Department for Levelling Up,
Housing & Communities

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Dame Meg Hillier MP
Chair of the Public Accounts Committee
Public Accounts Committee,
House of Commons,
London,
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29 October 2021

Dear Dame Meg,

The Department for Levelling Up, Housing and Communities (DLUHC) has closely examined the Fourth Report of the Public Accounts Committee (PAC) from Session 2021-22, on COVID-19 Local Government Finance. We are grateful to the Committee for their review of the Department's work on the pandemic.

Following publication of the report in June, the Department published its response to the Committee's recommendations as part of the Treasury Minutes, and a further update to these minutes will be published early in November.

The Department agreed to update the Committee on progress made on several of the Committee's recommendations in October. The Department also committed to providing the Committee with more information following the outcome of the Spending Review, which has just concluded, and we will write again this autumn to update further. We will also be writing to the Committee again before the end of the calendar year to share learning developed since the start of the pandemic, in response to Committee recommendation 1.

PAC Recommendation 2a

The Department should draw on the experience of collecting data during the COVID-19 pandemic to improve its regular collections of local government financial data. In particular, it should write to us by October 2021, setting out:
i) what, if any, changes it plans to make to its regular collections based on its experience of data collection and use in the pandemic

The Department recognises the value of financial data and is carrying out a comprehensive review of pre-existing local authority revenue, capital and borrowing statistics, drawing on the Department's experience of collecting data during the pandemic.

Since the review's launch in summer 2021, the review team have engaged with a range of stakeholders from across central and local government and other organisations to identify how well data needs are currently being met.

The review team presented interim findings and initial recommendations to the review's Steering Group in mid-October covering improvements to data timeliness and data frequency, and lessons learned from the monthly covid monitoring information. Following feedback from the Steering

Group, the Department is now preparing final recommendations and implementation plans and will share them with the Steering Group for final agreement in December.

The Steering Group is comprised of stakeholders from across the Department, the Treasury, the Office for National Statistics, the Office for Budget Responsibility, the Local Government Association and local authorities.

PAC Recommendation 2b

The Department should draw on the experience of collecting data during the COVID-19 pandemic to improve its regular collections of local government financial data. In particular, it should write to us by October 2021, setting out:
ii) how it plans, in consultation with the sector, to improve the usefulness of its data on local authority reserves specifically

The Department recognises the value of information on local authority reserves. In June 2021, the Department presented an initial proposal to the finance subgroup of the Central Local Information Partnership, a group made up representatives from the Department, local authorities and other interested expert bodies, to collect more detailed information from local authorities on the different types and purposes of earmarked reserves that they hold as part of its Local Authority Revenue Expenditure and Financing collections.

The Department then carried out a sector-wide survey to inform the design of the data collection changes and understand the new burdens implications for councils of complying with the revised collection.

A final proposal was considered and approved by the finance subgroup of the Central Local Information Partnership in October 2021. This proposal requires councils to continue to report on an overall category for “other earmarked financial reserves level”, but to also report how this reserve breaks down across the following five categories: “contractual commitments”; “planned future revenue and capital spending”; “specific risks”; “budget stabilisation”; “other”.

Accompanying guidance has also been developed to support councils to return this data.

The Department intends to incorporate the changes into Local Authority Revenue Expenditure and Financing collections for 2022 to 2023.

PAC Recommendation 2c

The Department needs to examine its arrangements, and make changes as necessary, for oversight of financial risk in the sector and ensure that lessons from the financial issues at Croydon Council have been learned. The Department should set out its response when it writes to us by October 2021.

The Department continues to improve its oversight of the sector, drawing on the lessons of the past year.

Within the stewardship framework, we have deployed a broader range of models to offer support to councils in difficulty including rapid reviews and assurance reviews in the first instance. This has enabled us to respond more specifically to issues exposed by the pandemic. For example, the rapid reviews in Croydon and Nottingham and subsequent appointment of Improvement and Assurance Panels, which include specific expertise to address concerns around management of commercial investments.

The Department is also strengthening the system of external audit of local government through the implementation of its response to the Redmond Review, including recently consulting on proposals to establish the Audit, Reporting and Governance Authority as the new system leader for local audit.

Where councils have approached government for help setting or maintaining a balanced budget, support was structured to support local authorities manage specific local issues and give them sufficient certainty to set budgets, while making sure that any financial support provided by government represents value for money, and is targeted in the right way. Specifically, this included external assurance reviews in each case where the authority was not already subject to an external rapid review. In the case of Peterborough, Wirral and Slough the assurance reviews included consideration of the Council's financial position and wider governance arrangements.

The assurance review for Slough has now been published and concluded that Slough Borough Council was failing its Best Value Duty and that intervention was needed to enable the improvements required to achieve financial stability. In response to this, the Secretary of State has set out a proposed intervention package for Slough Borough Council, which is centred on putting in place Commissioners for a minimum of three years. Government will also consider any revised request for exceptional financial support from Slough Borough Council. Assurance reviews for other councils will be published in due course.

The Department will continue to monitor individual councils' circumstances. We stand ready to speak to any council that has concerns about its ability to balance its budgets going forward.

PAC Recommendation 3

HM Treasury, the Department for Education, the Department of Health & Social Care, the Department for Business, Energy & Industrial Strategy, the Department for Environment, Food & Rural Affairs, and the Department for Digital, Culture, Media & Sport, in co-operation with the Department, should write to us by October 2021 setting how they will improve, and then maintain, their understanding of the operational realities of local government finance and the financial pressures authorities face.

DLUHC, in its role as the lead Department for local government, works closely with the sector to ensure that it understands the operational realities of local government finance and the financial status of local authorities.

During the pandemic, the Department worked closely with other government Departments to ensure a coordinated response that takes close account of the financial pressures facing local government. This included the development of the *Local authority COVID-19 financial impact monthly monitoring* survey and ensuring that the results were communicated across government to develop informed interventions, such as the Infection Control Fund. The Department has also led sector engagement and ensured two-way communication between other Departments and local authorities, including meetings on specific policy problems, as well as virtual visits and themed roundtables. The effectiveness of this close engagement was recognised in the National Audit Office's *Local Government Finance in the Pandemic* report.

We worked closely with local government as part of the Spending Review 2021 (SR21) process in order to assess councils' ability to deliver for their communities and understand the impacts of COVID-19 on local government. In light of the PAC's recommendation, we have focussed on improving the understanding Departments across government have of the financial status of local government. We have facilitated direct conversations between other Departments and local authorities, for example on social care. These have informed Departments' bids to the Treasury.

At SR21, the Chancellor announced an estimated average increase in core spending power for local authorities of 3% in real terms each year, including investment in Adult Social Care reform. By 2024/25, local government core spending power is expected to rise to £58.9bn. Local Government can also expect to receive additional income in 2024/25 from the Extended Producer Responsibility scheme, for managing packaging waste in the final year of the Spending Review. This follows year-on-year real terms increases for local government since Spending Review 2019.

We continue to facilitate collaboration between Departments and the sector as an integral part of the new burdens assessment process. This supports Departments in understanding the operational realties of policy decisions on local government. We continue to work with the LGA on several new burden cases, including the Environment Bill and COVID-19 Business Grants. We will continue meeting with the LGA quarterly to discuss upcoming new burdens cases.

Finally, in line with a previous PAC recommendation, we will continue to work with local councils to ensure they are managing and can play their part as we emerge from the pandemic and build back better. The Government is committed to strengthening the local audit system so that taxpayers and service users are better able to hold councils to account.

Summarised below are the steps that individual Departments are taking to engage with local government, along with the steps they are taking to improve and maintain their understanding of the operational and financial issues facing the sector.

HM Treasury (HMT)

HMT has worked alongside other government departments and engaged with the local government sector to understand the pressures faced by local authorities. For example, HMT regularly participates in virtual visits to local authorities and sector roundtables and has worked closely with DLUHC and other government departments to develop the *Local authority COVID-19 financial impact monthly monitoring* survey.

To support local authorities, HMT has provided significant investment to local government at the Spending Review, including £4.8 billion of new grant over the next three years to meet pressures in social care and other services. In addition to this, if local authorities were to use the full flexibility that we have assumed for the purposes of the Spending Review settlement, they are expected to have access to up to £1.7bn of additional funding over the Spending Review period for adult social care through the ability to increase the adult social care precept by up to 1% each year.

In September, the Prime Minister announced the package of reforms to adult social care – funded through the Health and Social Care Levy – which committed the Government to investing an additional £5.4bn in adult social care over the next three years. The Spending Review confirmed that £3.6bn of the £5.4bn will be available for local government to implement comprehensive funding reform of the adult social care system. This funding will also enable local authorities to better sustain their local care markets by moving towards a fairer cost of care.

HMT will continue to work closely with DLUHC and other departments on the implementation of the Spending Review settlement, including the approach to allocating funding and ensuring that LAs are able to support the delivery of the Government's policy priorities.

Department for Education (DfE)

DfE have established a number of channels to leadership teams in local government and routinely share their findings with colleagues and analysts internally and cross-government. Officials are also looking at ways to reduce the number of individual grants councils receive from the Departments and aim to work with councils in the future to find ways to streamline administrative and financial processes.

DfE collects and publishes annual budget and expenditure data for education services and for LA children's services including statutory services and early intervention services such as Sure Start children's centres. The data gives the Department a good understanding of how money is spent across schools and other education services, and where spend is increasing or decreasing. Furthermore, DfE has set up the Vulnerable Children and Young People survey to help understand the impact of the pandemic on children's social care (including finance pressures at the outset). This data allows government Departments, local authorities and charities to understand demand pressures.

DfE will further improve their understanding of local government finance and the financial status of local authorities by:

- Gathering more information on councils' management of high needs spending and exploring ways to use this knowledge for the benefit of all councils, particularly those facing financial pressures.
- Improving the quality of their data by redrafting guidance, responding to LA enquiries and querying councils' initial submissions. However, they do recognise the need to improve the collection to get a more nuanced data-led understanding of spend beyond high-level service area spend.
- Enhancing government finance data collections, which in turn will allow better understanding of local government within the Department.

Department of Health & Social Care (DHSC)

DHSC has strengthened its engagement with local government since the beginning of the pandemic. DHSC engaged early with DLUHC on COVID-19 funding support and, as the National Audit Office report recognises, provided an estimate of cost pressures on adult social care that was central to the first tranche of unringfenced funding provided in March 2020. On top of the relationships DHSC has developed over the last 18 months as its Social Care Group has grown, DHSC has set up a Regional Assurance Team, comprised of people with significant experience within the adult social care sector, who act as a liaison function between DHSC and regional stakeholders as part of DHSC's response to COVID-19.

DHSC officials meet frequently with local government representative organisations, and with organisations and networks representing health services and public health functions that local authorities commission or deliver, to discuss a range of issues including operational pressures. The Office for Health Improvement, within DHSC, includes seven regional teams led by senior Regional Directors, which have extensive direct contact with local authorities and other local system partners, and are instrumental in ensuring that national policy and action is informed by a good understanding of local circumstances.

DHSC is now developing an enhanced assurance framework to improve oversight of the adult social care system at a national, regional and local level. Additionally, DHSC will work with leaders in local government to: develop and publish a White Paper for reforming adult social care; and to produce a comprehensive national plan for supporting and enabling integration between health and social care through an Integration White Paper.

Department for Business, Energy & Industrial Strategy (BEIS)

Since Spring 2021, a dedicated new engagement team has been created within BEIS to improve engagement with all local authorities on the COVID-19 business grants programme, to build knowledge of local authority views and issues, and to coordinate improved information sharing. In particular, the Department has made sure to have a named relationship manager providing all councils with a single point of contact into the programme, a new fortnightly email bulletin and a series of webinars for local authorities.

BEIS' COVID-19 business grants programme team have recently worked in partnership local authorities to collect empirical data on the delivery costs of this programme to inform new burdens funding; design and test a new data portal to reduce administrative burden; and to agree a reduced frequency of data requests. Finally, local authority representatives are part of the formal governance of BEIS' COVID-19 business grants programme.

To further improve and maintain their understanding of local government finance, BEIS will continue to work closely with local authorities to deliver the remainder of the COVID-19 business grants programme and to capture lessons learned for the delivery of any future grant schemes. This will also allow BEIS to further maintain the understanding of local government they have gained through the delivery of the programme.

Department for Environment, Food & Rural Affairs (DEFRA)

There are currently a number of forums where DEFRA engages with both DLUHC and local government to understand the impacts of policy development and decision making on local government finance and delivery. DEFRA engages with local government through their policy teams and a team of dedicated Local Government Funding Policy Advisers.

DEFRA is now looking to strengthen its understanding of local government finance by appointing officials in its central finance and strategy teams who will be responsible for improving DEFRA's knowledge of this crucial area. Additionally, DEFRA are seeking opportunities to work within the existing mechanisms that DLUHC have in place.

Department for Digital, Culture, Media & Sport (DCMS)

DCMS holds working level meetings to engage with local government, to seek a greater understanding of the challenges and issues facing local government, and to engage in mutual sharing of local and central government priorities and strategies. On digital skills, DCMS chairs monthly workshops with the seven local regions that have Local Digital Skills Partnerships. Two Local Digital Skills Partnership sit within Mayoral Combined Authorities - made up of several local authorities - and five sit within Local Enterprise Partnerships. DCMS's Commissioner for Cultural Recovery and Renewal plays an important role in deepening collaboration between central and local government and has engaged with the LGA on key issues around arts and culture. DCMS Ministers also met with the Chair of the LGA Culture, Tourism and Sport Board earlier this year.

DCMS have collected data in the development of grants, for example working with the Arts Council to test demand for library services and understand capital needs and plans when developing the Libraries Improvement Fund (LIF).

Since delivering the £100m National Leisure Recovery Fund to support eligible public sector leisure centres to reopen to the public after Covid, DCMS and DLUHC have worked closely with key stakeholders such as the LGA, District Councils' Network, Community Leisure UK and specific local authorities through a series of roundtables to understand the current public leisure picture. Over summer 2021, DCMS also held twelve regional roundtables with local government stakeholders, tech businesses, accelerators and tech groups to inform a recent report assessing the UK's regional digital ecosystems, as well as a separate roundtable with Local Enterprise Partnerships.

DCMS will further improve and maintain their understanding of local government and the financial pressures relating to it by:

- Establishing a Director General-level champion within DCMS to coordinate across government on issues relating to local government and to ensure DCMS' understanding of local government is improved upon and maintained.
- Looking for opportunities to attend and speak at local government events and roundtables, to build even stronger relationships across local government.
- Working with the LGA to explore how they might contribute to internal briefing and training for new portfolio holders/senior officers in order to share expertise and expectations where relevant, such as on libraries.
- DCMS will invite the LGA to join the Tourism Industry Council, which will allow the LGA to strengthen their working relationship with stakeholders in this sector.
- Holding a series of deep dives with the LGA on heritage, to exchange intelligence and strengthen joint understanding of priorities and challenges in this area.
- Reviewing the guidance accompanying the statutory duties on local authorities to provide youth services, ensuring to work alongside local government in doing so to minimise burdens placed on local government.
- Engage with local authorities and local voluntary and youth organisations to ensure that the fund bidding process for the Youth Investment Fund is proportionate, minimises any burden placed on local government, and encourages collaboration between local service providers.

Recommendation 4

In discussion with the National Audit Office, within three months the Department should find a way to share information relevant to financial risk in the sector, including about individual local authorities, while indicating on what basis it can or cannot be shared further.

In line with previous updates given as part of the Treasury Minutes process, the Department has held discussions with the National Audit Office regarding a framework for considering requests to share relevant information about financial risk in the sector, which respects both organisations' statutory responsibilities. The Department and the National Audit Office are in agreement on the importance of enabling these responsibilities to be met and will continue to work together closely in this area.

Once again, we are grateful to the Committee for its work. We will continue to engage closely and will write with further updates in line with the schedule mentioned above.

Yours sincerely,

Jeremy Pocklington

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