

Public Accounts Committee

Oral evidence: [Local Government Governance and Accountability](#), HC 1738

Wednesday 27 March 2019

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Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Chris Evans; Shabana Mahmood; Nigel Mills; Anne Marie Morris; Lee Rowley; Gareth Snell; Anne-Marie Trevelyan.

Sir Amyas Morse Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Aileen Murphie, Director, NAO and Richard Brown, Treasury Officer of Accounts, were in attendance.

Questions 1-128

Witnesses

[I](#): Jacqui McKinlay, Chief Executive, Centre for Public Scrutiny, Lord Gary Porter, Leader, South Holland District Council, Lincolnshire, and Chairman of the Local Government Association, Sharon Taylor, Leader, Stevenage Borough Council, and Rob Whiteman, Chief Executive, Chartered Institute of Public Finance and Accounting.

[II](#): Melanie Dawes, Permanent Secretary, Ministry of Housing, Communities and Local Government, Dr Jo Farrar, Director General, Ministry of Housing, Communities and Local Government and Alex Skinner, Director, Local Government Finance, Ministry of Housing, Communities and Local Government.

Report by the Comptroller and Auditor General
Local auditor reporting in England 2018 (HC 1864)

Examination of witnesses

Witnesses: Jacqui McKinlay, Lord Gary Porter, Sharon Taylor, and Rob Whiteman.

Q1 Chair: Good afternoon and welcome to the Public Accounts Committee on Wednesday 27 March 2019. We are here to consider local government governance and accountability, which follows on neatly from our recent Report, "Auditing local government". It is an area of great interest to us, because as local government is changing, with much more commercial activity and lots of great financial strain, the governance of how money is spent is particularly important.

The NAO has done a very helpful Report, which includes surveys of the opinions of people within local government, because the Department does not really survey governance directly. We are very interested in that, and we are interested to hear your views on it.

In this era, as local government takes on what one could argue is riskier activity, the governance and probity arrangements are particularly important. One thing that we would say is that last time we looked at the issue, local government was way up there compared with the health sector, but we are still keen to hear from you about what is and is not working and about where you think the pressure for improvement in how local government is managing things could be increased.

We will have a vote at 3 pm. We expect questions to this panel to take between 40 and 45 minutes, so we will aim to finish by 3.30 pm, with the vote in the middle—apologies, but that is democracy in action.

Let me introduce our witnesses. From my left to right, we have Rob Whiteman, chief executive of CIPFA, the Chartered Institute of Public Finance and Accountancy; Jacqui McKinlay, chief executive of the Centre for Public Scrutiny; Lord Gary Porter, leader of South Holland District Council in Lincolnshire and chair of the Local Government Association; and Sharon Taylor, leader of Stevenage Borough Council. A warm welcome to you—we have a mixture of those who are looking at scrutiny and those who actually run councils.

Let me kick off by asking you what you think are the particular challenges and risks for local authority governance at this time. Shall we start with Sharon Taylor and work our way along?

Sharon Taylor: With the significant challenges that we have faced on funding, we have to be ever cautious to make sure that we keep our funding according to the priorities of our residents, but I think it has been more important than ever to make sure that we are delivering value for money for those residents. It is a particular priority for all of us to make sure that we do that.

Alongside the cuts in funding, my authority will have no local government grant funding at all from this year. All of our grant funding—about £5.5 million-worth—has been removed. We rely now on business rates—in Stevenage, we raised £44 million in business rates, and we get back about £2.4 million—along with council tax income and fees and charges for services we deliver. That is our total income now.

Another issue is expectations. We have a population that is getting very different types of customer service from different organisations, and they expect that level of service from their local council. With the funding cuts that we have experienced, it can be ever more difficult to provide that, and we have had to change the way we do things in order to rise to that challenge.

The demand that we are all facing is a really big issue. Whether it is demographic changes in demand around adult care services and children's services, or demand driven by the expectations of our residents, it has caused us a significant amount of concern in local government.

We currently anticipate a funding gap of about £3.1 billion, mainly across adult care services and children's services, so we are having to be creative in how we manage our finances. That requires greater concentration on how we manage those finances, on how they are overseen and on how we look after them. It puts greater pressure on functions like audit and on my members who are on the audit committee. I would say that there are great opportunities too for both our audit committee and our licensing committee to take a wider role in what the council does.

Chair: We will come back to things like the role of the section 151 officer in a moment, but first let me bring in Lord Porter.

Lord Porter: I am not concerned at all, to be blunt. The scrutiny and oversight function in councils is stronger now than it has ever been. The regime that supports us doing all the stuff that we do through the LGA, the old IDA—peer review—is stronger now than it has ever been. Less councils are likely to fall over now, despite having £15 billion of a £30 billion budget taken away from us. We are in a considerably less healthy financial position than we have ever been, yet we are less at risk of less professional behaviour being able to be used in councils.

You are right that we have to take more risky activity than we used to. I think 172 councils come out of direct grant funding from the Government this year. It is to be expected that those services that people rely on will still have to be delivered. If we are not getting the money from central Government, we have to earn it. Whenever you earn money, you take more risk than you do if you just sit there with a begging bowl.

A deliberate part of the Government's strategy is to make local government much more resilient and self-financed. On that basis, I think we are in a much healthier position than we were. If you look at the risks that we would have been running 10 years ago, the risk would only be marginally less, but the money we had to run the risk through would have

been twice as great. The Government could not have it both ways: you could not give us less, but expect us to do more and then say, "Don't take any risks."

I have seen criticism about councils being more entrepreneurial, but as a taxpayer would you rather have your elderly relatives or children looked after in good and safe systems where the council has managed to get the money for that from somebody else, or would you rather that your child or elderly parent was at risk of dying? We do take business risks, but if we do not take them, the risks to the people who we look after will be greater.

Q2 Chair: We will come back to some of that in a moment. Jacqui McKinlay, from your overarching perspective, what do you think?

Jacqui McKinlay: I would agree with Lord Porter: I think the system is fundamentally sound. However, as Councillor Taylor has outlined, the amount of pressure that is currently on the system is having an impact. We are starting to see that the new demands and the amount of complexity that councils are dealing with are creating some challenges for governance. As an impact of austerity, roles, which previously would have been quite senior in an organisation and quite well staffed, for example scrutiny teams, are a bit rarer than they were.

We should not be complacent, but there are pressures on the system that we need to look at. I think it would also be naive of us to think that we are immune to trust in public institutions. How do we equip councils to work differently in the future, to meet the new way that citizens want to interact with public services? I think that involves new demands around transparency and involvement where decisions sit. Looking up and looking down, it feels like a good time for us to start to review that system, to ask whether the standards are high enough and how we will ensure that we are fit for the future, to match the new demands that citizens will put on the system.

Q3 Chair: Has the Centre for Public Scrutiny done any work to look at the number of scrutiny staff? You talked about the teams being smaller now. Do you have any evidence for that?

Jacqui McKinlay: We used to ask that question but it became quite a complicated question to ask. Whereas someone used to have the title of scrutiny officer, you now find that it is democratic services or policy people, and it is spread throughout the organisation.

We do know that teams are smaller, both evidentially and if you go out and see the practice. I would agree with Lord Porter that overall there is excellent scrutiny going on, but we cannot be complacent around that. From a financial point of view, we are starting to see some risks about how the local system connects, as well as risks that financial scrutiny tends to sit in one place, whereas really what you would expect, particularly at these times, is that every committee, from children through to transport, really should have a good grasp of the finances, and I don't think that is happening as much.



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Rob Whiteman: You asked about risk, Chair. Obviously, the risk is that at a time when so many councils are under pressure, because they are dealing with fewer resources, governance needs to be strengthened rather than weakened. At a time when you are facing challenges, on the whole you need to have better governance, to ensure that the things that you are doing to get out of the difficult position that you are in, and make things better, not worse.

I think evidence from anywhere would show that the risk is that governance is seen as a costly overhead and so perhaps should be cut when councils face pressure, when actually that is a time when you need better governance and you need to invest in that overhead.

The second point I would make is that local government is often pretty well run and has good governance—I agree with much of what my colleagues have said—but there is a normal distribution curve. Some councils are better run than others, there are councils in the middle, and of course there are councils that are less well run than others. At the moment, how is that dealt with? We do need to look at governance—the checks and balances that take place locally—to make sure that action is taken where it is needed.

In that context, I would just raise a couple of issues. First, there has been enormous change over the past decade, including the abolition of the standards regime, the abolition of the surcharge, the abolition of the Audit Commission and the weakening of statutory protection for officers. Any one of those reforms in its own right might have been perfectly justified, but what does that mean for the sum total of good governance at the moment? For me, there is a big gap between a Secretary of State overseeing a system and having quite nuclear powers to intervene when something goes wrong in somewhere like Northamptonshire. Generally, the Department reacts well when something goes wrong, but there is quite a big gap between an unregulated system and the nuclear powers that exist as a reaction to failure. The question for all of us involved in trying to advise about good governance is what preventive steps can be taken to strengthen local governance in order that that can be avoided.

My final point is that the last decade has seen quite a lot of divergence in the way this is dealt with across the four nations of the UK. Under the traditional public audit model, local government audit is different from audit in the private sector. Auditors do sign off the accounts, but they have public-interest reporting requirements to protect the public. The draft accounts are open to the public for scrutiny and traditionally auditors were independently appointed in order that they did not fear the sack if they gave unwelcome advice. Of course we have seen a big change to that in England. While the Auditors General of Scotland, Wales and Northern Ireland are not watchdogs in an Audit Commission sense, they do appoint auditors to local public bodies. In England, councils and hospital trusts appoint their own auditors, and I think many councils now will be paying half the audit fees they were a decade ago.



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Long before the Audit Commission was created—let alone abolished—district audit services traditionally had the role of advising on governance and on efficiency, economy and effectiveness. I think the evidence would be that there is a bit less of that public-interest reporting, and a little bit less challenge to local governance from the district auditor. As I say, that goes back to the 19th century, but some of that was swept aside with the abolition of the Audit Commission, and there are some unintended consequences of that.

- Q4 **Chair:** I definitely want to come back to that, but I want to go back first of all to section 151 officers. Councillor Taylor and Lord Porter, where does your section 151 officer sit in your structure? Do they report directly to the chief executive, or are they more junior than that?

Sharon Taylor: Yes, our section 151 officer reports directly and sits on the senior leadership team.

Lord Porter: Same.

- Q5 **Chair:** But we know that is not true everywhere. Is this—advising or noticing what is happening in terms of where section 151 officers sit—something you pick up at the LGA, Lord Porter?

Lord Porter: I am not aware of there being any issues around that, other than that people who do some of that for a living sometimes get upset that they are not sitting at the top table. Equally, we have people who do senior planning who are upset that they do not sit at the top table. Given the financial restraints we are all operating under, it is not possible to have 10 people in a small district sitting at the top table. That would be an absolutely insane waste of public money.

Can I just press Rob's point about the audit fees going down by 50%? It is more than that; they have gone down by nearly two thirds. I save enough money on my audit now to pay more money than I pay to my chief executive, and I am a small district council. Local government was being robbed blind when we had the old system. We were paying far too much for a very poor service. As I have said before, councils were more at risk then than they are now, proportional to the amount of resources we have at our disposal.

- Q6 **Chair:** I am going to ask Rob Whiteman to respond to that, and then I will bring in Mr Snell.

Rob Whiteman: The NAO Report gave some quite interesting insights. Chief financial officers who are not at the top table only feel half as confident as those who are at director level that their advice is going to be taken. I think we need to consider that. Members will know that local governance is different from Westminster. It is based on the idea that officials give open advice on the face of a report and officials respect that their advice might not be taken, and members respect that they cannot have the advice that they would like, but the advice that officers think they need to give.

I think there is a risk. If the confidence level of one's advice being taken



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as reported in the NAO survey, which had a very high rate of return, is that there is only half the confidence that your advice will be listened to, there is a risk that people will be bullied into giving the advice that is wanted on buying a shopping centre or signing off some cuts. That is a risk that worries me considerably, and is not something that one sees happen in other sectors. You don't see in health or the corporate sector organisations facing pressure and saying, "The best way we can deal with this is to relegate the role of the finance director."

Lord Porter: That's because they don't have 151 officers, do they, Rob? That is why the health service is in such a state. If the health service were under as much financial scrutiny as local government is, we wouldn't be chucking so much money away on the health service.

Q7 **Chair:** We highlighted in our last Report the disparities between health and local government. Could I ask Jacqui McKinlay and Rob Whiteman for quick answers on whether they have done any surveys of 151 officers? Probably not you, Jacqui McKinlay, but Mr Whiteman.

Rob Whiteman: Our work with 151 officers would concur with the NAO Report, that officers feel less confident.

Q8 **Chair:** Is that a routine bit of work? Is there a survey?

Rob Whiteman: Yes, and obviously we give a lot of support to members, too. We have also carried out an ethics survey, which is not only a local government issue, where 57% of accountants working in the public sector feel that at times they are compromised ethically in what they are asked to do. That has similar rates in local government, as to health and central Government. I am not highlighting that as a local government problem but clearly finance officers feel under a great deal of pressure in the advice that they are being asked to give.

Councillor Sharon Taylor: I do not presume to be in every authority and know what every authority does but, looking at the NAO figure that 98% of financial officers agreed that they were able to give challenging advice to elected members, it is difficult to reconcile that with some of the things that Mr Whiteman is saying. I don't understand that figure.

I would say that we also have a very effective peer review process, which you may be coming on to, Chair. When I have been into authorities where there is any suggestion that there might be an issue around the finances, we are provided with additional finance support from a section 151 officer from another authority, to come in with us and support us in the work we do, looking at that authority.

The arrangements for local government are exceptional and I work with many other public authorities. We have a very rigorous process for monitoring and supporting each other with ethics and the day-to-day financial management.

Chair: One or two of you said at the beginning that the building blocks are there, that it is not a system in crisis. What we are keen to hear from you



is where there are stresses and strains.

- Q9 **Gareth Snell:** I have a question for Councillor Porter and in particular Councillor Taylor, because you serve on two authorities, one in administration and one in opposition. In terms of section 151 officers, you are the leader of your borough council, so accessibility to yours is almost a given. As an opposition member on a larger authority, where there will be more breadth to the demands we are looking at, how accessible do you think 151 officers are to other elected members? If the 151 officer is not able to speak to opposition members or back benchers of the administration party, sometimes they may be giving very good advice but that advice is to a very small group of people.

Sharon Taylor: What is probably quite an unusual insight to this is that my chief executive has just been appointed as the section 151 officer for Hertfordshire County Council and is actually going there.

- Q10 **Gareth Snell:** I bet the leader of the county council loves that.

Sharon Taylor: My experience of this, and I hope my authorities are not unusual, is that I serve on Hertfordshire County Council as a county councillor. I am the finance lead for my group at the county council. I have had exceptionally good support from the Hertfordshire County Council finance officers. They work very closely. The budget is obviously significantly more complicated at the county council than the Stevenage budget is, and I get very good support, both on working through the budget process but also on any questions I've got around budget—I serve on the resources panel at the county council—I get very good support from those officers whenever I ask for it. So I would not have any question that the advice given is impartial and that members across all parties are supported. I don't have any problem with that.

In my own council, we have a budget process that involves a cross-party group of members working throughout the year, because of the level of savings we have had to achieve. Because of the nature of how we work on our budgets in Stevenage, they have had the support from our chief finance officer and other finance officers to draw up the budget proposals, and that's worked very well for us. I know it is a bit strange, but my budget has gone through on a unanimous vote for probably the last five years, I think. *[Interruption.]* I know that is really unusual, but I can honestly say I have had support, both in control of a council and in opposition.

- Q11 **Anne Marie Morris:** Lord Porter and Ms McKinlay, you have painted very rosy pictures, and basically you are saying, "Governance is better than it ever has been before." You have got significant challenges to face going forwards. One of them, it seems to me, is this whole commercial contracting issue and the need to raise more money and work in your own right. The second is, effectively, this integration of grants for adult social care. For me, that leads to significant governance issues, for all the reasons that you have articulated.

Lord Porter first—what would you like to see change, to ensure good



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governance, given those two changes in what you need, as a local authority, to be looking at and delivering to your constituents?

Lord Porter: I think we do have good governance—I don't need anything for good governance—but if you wanted to make my life easier, give me the money back that you stopped giving me. That would make my life much easier.

- Q12 **Anne Marie Morris:** How are you going to ensure that when you look at, for example, adult social care, which, if you like, has one foot in the Department of Health and one foot in the Department for Communities and Local Government, as it was, or whatever its new acronym is? How are you going to scrutinise whether or not within social care the governance arrangements across, if you like, the two bits of the system are working? At the moment the NHS and the Department of Health have got nothing to do with how you operate your governance.

Lord Porter: The work that our people do is key to having a sustainable health service, though. That was the folly of putting all the money that was made available to the health service to be spent through NHS England. That is not the place to get the most efficient use of that money. The most efficient use of that money, as we have seen month on month with the decrease in delayed transfers of care figures, is to place a lot of that through local government.

That money has landed in the wrong Department. If you wanted to get the best service for the money, and that's what we should be looking at—what's the best for the people out on the street? It's not putting it all through a big, monolithic organisation that has no political scrutiny. It would be far better to put it through our organisations, where we can be held to account. And if I don't spend that money wisely, at some point the electorate can get rid of me. There is no ability to do that in the health service.

- Q13 **Anne Marie Morris:** Okay, but what is in fact happening is that much of the money that goes into the NHS through collaborative agreements is actually going across. Given all the shortcomings you describe, in terms of scrutiny within health as against local government, how are we ensuring that that collaborative arrangement works and the money is being spent in the best possible way?

Lord Porter: Local health accountability—that's what does it.

- Q14 **Chair:** But do you think that is good enough, because there is that interface that we have looked at—?

Lord Porter: I think the upper-tier leaders in a given area should also have the responsibility for the health service in that area, and all of it—not just the kind of Public Health England stuff. We should be running the GPs and the hospitals. I don't mean physically going out there and making sure the beds are all clean and tidy, but there should be some political oversight of all the state provision in an area.



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The only way you can make people behave is by being able to sack them, and the only people you can sack in the country at the moment are politicians. I am sure you are all kind of wary about where we are going in the current debates that are going on, and everybody is looking behind them to see whether that interview is coming sooner rather than later.

- Q15 **Chair:** We are in danger—you have made a good pitch, Lord Porter, but I think we need to get back to a certain—*[Interruption.]* The permanent secretary is listening, but I think even she does not have the power to sort that out, but good try.

Sharon Taylor : Would you mind if I referred to something related to this? We increasingly go into partnership working arrangements across the public sector and with the private sector. I was involved in doing a report in 2015 about improving the public sector, and I do think there is a case for a higher level of public scrutiny—local public accounts committees, whether they sit at county level or regional level—so that, across the expenditure we spend, in the public sector there is some form of scrutiny. Councillors would have to be on them, I think. I agree with Gary. There is all this talk about having commissioners for this and commissioners for that. You have elected representatives all over the country. Why not use them for monitoring the public spend in every area and on every bit of public spending. But you probably would need another mechanism, like a public accounts committee, at local level in order to achieve that. I think it's something that we ought to be thinking about as we increasingly collaborate and work in partnership with others.

Anne Marie Morris: That was a very helpful suggestion.

Chair: I am just going to bring Jacqui McKinlay in and then Mr Snell at some point.

Jacqui McKinlay: On the first point, about commercial arrangements, there have been some stories in the past of scrutiny committees not being able to access information about contracts through use of commercial confidentiality. The Select Committee report on scrutiny effectiveness and local government—the guidance is due out shortly—will start to address issues about access to information and will hopefully help with that.

As Councillor Taylor said, we have for quite a few years promoted the idea of local public accounts committees, because what we find is that governance tends to operate on a very linear organisational perspective. What we then tend to do is build new ways of working on top of that that do not really have the same sort of power or accountability as the organisational one. Decisions then don't tend to get made in public—the same level of transparency. We get lots of corridor kind of arrangements happening.

What we have found, though, is a real lack of appetite at the moment for local public accounts committees, because why would you want another level of scrutiny there? *[Interruption.]* At the moment, as everyone has said, there is a lot of pressure on a system trying to introduce new



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arrangements, but the place I think is perfect for it is around combined authorities, where you have already started to get a level of integration happening, particularly if you look at Greater Manchester and others. But that sense of a system-wide set-up that is looking at public spend from an outcome perspective as well as value for money must be part of the answer.

- Q16 **Chair:** I am going to bring Rob Whiteman in, but I am aware that we will have a vote at 3 o'clock, so Mr Snell, if you could be brief, and if Mr Whiteman could be brief—

Rob Whiteman: Very briefly, Public Health England thinks that about 4% of the NHS budget is spent on prevention. If you include statins and other drug treatments for chronic conditions, it may be 7%. That is probably similar to the position for local government and other organisations, and of course what ICSs and STPs are trying to do is to get a shared budget locally in order to invest in prevention so that we see more social care and fewer people presenting at A&E. That is quite hard when all the parts of the system are under financial pressure. Also, they have different financial governance. It is illegal for a council to have a deficit budget; it is legal for trusts to run into deficit. And of course, when organisations are under pressure, they tend to look after their own budget first, so what one sees around the country is that some people are making real progress on integration, but in other places it is getting stuck.

- Q17 **Gareth Snell:** I am going to ask about accountability, because you mentioned public accountability. I agree with you, Councillor Taylor, that there is a role for local authorities at all levels to have a bigger influence in scrutinising public spending. This question is for Ms McKinlay, Lord Porter and Councillor Taylor. I want to ask about citizen candidates. When I was a councillor in Staffordshire, there was somebody who would write to me pretty much every day about everything that I had ever done, touched, seen, sneezed—anything. He was a rarity. And when we did consultations, we would get the same people replying. How do you envisage that we can improve local authority accountability outside election cycles, particularly if you have all elections every four years, with the public—not so that I would say councils are on their toes, but so that they are engaged with the public in a way that has influence?

Lord Porter: Everything we spend over £500 is published on a website, so it is not hard; if you are bothered about your council wasting your money, you can check everything they spend. If it is really easy for people to engage, why do we need to worry about the fact that they are not? I don't understand the equation. If the public have access to the information they need to hold us to account and they choose not to do anything with it, I think it is fairly safe to take a view that they are more or less content with what is going on. They know they can hold us to account every four years, which is better than happens in this place. The scrutiny of me as the leader of a council was far greater than the scrutiny of me sitting up the other end of this building. The public declarations I have to make in my council are far stronger than they are in this building. If we are content that the nation is governed in a way that is less rigorous, I don't



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understand why we are so bothered about the way we are governed locally— *[Interruption.]*

Chair: You will have time to think about that while we go and vote. We will be back and start again in about 10 minutes, as soon as we are quorate.

Sitting suspended for a Division in the House.

On resuming—

- Q18 **Gareth Snell:** On your point, Lord Porter, that is exactly the same approach that my granddad used to take when he was a councillor. He said, "If they are not complaining, they must be happy". Flipping that the other way—I appreciate what you say about publishing everything over £500—what more do you think could be done to get more members of the public interested, not only in the financial scrutiny of individual spending, but in how the council is being run and how the community is being run by the council?

Sharon Taylor : May I make some points on that? For my sins, I also chair the Co-Operative Councils Innovation Network. One of the things that the co-operative councils are doing—we now have 64 members of that network—is work just on the issue you have been raising, Mr Snell, which is about getting our residents more engaged with services earlier so that they help us design them.

My authority is running a neighbourhoods pilot to look at how we get people more engaged at the neighbourhood level. There are some building blocks that you need to have. Before you bring people in to look at your accounts, you need some building blocks so that they understand that they can be, and that we want them to be, involved in council services—getting them designing the local services that they use at that very local level.

Some of our other councils are doing this: we have pilot projects of policy labs every year. We have just let six new projects for that. Our councils bid for those; we had a huge range of bids this year, and we have granted six of them. That is about a really deep level of engagement of the public in the services that we deliver.

We also bring in a group of residents, who are selected for us by a polling company, every year to go through an exercise on our budget, to have a look at it, and to decide how it works, to try to make some of the decisions that we might make—with a bit of briefing, obviously. You cannot do that to people cold.

We have about 50 people in every year, and we think of them, when they go out, as ambassadors. Quite often they will come in—they are a hugely diverse group—saying, "We think you should be doing this, that and the other." They go through the sort of exercises that we do, and at the end of the day they go home and say, "I'm really glad I don't have to make the decisions." It is a very useful exercise.



There are lots of things that you can do—around your council structures as well. We always have a main debate at full council on a local topic. That encourages people to come in. I can't say that we have them bashing the doors of the town hall down to get in, but we always have a main debate, so people are encouraged to come in, find out what their council is doing, and stay and hear some of the reports that we are considering at full council. That is just a quick sample, but I think there are lots of things that you can do to get more residents engaged.

I agree with Gary that it is not for want of information. I do not know whether anyone follows me on Twitter, but I had a long dialogue with one of my residents last night about parking charges in the town centre. These new forms of interaction on social media are great for people just being able to ask you random questions. Some of them you can answer straight away; some you have to put off for a little while. I think that is very healthy.

Jacqui McKinlay: I think the principle of better engagement is happening only in pockets in organisations generally. Social care, for example, has much more of a history of co-design and co-production. I agree that all the basics are there—no one can say that there is not enough information—but it feels as if, with the world of engagement, deliberative democracy, citizens' juries et cetera, the world is slightly moving on. Not all councils are catching up with it.

The principle that we need to be making more collective decisions, and that we need to devolve decisions where possible to communities, is happening. I do not think that we can keep saying, "Well, the information is there." We need to find ways to connect to people where it is relevant to them. There are some decisions—some technical things—where that is what you are elected for, so you should go away and do it. However, if we are going to afford the future, that is where we get that better connection, and we need to get up to speed with what some of the ways to do that are.

- Q19 **Chair:** One of the reasons why I am cautious about local public accounts committees is not, of course, that we are not in favour of public accounts committees on the Public Accounts Committee; there is potentially a huge resource issue. You talked about combined authorities. It may be more realistic there, as you say. Is it a realistic option, and what resource would be needed? Do you think that it could be shared? To be proper, it would have to be separate.

Jacqui McKinlay: As Rob said earlier, you need to invest in order to get the outcomes that you want. If you look at the amounts of money that have been spent locally, and at some of the amounts of money that have been spent through local enterprise partnerships and combined authorities, in reality you are probably talking about only a small percentage of that that has probably already been spent in pockets of organisations throughout. On paper, it might look as if we need to make an additional investment, so where is that money coming from? However,



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it might mean that we could stop certain other activities that could happen.

One of the other queries was: do we have enough expert staff out there who could do that? The answer is yes—again, you already have a lot of those out there. It would be an investment, but if we are going to continue to devolve money, we also need to see the assurance mechanism follow that. If not, your job will be always looking out to where the devolved money is going—so I think we can.

- Q20 **Chair:** Let's go back to what we were discussing at the beginning about the changes—such things as the commercial activity, and those different risks. I know that you have said, Lord Porter, that, broadly, if I can paraphrase you, everything is pretty good, but there is an interesting challenge with the commercial activities. We have looked at this in other reports that we have done.

In governance terms, it is quite a different thing when there is less public scrutiny of that, because the public do not get access to the private contracts as they do to council funding. You have members who may have differing levels of experience, but possibly not experience in those areas.

Then you have officers—I look particularly at Rob Whiteman—who, in the public sector, are not necessarily all as experienced as others, and some of whom are very inexperienced in dealing with those commercial things. In terms of governance, are there things that the Department needs to be looking at to make sure that it is catching any of you if you ever fail? I know the LGA has a role and others have a role, but things could go badly wrong. We know, for instance, that Spelthorne, Warrington and Eastleigh are in quite challenging circumstances at the moment.

Rob Whiteman: Briefly, there are two issues. Obviously, we set quite stringent requirements on CFOs with regard to their CPD. They are professionally regulated, and if they do not carry out CPD to hone their skills on issues that are confronting them, potentially we do not maintain their licences to practise.

- Q21 **Chair:** Have you revoked any licences in recent years?

Rob Whiteman: At any one stage, of our 14,000 members, we usually have about 30 people going through some form of process. Of course, that means that the vast majority of accountants are acting with proper degrees of skills, but actually we take action where we think that is not taking place.

There is a huge amount of pressure on local government, because it relatively has revenue problems. On the capital freedoms it enjoys through the prudential code, we need to make sure that the permissive regime of the prudential code continues and that local government make good use of it to provide services to regenerate their areas. If they are getting into commercial activity purely to raise income, however, there is an extra degree of governance that is needed, with independent advice to make



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sure that officials are not conflicted and that members can get genuinely good independent advice in terms of whether they are good deals.

Of course, you will know, Chair, that we have tightened the prudential code recently, because we had some concerns. One particular council that everybody talks about has a £30 million turnover and borrowed £1 billion to invest commercially, often outside its borough.

We have worked well with the Department on that. I think it is an example of where the Department maintains some oversight of the issues and gets intelligence. In conjunction with the Department, we have strengthened the prudential code to stop out-of-borough investments of that sort, because it places an extra risk on the council.

Q22 Chair: I will come to Lord Porter in a moment. In terms of Northamptonshire, when were you aware there were problems there? What was your role in alerting anybody in the Department or the system? Lots of people were involved. We are trying to divine where the responsibility lies to make sure that, in extremis, when something is going wrong, it is caught early enough and tackled.

Rob Whiteman: The interesting question here is that we were all aware that Northants was going in the wrong direction. We were working with the CFO and the LGA was working with members and the chief executive. The Department was aware.

The policy question for the Department is, how is that oversight dealt with and does it need to be more transparent, so that if concerns are shared across players within the system, there is a better way than at the moment of preventing failure rather than reacting to it after the event? The Department knows very often, within the Department, what is happening. Its oversight of the system—without recreating the Audit Commission and templates of what “good” looks like—can be strengthened without recreating the problems that we experienced with the Audit Commission.

Lord Porter: As Rob said, Northamptonshire was an open secret. Conversations were taking place there that purely would not have been able to take place had we had to do everything in the full glare of having to put a report into the public domain every week about what was going on. There are a number of conversations that are always going on with different councils around the country about their performance in certain areas. For that to work, it has to be done on an under-the-radar basis.

We talk to the Department on a weekly basis, both at a managerial and a political level. Our officers talk to Rob’s officers, members talk across the piece, and each of the political groups has improvement boards that work directly into the groups, so there is plenty of oversight about what is going on.

Q23 Anne Marie Morris: For me, there is a question of joining up the dots. Both Ms McKinlay and Lord Porter have said it’s all wonderful, so my question is, when you have audit committees, internal audit, external



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audit, section 151 officers, overview and scrutiny, there is a whole load of governance going on, but is there any joining up of the dots of all of those bits of scrutiny? Does somebody at two levels—at council level and Government level—actually pull that together and draw some learning from it? Otherwise, it seems to me that there might be lots of good stuff going on, but we will never know where the holes in the system are. Maybe, Ms McKinlay, you could give us a response.

Jacqui McKinlay: The effectiveness of governance locally is absolutely dependent on co-ordination, and generally that comes down to the culture of the organisation. From a leadership—both an officer and a member—point of view, if they take governance seriously, if they buy into it and are open to challenge, it then flows through the organisation. The scrutiny work programme will reflect the priorities of the executive and the public, and link well with audit. You will get the joining of the dots taking place; you will get that collective picture.

Q24 **Anne Marie Morris:** How much of that actually happens?

Jacqui McKinlay: I think in the majority of cases, it does, but where you find there are failings, there will be governance failings in there—you do not tend to find there has been a failing and the governance all works well. However, sometimes from a pure governance point of view—"What did the audit reports say? Was scrutiny happening?"—it can look as if everything is fine, but then you will go into an organisation and they actually haven't had a peer review for a while, audit has not been working as effectively, and scrutiny has not been getting the right financial information at the right time or been encouraged to scrutinise. That is where you need the local intelligence.

As for where improvements could be made, I agree that the system is working well. However, there could probably be a bit better sharing of insight across organisations and a bit more encouragement from an improvement point of view, so that before councils that are not necessarily where Northamptonshire were, but are a couple of stages before, hit the stage of wanting to keep things to themselves, they feel like they can raise their head above the parapet.

I do think there is a gap in learning from where there have been interventions. Where you get a good council—Rotherham and others—they will absolutely share their story. However, it feels like there is probably a bit more that we could do there, so that for those councils that want to learn from the insights of a Birmingham, a Rotherham or a K&C when we get there, there is a bit more of a process and a structure around that, rather than just relying on the council itself to go out and tell a story.

Q25 **Anne Marie Morris:** How would that be put in place? Is that something that central Government should be doing, or is it local? How would you do it?

Sharon Taylor: I think this is where the peer review process is so powerful, because we have an improvement board at the LGA; we have our regional improvement peers who work across all the councils in their

region; and then we have the teams that go in and do the reviews, which will be working with both to try to make sure that where there are issues, we are flagging them up as early as possible and dealing with them.

Q26 Anne Marie Morris: What about collecting the best practice?

Sharon Taylor: We have all sorts of methods of sharing best practice. There are methods in the LGA, which we use the improvement board to flag up—in fact, the LGA has published two documents in the past couple of weeks, and I know about them, because my council is in them. One is on public health and delivering public health services, and the other one is around tackling modern slavery.

There are all sorts of ways, and then the political groups do this, as well. I brought these along just to show you: my political group—I am sure the others do the same—produces these booklets of best practice, and then networks like my own, the Co-op network, delivers the same sort of thing as well. We have lots of ways of sharing good practice, and these are across the board. They are not just service delivery; they are about process as well. They are about finance and all the—

Q27 Anne Marie Morris: That is all about “this is how we could be brilliant.” That is great, and I am glad you are doing it, but it is not quite the same thing as learning from the mistakes. Where do the mistakes get recorded, and who actually looks at those? That is not quite the same as those big-picture issues. How do those get packaged?

Lord Porter: The improvement board does it at the LGA. Nationally, all bar four councils are members, so there are four that we cannot interfere in, but with the rest, we have interference capacity. Each of the political groups has its own improvement board, each of them has a national lead peer, and each of them has regional lead peers.

We capture all of the intelligence locally and feed that into the centre. Then we design programmes to train out the things we found that were going wrong. We do loads and loads of different types of leadership academy. We work with the Leadership Centre for Local Government on designing stuff. There are never enough but there are plenty of avenues where we can share, capture best practice or worst practice, more importantly for this conversation, and share what went wrong and scenario-plan for, “If this was in your case, how would you handle it?”

Sharon Taylor: I have taken part in two courses for members on finances this year, and I know the same structure and network exists for officers as well. We pick up issues and we share the best practice around that people have employed in dealing with those, through this kind of training process, through the leadership training that we offer and through the mentoring programmes as well. We have mentoring of new leaders and I know the same exists on the officer side. We share those issues that are emerging with our colleagues.

Rob Whiteman: Perhaps I could give the example that you asked about and then just add to it. CIPFA guidance on audit committees is that they



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will be more effective if they have independent members. That would mean independent members who can challenge commercial decisions or other account transactions taking place. We think audit committees are stronger if they have independent members.

That is only guidance; it is not mandatory. We don't have the ability to set mandatory guidance on audit committees. We can set mandatory guidance on what CFOs have to do, as professionally regulated members. I think audit committees are in need of improvement in the sector.

The policy question for the Department is in the setting of the governance framework, where good local decisions are set by checks and balances, with members working with statutory officers, with external audit and an internal audit committee. The Department has a more transparent oversight role to say where some elements of that system need to be improved, rather than all of us maybe feeling privately that audit committees can be improved but not doing anything about it. I hope that answers your question.

- Q28 **Anne Marie Morris:** It does. I have one final question. If what you say is correct—and it sounds to me like a sensible proposal—what does central Government need to do differently? Right now, reading the NAO Report, there is a sense that central Government does not know what it is going on and doesn't do anything with the various bits of data it collects.

Lord Porter: That's massively misleading.

Anne Marie Morris: Can I ask Mr Whiteman to reply?

Rob Whiteman: I think central Government often does know what is going on, actually. I think the question is publicly how it deals with the information that it has. Linked to the point I made at the beginning, how does it cover off those issues when formally and publicly there is quite a big gap between, in effect, an unregulated sector and the nuclear powers that the Secretary of State holds?

I think the Department should be seen to have an oversight brief of pulling together information, using data and working with the sector—with the LGA, CIPFA and others—in order to deal with that more transparently. The risk is that there is a normal distribution curve in any setting.

I think local government is great. It is well run and I am incredibly supportive of it, but the truth is that not all councils are as well run as the rest, and we need to learn the lessons of the system and the Department should have a bit more of a public oversight role in doing that, in my opinion, in order that it could say, "For the next year, we would like to work on audit committees, and could you do this please?" That is possible without recreating a great bureaucratic edifice.

- Q29 **Chair:** Can I ask you all to add to that quickly because we need to move on? Ms McKinlay, on that point.



Jacqui McKinlay: I agree about transparency. I think the balance is, how do you not lose that trust relationship that organisations like the LGA have? It does feel like there is too big a gap at the moment. For some organisations that may be heading into more of a failure, they are not quite sure what the actions might be. It does feel that there is a gap and that that gap should be filled by the sector, coming up with what that solution is, rather than something that is imposed from above or outside. But you need to tread very carefully.

Q30 **Chair:** In your case, would you see that as scrutiny bodies being able to publish more about what they have done on something? They should be picking up some of these problems if they are doing a good job.

Jacqui McKinlay: I think it is probably more if we feel that scrutiny is failing—that is, in the most dramatic sense. If we feel scrutiny is not being effective and is not getting access to the information it needs, where do we put that information? At the moment we would be telling the LGA and others, but there are potentially little pockets of that sort of insight that are not getting joined together soon enough.

Lord Porter: I think people who know what is going on know what is going on, and people who don't don't. There is a good reason for that and I do not think it should change. The Government Department sits down with us on an annual basis and works out what our service level agreement is for the service areas and types of function that it wants us to deliver on its behalf, and we do that. We also have informal chats between officers and members on a weekly basis at both levels, so I think the Department does know what is going on, but it is able to do it in a light-touch way that does not require 3 million boxes to be ticked and cost £2 billion, as the Audit Commission did. Given that our grant has been cut from £30 billion to £15 billion, to waste £2 billion of it on a tick-box exercise at the end would be a gross waste of public money.

Q31 **Chair:** That is loud and clear. Councillor Taylor, have you anything to add?

Sharon Taylor: First of all, we already report 43,000 bits of information to the Government, so please don't make it any more onerous.

Q32 **Chair:** Is that 43,000 just in one district council?

Sharon Taylor: No, not just my council—I mean nationally.

I want to mention the role of shared audit facilities. I referred earlier to how I think we can be very creative and imaginative in how we use our audit committees. We have shared audit facilities in Hertfordshire; not all the districts in Hertfordshire participate in that, but I think we have seven out of 10 now, including the county council. First, it gives you a lot more resilience in your audit function and a lot more ability to do more with your audit committees.

Q33 **Chair:** Is that common practice?



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Sharon Taylor: I cannot tell you how widespread that is—Mr Whiteman might know better than I do.

Rob Whiteman: It is fairly common.

Sharon Taylor: We are not unique, certainly; we are probably not even unusual any more.

Lord Porter: You are unusual, Sharon!

Sharon Taylor: I am unusual, but my audit partnership isn't.

I think that that is a very good way of sharing the expertise around. If you have a particular issue that is emerging, it will be picked up in that partnership. The partnership itself also meets as a body and discusses issues that are coming up. Our external auditors work with that partnership to determine whether particular things are emerging for my area. I think that that is really powerful, and it is one way of making sure that you always have the expertise and resilience that you need to deal with your auditing function.

When I talked about being more creative, I also meant it more widely. In my experience, if you ask any councillor what committee they want to go on when they first come on the council, it is very unlikely to be the audit committee unless they have been auditors in a past life. That is a shame, because audit committees have quite extensive powers and their work is interesting. My audit committee has taken on a very extensive role in monitoring our IT spend, for example—I asked it to do that because we spend a lot of money on IT but most of us are not experts on it. The committee has taken great interest and has really enjoyed the work. I think that there is great scope there for expanding the work of audit committees.

Chair: It is a shame that we do not have time to get into wider governance issues for members, but we have to narrow ourselves to some extent.

Thank you very much indeed for your time. The uncorrected transcript of this and the next part of the session will be up on our website in the next couple of days, and we expect to produce a report at some point after Easter. I really appreciate your coming today.

Examination of witnesses

Witnesses: Melanie Dawes, Dr Jo Farrar and Alex Skinner.

Q34 **Chair:** Welcome back to the Public Accounts Committee on 27 March 2019, for the second part of this session on our inquiry into local authority governance.

A warm welcome to our witnesses from the Ministry of Housing, Communities and Local Government. From my left to right, we have Dr Jo

Farrar, director general of local government and public services; Melanie Dawes, the permanent secretary; and Alex Skinner, director of local government finance.

Dr Farrar, this is your last time appearing in front of us with this hat on, but congratulations on your appointment as head of the Prison and Probation Service—we look forward to quizzing you about prisons and probation, probably in a matter of weeks. It is good to see a woman heading up a major part of the public sector, so congratulations on that.

It is good that you were in the room for the pre-panel. What we heard from them—it is reflected, to a degree, in the NAO Report—is that lots is going very well in local government governance, compared with the health sector. If you remember our Report a couple of weeks ago on local audit, we were critical of the lack of oversight in the health sector. What we want to get out of you today—we do not need to go into the weeds of what is happening; we have got the NAO Report and some interesting things have come out of that—is an overview of how you feel it is going and where there is room for improvement. I will ask Anne Marie Morris to kick off.

- Q35 **Anne Marie Morris:** Ms Dawes, one of the challenges with this very fast changing world we live in is that governance has to keep up with it. Do you feel that we have done a good job at ensuring that local authority governance is at the same standard as corporate governance?

Melanie Dawes: That is a very broad question. It is a very good question. May I just say that I felt that the conversation among the pre-panel was very interesting and raised some points that are absolutely on our radar in terms of how we can improve our oversight of the system? To answer your question, I think that in many respects local government's overall framework of governance is best practice. It follows all the established procedures that one would expect to see in terms of internal audit, scrutiny and external audit and so on, but with the added lens of democratic accountability, which gives sharp accountability through the ballot box. You can see that in the results across the sector that the Chair was referring to earlier.

There is a lot of good going on that you can see in the NAO Report, but you are absolutely right that there is a lot of change and complexity. It is important that we are on that and that we look carefully at where governance needs to be strengthened.

- Q36 **Anne Marie Morris:** So are you on that? Where is it going?

Melanie Dawes: It is interesting that over the past few years, as was mentioned earlier—you referred to it earlier—there has been a lot more complexity in partnership arrangements, with innovation going on in commercial structures and so on. At the same time, the more localist approach that the Government have taken towards governance has gone hand in hand with that, and I think that is appropriate. The more complexity you have at the local level, the harder it is and the more we need to be careful about relying on national frameworks that can, if we are

not careful, assume that everyone is the same and miss the point, the risk and the issues.

The overall framework of relying on local governance is the right one, but do we need to look at audit? Yes, we do, and we will do that this year as we look at the implementation of the changes that have come in over the past few years. Do we need to ensure that scrutiny is as strong as it can be? You have heard a lot of interesting ideas on that from the pre-panel, and we will be coming back in response to the Select Committee proposals on that relatively shortly. All these areas are important, and we cannot take any of them for granted.

- Q37 Anne Marie Morris:** Dr Farrar, can I ask you something? One of the challenges we face is an increasing need for local government to go out and make its own money, because central Government is increasingly giving it less and less. Increasingly, it is getting involved in commercial contracts. Secondly, we are finding increasingly that we have co-working with the Department of Health, because social care is now very much something that goes across both Departments. In light of those changes, how would you like to see governance changed to ensure that those interfaces not only deliver for the public purse, but deliver public services? That, after all, is why local government is in business.

Dr Farrar: You are absolutely right. As the system changes, we need to ensure that we are agile enough to change with it. Recently, you will have seen some of the changes we have made to strengthen our commercial statutory codes. Mr Whiteman referred to that.

Specifically on the integration of health and social care, you are absolutely right that we are pushing for much more integration. As a Department, we jointly own the better care fund with the Department of Health and Social Care. It is the main tool for integration. We oversee that jointly through a board that I chair along with the Department of Health and Social Care, which involves the sector. At a local level, we have started to do things a bit differently. We have recently had joint assessments of the system led by the CQC, which the sector has responded to really well. We want to do more of that.

- Q38 Chair:** Were those the pilots—the seven pilots?

Dr Farrar: Yes, there are seven. We would like to do more of that. They have been very well received and have given us some very good information. We should also remember health and wellbeing boards and making sure that they continue to have joint oversight of the system, and that they evolve, as we see more partnership working arrangements. As we see more integrated care systems, we are seeing more joint service agreements and more joint governance and accountability. It is the role for us and the Department of Health and Social Care to make sure that they continue to evolve and work properly.

- Q39 Anne Marie Morris:** Forgive me, but both Ms Dawes and Dr Farrar seem to be of the view that this should just evolve. Governance surely is sufficiently important that you need to put in place and mandate a



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standard that you expect to be met. Do you not think, Dr Farrar, that the Government ought to be proactively putting a system in place that meets that need, rather than allowing it to happen?

Dr Farrar: I think you are absolutely right. I did mention the word evolve, and some of the systems do evolve. We need to make sure that they are the right systems. We talked about commercialisation and strengthening. We strengthened our codes, for example, to make sure that we are mandating the action that people need to take as the system changes. I am sure the permanent secretary will want to say more on that.

Melanie Dawes: If we gave the impression of thinking that we could just rely on evolution, I am sorry; I wouldn't in any way want to have said that. We have to oversee the system. You may have seen that our Secretary of State wrote to the Housing, Communities and Local Government Committee earlier this week, saying that we are going to improve the way that we oversee the system and, I hope, be more transparent about it as well. That has been an important theme so far this afternoon.

Q40 **Anne Marie Morris:** Forgive me—there are lots of wishes, and not a lot of action.

Melanie Dawes: What I think we will do is work much more openly and in a much clearer way with all of those bodies that at the moment oversee parts of the system for us, such as CIPFA, which oversees the financial codes, and the National Audit Office, which owns the audit code. We have the public sector audit agency, which procures the audit contracts, and so on. We do individual work with those areas at the moment. What I would like us to improve on is, first, being clear what the work programme of system and sector oversight is for each of those bodies—we are sometimes commissioning and sometimes they are doing the work anyway—so that we can all see them, rely on them and engage with them, and also to pull everybody together so that they can share risk and issues.

Q41 **Anne Marie Morris:** That's all very touchy-feely, but it sounds like you are just helping each of the individual pieces. Getting them all together for a chat is not the same thing as putting in place very firm rules and regulations around governance. Is that something that you are looking at and advising Ministers on?

Melanie Dawes: I don't think it is just meetings, with respect. I am talking about a work programme that is more transparently set out and which is quite crunchy. On the question of whether we need to put in rules, we already have quite a lot of rules in the system. We do have financial codes. Mr Skinner may want to say more about that. We have updated them recently in response to some of the changes that we have seen in the sector, which have given us and others some concerns. We do have quite a big framework already of statutory rules. The question is, where do they need to be adapted, and can we be more transparent and more organised about how we assess whether we need to introduce change, consult on it, transparently explain that we are going to do that work, and then take any necessary actions?



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Anne Marie Morris: Right. I am not convinced that you have got a strategy on this.

- Q42 **Chair:** Perhaps Ms Dawes could give us an example of something concrete that might be coming out of all this work. You talked about a “crunchy” work programme, which is a great civil service term—it sounds a bit masculine, actually. Maybe you could come up with something that is in that crunchy work programme that might be an output.

Melanie Dawes: I am not sure why “crunchy” is a masculine word.

Chair: Maybe I am wrong.

Melanie Dawes: Perhaps we will pass over that. An example is the work that we will do this year on audit. The new audit regime has come in over a period of years, bit by bit, since 2015. We have already committed to doing a review of that in 2019, once the first full year of operation, which is about to finish, has concluded. We have had a number of reports written recently and some concerns raised about whether costs have fallen too far. Sir John Kingman has raised questions about whether this system is a bit fragmented. So we have a lot of questions that we need to answer, and that piece of work—

- Q43 **Anne Marie Morris:** We know there are questions. How are you going to answer them?

Melanie Dawes: We are going to do a serious study of this—a post-implementation group.

- Q44 **Anne Marie Morris:** When?

Melanie Dawes: Later this year. We are waiting for this financial year to conclude, because it is the first full year of operation. But I think it is a good example of how the Department will lead a piece of work that is on a central part of the system, in partnership with others. We haven’t yet decided whether it will be an independent review, done for the Secretary of State, or whether it will be work that we corral inside the Department through a consultation. That has not yet been decided. But I think that you and others should hold us to account for that being a serious piece of work.

- Q45 **Chair:** Will you give us some milestones and some dates so that we can call you back, so that you can tell us how it is going?

Melanie Dawes: Yes.

Chair: You have just laid yourself open to that.

Melanie Dawes: We have always said that we would do this work—we have always promised that we would do it. What we haven’t yet said is how and exactly when, but it will take place later this year. What I am saying to you today is that it needs to be a proper piece of work. External audit is an extremely important part of the system. It is where I get my assurance that value-for-money arrangements are in place in councils. If there are questions to answer, we need to look at it. It is a new system,



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relatively speaking, and we will do this work, as I have said. I have given you an indication of some of the areas that we will expect to cover.

- Q46 **Anne Marie Morris:** Good. We will be holding you to account. Mr Skinner, you were keen to come in. On the financial issues, clearly, from reading the earlier Report, there are issues about joining up that financial oversight of the different pieces of the scrutiny system. We have audit committees; we have internal audit and external audit; we have the various committees within local government looking at health, social care, overview and scrutiny; we have our section 151 officers. So what is it that you have done at the centre to ensure that it is all joined up, so that we are very clear that we have looked at the financial probity and fitness for purpose of the system as a whole, nationally, but also within each authority?

Alex Skinner: It is probably best for me to focus on section 151 officers, because that is the area that is closest to me. There is an interlocking web of legislation, codes and regulations that support the role of 151 officers. The NAO Report was incredibly helpful in illustrating the present position. I think that overall the position for 151 officers is good. The Report demonstrated that the vast majority of 151 officers felt confident in the work they were doing and felt confident that they could raise difficult issues with their chief executives and leaders. I thought what was helpful in the Report was that it illustrated that there are some potential issues—

- Q47 **Anne Marie Morris:** Mr Skinner, can I just stop you there? We have all read the Report, so don't feed back to us what is in it. I want to know what it is you are going to do to try to ensure the financial robustness, in terms of the whole governance piece, in each authority and for UK plc as a whole.

Alex Skinner: From a 151 officer perspective, the most important thing that is coming up is the work that we are doing with CIPFA on its financial management code, which effectively updates and sets expectations for how all local authorities should handle their finances. It sets out very clearly what the expectations are and it says, as part of the code, that there is an expectation that all local authorities will act consistently with the CIPFA code on the role of the chief financial officer. I think that puts all financial officers in a very strong position.

The point I was making in the introduction was to say that I don't think we are starting from a bad place—I thought the NAO Report said we were in a good place. The CIPFA report will tackle some of the issues that were identified in the NAO Report. That is out to consultation now. The intention is for that to come in by 1 April 2020, which means that that will be embedded as a way of working for the fiscal year 2020-21—the next fiscal year. I think that puts us, from a section 151 officer perspective, and indeed from a broader perspective, in a very strong position.

- Q48 **Anne Marie Morris:** Do you have any mandate beyond section 151?

Alex Skinner: Do I personally have any mandate?

Anne Marie Morris: Yes.

Alex Skinner: My area is primarily 151 officers—

Q49 **Anne Marie Morris:** Ms Dawes, who has oversight of all these financial pieces?

Melanie Dawes: Well, we have oversight as a team, but Jo Farrar, as director general, looks across the piece on my behalf at all of these issues. But I think you are asking how any local authority knows how to integrate internal audit, external audit, scrutiny—their statutory officer roles. To be honest, it is a very important job of any leader, both executive and member, to understand where their assurance comes from. All of those different elements offer different layers of assurance. They are very similar to the layers that I have in my own Department, and really no chief executive worth their salt would not ask that question and understand the answer to the question, “Where do my layers of assurance come from?”

Q50 **Anne Marie Morris:** With respect, Ms Dawes, that does not give me much comfort—“I am relying on having very good chief executives doing the right thing.” What I would like to know is—particularly as the world has got much more complex, and with the risks of these financial transactions—whether or not you, at a central Government level, are looking at mandating, and in some way overseeing, not only that it should happen, but that it does happen.

Dr Farrar: We have got to remember that this is a localised system, so the checks and balances that we have put in place are to help the chief executive and the leader and cabinet of whatever political system is in place, to make sure that they have an overview of the system. As a former chief executive, an important part of my accounting officer role was to make sure that I had local oversight. You are right; not all chief executives and leaders will be as strong as each other, so we need to make sure that we have checks and balances in place.

Q51 **Anne Marie Morris:** What checks and balances?

Dr Farrar: As a Department, first of all we would rely very much on external audit, which is why that review is very important. We are notified of all non-standard audit reports, and that also flags up issues across the system. We have a number of relationships with other Government Departments that are reviewing service areas, which allows us to pick up the service issues across the system. Separately, we fund the LGA. Lord Porter mentioned the work that we do with the LGA to make sure that its regional arrangements are in place to oversee the system.

Q52 **Anne Marie Morris:** Dr Farrar, you are giving me great comfort that lots of good things are going on, but you are not giving me comfort about joining up the dots.

Dr Farrar: That would then come to us and we would join those dots. It is quite right to say that we saw some gaps in only a small number of authorities in the commercialisation agenda.

Q53 Anne Marie Morris: How do you collect that data and how do you use it?

Dr Farrar: We have a team that pulls that data together and reports regularly to the permanent secretary. We have a system statement in place that shows how all the elements of the systems are working together, and that reports to the permanent secretary regularly. When we see areas that we need to strengthen, we act, which we did with commercialisation recently, by strengthening the codes. That is just one example.

Q54 Anne Marie Morris: Ms Dawes, how do you personally, and/or with a team, provide that oversight of the financial governance, based on the information that Dr Farrar says you have?

Melanie Dawes: There is a helpful chart in the National Audit Office Report—figure 1—that sets out that framework.

Q55 Anne Marie Morris: It does, but it does not talk about the connectivity. It just shows lots of boxes joined up but no overall responsibility.

Melanie Dawes: It is set out in legislation or in guidance what each of those different areas is for at a local level—what internal audit is for; what external audit is for; what scrutiny is for. Clearly, local leaders can flex the way they use those tools, but who is expected to do what is generally set out in law, particularly the role of statutory officers. Those are set out in statute, which I referred to earlier. Chief executives should understand that and do training on it. Section 151 officers in particular should understand their responsibilities.

Q56 Anne Marie Morris: So tell me, Ms Dawes, when you last got information on your desk of the nature that Dr Farrar describes, what did you do with it?

Melanie Dawes: I was just describing how it would work locally. Essentially, we do two things in the Department. One is what we have discussed with the Committee before, which is that we look, particularly with a financial lens, at individual councils that we may be concerned about. We have gone through that in a number of previous conversations. That looks at where there may be in an individual council that has risk, and we work with the Local Government Association with its peer reviews, as Lord Porter explained earlier, to make sure that we know where we might have a problem that could turn into Northamptonshire. That is one thing we do.

On the other thing we do, I receive a report, which is also shared with our Ministers, every six months or so, as Dr Farrar was saying. It looks at all the elements of the system. It is a collective endeavour—rather than just for me, sitting in a room on my own—and we discuss it. It looks at developments that there may have been. Recently, for example, the Committee on Standards in Public Life published a report on behaviours and conduct in local government. That has given us some assurance, some questions and some recommendations as to how the sector is doing and what we might need to do to improve things.



Q57 Anne Marie Morris: That sounds a bit reactive to me. If it were proactive and managed in that way, we would not have had some of the accidents that we have had.

Melanie Dawes: I think that is exactly the right question for us, to be honest. You are right to say that we actually get a lot of assurance from experts out there, but what I was referring to earlier, and what my Secretary of State has written—he has said that he would like us to do more—is to be more proactive and have that planned work programme. We have perhaps been a little bit ad hoc about where we have drawn that assurance in the past. There is a huge amount of it out there, and I do not think it is necessarily the case that the Department should do lots of work. I would much rather the experts were doing the work for us objectively and independently, but we need to do more to be more proactive and more planned.

Q58 Chair: Can you give an example of what would trigger an alarm? We talked a bit earlier about commercial risks, for instance—we have discussed that in this Committee before. Is there something there that would say that there is overexposure in the sector, or that there are a couple of authorities that are doing things that seem a bit odd? When you are having those discussions, what do you then do as a result? It might not be you doing it, as Dr Farrar said; it might be another agency intervening. What do you do to ensure that happens?

Melanie Dawes: Mr Skinner might want to come in and give us an example of what we have done on the financial code. A couple of years ago, the National Audit Office did a report on commercialisation—one of their value-for-money studies at the national level. We will remember that that began to raise some concerns about commercial activity. It was quite early on as those changes were beginning to happen in the sector, so the timing was quite good. We took those concerns quite seriously because you encouraged us to—I think “encourage” is the right word.

Chair: We always encourage.

Melanie Dawes: Quite right. We worked with CIPFA to change the codes. If I am honest, I think it has taken a while for everyone in the sector to recognise the changes we have introduced. As we have looked at the councils that we were most concerned about, we have been quite careful to ensure that the change was happening. We are increasingly satisfied that it is happening.

Q59 Chair: As you say, it was good that the NAO came in at that moment; it was good timing. Had the NAO chosen not to look at it at that moment in time, would there have been a warning through the system that would have been picked up?

Dr Farrar: Shall I give a flavour of how it works for me? As we have told you before, we have quite a comprehensive risk assessment that flags up not only issues with individual authorities, but themes. That is one way that I might say, “Actually, I think we need to look at that in a bit more detail.” That is how we pick up most issues, but there are other things. For



example, we might have some very proactive journalism that will flag up something to us and say that we need to look at it in more detail. Quite often we are alerted to something by the authority themselves, who want to talk to us about a particular issue in their area that they are worried about.

We then try to help local authorities to resolve these issues themselves, using the LGA, CIPFA or other support networks to help them. Where that is not possible, the Department becomes more proactive. I probably have about two or three a month that are reported to me for a theme or an individual local authority. Our first point of call is to investigate that to see if it is a wider theme that we need to look at, or if there is some work that we need to do with an individual authority to help them to redress and ensure that they are acting within the codes they are meant to act within.

- Q60 Anne Marie Morris:** I asked right at the start whether you felt that the corporate governance that applies to companies is of a standard equivalent to what you have in local government, and you said that it was. In the corporate world, the governance procedure is not just about efficiency, effectiveness and value for money; it is also about social responsibility. It is generally about an oversight of how individuals are being paid. It is looking at a number of things that are not just about how the company operates and whether it is within budget; it is also looking at whether the company is delivering on its vision or mission for shareholders and the local community. You have talked a lot about the financial piece, but I have not heard much about the social responsibility piece and what you would expect local authorities to do now—they are at least as sizeable as some of our listed companies—in order to ensure that they deliver to their local communities what they need. Ultimately, that is the business the public sector is in. What are you doing?

Melanie Dawes: The analogy in local government is that the voters are effectively those to whom the council is accountable, in the same way as a company is accountable to its shareholders. The Government are clear that accountability through the ballot box is the primary way that service delivery outcomes are accounted for by those councils. However, I think that, particularly where services are for a small number of people in a community or for vulnerable people, who may not be able to have their voice heard, we have a number of other important safeguards in the system. In some cases, we have that very heavy hand of national inspection through Ofsted, used sparingly but appropriately, where we are talking about vulnerable children—I think we would all argue—to give that extra layer of assurance.

The best local authorities do very creative work through their scrutiny committees. The Centre for Public Scrutiny has drawn quite a lot of that out by way of best practice. For example, you see scrutiny committees working with service users, very consciously going out and investigating the journey that service users might go through as they experience what a council is providing. They engage with the general public in order to hold local members and officers to account on whether they are actually delivering what they said they would.

Good councils have the tools to do this well, as always. As our pre-panel were saying, not every council is brilliantly run; there is a distribution here. The system we have locally does allow it to be done well.

- Q61 **Anne Marie Morris:** I would suggest to you that once every four years is nothing compared with what we do in corporate life. It is too long for a mistake, if I can put it like that, to survive. I don't buy the idea that the ballot box is the way that they should be held to account.

I am also very concerned by what seems to me to be an increasing focus on statutory obligations by councils, as opposed to looking at what service users and the electorate want. How can you fill that gap? Are you also concerned that councils are failing genuinely to meet that need, because they are overly focused on that which they statutorily have an obligation to do?

Melanie Dawes: Your point about the ballot box being only every four years is a fair one. I suppose the question is about the reality of it—not the threat of an election but the consciousness of that accountability continuing between elections. I feel presumptuous commenting on that to elected politicians, but my observation is that it is a more continuous process than that; it is not the only thing.

I think you are right to challenge us on whether it is enough. We also have quite strong transparency codes. Again, the pre-panel referred to what needs to be published locally about expenditure, interests and so on. Council meetings are subject to public scrutiny and are generally held in public. There is a lot of ongoing scrutiny by local people of their councils.

I am not saying that we can be complacent about any of this—I really am not. The more complicated the activities that councils engage in, particularly as they get more commercial, the more we need to ensure that the professional oversight is there as well, which is why I go back to audit. It is also a fair question whether we need to think about whether the financial codes and the governance rules are strong enough in some of those areas.

Dr Farrar: May I add to that? Having been a local council chief executive, the ballot box is actually very powerful. It is one powerful mechanism. As a Department, we are also very interested in the local government finance system. We own that, so we put quite a lot of effort into overseeing that system. We also rely on other Government Departments to set good service standards. That goes back to your point about what level of service people are providing.

Other Government Departments work very closely with us to ensure that those service standards are affordable and can be met. We meet those Government Departments probably once a month to talk through the issues with local councils. We have got a particularly proactive engagement in the run-up to the spending review, to ensure that local councils can deliver their service agreements. But the ballot box is very powerful locally, having experienced that.



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Q62 **Anne Marie Morris:** So, you have both said—Dr Farrar and Ms Dawes—that something needs to be done about it. What are you going to do?

Melanie Dawes: We've said that we need to improve our oversight and agree with the recommendations in the NAO Report. I have talked about having a more proactive programme of work that more clearly sets out what we are doing across the system to assure ourselves on a regular basis.

Q63 **Anne Marie Morris:** The NAO Report only deals with the financial piece. It does not deal with the broader parts of governance.

Melanie Dawes: It is focused on finance, yes. What I am saying would encompass work on standards and conduct as well. It is not just on the finance side; as I said, scrutiny is often about service quality and outcomes. I am not really limiting what I am saying just to finance; I am talking about a whole system.

Q64 **Anne Marie Morris:** Let me put this to you. I am a resident and a council cuts what it does only to what it is statutorily obliged to do—taking children into care and that sort of thing, but it doesn't do anything else. I am not very happy about that. They are the body that is supposed to make the quality of my life better. What power have I got to change that within the four-year period, and where is the incentive for local government to deliver that unless you make it a lot easier for them to raise additional funds?

Melanie Dawes: We are getting into the question of funding. As we have discussed before, we acknowledge that there are financial pressures on the system. There have been reductions in budgets, and we need to look at that. The spending review later this year—which the Chancellor announced in the spring statement will take place towards the end of this year—is the mechanism we will have to do that. I would argue that, for all of us in our local councils, yes, we only vote once in every four years, but in between times we can raise concerns, raise complaints and engage with members of the public. We have quite a lot of avenues within which they can engage and challenge their council. Our job in the Department is to make sure that those systems are there and that they are as strong as they need to be. I don't think we can ever stand still on this, but we do have quite a strong set of systems in place at the moment.

Q65 **Anne Marie Morris:** What will you do to ensure that a council is incentivised to deliver good services, despite the fact that it has not got enough money to do more than it is statutorily obliged to do?

Dr Farrar: The Home Secretary mentioned the Secretary of State's letter to the Select Committee. It sets out very clearly that we want to work more closely with our partners in other Government Departments to build a richer picture of the issues and challenges in individual local authorities, and we want to be much more transparent about it. That will help us to gain a better cross-Government picture of local authorities and then to intervene as necessary. He has also said that he wants us to have a clearer role in convening the owners of the accountability framework



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overall, bringing partners together to make sure that we can have really good, sound oversight.

- Q66 **Anne Marie Morris:** Will that include more than just financial sustainability, or will it also look at whether or not these councils are delivering the services that local people expect?

Dr Farrar: Yes, it will. He has clearly said that he wants us to work with other Government Departments in a much more transparent way.

Anne Marie Morris: That is a bit reactive rather than proactive, but let us leave it there because I know that the Chair wants to move on.

- Q67 **Chair:** I want to go back to the issue around the cost of audit. You have read what the NAO Report says. We had very robust evidence from Lord Porter that it was good value, but there is a risk that if it is too cheap—I look at Alex Skinner on this because it is the area that I guess you will cover—will it be too weak? There is a challenge. The organisation that pays for the audit directly and hires the auditor does not necessarily have as strong an interest as it ought to in the audit body's having the capacity and skills to take up and report publicly on some concerns. Do you think there has been a weakening there? What do you think? Who wants to take that? Mr Skinner or Ms Dawes.

Melanie Dawes: Perhaps I can start answering that question. As I said earlier, the system is finally beginning to bed in and we will need to look at that. Most of the section 151 officers are actually content with the pricing and the quality that they get from audit.

- Q68 **Chair:** On the one hand, they would be because they are partly responsible for the structure that funds it. They are looking at other things they might cut instead.

Melanie Dawes: Yes, but it is one piece of evidence and it did not suggest that there was a widespread concern about it.

- Q69 **Chair:** I feel they are marking their own homework. What is your view on that?

Melanie Dawes: Another thing going on is that some are concerned that they no longer have a sufficient assurance locally about how their organisations are working and about whether value for money decisions are being taken, as opposed to whether the arrangements are in place, which is what the audit actually looks at. That is what the NAO refer to as the audit expectations gap. Sir John Kingman picks this up in his report as well. When we do our review, we need to address this question. We will do so in discussion particularly with the NAO, who own the audit code overall. If there is a gap, the way the system is supposed to work at the moment is that it is to be filled through peer review and the performance, improvement and oversight side there, rather than through audit. We perhaps need to be clearer about that. We need to make sure the private sector auditors who have come into this market over the last few years have the right knowledge of the public sector—particularly given all the changes that are going on—to be able to do their work accurately.



Q70 Chair: One of the gaps is the value for money work. To go back to Ms Morris's constituent and local council, value for money does matter locally. It can be measured in different ways, so there could be a public value that is outside the audit value. If you screw down the costs so far that they can just do the basic audit, you are not going to get the same richness of information. That is not helpful to the authority, and certainly not helpful to you at the centre. You have talked about talking to the NAO about changing the code, but what powers do you have to mandate that the audit is brought up a level, and that more money—it is not always about money—and time is invested in VFM analysis locally?

Melanie Dawes: Locally? Jo might want to say something about this. It is always a trade-off about whether you require more at a local level or whether you give them the flexibility. We are constantly trying to make that judgment across this system. For example, should we require audit committees? They are clearly best practice—I rely on my audit committee in the Department very heavily for assurance—but some authorities are doing it in another way. As long as we can understand those circumstances, maybe we should continue not to mandate that particular part of the architecture. We are constantly balancing these things, particularly when we are driving cost out of the system. It is a fair question.

Q71 Chair: You could pare it right down to the basics and just get a tick-box exercise to ensure the maths works—something very simple—and miss something quite major, particularly when looking at the commercial risk element.

Melanie Dawes: If we felt that was what had happened on audit, that would be a concern, particularly given the risk. The timing of the review this year is good, because it coincides with the spending review and we can put all these pieces together.

Q72 Chair: So it is not off the table. It is something that you are actively considering.

Melanie Dawes: The cost issue?

Q73 Chair: Well, the investment in audit, and the outcomes of that.

Melanie Dawes: Yes, the cost of audit is definitely going to be in scope for our review.

Dr Farrar: We would have expected costs to come down, because we have introduced this collective bargaining power through the PSAA, and only eight authorities have opted out of that. You have a large number of authorities, so we would expect the cost to come down. Individual firms are still bound by the code of audit practice, so there are still standards that we expect them to meet, but I definitely agree that the review can look at what the scope is.

Q74 Chair: Going back to what I said at the very beginning of the first panel, the risk profile has changed for local authorities. There is less money, more commercial outcome and less local government grant. That means



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that they are swimming in different waters, so there is a whole different set of risks and skills that are needed. You mentioned the spending review. I have to ask you what I have asked every other permanent secretary. You talk about later in the year, but what is the cut-off point at which you need to have the spending review determined in order to ensure local government has got its settlement and knows in time to meaningfully implement it?

Melanie Dawes: There is a very clear set of deadlines over a year, which basically means that unless we have indicative budgets to put before Parliament before Christmas for 2020-21, that would be getting too late. Certainly for that financial year, unusually, local government has those very familiar deadlines. That is a line in the sand for us. More generally, of course, the sooner, the better, but Government will have to weigh all that in the balance.

Q75 **Chair:** One more question before I pass to Mr Snell. If there is a problem with a local authority, how public do you go? Obviously, Lord Porter has been very clear—I guess it is true from his perspective—that you don't want to talk about it too much openly. He was saying that when there is a problem, you try to resolve it quietly, but that's not great if you are the taxpayer who is funding it. Good money is going after bad, and the council is in a difficult state. You obviously did it with Northamptonshire. We know that Spelthorne, Warrington and Eastleigh have got some challenges. When do you go public, and how much do you go public on? What are you judging? What balance are you playing in your mind? Is it down to you or have you got codes of practice about how quickly you go out there to tell citizens, taxpayers and voters what is going wrong in their local area? Custodians have quite important information.

Melanie Dawes: Yes. This is a very good challenge to the way that we are operating the system at the moment. I don't think that we are un-transparent when we come to the statutory interventions—there is a very clear statutory framework for that, and we have followed that. We have always had a best value inspection, even though it is not technically a requirement, and so on. The question is, what about in a year or so, perhaps leading up to that? During the break, we had quite an active discussion of that at the table.

Chair: We should leave the microphones on next time.

Melanie Dawes: It is a real challenge, because that private space is very important and if we air all that linen in public for a local authority, it isn't always helpful for them, particularly if there are internal challenges going on within the council. Sometimes the local MPs may be quite actively involved in that. If that is proving effective, and changes are being made, or decisions are being taken, our approach will always be to let the local solution be found, rather than to impose it from central Government. That is a fundamental principle of the system, but at the same time, how does the public know when we are getting worried?

Q76 **Chair:** Do you require them to do something locally? If they are reporting



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locally that there is a problem, does that mean that you are less concerned? If it is transparent locally, that is where it really matters. Is there a certain threshold that you see them meeting?

Melanie Dawes: That might be part of the answer, and of course we do have transparent audit opinions, which had happened twice on Northamptonshire.

There is some work that we need to do with the Local Government Association—again, that is referred to in the Secretary of State's letter—about whether we can put the work that the LGA does on a slightly tighter footing. As Lord Porter said earlier, in recent years we have got more specific with the LGA about what we are expecting to see. For example, they now have a target on coverage of local authorities for a corporate peer review. We basically want all local authorities to have one, and they have a target to close the gap for those that haven't had one. Requiring publication of peer reviews, rather than the sometimes slightly glossy summaries that we see, is another tool that we have to increase the transparency for everybody about what is going on.

Q77 **Chair:** So requiring those peer reviews is in play?

Melanie Dawes: It is a conversation that we are having, but there are very important and valid arguments about the private space. You heard the range of views earlier.

Q78 **Chair:** But you could say the same about schools, with Ofsted. You could say the same about care facilities, with the CQC. Even a short Ofsted report is in the public domain pretty quickly—within a few weeks of the actual inquiry. Do you think local government is out of step with that wider transparency?

Melanie Dawes: Well, I think that's a fair comparison. Of course, what local government has that is different from all those other services is that it does have local democratic accountability. That is what makes our role in the Department slightly different from that of other accounting officers. I don't have the direct accountability for all the decisions that are made in local government; we have an accountability for the system and for the value-for-money framework being in place.

Chair: It sounds like there is a lot in play. I think we are going to be having you back on this review that is going on. You have not exactly made promises but you have hinted at some interesting things that we will all be keen to pursue. Talking of being keen to pursue, there is no one keener than Mr Gareth Snell.

Q79 **Gareth Snell:** Apologies; I have developed a cold in the last hour, so if I sneeze—

Chair: It's a secret tactic to stop the voting.

Gareth Snell: Well, I hope your indicative budgets are of more use than our indicative votes are going to be, but that is a different matter.



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Can I just clarify something that you said to Ms Morris regarding accountability and voters at the ballot box? Are you saying it forms part of the Department's official processes for monitoring accountability, to rely on democratic exercises, whether that be by thirds, by halves or by four-yearly elections?

Melanie Dawes: No, we don't monitor election results in any way that informs risk or anything like that. No. It is a part of the system. We are clear about the accountabilities, and one of them is through the ballot box.

Q80 **Gareth Snell:** Perhaps I didn't phrase my question correctly, so I apologise if I didn't. We are discussing all the various levers that the Department has, and there are things that you can do. There are things that can be done by agencies of other Departments, relating to specific areas. There are things that the Local Government Association can do. There are things that the auditors can do. What I want to understand is—it weaves through the myriad statutory agencies—what prominence does the Department place on elections and voters as part of any formal accountability structures?

Dr Farrar: We don't rely on that as part of our monitoring, but we rely on the system, and it is a localised system, part of which is, obviously, elections, but there are a number of other statutory codes and checks and balances that help the local system to work effectively. It is very different now from the NHS system. It used to be a similar system but, as Mr Whiteman said earlier—

Q81 **Gareth Snell:** I am just trying to understand the weight that the Department places on the electoral process—not the outcome but the actual process itself—as a formal part of the process for monitoring accountability and governance structures.

Melanie Dawes: It is a fair question, and I am pausing because it is not one that immediately comes to mind as one that we have considered, in fact. Part of it, though, speaks to conduct and standards and ethics. There, of course, the Committee on Standards in Public Life report has given us some assurance and suggestions, as I was saying earlier. We do not check that elections are being run properly and that the democratic process is not in some way being subverted. We don't explicitly check that in the Department. I don't know if that is quite what you were referring to.

Gareth Snell: No, I am not talking about the validity.

Melanie Dawes: That is what the Electoral Commission would do.

Q82 **Gareth Snell:** I am not talking about the validity of elections. Ms Morris quite rightly asked, if someone was cutting her services and they were unhappy about the way that was happening, what would be their recourse. You rightly said that there is an electoral process that is part of it, because some of these things are determined through the electoral process. What I am trying to understand is, you have got Ofsted, you



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have got the CQC, you have got the LGA, you have got the internal auditors, you have got the external audit process, you have got the Department, as pillars of formal processes for monitoring and intervening if necessary in governance. They feed you information to give you an idea of how well something is being run. If the Department is saying that one of the ultimate recourses to the public is the ballot box, where does the ballot box sit in your structures to say, "Actually, this is a formal part of what the MHCLG considers to be how you monitor governance"? Otherwise, if it does inform it—if it doesn't that is absolutely fine; but if it doesn't, using it as you have done to suggest that that is where the public are ultimately going for accountability, there is a disjoint in the way the Department is working with what is happening in democratic structures. That would be my suggestion.

Melanie Dawes: I am not sure I agree that there would be a disjoint, but I am still slightly struggling to understand what we would do. Are you suggesting that we would in some way engage with voters to see how effective the system was for them?

- Q83 **Gareth Snell:** No, I am merely trying to understand, in the same way that your answers to Ms Morris included Ofsted for schools, and those sorts of things, what weight is given to electoral process? You did say that ultimately the ballot box is an accountable structure for local authorities. Where do you factor that in to the official policy and official structures of the Department as a lever available to consider how well accountability in governance is going?

Melanie Dawes: Sometimes—and in fact when we have run interventions into councils—triggering a set of all-out elections has been one of the solutions. That happened, of course, in Birmingham. So basically reorganising the electoral cycle for that council to give a clean break was one of the tools that we used to strengthen that council through that informal intervention. My apologies; I am still thinking about your question, which I think is very interesting. I am not trying to avoid it, but I am not quite sure—

- Q84 **Gareth Snell:** Let me give you an example. Say local authority X makes some decisions about service changes. The public, because there are not elections, decide to mount a judicial review of that process. Would that information ordinarily be presented to your Department, or does the Department actively monitor that information to see where there is a disjoint between the public and the local authority? I am trying to understand where that public involvement fits in the overall accountability and structures of local authorities. I appreciate that it is not for you to say how elections are run or what the results are, but if we are saying that councils are ultimately accountable to the public, how are you assessing the available data?

Melanie Dawes: Of course, the concerns raised by the Electoral Commission were a big part of what was going on in Tower Hamlets. Indeed, the Electoral Commission's report in the spring of 2015 was one of the triggers for taking our intervention a step further at that time, if you



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recall. It is therefore part of the landscape, and on that occasion it was quite material.

- Q85 **Chair:** To make it simpler, if you have a council where there is a sudden unexpected change—the incumbent party loses out wholesale and there is a complete changeover, for instance—is that something that you look at twice and say, “Well, what has been going on locally?” I am sorry—I have stolen Mr Snell’s next question.

Melanie Dawes: I do not wish to suggest in any way that in the civil service we are opining on the validity of election results, because we wouldn’t. A sudden change like that, however, would certainly be interesting. I think the sort of thing that we would often do is ring that chief executive and see how things work—I can think of a couple of councils where that has happened in the recent past—just to make sure that they feel that the safeguards are still there and that they can say what they think. Sometimes, of course, the chief executive will move on in those circumstances and that can be absolutely fine. Sometimes it might trigger a concern that we might have.

That sort of largely informal conversation is part of the work that we do. We would always talk to the Local Government Association in those kinds of circumstances as well, and it would often be the first place that the council would go to, actually.

- Q86 **Gareth Snell:** I am conscious that all these districts are up in five weeks’ time. As a matter of course, would you have somebody looking at where there might be changes or may have been significant changes? Or does that pop up because of individual curiosities? Is there something systematic in the Department that will say, for example, “On 6 May shall we have a quick look and see if there have been any surprise results”?

Dr Farrar: Yes, there is. We obviously want to have a close relationship with local councils. We need to know who their leadership is. We rely a lot on the leadership, because it is a localised system, to make sure that it is working properly. As the permanent secretary said, we also work very closely with the LGA. We would always keep a record of who runs which council.

Melanie Dawes: Perhaps I can just emphasise, partly for the record, that I really would not want to suggest that we were monitoring and observing election results in some way and judging whether they were good or bad. In answer to your question, it is largely about where something looks a little bit unusual.

- Q87 **Gareth Snell:** If Buckingham returned a Labour council at the next elections, regardless of whether you thought the result was correct or not, that would be an unusual outcome compared with the expectation. We are not talking about the validity of the election, but about the overall political interest of the result. I was not suggesting for a second that the Department will be monitoring the validity of any individual election races.



Melanie Dawes: I know you weren't—I just wanted to say that anyway.

Q88 Gareth Snell: Leaving aside the political leadership for a second, in terms of the administrative leadership, the big three are the head of pay service, who is normally the chief executive; the section 151 officer, who normally or routinely is someone to do with the finance department who is not head of finance; and can we talk about the monitoring officer role, very briefly?

What data does the Department collect, collate, hold and have access to regarding monitoring officers in individual authorities, where they sit in the structures and how significant the post of monitoring officer is in terms of governance and accountability?

Dr Farrar: I think that is a very good point. Until recently, monitoring officers acted individually. There wasn't a network of monitoring officers in the same way as there was for finance officers. That has been established now and will allow them to share best practice. In addition, in December, we brought monitoring officers together to talk about the challenges that they face in their authorities, if there are any, and certainly to talk about common themes. We will now be doing that regularly to make sure that monitoring officers are supported in their role.

They are supported through many things, such as the codes that we talked about earlier, which are in place at the moment. Things such as the Committee on Standards in Public Life report and the Government's response will certainly be helping monitoring officers to fulfil their role successfully.

Q89 Gareth Snell: In terms of actual data collected, or that you will access, there is no set of data that suggests local authorities are tagging up their monitoring officers with a dubious solicitor somewhere because of reductions in head capacity for that. Is that information that you just do not have access to, or does it not exist?

Melanie Dawes: We don't, as far as I am aware, collect data on where monitoring officers are, where they sit in structures and so on. I could use this as an example of where I think we can tighten our approach in the future, but it is something we would not do. It is the sort of thing where there is an occasional thematic review, such as the NAO has done, perhaps with a survey. If we can build this body that we have recently tried to encourage into something that becomes more active, they might want to gather data on their own individual circumstances. That thematic occasional look at the data appears to me to be very much what we want to be doing more of in the future, or encouraging others to do more of, rather than an annual data collection exercise, which is more burdensome. I think the sector would rightly challenge us on what was really necessary. That is likely to be the way that we would improve on that.

Q90 Gareth Snell: That all sounds, going forward, very interesting and worthwhile. Given that monitoring officers are statutory officers that have statutory undertakings and functions devolved to them from legislation in a framework that is owned, organised and operated by your Department, why is it that there is no immediate connection with what you are doing



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with monitoring officers to be sure that they are able to fulfil and deliver on those statutory functions that are applied to them?

Melanie Dawes: It is something that was a gap, but which we have filled recently. We need to do more work to keep filling it. I don't know whether the Audit Commission would have collected that sort of data in the past, but it is not something that we have collected recently. I think you are right—it is a gap. This is one of the statutory officers, and that is why we thought we should bring them together, particularly given the challenges that they face, and they have welcomed that.

Dr Farrar: Their role is set out in statute, so it is very clear how they operate. Our statutory guidance and codes do help monitoring officers to fulfil that role effectively.

Q91 **Gareth Snell:** That is what I am trying to understand, Dr Farrar. Given that it is legislation and a statutory function that is overseen by your Department, I would have thought that you would want to have quite a clear understanding of whether the individuals who have had that responsibility devolved down to them—into the organisations that ultimately you have the financial framework and audit framework responsibility for—were both resourced and able to deliver and actually delivering on the requirements of the requests placed upon them by your Department.

Dr Farrar: That is a really good point, and is why we are putting these new arrangements in place to ensure that they do have that support.

Q92 **Chair:** The NAO did a questionnaire of section 151 officers. You say you don't routinely do it for monitoring officers, but is it something that you could think about doing in the Department, because the NAO is not necessarily wedded to it. It's not their role to do it as an annual or biannual survey.

Melanie Dawes: It might be. We could do it ourselves or, even better, ask CIPFA to do it for us. That is the conversation that we want to start to have with those who own the different parts of the system for us.

Q93 **Chair:** Again, it is in the mix.

Melanie Dawes: Yes, it is. My feeling, as permanent secretary and accounting officer here, is that the Department need to be quite careful not to do too much ourselves. We as officials have a responsibility to support Ministers in achieving their objectives, and this context—it is not a regulatory framework; that would not be quite the right way to express it, but it has elements of that—requires independence and true expertise. Our role is to orchestrate and corral, and to ask others to do it.

Chair: We have got that; I think that has come across.

Q94 **Gareth Snell:** That is fine. As is well known, when I was leading the authority that I led in Staffordshire, the role of monitoring officer in my small district council became almost an addendum to somebody else's permanent job. My fear is—was, still is—that as there is a reduction in



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head count in many local authorities, that very specialist role, which ultimately is responsible for good governance, good democratic decision making and the way in which councils operate in line with both the law and the local constitutions, just becomes something that a solicitor gets to look at for a couple of hours on a Friday afternoon to sign off. I do not have a lot of questions at this point, but it is something to think about.

Ms Dawes, we discussed previously how the Department collects data to make certain assessments and assumptions, particularly around sustainability. I do not want to re-rehearse that—we will save that—

Chair: For the record, there is a half-hour section of a previous transcript on that subject.

Gareth Snell: Which we want everyone to read. May I ask you about risk monitoring? Does the Department maintain or operate any formal risk register on behalf of the local authority sector across the country? What data, if any, do you maintain against that register to identify where risks might exist in local government at the moment?

Melanie Dawes: We do not run a risk register on behalf of the sector. The main work that we do has been focused on the finance side, in ways that we have described before and I will not rehearse again, but in addition to that we do work that looks more thematically across the different elements of the accountability framework. That is the work that I would like to put on a more proactive, clear and planned footing. Will that be something that we could call a risk register? I suspect, not quite. It will be more of a health check, a system oversight, if you like—it will be more about understanding, rather than saying, “Look, there is a risk here”, in the audit sector, or in scrutiny. I think that it will be more like that—more thematic, more of a sense of understanding rather than risk.

Q95 **Gareth Snell:** Given that, ultimately, as we have heard this afternoon, statutory intervention is available to you but something that you rightly use sparingly, if you are not maintaining that register or some sort of database of where risk might exist in individual authorities, where do you collate and obtain your information from to come to the conclusions—if you were to—that there might be risk in authority X or local council Y?

Melanie Dawes: I am sorry, I didn’t explain myself properly earlier. We do have a risk register of authorities that we are concerned about, in the way that we have described to you before. That is looking primarily under three headings—services, finances and leadership. That is what we have discussed with you before. That was the risk register that had Northamptonshire on it, which we subsequently dealt with. That is the work that we do to understand where risk is. That is a very strong collaboration with the Local Government Association. Its peer reviews are important for solutions to some of those problems and for giving us information where the problems might be.

Q96 **Gareth Snell:** I want to touch on something else briefly before we end. As a result of challenging financial circumstances, a number of authorities are taking on much greater commercial activity and, therefore, are



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exposing themselves to huge levels of potential risk. I think of Spelthorne, which I understand owns a huge property portfolio in some of the most expensive parts of London while operating a small district council budget on the edge of London. In those circumstances, you may have a well-run council because it derives a rental stream from a property portfolio, so it shows up as not being an immediate financial concern, and you don't necessarily have concerns about the leadership. Where would that information sit—that this council is exposed to huge potential risks, but is not actually at risk at the moment—so that you can keep a monitoring watch on that brief to make sure that you prevent a Northampton-style situation in the future?

Melanie Dawes: We have data on some of those metrics that allow us to see some of those outliers. I don't know whether one of my colleagues wants to express that in more detail.

Alex Skinner: I can talk a little bit from a finance perspective. In terms of commercialisation, the risk tools that we have described to you already include debt and debt servicing, so we would pick that up because they would come through debt servicing. We also have continuous engagement with the LGA and the sector, and we would pick it up through there. It is also the case, particularly for commercial data, that we use a number of data sources, some of which are private and some public, so the PWLB publishes the data on which local authorities have been borrowing—it does not talk about what it is borrowed for, but it talks about the quantum that was borrowed. It is also the case that we get quarterly returns as part of our capital OR data, and we supplement that with others. As part of our routine work, we would go through that, and we would be doing it in both a stock and a flow sense. We would be saying, "Well, some local authorities now seem to have a very large stock." And you're right: as part of that, we would be looking not just at the absolute number, but at, for example, what the core spending power is, what the debt to core spending power—

Q97 **Gareth Snell:** That's the important ratio for determining things like Spelthorne, is it?

Alex Skinner: It is part of the last, that's in there. You have adult social care and children's social care. Obviously, in the case of that council or, let's say, a district council, they wouldn't have adult's and children's, but you would pick it up exactly through that route. So my reassurance to you would be that as part of our routine monitoring, we would pick it up. It is also the case that when we look at the data, we do pick these things up, in both an absolute and a relative sense, and that then triggers something that says, "Well, hold on, let's deal with this." That returns us slightly to the conversation that Melanie and Jo had with you earlier. That triggered the change to the commercial arrangements and the codes that we made, because we said, "This doesn't feel right. We need to do something about it." We put those codes in, and as Melanie said, that has now triggered a response in the sector.

Q98 **Gareth Snell:** Mr Skinner, where councils operate that sort of model,



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whether for a commercial property portfolio to derive an income or for the delivery of services through a wholly owned subsidiary model, given that some of those could be run through a private company, as opposed to the local authority, how robust is that system for picking up those concerns? I will give you an example. My local authority, Stoke-on-Trent, have just set up something called Fortior Homes. They are using this basically as a vehicle to recycle their housing revenue account into their general fund. I don't have a problem with that; it is a way round it.

It is outside council scrutiny, because it's a commercial entity. It is not subject to FOIs, because it's a private company. It does not have to return anything other than a Companies House return. How plugged in is the existing audit process, which you set the framework for, to deal with that, and where would those sorts of potential risk sit in the register that you just described?

Alex Skinner: For us, there would be a distinction about whether that was being funded by borrowing indirectly. One model is that the council goes to the PWLB; it borrows—

Q99 **Gareth Snell:** I understand how the model works. Basically, it's a model whereby they are borrowing against assets in a privately owned company, so it's outside traditional scrutiny roles. How would the Department keep an eye on that?

Alex Skinner: Do you mean it would be borrowing in the private sector, so essentially this thing would be ring-fenced?

Q100 **Gareth Snell:** It's building homes, so it's borrowing against potential future income. It's borrowing against its HRA, but having paid its HRA through to the holding of a company. Given that councils are becoming much more sophisticated, for want of a better word, at recycling their own money back into other services and deriving income from the private sector through commercial activities, where is the Department in monitoring that? Where is the framework that you oversee for allowing it to be properly audited? And I suppose the third part is this: do you have confidence that local authorities, both the officer side and local members, have the skillset to apply the necessary scrutiny to make sure that public money is being used for a public purpose?

Alex Skinner: I think the answer to that is that it's not subject to the same framework that I just described. Because, as you say, it's one step removed, that relies much more heavily on our intelligence and the sector intelligence that we get. We are in—

Q101 **Gareth Snell:** Can I stop you there? "Sector intelligence"—talk me through what that actually means in layman's terms.

Alex Skinner: What that means is this. We talk to the LGA. We are at conferences. We are visiting local authorities. We are asking them questions about what their activities are, what they are doing. We visit local authorities; local authorities talk about other local authorities. So you patch that together and it becomes a relatively comprehensive understanding of what is going in the sector.

Q102 **Gareth Snell:** It's gossip—it's the old councillor gossip network!

Alex Skinner: I would say it was a bit more formal than that, a bit more structured than that.

Q103 **Gareth Snell:** Okay, how formal, how structured, and how do you record the information that you are given?

Alex Skinner: That would come under what I would call soft intelligence. Not in my directorate but in the directorate that sits next door, they have a responsibility for the relationship management for individual local authorities and they pull soft intelligence together. That would go into a system that would ultimately result in the advice that Melanie would get, which she described earlier. It would go through the system and, if people looked at it and said, "This is an issue of concern," it would keep going through the system. It may stop at me, and I may well have a conversation with an individual local authority, or it may continue to go up, and then it gets on Melanie's risk register.

Q104 **Gareth Snell:** So you are wholly dependent on picking up that soft intelligence in the first place. There is nothing formalised in place that monitors where local authorities are making those large shifts away from the public procurement, public provider model towards more commercial activities.

Dr Farrar: We also monitor all local authorities' financial reports to councils, and I think that is where quite a lot of this is picked up, so that would trigger us to activity that is unusual. That would allow us, then, to look at a wide range of data and to test it a bit. We do see all local authorities' financial data, and we monitor that quite closely. I think we would pick up those arrangements. We wouldn't just rely on the soft intelligence, although that is an important part of the equation.

Melanie Dawes: I think what you are talking about is unknown unknowns, to some extent. It is always challenging for any framework to pick up stuff that is new, because it is not what you are looking for. I think it is a fair challenge to us that it is informal, and I think we do need to improve a bit on that. Some of the orchestration of the system that I have been describing should allow for a more formal conversation with those who own the system with us—the LGA, CIPFA, and so on—to just say, "Okay, what are we worried about? What are we missing?" and keep on asking that question. To some extent it is about having a risk mindset, not just in the Department but also with those that we discuss the system with.

Q105 **Gareth Snell:** We could have a very long conversation about system ownership, because although other organisations may be part of the system, ultimately it is the Department that sets the framework and sets the statutory regulation and guidance on which the system operates; so ownership, to me, is a slight misnomer.

Going back to my point, though, I will give you an older example. The neighbouring authority, Staffordshire County Council, set up something called Entrust, years ago—49% owned by the county council, 51% owned



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by Capita. What statutory provisions or authorities would you, or any other organisation or agency that owns the system, have to inspect the books and the accountancies of that privately owned company to make sure that value for money—good governance—is feeding back into the local authority?

Melanie Dawes: I take your point about ownership, by the way. It is not quite correct as a description. I agree with that.

Gareth Snell: I wasn't trying to have a go at you.

Melanie Dawes: No, I just thought I would say I agree with you.

Chair: There is deafening silence on answering the question. Who is going to take it on?

Melanie Dawes: Alex, do you want to take that one?

Alex Skinner: I can take the start, which is that I think it brings us back to the broader question about a localist model and lines of defence; so I think the answer to your question is it starts with the lines of defence, including the 151 officer who sits in the council. So if it was a 49% shareholding your expectation would be that there would be accounting data that would be shared with the council. Because of that, it becomes the 151 officer's responsibility. That is something—they have codes of conduct and they have legislation that wraps around that, so that would be the first line of defence. Then what sits behind it is you have got CIPFA and then you have us. So I think we would sit in a line of defence—

Q106 **Gareth Snell:** Just to make it clear, Mr Skinner, you are saying you would expect section 151 officers as the operating shareholder to be inspecting the books and the accounts of any companies for which they are either "set up and part-owned", or wholly owned?

Alex Skinner: Well, I slightly defer to the NAO, who have more expertise, but my expectation would be that if you had a 49% shareholding in a company one of the things that you would do is you would be looking at the accounts pretty closely; because effectively you have a substantial shareholding in that organisation. If that went wrong then your capital is potentially at risk, so yes, absolutely.

Q107 **Chair:** Do you know how many authorities were in that situation?

Alex Skinner: Sorry, I don't have that number with me.

Chair: But you do know? Not that you know now, but you do know generally.

Q108 **Gareth Snell:** Do you keep a register of those non-traditional operating models so that you know where to look if there is ever a necessity to check what is going wrong? So do you know, for instance—would you have a record somewhere in your Department—that Stoke-on-Trent City Council now runs Fortior Homes as a wholly-owned subsidiary, that Entrust exists at Staffordshire Council, or about the housing trust in



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Hackney? Would you keep a register of all these entities that local authorities are either a significant shareholder in, or wholly owner of subsidiary companies or operating companies?

Alex Skinner: No is the answer—not in a comprehensive sense. We certainly have data on some local authorities, but we wouldn't have on all of them.

Melanie Dawes: We certainly have all the accounts and would expect to be understanding those, but we don't have a register in the way you described.

Q109 **Gareth Snell:** You don't have the accounts of the entities?

Melanie Dawes: Of the local authorities. Part of this is as Alex has said: does the council understand the risks that it is taking? You would expect that to be something that was described as part of the council's own declarations. You would expect an external audit, in particular, to be ensuring that those things were governed and owned within the council, and not just hived off to some external body. Governing those sorts of arrangements is complicated, but it should still be done.

Q110 **Gareth Snell:** As a follow-up to that, do you maintain any form of register, list or document of where you have a concern that a local authority does not understand the risk it has exposed itself to because of the way that it is now operating commercial activity or a new model of delivery?

Dr Farrar: That would come out through our risk system, which we have talked about in detail before—

Gareth Snell: You were talking about soft intelligence.

Dr Farrar: We bring all of that together, and then there will be authorities—

Gareth Snell: So you wouldn't have a definitive list, but you would have whatever you can pick up from the slightly more structured gossipier one that I described.

Dr Farrar: Through all the intelligence that we gather—we look at all local authorities—we would know whether there are several risks in one authority or if there was one risk. In fact, we have known about all the authorities that we have been concerned about before it has become publicly known. These are authorities that we have been working with. If you take the five authorities that have had adverse audit recommendations, for example, we had already been working with them quite closely in advance.

Melanie Dawes: External audit is required to state an opinion on whether or not the right arrangements for value for money are in place at a local level. Ensuring that you have an understanding, at a local level, of the risks that you are entering into, with whatever private companies et cetera you may have, should be part of that. That is the safeguard that I would



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rely on. That is, if you like, the line of defence. The question of if it is working properly is the one that we have been discussing before. As things get less standard, the more external audit has to do for us.

Q111 Gareth Snell: Okay, thank you. My last question is for you, Dr Farrar. In the past I think you have spoken quite highly of the system-wide review that the CQC has done—the 20 of them on the system-wide review of adult social care. How much more scope is there for joint inspection work of local authorities to look not only at how services are being delivered against those, such as Ofsted or CQC, but how governance and accountability in the structures of the local authority are hampering, hindering or helping those systems in improving?

Dr Farrar: I have spoken highly of the CQC inspectors. They have been very well received by the sector.

Chair: Yes, you said that earlier.

Dr Farrar: They have looked at the system. What we have to look at here is that essentially we have a localist system. We have taken away a lot of the inspections that we used to do through the Audit Commission. The system now works in a way that functions locally, but what we need to be careful of is that we are not putting a completely different centralised system on top of that, so that you are pulling statutory officers in two ways. We would need to look at the whole system and how it works. Certainly, the CQC example has given us some good evidence of where system-led inspection might work and play a part.

Q112 Gareth Snell: What about Ofsted as well? Do you have the same sort of conversation with Ofsted, about how leadership and governance of a local authority is affecting the output of—?

Dr Farrar: We talk regularly to the DFE and pull in their intelligence. We haven't yet done—

Q113 Gareth Snell: Sorry, when you say intelligence are we talking about soft intelligence or are we talking about data?

Dr Farrar: No, we are talking about the data from the Ofsted inspections. We haven't yet done any joint system-led reviews with Ofsted.

Q114 Gareth Snell: My local authority has just gone through a children's social care Ofsted inspection. It has gone from being good to being inadequate in all four inspection areas. Part of that report quite clearly, in black and white, stated that there was a failure of leadership. My question is, at what point would you expect to have that intelligence—that data—passed to you? Obviously, Ofsted isn't there to fix the leadership on the local authority. That is your job.

Dr Farrar: Very quickly.

Q115 Gareth Snell: What steps do you then start to take on your own risk register and with your own processes?



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Dr Farrar: Our colleagues at the DFE, who oversee the Ofsted process, feed into the risk system that we have. That would be a key measure for us. Is it about the leadership of the children's services system, which the DFE would be looking at, or is it the leadership of the council more generally, which we would have an interest in? That information would come to us and it would be something that we would take into account then.

Q116 Gareth Snell: What would you do? I mean hypothetically, as I appreciate that it is a live case. The local authority report on my city council said that it was a leadership failure, specifically across the council. What does that trigger inside your Department? How do you act on the data that you receive in those circumstances, when every CQC, Ofsted or peer review from the LGA throws up that they do not think that governance is working because of the leadership? Where do you start?

Dr Farrar: I go back to my earlier answer: we would look at that, and you would need to look at the exact type of issue. First of all, we would look to fix the local system by providing it with some support, maybe through the LGA or CIPFA and others. If that could not be fixed, we might facilitate something more formal. There are a number of steps that we take if we feel that there has been a failure of leadership in a council. We have discussed that at length before, and you have seen some of the steps that we have taken, either more formally through best value inspections or less formally through taskforces and panels where we are working with the authority.

Melanie Dawes: The information from Ofsted and the CQC is an absolutely integral part of our risk framework for individual local authorities. The framework absolutely has a systematic understanding across every upper-tier authority of where they are on children's services. So a change such as you describe would immediately trigger us to have a flag on our risk register. As I say, we would then work out whether it is a failure within just the services area, or whether it is a wider one. That would trigger all the things that Dr Farrar has just described.

Q117 Gareth Snell: That's reassuring. My absolute final question is on the same thing. When Lord Porter was here earlier he described Northampton as sort of an open secret. Do you routinely get to see, or does anybody in your Department routinely monitor, the LGA peer reviews that are done, to flag up whether there is anything that might be seen, and what do you do with that information if it is something that you figure is of significance? I presume—please tell me if I am wrong—that unlike a CQC report or an Ofsted report, which are rooted in statute, the LGA peer review does not have the same clout within the Department.

Melanie Dawes: The answer is yes, we absolutely do have information systematically on the LGA peer reviews. As Lord Porter described earlier, the teams meet weekly. We do not automatically see the peer reviews—that is a matter for the council and the LGA—but I am very confident that concerns get raised by the LGA with us where they think that is necessary. As I said earlier, we have tightened up what we ask of the LGA. It is



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something that, as the Secretary of State said in his letter, we are open to going slightly further on, but we need to think about how.

Q118 Gareth Snell: Is there a formal process for that? If the LGA had a peer review and had a concern, is there something that they can trigger with you, or is it going back to Mr Skinner's thing about soft intelligence? Or do you wait for an MP to stand up and wave it around in the Chamber?

Melanie Dawes: The work that we do with the LGA is very systematic because we fund them to do that work. They do a lot of it—they do more than 100 peer reviews each year. It gives us a lot of information.

Q119 Chair: Do they have to tell you?

Dr Farrar: The peer reviews are published.

Melanie Dawes: They do tell us, because that is the kind of relationship that we have. That is one of the reasons that the private conversation is quite important.

Q120 Gareth Snell: Being published, my question is: are they read by anyone? Does someone in your Department have a job to read the 100 reports a year?

Melanie Dawes: Yes, and that is quite different from what we call soft intelligence, and which you rightly challenge us on. To some extent, it is gossip, but what is really important is that we have a very open mind and are constantly alert to what might be going on. Often it is journalism that throws up things that nobody else knew about. That is, after all, what happened in Rotherham.

Chair: There you go: good local journalism will deliver.

Q121 Gareth Snell: Given that most local newspapers now are really struggling to have journalists doing this sort of investigative work, have you seen a decrease in sources for your soft intelligence from local media? As newspapers go from daily to weekly, and from weekly to closed, is that pool of information drying up?

Dr Farrar: We have a growth in social media, so there is lots of intelligence out there.

Melanie Dawes: The LGC and the Municipal Journal are also very active as well.

Q122 Chair: May I ask a couple of very quick questions? How many councils are on your list of serious worries at the moment?

Dr Farrar: We look at all councils, and then we—

Q123 Chair: I know, but how many are you really worried about? I have named three today that have financial worries—I think they were reported by the *Local Government Chronicle* as Spelthorne, Warrington and Eastleigh—and some interesting financial positions. I am not asking for the names, but how many are you worried about at this moment in time?



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Dr Farrar: I think we have discussed this question with you before. It is not that we worry about them. We always look in detail at the ones that we think are the 15 most at risk.

Q124 **Chair:** Okay, but we have talked about Spelthorne several times today and there is obviously—

Dr Farrar: We always look at the 15 that we think are most at risk, but sometimes there are different levels of risk.

Q125 **Chair:** So the top 15? Well, I will not repeat the discussions we have had on that before. Can I ask about the lessons learned on statutory interventions? Will you be publishing those lessons learned? There are relatively few statutory interventions, but it must be a useful tool for other authorities.

Melanie Dawes: There was a suggestion earlier that we ought more systematically to do some kind of post-intervention report. Those reports have been produced by others and the Select Committee has done some work here. It is a useful suggestion; it is not something we have done recently.

Q126 **Chair:** But would you consider publishing that as part of this wider review?

Melanie Dawes: It is something that could definitely add to the debate. Typically, what you find is that the commissioners, and indeed the new chief executive and leader, will often be very active in explaining what has gone on and how it worked. These are very popular sessions at local government conferences, for example, so the sector does this a lot itself. Whether we need to publish something from the Department is an open question, but it is an important part of learning.

Q127 **Chair:** So it is an open question—it is in consideration, but you think there may be enough other sources?

Melanie Dawes: It is in consideration, but it may be that other sources will do it better than we can.

Q128 **Chair:** I suppose it is partly about having it all in one place and the simplicity of finding it if you are a monitoring officer or a 151 officer wanting to know what has gone on.

Melanie Dawes: It is, and having the discipline of knowing that it has been done.

Chair: Thank you very much for your time today. The transcript, as ever, will be up on the website and we will produce a report after Easter, but just to warn you, this is something we are looking at repeatedly. You have managed to get away, Ms Dawes, without any tight deadlines—congratulations; I am sure that means your damehood cannot be far off—but we will nevertheless be keeping a close eye on the reviews that are going on in the Department by the end of the year and calling you back at some point when we have some further questions to ask about how that is going. Thank you very much indeed.