of the provision of a statutory service, as opposed to just its existence, and is that published anywhere?

Melanie Dawes: This goes back to what individual Departments and their Ministers, as part of the Government as a whole, will then determine are minimums or maximums that they want to be working towards. Continuing to take waste as an example, in the past, central Government have taken quite a firm view about the regularity of waste services, and they have put in money in order to protect services at a certain level. That is the kind of thing that Departments and the Government may or may not do at different times.

- Q74 Gareth Snell:** So there exists within your Ministry a spreadsheet, a list, a document, a booklet or whatever that lists all the statutory services that a council is required to make, and the minimum expectations that you have of them. That must be the metric that you are using to make the assumption that things are sustainable long term, based on their statutory service provision.

Melanie Dawes: There is no spreadsheet that I am aware of, but there is a very detailed engagement with other Government Departments. As I was explaining earlier, it is based on where we are today, where we may have been a few years ago, what changes in service provision have been seen across the sector, and whether that is a concern, either to the sector—because sometimes it is a concern to the sector, and central



HOUSE OF COMMONS

Government listen to that—or to central Government. That dialogue then happens, and it is reflected in the way that we do our analysis.

- Q75 **Gareth Snell:** But basically what you are saying, Ms Dawes, is that every local authority in this country could pare back its statutory services to no more than one individual sat in an office with that service's name on a door plate. They exist, therefore they have a spend, therefore that could plug into your matrix, and therefore that would determine the sustainability of the outcome. That is a tick-box exercise that does not reflect the ability of local government to serve its community.

Melanie Dawes: That is not what we do, or what the Government are aiming to achieve. It is not a tick-box exercise. We are doing this with other Government Departments: it is other Departments' role to keep an eye on their services, to work out what they care about, and to talk to us if they think that those things have been de-prioritised or squeezed too far. That is all part of the role that we play, as is bringing that to bear. As I say, we now largely have one funding stream for local government. In the past, they might have been able to have a ring-fenced grant. These days, they are more likely to be coming to us and saying, "We are really concerned that councils are cutting this service. What are we going to do about it?" But it is absolutely not about putting our feet up and not thinking about these things. It is about having that conversation and doing that work.

- Q76 **Chair:** How far do local authorities and councils have to be squeezed? We saw this money being dished out in the Budget, but you and we have known that children's social services have been under pressure for some time, for example, and that adult social care has been under pressure as well. How far do they have to squeeze before you raise the flag and say, "There is a sustainability problem here"? It seems that you can justify anything, Ms Dawes, as long as it is ticking the box that it is delivering a particular service. There is a point at which it is not really delivering it for the citizen on the ground, is it?

Melanie Dawes: I just do not think that it is the case that we can justify anything. I think what you have seen is that the Government have responded to real concerns about service pressures, and that is why the Government have responded. For example, the fact that the number of looked-after children has continued to increase has rightly been a real concern for Government, and that is one of the factors that lay behind the Budget decisions.

- Q77 **Lee Rowley:** Just to finish on this, how far above sustainable are local councils?

Melanie Dawes: I do not think I can give you an answer to that.

Lee Rowley: But you must be able to. If you can define that they are sustainable, you must be able to tell me how far above sustainable they are.



HOUSE OF COMMONS

Melanie Dawes: You have seen the Government put more money into local government in the Budget, and that is an indication that there were significant pressures on the system and that more finance was needed.

- Q78 **Lee Rowley:** But I don't want an indicator; I want an assessment. You are telling me that you have assessed that local government is sustainable. That is your assessment. Therefore, you must have assessed how sustainable it is in order to come to the conclusion about sustainability. How sustainable is it?

Melanie Dawes: If I were to give you what I think you are looking for, which is some kind of numerical or risk-rated answer—

Lee Rowley: That's right.

Melanie Dawes: —I would be misleading you, Mr Rowley, and I don't want to do that.

- Q79 **Lee Rowley:** Why would you be misleading me?

Melanie Dawes: Because we do not have a sense of some metric or threshold over which the sector either is or is not. It is a much more nuanced and broader judgment than that. I have said before, and I will say it again today, that we know there are pressures across the system. There is a lot of risk in the system; we know that.

Lee Rowley: Fine, but that is narrative.

Melanie Dawes: I think those risks are reduced compared with where they were before the Budget, but clearly there have been big reductions in local government budgets. We know that; we are not hiding from it.

- Q80 **Lee Rowley:** I simply cannot intellectually rationalise clear statements that say, "It is fine," or, "It is sustainable," to use your words, and then having no ability to understand how sustainable it is. Those two things are fundamentally not intellectually reconcilable. If you have gone through a process to evaluate whether something is sustainable, you must be able to give me more information on the questions that you do not want to answer. It is either your choice not to answer them, or fundamentally you cannot make the clear statements you have made about the sustainability of the sector, because you have not made them on strong enough grounds. It is one or the other.

Melanie Dawes: I don't think I have anything more to add on that. I do not accept that we cannot make those judgments. As I say, they are judgments, and quite complicated ones—not ones that lend themselves to a point estimate.

- Q81 **Chair:** The NAO's original Report showed a very high percentage cut—49%, in many cases—in funding to local authorities. There is a point at which you can only squeeze something so far. We are not getting from you when you would put the flag up and say, "Enough's enough." Is it that you are going with a begging cap to the Treasury and that is what the crumbs from the Budget were? It sounds like a lot of money, but divide it by every council and it is quite a small amount. It is not long-



HOUSE OF COMMONS

term money, so you could fund a bit more adult social care this year and next year, but then what? Are you having serious discussions, as we hope you are, behind the scenes in the spending review and being a bit more forthright about the challenges for local government than you are in front of us now?

Melanie Dawes: I think we have been forthright.

- Q82 **Chair:** You keep saying, "It's all right; it is sustainable," but with that level of reduction, things have given. You would acknowledge that things are not being done as frequently. My borough has done a very good job of managing the budget, but streets are not being swept quite so often and officers have far more multiple responsibilities. I don't know if there are delays in the planning system, because I have not had that come across my desk recently, but adult social care and children's special educational needs are squeezed. We all have examples from all our boroughs, and we are a cross-party Committee from around the country. We know there is a squeeze out there. What would have to happen before you said, "There's a real problem in local government?" Or is it that you are going back to this statutory description of what has to be delivered where, as I think Mr Snell said, anything, however infrequent, counts as ticking the box?

Jo Farrar: I think we are talking about two different things. We are talking about financial sustainability, and what we have been saying is that we feel councils will be able to set a balanced budget and manage in 2019-20 up to the spending review, and then we are talking about levels of service provision and how far they should provide their services.

- Q83 **Chair:** But they are massively connected. We can run a household by eating baked beans on toast, or we could have proper meals.

Jo Farrar: Yes, they are interlinked, and we have the opportunity next year with the spending review to look at what levels of service provision Departments would want or expect from local councils, along with their quantum of funding. That is the work we are doing for the spending review, and we are doing some very specific work with individual Government Departments to try to get a handle on that so that we can then look in the future at service levels plus a quantum of spending.

- Q84 **Lee Rowley:** Just before I finish, how do you think it is going today?

Melanie Dawes: Pardon?

- Q85 **Lee Rowley:** How do you think it is going today?

Melanie Dawes: I think we are attempting to answer your questions, and we are telling you the work we do.

- Q86 **Lee Rowley:** I have been on this Committee now for eight months, I think, and I feel as if we are replaying our greatest hits, based on the previous times you have been here. How do we, as Members of Parliament who are charged on this Committee with understanding value for money, move this conversation on? I don't think this conversation has



HOUSE OF COMMONS

moved on since the last time you were here. We want to understand your understanding of whether the service is sustainable and why you think it is sustainable. I have to say that nothing I have heard in this session and nothing I heard in the previous session has given me any confidence that that is the case. When we come back in February to do this a third time around, how do we avoid the definition of madness—repeating the same thing and hoping for a different outcome?

Melanie Dawes: I think that we have been talking somewhat at cross purposes.

Q87 **Lee Rowley:** I don't think we are. I am asking a question and I don't get an answer.

Melanie Dawes: I think that perhaps we have not managed to explain to the Committee the nature of the work that we do. It was set out in the NAO Report. I do not want to rehearse the details of it, but the final chapter in particular explained it. It said that the NAO thinks that we give good assurance, and that, while it can always be improved, the approach of a top-down fiscal assessment, complemented by pretty detailed assessment of every individual local authority, is the right thing that we need to assure ourselves that we understand the risks and the nature of the risks.

Q88 **Chair:** I think the difference is that there are two definitions. There is financial sustainability, which is about budgets being balanced. Most of us could manage to balance a tight budget in any organisation by stripping it right back. The difference is that, unlike the excellent auditors at the NAO—actually, it is probably like them too, but their job is to look at the numbers—our job is also to look at our constituents' experience of the services delivered to citizens. Up and down the country, in all our areas, we see areas where there is real squeeze. For example, special educational needs in my area has been backfilled by the council since 2011. It is now really hitting a squeeze because that money is not available to backfill it. We could all name things.

Your job is to bring those two things together—the numbers work, which the NAO talks about in its Report, and the experience of people, which, as Mr Rowley rightly highlights, is the bit that we are finding it hard to get answers on. Can you tell us that you will look at both the quantitative and the qualitative? Will you look at what is actually being delivered by the place-shapers that local government are?

Melanie Dawes: We have already undertaken to give you more information—after the spending review—on some of the assumptions that lay behind our analysis, which goes back to the top-down assessment that I discussed earlier and some of those projections of demand and cost and so on. The Government are certainly not including as part of their approach at the moment some kind of state-of-the-nation oversight or comprehensive performance assessment-style assessment of local government services in the round.

Q89 **Chair:** Why not?



HOUSE OF COMMONS

Melanie Dawes: That is a matter of policy. A decision was taken to end that approach—

Q90 **Chair:** That was actually a decision by Ministers?

Melanie Dawes: Yes, it was.

Q91 **Chair:** To paraphrase, are you saying that Ministers said that they do not really care what is delivered, so long as it meets the statutory function? Ministers are like us—they are MPs too. Did they actually make that decision?

Melanie Dawes: It is no longer the approach of the Government to collect in one place all that information about all the services that local government provides and to publish it, as central Government, on a regular basis. That is not the Government's current approach to local government.

Q92 **Gareth Snell:** If that is the case, you have completely shot your own fox by saying that you can say that local government is sustainable, because you have just admitted that the Government do not have the necessary data to make that declaration.

Melanie Dawes: I said that we do not publish that data, as central Government, as some kind of opinion on the state of local government.

Q93 **Gareth Snell:** No; I'm sorry, Ms Dawes, but you just said that the Government, as a matter of policy, do not collect that data. The last time I checked, collecting and not publishing were different things.

Melanie Dawes: You are right, and I am happy to correct that and say that we do collect some of it. However, we do not collect it with the intention of publishing it in one place. It is the "in one place" point that I am making. We do not attempt, these days, to make a state-of-the-nation assessment.

Q94 **Gareth Snell:** Sorry, but Mr Skinner said that you do collate it in one place when you create the fraction, essentially, of what a good council is—in terms of its spending on adult social care, children's social care or reserves being drawn down—so you are collating it in one place. If you are now saying that you collect it, and that you collate it in one place, why can you not publish it?

Melanie Dawes: We collate it and analyse it for the purposes of advising our Ministers.

Q95 **Gareth Snell:** So it is for ministerial advice?

Melanie Dawes: As I say, it was a Government decision not to publish it as a central Government assessment.

Q96 **Chair:** You said earlier that it was a ministerial decision. You have not been using the word "Minister".

Melanie Dawes: It was the Government.



HOUSE OF COMMONS

Q97 **Chair:** The Government. Okay. Was it in a ministerial submission—"Do you want to do this, Minister? We recommend that you don't"? We know how submissions work. Was it recommended that Ministers did not publish this information, and did they agree? Did it go up in a submission as a definite ministerial decision?

Melanie Dawes: I am talking primarily about the decision to end comprehensive performance assessments at the beginning of the 2010-15 Parliament. That was a significant change in approach towards more localism and not seeking to have central Government publishing an assessment of local government, either collectively or as individual councils. That was a shift in policy at that time.

Q98 **Gareth Snell:** Do you understand, Ms Dawes, why we struggle to understand your definition of sustainability, when we are unable to see the methodology, the data, the source of the data or the calculations in the methodology that come to that conclusion? On the other hand, the LGA and individual local authorities will quite happily put their hands up and say, "We are unsustainable," and then provide the data to demonstrate that in three years' time the proportion of their budget taken up by adult social care and children's services will be 90-odd per cent.

They tell us that they are unsustainable and give us the data. You tell us that they are sustainable—that the sector is sustainable—but do not give us the data. Do you understand why there is some reticence for us to accept that?

Chair: You had better add Philip Alston, the UN special rapporteur, into that mix of people.

Melanie Dawes: I can certainly see that it would be helpful if we published our internal analysis that we give to Ministers, but as I say, that is internal analysis. I think we are being pretty transparent with you about the approach that we take. When the LGA comes up with its estimates of gap funding, my understanding is that those estimates of gaps are produced in the way that I described to Mr Rowley earlier, and to you, Mr Snell—we look at individual service lines and look at total costings. I think that methodology is very similar.

Q99 **Chair:** We have the CIPFA model. We have the Local Government Association. It is not quite the NAO's job to go to every local authority level, but we could between us get our heads together and probably work the data out. It is not secret data; it is just not published by you in a way that would be understandable. I do not understand why. Because you have used this data to advise Ministers, the data therefore counts as ministerial advice. It seems to me that you are hiding behind that. It is not policy advice; it is just facts and figures, which are attainable in other ways.

Melanie Dawes: That is why much of it is in the public domain, but to publish it as an analysis with some estimates attached to it would be a further step that has not yet been taken.



HOUSE OF COMMONS

Q100 Gareth Snell: This is the last question from me on this. I have two points. First, if the LGA are using the same methodology as you and, as you say, the same broad datasets, and are coming to the conclusion that the sector is unsustainable, how is it that you are coming to a separate conclusion that it is sustainable?

What does the Department have to fear from having the data published? I appreciate you are saying that it is ministerial advice, but the data is not subjective, whatever advice you give to Ministers on the back of it. The data itself does not change depending on the interpretation that you give to Ministers, so what are you trying to hide?

Melanie Dawes: You asked about the estimates, for example, by the Local Government Association. I have not looked in absolute detail at precisely what assumptions they are using, but there will be some differences there. There may be some differences in the level of service that can be provided.

There may also be differences of time period. All the comments I made at the beginning around sustainability were about this spending review period, which has less than 18 months to run. Beyond that, we will need to do a new assessment for the next spending review period.

Q101 Sir Geoffrey Clifton-Brown: When you do your metrics, are you using any other metrics, produced by the Treasury, the OBR or anyone else?

Alex Skinner: Yes, we do. If we look at the input data for the spending review in 2015, we used publicly available data on inflation and productivity. We used publicly available data on population. We used departmental data on households, which is now public data. In addition to that, we used data that is released by different Departments. The Department of Health and Social Care releases data on adult social care pressures. DEFRA releases data on waste projections, and DFT does the same for roads. Those are the kind of inputs that we used in SR '15, and the kind of inputs that we would use now.

Q102 Sir Geoffrey Clifton-Brown: Are you the only body that brings all that together, or are other people doing similar work, and do they come to the same conclusions as you?

Alex Skinner: Other organisations will look at elements of that. The OBR will look at elements of that. I am sure the Treasury would look at elements of that. We have external bodies, such as the IFS, which look at elements of that. I could not comment on whether they exactly overlap with what we do, but these are the kind of inputs that we use.

Q103 Sir Geoffrey Clifton-Brown: Given that, as has already been mentioned, the LGA are coming to the conclusion that local authorities as a whole are unsustainable, are other bodies coming to that same conclusion, and is your Department the odd man out in coming to a different conclusion?

Alex Skinner: In terms of sustainability, I am aware of the LGA having come out with numbers. I know that individual local authorities come out with numbers, and a number of the representative bodies also come out



HOUSE OF COMMONS

with numbers. As Melanie has said, the reasons why we don't come to the same conclusion can be many and varied.

Jo Farrar: We are primarily looking at one year ahead at the moment in preparation for the spending review. We will then look further, whereas the LGA assessments look much further into the future, and similarly with other local councils and council bodies.

Q104 **Chair:** Are you saying, Ms Dawes, that the LGA is wrong in its assessment?

Melanie Dawes: No, I'm not saying that. It really goes to the point we made earlier. There are plenty of different interpretations you can place on this, and some of it depends on what you think the levels of service should be, so it goes to the heart of policy decisions. That might be part of it, and some of it, as Jo said, is about the time period, as I was saying earlier.

Q105 **Gareth Snell:** Would your Department be willing to publish what assumptions it makes on the level of service provision as part of its estimations of sustainability? I appreciate that that is not the whole picture, but that would at least give us an understanding so that when you say it is sustainable, we understand what level of sustainability you are looking at.

Melanie Dawes: That would be a decision for our Ministers. Again, at the risk of irritating the Committee by introducing the complexity that I'm afraid lies behind our model—

Gareth Snell: I think that ship has sailed.

Melanie Dawes: What we are not doing here is adding up a set of individual point assessments of services. It is a risk judgment. I have said before that it partly relies on the top-down assessment of the overall amount of money that there is in the system, but it also rests on whether there are councils that can't actually set and fulfil a balanced budget. So it will vary quite a bit.

Q106 **Gareth Snell:** How many councils are in that situation?

Melanie Dawes: That is indeed one of the factors that I am bringing to bear in saying that we think the system is sustainable for the remainder of the spending review.

Q107 **Chair:** How fragile is that assessment? What would it take for councils to tip over into not being able to set a budget? We hear rumours. We pick stuff up. I'm sure the NAO picks stuff up. At this moment in time while you sit here, that might be true, but is it true for the next six months or next year?

Melanie Dawes: Our assessment at the moment is that, having put extra money in in the Budget, we have stabilised the risks for 2019-20 very significantly. There isn't a council that is close to the edge over that time period, and certainly not one approaching Northamptonshire's situation. But, as you know, and as councils themselves sometimes say, there are



HOUSE OF COMMONS

some councils that are very worried, particularly about what comes after that. When you talk to some councils, that is particularly their concern.

Q108 **Nigel Mills:** If you gave a risk rating to this sustainability score, is it a nice safe green or has it got an ambery-red rating on it?

Melanie Dawes: As I just said, having put more money into the system for 2019-20, our judgment that the sector is sustainable for the remainder of the spending review feels balanced. It doesn't feel like we have had to stand on the edge of a cliff in order to make it.

Q109 **Chair:** Mr Mills asked a very simple question—green, amber, red, or a combination of those colours?

Melanie Dawes: I would never expect something like this to be less than amber. It's a complex system where there have been—

Q110 **Chair:** And that is up to the end of 2019-20 with the extra money injected.

Melanie Dawes: Yes. Bearing in mind I am an accounting officer looking at quite a lot of risks of that nature as part of what we do, but yes.

Q111 **Chair:** What about the next five years?

Melanie Dawes: That will depend on the spending review. Apologies, but it will.

Q112 **Nigel Mills:** How worried are you? When you re-run this model, presumably every few months or weeks or whatever, do you sit there nervously thinking, "Oh God, it's going to come out unsustainable this time," or are you sat there confidently expecting it will be the right side of the line?

Melanie Dawes: If something new were to come up in a month that was completely out of the blue and surprised us a great deal, it would worry me that our underlying analysis wasn't strong enough. Generally that doesn't happen, so our judgments do not change from month to month in a big way. There are important moments, such as the release of the annual outturn data every year. This year, as I said, that showed some pressure on children's services in particular, but it also showed that reserves were not being drawn down in the same way as happened in the previous two years. Generally speaking, this is not work where there is great variability month on month, and it would worry me if there was, because it would suggest that we were not looking holistically enough across the system.

Nigel Mills: So it is not something that keeps you awake at night, this question?

Melanie Dawes: No.

Q113 **Chair:** We might get on to what does keep you awake at night. Can I just move on briefly to the issue around business rates? There is a real tension between business rates being devolved and national decisions



HOUSE OF COMMONS

being made about ongoing business rate relief, as was announced in the Budget. What are you doing to try to deal with that tension? How are you trying to smooth it out? You have got this devolution of business rates and then, lo and behold, we have national decisions made that cut across that. How are you going to balance that out?

Melanie Dawes: Alex might want to say more about this, but if you are talking about changes to the tax itself and its incidence on local businesses, the general principle is that when the Chancellor makes decisions like that, he also wishes to ensure that any loss of income for local government is offset. We then put in a system of payments to achieve that.

Q114 **Chair:** What about the practical issues around the most recent changes, Mr Skinner?

Alex Skinner: We worked very closely with the Treasury on the most recent set of issues. We are confident that the measures that have been announced are deliverable by local authorities and that they will be able to deliver them on the timescale that has been set out. We work closely with the Treasury—

Q115 **Chair:** What about local government?

Alex Skinner: We talked to local government after the event. We also spoke to the suppliers of the IT, because that is the most critical thing. They were confident that these changes can be delivered.

Q116 **Sir Geoffrey Clifton-Brown:** How long is the rating system going to be sustainable? Every single Government Budget that comes along, you have to do yet another concession to shore it up. This year, it was almost £1 billion to take a third of businesses up to £51,000. How long is that sustainable before you need to have a complete overhaul of the rating system to make it more closely aligned with businesses' ability to pay?

Alex Skinner: I think part of the answer, but not all of the answer, will lie in the revaluation that is scheduled for 2021.

Q117 **Sir Geoffrey Clifton-Brown:** But it is still a system that is a property-based tax. It is not based on ability to pay, is it? Let me give you an example that I used in my debate on rating on the Floor of the House. You have got a business selling bicycles that requires a lot of space and is paying a lot of business rates. An IT business next door turning over twice the amount with half the space is paying half the amount of rates. How can that be fair?

Melanie Dawes: I think you are going into questions of tax policy, but if you were bringing an economic argument to bear there, you would say that those who need that space in a more premium area will be more prepared to pay the higher rents that might go with that. Those for whom space is the most important thing should and often will seek to find that space somewhere that is cheaper. You have got a system there that helps to ensure the efficient use of land. That is just an economic argument, but that would be the basis of how you would start to think about that



HOUSE OF COMMONS

question. There are questions around business rates as a tax, and the Chancellor has said some things about that recently. They are really a matter for the Treasury, though.

Chair: It is certainly an area where we will be probing the Minister.

Q118 **Sir Geoffrey Clifton-Brown:** Can I move you on to business rate retention? You moved the goal posts. It was going to be 100%, and it is now going to be 75%—correct? The Government are going to retain 25%, so it is already retaining some ability to use part of the business rates system for something else. How, then, can it possibly be fair that a council such as Stroud—part of which I represent—has one of the largest negative rate systems in the country? It will be required to pay back £5.5 million. How can that be fair?

Alex Skinner: There are two elements. One is about the stock of business rates, where we run a system of tariffs and top-ups. That effectively acknowledges that there are bits of the country that have the capacity to raise an enormous amount of business rates and parts of the country that have not, and there are transfers that exist. Westminster would be a good example. A separate thing is business rates retention of the growth—that, I think, is what you are alluding to here—where a local authority will keep the growth. That is the system that has been designed.

Q119 **Sir Geoffrey Clifton-Brown:** But you have had a consultation on this negative rate support grant—

Alex Skinner: Negative RSG—yes.

Sir Geoffrey Clifton-Brown: It is due to come out shortly. Are you able to give this Committee any previews as to what you are likely to conclude?

Jo Farrar: That will be a decision for the settlement in December.

Q120 **Sir Geoffrey Clifton-Brown:** Going back to rate retention, are those authorities that are likely to have to pay back into the system—a negative rate of retention—likely to be compensated for a loss of income? Otherwise, how will they function?

Melanie Dawes: The reason why that negative RSG has occurred, is that those councils, in effect, are doing quite well on business rates in relation to the service pressures that they face, so the system of redistribution has put them into a negative position. As my colleagues were just saying, the Government will say more about that next week, when we publish the local government finance settlement.

Q121 **Sir Geoffrey Clifton-Brown:** That does not quite answer my question, which is, in a switch from revenue support grant to rates retention, will a local authority such as Stroud—which has a large amount to pay back and is actually going to lose revenue overall—get compensation from the Government?

Melanie Dawes: That is a question for the spending review. That is one of the things that will be borne in mind.

Q122 **Sir Geoffrey Clifton-Brown:** Otherwise they cannot function, basically. If they are not getting any revenue support grant and the switch to rates retention reduces their income, how are they supposed to function?

Alex Skinner: As Melanie said, on this issue—which I think you are speaking to—of negative rates support grant in 2019-20, the Government had a consultation earlier in the year. They set out a preferred option. We have now had the consultation back in and the answer will come out in the settlement. The Government's preferred option was that the negative revenue support grant should be addressed by rates forgone. That would see councils that potentially would lose that funding in 2019-20 have it compensated. That was a preferred option that is subject to the consultation and confirmation in the settlement, which will come out on 6 December.

Sir Geoffrey Clifton-Brown: So I think I have got a hint there.

Alex Skinner: I said that it was the Government's preferred option in the consultation.

Q123 **Chair:** In the next 25 minutes or so, we want to get into some of the issues around individual services. First, I want to talk about housing. With this target of 10,000 new homes, do you expect, Ms Farrar, that authorities that do not currently have a housing revenue account might establish one, in order to take advantage of the borrowing facilities to build those new homes?

Melanie Dawes: Jo, shall I answer that question? Not all local authorities have a housing revenue account and we would not expect them to be suddenly opening one up. The new flexibilities are for those that already have one.

Q124 **Chair:** Can we just unpack that? Of those that don't, you are not expecting them to open one. Presumably, if they meet the right criteria—we know the detail and we don't need to go into it here—they could set up a housing revenue account. They will have to have a certain number of homes to do that, but they could work towards that. Are you saying that you don't expect them to or that you aren't letting them? Just be clear.

Melanie Dawes: We certainly haven't provided for that in our thinking at the moment.

Q125 **Chair:** But is there anything to stop them? Ms Farrar, you used to run a local authority. If you were trying to be creative now and you had a borough without a housing revenue account, and you wanted to get housing built, would you get to the point where you had—

Melanie Dawes: We might have to get back to you on that.

Chair: Do you want to pick this up, Mr Snell, just briefly?



HOUSE OF COMMONS

Melanie Dawes: On your question about the 10,000 homes, just to clarify—

Chair: Yes, 10,000 new homes, or 9,000 if you take the OBR's forecast.

Melanie Dawes: Yes. Just to be clear, that was not a target; it was an estimate.

Chair: Okay. We're going back to our first meeting with you in 2015. I'm glad to see we are being careful about that.

Q126 **Gareth Snell:** Given that the extra units will be available only in authorities where there is a housing revenue account, how are you going to make sure that the houses are built in the right parts of the country?

Melanie Dawes: We will leave that to local authorities to determine. Some of our housing programmes—

Q127 **Gareth Snell:** Sorry, Ms Dawes, no. There is a clear demand in certain parts of the country for additional housing. We know that there are pressure points and hotspots around the country. How, with the administration of this policy, is your Department going to ensure that the 10,000 houses that are the additional 10,000 units—or the target of 10,000 units—will be built in the places where they meet the demand, as opposed to the places that are able to do them?

Melanie Dawes: You really do need to look at our policies in the round here. We have the affordable homes programme, which we are still expecting largely to be for housing association-built social housing and affordable housing. That will still be where the vast majority of the numbers will be coming from on that front, for supported rent of different types. That money is skewed towards areas where affordability is most a problem, but the Government's decision, which was confirmed in the Budget, to lift the housing revenue account is neutral on location, so it gives flexibility to any council to build off their own balance sheet if they wish to.

Q128 **Sir Geoffrey Clifton-Brown:** Surely, if you are going to meet the Government's target of 1 million homes over this Parliament, you are going to need to pull all the levers you possibly can. I represent two councils. The Cotswolds has no housing stock, because it did a large-scale voluntary transfer, so it has no housing revenue account. It desperately needs more social housing, because it has the worst affordability ratio in the whole of the south-west, but it has no housing revenue account. Stroud next door, where the price of housing is much more affordable, has quite a big housing stock and quite a big housing revenue account, and will therefore be able to build quite a lot of extra houses by lifting the cap. Directly following Mr Snell's question, how will you make sure that houses are built in the areas where they are most needed?

Melanie Dawes: The affordable homes grant, which, generally speaking, is also needed for the business model of building new homes for social and affordable rent to work, will be targeted towards areas with a greater affordability problem. That more expensive area that you referred to will



HOUSE OF COMMONS

be more likely to be able to get that money from Homes England than an area where that is less of a problem. It is going to be a different mix in different areas. The original proposal was to have £1 billion of housing revenue account flexibility, which would have been targeted at areas with the greatest affordability problem, but the Government decided to lift the cap instead, because there was so much demand from local authorities for that extra borrowing capacity.

Q129 Sir Geoffrey Clifton-Brown: I am not in any way criticising the lifting of the cap—I think that is a thoroughly good thing. It is just a question of how you are going to get the houses in the areas in which you need them. I am not absolutely sure, in my own head, why Homes England should necessarily give the Cotswolds more money than Stroud.

Melanie Dawes: How we are going to get the homes where they are most needed is through our broader housing strategy. The housing revenue account measure, while very welcome, is only one part of that picture. The 10,000 homes is just one element that we are projecting, but far bigger investment is coming through our other housing programmes, which are much more targeted on housing need.

Chair: We are looking particularly at the planning aspects for chapter 3 of our inquiry into housing, which is ongoing.

Q130 Gareth Snell: My understanding, Ms Dawes, is that the envelope of funding for the new homes bonus is not going to be proportionately increased, so where you have a local authority, such as the one that Sir Geoffrey mentioned, that has an HRA and can start to build quickly, that will potentially mean that the new homes bonus allocation to that authority will be greater, but at a detriment to those local authorities that do not have an HRA. How will you balance that out and make sure that those local authorities do not lose out overall because of not having an HRA?

Melanie Dawes: For this spending review period, we are not expecting that to particularly influence the allocations through the new homes bonus, because it is a bit too soon for the extra borrowing flexibility to have an impact on numbers. It is a question really for the spending review and we will need to look at the new homes bonus as part of that. Your point is precisely one of those that we will be considering then.

Q131 Chair: Can I move on, while we are on the subject of housing, to discretionary housing payments? The DWP produced some figures in July that show that there is quite a variation in how local authorities spend it, ranging from the Isles of Scilly, which does not spend any of its £227—we might want to discount that one as an outlier—to other boroughs that spend more than their allocation. A lot of those, as you can appreciate, are in London. Gateshead is in there as well, and Torfaen and Leeds. That money, if it is not used, gets paid back to your Department. Do you do any redistribution? What do you do with that money when it comes back from those that have not spent their discretionary housing payments?

Melanie Dawes: I am sorry; I do not have that information today.



HOUSE OF COMMONS

Chair: Mr Skinner, do you know? Ms Farrar?

Melanie Dawes: I am sorry; we do not have that information with us.

Q132 **Chair:** Okay. Perhaps you can write to us on that. I wondered if you did any monitoring about that. Nic Dakin MP has written, concerned that North Lincolnshire Council did not spend almost 80% of its budget for the last financial year, despite having high levels of deprivation. There are areas where there is great need, but it is not being spent. Obviously, in some areas where there is great need, it is being spent. Do you do any analysis of how it is being used? It is supposed to be there to ameliorate the impacts of Government policy where there is a challenge in a particular area for a particular individual. Do you do any analysis of that?

Melanie Dawes: I am sorry; I do not have that information with me today, but we are very happy to get back to you on it. It sounds like we ought to be on top of that.

Q133 **Chair:** If you could. We will write to you about that then.

Can I move on to special educational needs and services for children? We know there has been a big squeeze on that budget. Obviously, a lot of that comes through the Department for Education, but there is a link with children's social services as well, because a lot of those young people have an impact. We talked a bit about that earlier.

Are you looking at that interaction between children's social services, particularly for children with disabilities, and special educational needs, dealing with the Department for Education and the sustainability of local councils in funding and supporting those young people?

Melanie Dawes: Yes.

Q134 **Chair:** Can you, Ms Farrar, perhaps give us a bit more detail about how you are doing that?

Jo Farrar: Yes, of course. For this year, special educational needs are part of the dedicated schools grant, and decisions around that will be taken in December. For the spending review, we have a programme of work with DFE and the Treasury. It is led by DFE, and it looks at the relationship between rising demand and funding pressures, and quality of spend. Special educational needs are a big part of that, along with children's mental health, for example. There are a number of factors that they are looking at that we will bring together in order to have an analysis for the spending review.

Q135 **Chair:** Okay, so that is the process. Say I were a parent of a child with a special educational need in my borough, having been funded by the borough even though the money has been cut since 2011—the borough backfilled it. The borough is having to revamp the services. Some of those parents are saying that they are very concerned. They have a child with lifelong challenges that will not get better. There is not a trajectory of improvement, and they are very worried that this process will lead to less funding. They have been cushioned a bit over recent years because



HOUSE OF COMMONS

the council chose to take that approach. Other councils, I know, are very stretched. What will the actual impact be on those children and those families?

Jo Farrar: That is a question for the spending review, but if you are asking whether we are aware of—

Q136 **Chair:** What would you like to see? You used to run a local authority. What would you like to see out of that?

Jo Farrar: We recognise the rising demand in special educational needs, and we recognise the challenge particularly for parents, but also for local authorities. That is one of the strands of this spending review work, because we do recognise that pressure.

Q137 **Chair:** Are you looking at cost shunting? If you do not spend money on these children, there can be a real impact on their needs in health terms and the social needs of the family. It can lead to all sorts of things, including parents falling out of work because of the challenges that it creates. I am not shroud waving; this is the reality of what we all see as constituency MPs. Are you looking at and analysing the knock-on effect of not funding some of these services to a certain level, in order to make sure that you are not just pushing the cost to another part of Government?

Jo Farrar: Absolutely. In fact, the conversation that we had while looking at the spending review work involved other Government Departments including DHSC, so we can look at exactly that.

Q138 **Chair:** What about mental health for children? We had some very interesting evidence from the Department of Health and Social Care the other day where we were hearing from the mental health champion that a lot would depend on the hubs in schools. There are some pilots going on at the moment. The school nurses in those hubs, who we heard from the Department of Health and Social Care are pretty critical to delivering this for adolescents particularly, are funded, of course, by local government. Have you done any analysis of the impact of this discretionary funding by local government on school nurses, and how that impacts in the round on adolescent mental health, given the Government's pledges to tackle that?

Jo Farrar: As you said, DHSC are obviously looking at that. That is a strand of the work that we are doing with DFE alongside the NHS, looking at children's mental health. That is another combined—

Q139 **Chair:** They were really clear that the nurses were a pretty important part of it, but they did not control the spending on school nurses.

Jo Farrar: That is why we are all working together to look at how these things impact on each other. We recognise that children's mental health is an issue, and we are pleased that mental health is a strand of the NHS plan.

Q140 **Chair:** We know all that. Not to be rude, but you have come here to talk



HOUSE OF COMMONS

about Government policy. We all, without exception, welcome a focus on mental health. The challenge is, though, that you have the 2017 Green Paper and you have local authorities playing a major part. All the facts are that their budgets are squeezed, yet they have to provide some of the support on mental health. How will they be able to afford to do that, and in the spending review will you actually be looking to bid for more resources so that local government can play its part, along with Health and others, to make sure that those young people get what they need?

Jo Farrar: We will work together to assess need, particularly with DFE and DHSC. As you know, we work very closely with DHSC. That is the type of thing that we will be looking at, and one of the strands of our work is children's mental health.

Q141 **Chair:** Will anything be coming out before the spending review on this issue, which is obviously a big Government priority?

Jo Farrar: Aside from the NHS plan, and the Green Paper, which is on adult social care—

Q142 **Chair:** In the NHS plan, will we have more clarity about the impact on local government of mental health services for young people in particular?

Jo Farrar: Obviously, I can't say anything in advance of the publication.

Q143 **Chair:** It's not a rocket science question. I was simply asking the question with the assumption the answer would be yes, because it would be very odd if the NHS plan came up with something that relied a lot on local government and there wasn't anything about how local government was going to operate that.

Jo Farrar: I can say that we have been working closely with the NHS on their plan as well as with DHSC, but I can't at the moment say what will be in that because that is a decision for Ministers.

Q144 **Chair:** I'm not asking you to tell us what is in the NHS plan, but will the NHS plan be interwoven with what happens in local government? The timings are different. The NHS plan comes out before the spending review; maybe about the same time as the local government settlement. That's a moot point, but will there be something in the local government side of the equation on what is necessary for the NHS plan to be delivered, or are they separate processes that are not reliant on each other?

Melanie Dawes: It is a good example of the role that we play, which is to make sure that there isn't some commitment in the NHS plan that relies on local government, which local government then cannot afford as part of its spending review settlement once that has been determined next year. It is just the sort of issue we would want to flag and to work with DH on.

Q145 **Chair:** I will take it as a yes that you would try and make them join up.

Melanie Dawes: Yes, we will try to make them join up.

Jo Farrar: Yes, absolutely.

Chair: We will wait and see.

Q146 Sir Geoffrey Clifton-Brown: In Gloucestershire, our higher needs block has risen so fast that the local authority doesn't have a reserve to pay for it, so they are top-slicing their general education budget by half a per cent. The fair funding review provided £4,800 per secondary pupil and they will now only get £4,600 this year. That gap of £200 a pupil is an awful lot of money in a large secondary school. Are you looking at that aspect?

Jo Farrar: We are looking at that as part of our spending review considerations. We recognise the demand pressures from special educational needs.

Melanie Dawes: That reduction of one budget because of pressures in another is exactly the sort of thing we are looking at. It is a good example.

Q147 Sir Geoffrey Clifton-Brown: Do you happen to know off the top of your head how many other local authorities are contemplating top-slicing their general education budget in this way?

Gareth Snell: Stoke is.

Jo Farrar: I don't know how many.

Q148 Sir Geoffrey Clifton-Brown: Could you let us have a note?

Jo Farrar: If we have that information, of course.

Q149 Gareth Snell: Hurrah! Are we getting data? That is very exciting. Following on from Sir Geoffrey's point, there have been some suggestions made that where special educational needs blocks or general education blocks have a deficit, local authorities should look to just top it up from their own general reserve funds. Is that something that you have discussed with the Department for Education as being a sustainable way forward for funding classrooms and schools?

Melanie Dawes: Yes, that is something that we have discussed with the Department for Education in the way that Jo has just described. It's a good example of the kind of inadvertent pressure on local government that can emerge.

Q150 Gareth Snell: I apologise for bringing this back to the sustainability argument. Where did those sorts of funding virements come into your overall sustainability argument? Is that something you are monitoring on a regular basis, as in the example Sir Geoffrey set out, or is it only when it is brought to your attention that you then look at that individual local authority's sustainability?

Melanie Dawes: That was another example of the kind of risk on the sector that we thought was there over the last few months. It was one of the additional factors that we believed was adding more risk into the core local government settlement.



HOUSE OF COMMONS

Q151 Chair: It has increased by 35% in five years from 237,000-odd to 319,000 children, so that is not a recent shift in the number of children with special educational needs. When did you see this trend emerging? We are at a crisis point at the moment with two councils having been taken to court over it, which is potentially a financial risk for them as well, and for the sector.

Melanie Dawes: I'm not sure when it first became something that was a factor for us in terms of the local government risk and the settlement. I know that DFE has been looking at it from a service perspective, as you have just described with court cases and so on, for some time. I can't tell you exactly when it was, but it tipped over for us into something that was affecting our budget.

Q152 Chair: It would be helpful if you could write to us about this. On one level it is education, but there are other huge impacts on children's social services. There are examples of children being bused long distances to specialist provision because the nearest specialist provision has been cut, which has an impact on the social aspects of the family and the ability to work and so on, and also on the costs to the local authority.

Obviously what we are particularly interested in is the local authority costs—I think my colleagues have made that point. Could you write to us about how you are watching the impact on local government? If those court actions go one way, they could be very expensive for local government. We all want to see children supported, but your job is to make sure that the money is available to do that. Are you in negotiations with the Treasury or anyone? Are you talking to the DFE about how you will fund children with special educational needs if those court actions say that the councils have not been spending enough money?

Jo Farrar: Yes, we are. We are aware of those court actions and they are part of our active conversation with DFE. DFE is one of the Departments that we involve when we do our risk assessment judgments of local government, and special educational needs is something that has been on our mind for the last couple of years.

Q153 Chair: I want to move on briefly to schools. We have been doing quite a lot of work on the conversion of academies and on academies generally, and we are interested in the cost to a local authority when a school converts to an academy. It does not get a choice over whether a school converts; an amount of money is provided, but often not enough to cover the costs, so some of the deficit comes its way. You are responsible for new burdens on local government. Is this something that comes in as part of the new burdens? At the moment there seems to be a gap, which is a problem for local government because it quite often costs it money when a school converts.

Alex Skinner: This is a historical issue rather than a new one. The new burdens process does apply, but I am not convinced that we have got it right here, so I think we need to look at it again to make sure that we do.

Q154 Chair: So you haven't done a post-implementation review of sections 5B



HOUSE OF COMMONS

and 5C of the Academies Act 2010?

Alex Skinner: Not that I am aware of.

Melanie Dawes: That would be for DFE. We are aware of the Committee's interest in this, and I think that that is helpful in putting that issue on the table.

Q155 **Chair:** It seems like a DFE issue, but actually there is a very big aspect of it that hits local government budgets.

Melanie Dawes: Yes. It is a good example of where a change in one Government's policy affects the overall local government picture. As Alex said, it is a new burden.

Q156 **Chair:** Again, could you write to us and tell us if there is any plan buried deep somewhere in the Department or if one of your officials might be considering a post-implementation review? That would be welcome news.

My final point—I do not know whether other colleagues want to come in—is on PFI. We heard in the Budget about the centre of excellence that is being set up, and we have talked to the Department of Health about it. That centre of excellence is in the Department of Health, but what is your Department doing to use it or to provide support to local authorities that have large PFI budgets? Payments on those PFI deals are a large cash outflow for cash-strapped local authorities.

Jo Farrar: We work closely with the Cabinet Office in particular on local authorities with PFI deals. We tend to—

Q157 **Chair:** But the Cabinet Office is not where the centre of excellence is, is it? It is in the Department of Health.

Jo Farrar: That's right, but the Cabinet Office facilitates the interaction for us. For example, if there is an authority that we are particularly worried about that is struggling with a PFI, we can access expertise from the centre of excellence to help us, as we have done with one authority at the moment.

Q158 **Chair:** Can you give us some precise examples of changes that have happened as a result of a referral to central Government expertise on PFIs?

Jo Farrar: What has happened is that we have had access to experts who can help us to negotiate contracts, which—

Q159 **Chair:** Yes, I know you have had access, but what have those experts recommended that has made a difference to local government?

Jo Farrar: It is early days, but we are hoping—

Q160 **Chair:** So it is only since the centre of excellence has been set up that you have been doing this.

Jo Farrar: Yes.

Q161 **Chair:** So only since the Budget.



HOUSE OF COMMONS

Melanie Dawes: Well, over the last few years, as the Cabinet Office has built up its commercial capability, there has been a lot of engagement by the Cabinet Office with local government. We saw it on Carillion and we see it on individual issues. Some of those are obviously commercially quite sensitive, but that happens all the time.

Q162 **Chair:** Have you any precise examples of things that have changed? Let us take Mr Snell as the fictitious leader of Stoke Council. He has a big PFI and his budget has been cut, so a large percentage of his budget is going towards the cash payments for PFI. He is worried that that is going to make his council unsustainable, so he comes to you for help. What happens? You don't need to name any local authorities, but do you have a precise example?

Melanie Dawes: I can think of a number of ongoing cases, but they are obviously subject to commercial discussions. We can certainly see whether there are some examples that we can give you that are now historic.

Q163 **Chair:** But even for the ones that are now subject to commercial discussions, we are not asking you to name the authority or give a clue about what the commercial discussions are. Actually, no—can you give us a clue about what kind of commercial discussions they are?

Melanie Dawes: Let me give you a sense of the kind of conversation that happens. A council might come to us, or sometimes the Cabinet Office might come to us and say that it has heard from a supplier that is having problems with a particular council. It can come through a number of different routes. What we would then do is get everyone round the table—certainly ourselves and the Cabinet Office, and usually the chief executive or relevant officers from that council—and have a conversation with them.

Q164 **Chair:** So where does the conversation lead? What practical things have changed or could change?

Melanie Dawes: Sometimes you might find that a negotiating team and particular support are being provided by the Cabinet Office to that council. Sometimes what is going on is that there is a wider Government picture which that council is not aware of, and a wider negotiation that is happening that can help that council. Sometimes the council may have to accept that there is a wider negotiation that means that their issue is just one among many, but that is the sort of dialogue that we try to facilitate.

Q165 **Chair:** We have looked at this, and the NAO has. You cannot easily refinance PFI and save money. You could prolong it, so you were paying the same money over a longer period of time. There are things that can be done. Can you give us any examples of what might be done to ameliorate the impact of PFI on a local authority?

Melanie Dawes: In some cases it might be that there has been a service failure, and there is a really challenging commercial negotiation to have with the supplier. I can certainly think of one of those examples right now.

Q166 **Chair:** And the Cabinet Office can provide some of that commercial negotiation support?



HOUSE OF COMMONS

Melanie Dawes: Yes, they have serious expertise.

Q167 **Chair:** Would they go into the local authority? Would they go into the fictitious Stoke that Mr Snell—

Gareth Snell: It is not fictitious.

Chair: No, I know. That you would be leader is fictitious.

Melanie Dawes: They would sit alongside them if that local authority wanted it.

Q168 **Chair:** They would actually sit alongside?

Melanie Dawes: They might do. Sometimes the local authority is doing a very good job and it is just a question of bringing them abreast of the wider picture and the wider conversation.

Q169 **Chair:** So what is the centre of excellence providing that is new?

Melanie Dawes: It's new. We will have to see to some extent, but as a centre of excellence it will be available for the whole of Government. Sometimes you find Departments host something that looks like and behaves like a Cabinet Office service, but it is located in a Department because that is where the people are. That is the case here, I think, but it certainly is something that we will be looking at.

Q170 **Chair:** But you were saying that when you needed the help for a local authority you could get that through the Cabinet Office before?

Melanie Dawes: Yes, we can.

Q171 **Gareth Snell:** Again, without asking you to give me details on specifics or names, how many instances have there been where the Department has facilitated a significant or substantive change to a PFI contract held by a local authority, and do you anticipate that that rate will increase after the centre of excellence is properly established?

Jo Farrar: As a Department we have not facilitated that. We would expect changes usually to be facilitated by the local authority or the contractor. We tend to then get involved when a situation like that arises. I cannot think of an instance where we have intervened to change a PFI contract.

Melanie Dawes: It is not very common. I am thinking of a handful of cases over the last couple of years that have been of sufficient concern either to the Cabinet Office or to the local authority to come on to our and the Cabinet Office's radar. It is a good question whether there could be more of those. The centre of excellence is partly there to explore that, I think. I cannot really give you an answer to that yet.

Chair: It sounds like the Infrastructure and Projects Authority had one person going round with a briefcase to assess the value for money of PFIs, so I am not convinced that the Government have got a grip on this.

Q172 **Gareth Snell:** How have you quantified potential demand then? If there have only been a handful, and you have now established what sounds



HOUSE OF COMMONS

like a well-meaning but rather expensive centre of excellence within the Department of Health that will then be available to your Department, has the Department done any work to quantify what the demand might be from local authorities to renegotiate tricky or expensive PFI contracts over the next five, 10 or 15 years?

Melanie Dawes: No, we have not done that work yet. This is quite new, so we are going to need to work that through.

Q173 **Gareth Snell:** Isn't it a bit cart before the horse if you have established a centre to renegotiate, potentially, contracts on behalf of local authorities for PFIs but you have not done a single piece of work to identify what that demand might be?

Melanie Dawes: It is not a policy that was initiated by our Department, so I cannot speak for the Cabinet Office or the Department of Health in how they have set it up. What I am saying is that we have not done any work on how local government might be interested in this, but it is early days. It has just been set up, and the whole question of what its budget will be, what the cost recovery is, and whether there is a fee that parts of the public sector pay if they want to avail themselves of this service is all to be developed. That is my understanding.

Q174 **Gareth Snell:** So build it and they will come. That is the strategy is it?

Melanie Dawes: I imagine they are seeking an estimate of demand right now, and we need to work with them to see what demand will be for local government.

Chair: On this, to be fair to Ms Dawes, we have had enough evidence to know that the IPA has one person going to look at PFIs, and the Budget announcement, of course, and some of these things are driven by the Chancellor. I think Ms Dawes might be off the hook on that particular one.

Q175 **Sir Geoffrey Clifton-Brown:** As a last question, can I just ask you about Carillion? It has gone very quiet, but I gather that the administrator is still doing a lot of work. Are you aware of any local authority that still has problems with its ex-Carillion contracts not being transferred to another supplier?

Jo Farrar: No, we are not aware of any.

Q176 **Chair:** It's all fine as far as you know?

Jo Farrar: It is being managed.

Q177 **Chair:** So you are aware of some that are having challenges, but you are helping them or they are managing it themselves?

Jo Farrar: We are aware of authorities that are affected by Carillion and have been working with them.

Q178 **Sir Geoffrey Clifton-Brown:** Where they have actually made a significant loss, are you providing additional funding?



HOUSE OF COMMONS

Jo Farrar: We haven't been providing additional funding, but that is something that the Cabinet Office has been assessing.

Chair: We will still be doing the final numbers on Carillion for some time to come, I think. Nigel Mills has a last point.

Q179 **Nigel Mills:** We are talking about councils struggling for money, but many of my constituents still wonder why they have quite so many councils providing services in their area. Do you have any assessment of whether the unitaries are more financially effective than two-tier areas? Have you got any recommendations to areas that are struggling for money and have a two-tier structure? Perhaps they should be looking to make some savings in that regard.

Melanie Dawes: A unitary structure can often—perhaps always—be a more efficient way of running a council, in the way that you have described. It reduces costs and can often provide for more effective service delivery. The Government's position is that we will welcome any proposals for unitary local government. They need to be agreed locally—that is quite important—but where we receive them, we will generally welcome that and will want to engage with them. There isn't a policy of unitary local government across the whole sector.

Q180 **Nigel Mills:** But if an upper-tier authority in a two-tier area comes to you and says, "We're really struggling," do you go back to them and say, "Have you had a discussion about eliminating your lower-tier authority as a way of becoming more efficient?" Is that something you push them to look at?

Melanie Dawes: I think sharing costs across the tiers is good practice. We also have the business rate retention pools, which encourage local authorities to come together to share risk and opportunity across the tiers. That is one of the reasons why we supported the county proposals for business rates pilots a little while ago. That efficiency across the tiers can often be realised to some extent without a unitary structure.

Q181 **Chair:** But generally what you are saying to Mr Mills is that you don't have a policy to drive devolution or the amalgamation of authorities. Indeed, we have seen the same with the Home Office and police and fire authorities. It is like letting 1,000 flowers bloom. If someone comes to you with a suggestion, you will pick it up?

Melanie Dawes: Yes.

Q182 **Chair:** But there is no driven policy?

Jo Farrar: It has never been a top-down, driven policy.

Q183 **Chair:** There have been times, but it hasn't worked very well politically.

Nigel Mills: Like Northamptonshire.

Jo Farrar: That was a different situation. If there is a council such as Northamptonshire, our Secretary of State has been clear that he can invite proposals, if that is seen to help them. In Northamptonshire, the original



HOUSE OF COMMONS

suggestion for unitarisation came from the county itself. It wasn't something that we enforced on Northamptonshire and we won't do that. It will be a proposal that comes from them.

Chair: Thank you very much indeed for your time. We will be back again before the spending review. I can't remember the exact dates—I don't think we have got them yet. I think we would all say all power to your elbow in the spending review if local government gets more funding. You have heard loud and clear our concerns about sustainability in the round. It is not just about whether a local authority can keep its books balanced; it is about what it can do with the money it has got. That is what you have heard from us today.

Thank you very much indeed. Our report will be out possibly after Christmas at this rate, but we will keep you posted. As ever, the transcript will be on the website uncorrected in the next two days.