NAO study: local government governance and accountability

Purpose of report

For discussion.

Summary

This report updates members on the publication of the NAO study into local government governance and accountability.

Recommendation

Members are invite to note the outcome of the NAO study.

Action

Officers to pursue in the light of members’ comments.

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NAO study: local government governance and accountability

Background and Issues:

1. Members will recall that the National Audit Office recently undertook a study to examine governance and accountability in local government in England. The Board discussed the study with representatives from the National Audit Office at the last meeting in October. The NAO has now published its [report](https://protect-eu.mimecast.com/s/RHz_CX6VpIXy8Qpi6qpP05).
2. The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable. The report addresses this question in three separate parts:
   1. Part One examines the pressures on the local governance system;
   2. Part Two explores the extent to which local governance arrangements function as intended; and
   3. Part Three assesses whether the Department is fulfilling its responsibilities as steward of the system.
3. The NAO report acknowledges that since 2010, local authorities have faced significant challenges – funding has reduced, while demand for services has increased citing a real-terms reduction in spending power of 29% and a 15% increase in the number of children in care. However the NAO report says that the way authorities have responded to these challenges, sometimes with large-scale transformations or commercial investments, adds a greater complexity to governance arrangements at the same time as spending by authorities on resources to support governance is falling.
4. Nevertheless despite the reductions in funding, the level of qualified value for money conclusions in 2017/18 stands at just 8 per cent of local government bodies - the same level as in 2015/16. By contrast, in the NHS, the number rose from 29% to 38% across the same period.
5. In addition the findings of the NAO’s surveys of external auditors and chief financial officers demonstrate that:
   1. 98 per cent of chief finance officers agree or strongly agree that they are able to give challenging advice to elected members.
   2. A large majority of chief finance officers were satisfied with the quality of external audit.
   3. 77 per cent of chief finance officers agreed their finance function was sufficiently resourced
   4. 71 per cent of auditors agree or strongly agree that audit committee provides sufficient independent assurance compared with 8 per cent who disagree.
   5. 81 per cent of auditors agree or strongly agree that councils have effective internal audit compared with 8 per cent who disagree.
   6. 83 per cent of auditors agree that the council has robust risk management overall compared with 6 per cent who do not.
   7. 78 per cent of auditors agreed or strongly agreed that audit committees were independently minded and the large majority felt their recommendations were acted upon.

1. In addition, of course, the S151 officer in a council has duties and powers to alert councillors and the auditor in the case of unlawful expenditure. The Monitoring Officer must also report to the council when any action is likely to lead to contravention of any law or statutory code. And ultimately, the public hold councillors to account through the ballot box. A reminder of some of the key elements of the accountability arrangements for local government are set out at **Annex A.**
2. In terms of the role of the Ministry of Housing, Communities and Local Government the report says that, in the Department’s view individual local failings do not represent local governance system failure. It says the Department places great weight on local arrangements in relation to value for money and financial sustainability and that it has been clear that it does not collate systemic data on governance following the abolition of the Audit Commission but has increased its consideration of governance at some individual authorities using information drawn from its monitoring of financial risk.
3. The NAO report says that for this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. “In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network”. From an LGA perspective it will clearly be important that this doesn’t interfere with local democratic accountability.
4. In due course the NAO report will be considered by the Public Accounts Committee and it is likely that the LGA will be called to give evidence. It is suggested that, in summary terms, the LGA will want to:
   1. Stress the importance councils attach to the need to provide sound and transparent decision-making: not only are councils democratically elected in their own right, which brings with it the regular scrutiny of the ballot box, but are also subject to a whole range of other external checks and balances;
   2. Note that despite the significant reduction in resources over recent years councils have prioritised direct service delivery and resident satisfaction continues to remain healthy. Councils have bought in to the sector’s approach to improvement and the number of cases of organisational failure requiring Government intervention remains low;
   3. Stress that in financial management and value for money terms, councils perform well compared to other parts of the local public sector;
   4. Note that from 2019/2020 – almost half of councils will no longer be receiving revenue support grant from central government and therefore question as to why government should have any responsibility for oversight of these councils;
   5. Rehearse the effectiveness of the sector’s own approach to improvement, drawing on the on-going evaluation reported elsewhere on the agenda.

Implications for Wales

1. The NAO study examined governance and accountability in local government in England. Improvement work in Wales is provided directly by the WLGA.

Financial Implications

1. There are no additional financial implications arising as a result of this report.

Next steps

1. Officers to pursue in the light of members’ guidance.

**ANNEX A**

**The core accountability arrangements for local government** are set out in the MHCLG Accounting Officer System Statement, July 2018 and include the following:

1. Councils are directly accountable to local people through the ballot box.
2. Councils operate within a **strict legal framework** that requires them, for example, to set a balanced budget, restrict borrowing to what is affordable, and to spend money with regularity and propriety.
3. There are also a range of **checks and balances** in the system. So for example councils must appoint a Section 151 officer who must issue a report if there is unlawful expenditure or an unbalanced budget. This role is complemented and reinforced by the requirement to appoint a Monitoring Officer, and all councils must make arrangements for effective overview and scrutiny.
4. Councils must adopt a Code of **Corporate Governance** and produce an Annual Governance statement.
5. Council activities are also **transparent and open to public scrutiny**. All councils produce public accounts, have open meetings and are required to consult with the public, and are subject to the Freedom of Information Act. In addition the Local Government Transparency Code requires councils to publish a range of information helping local people to hold their authorities to account
6. All local authorities are subject to **external audit.** This involves auditing the annual accounts; considering any issues raised by local residents and, if warranted, taking action such as issuing a Public Interest Report. The external auditor is also required to report their conclusion on the council’s arrangements for securing economy, efficiency and effectiveness in its use of resources (VFM conclusion).
7. Although the Coalition government stripped away some of the **inspection** activity that was in place when it came to power (most notably the Comprehensive Area Assessment) some inspection, assessment and regulation activity remains particularly in high risk areas such children’s services. The Government also continues to collect a wide range of **data relating to local government activity and performance**. This is set out in the Single Data List on the MHCLG website. We estimate that a medium sized single tier authority must submit 43,000 different types of information each year. The data sets are made available to the public through data.gov.uk. Departments use data to set targets, such as the speed of planning decisions and adoption processes and to monitor performance.
8. Finally MHCLG has developed a risk framework to assess the health of the sector and identify those councils which demonstrate elements of concern. The MHCLG Accounting Officer receives quarterly advice on trends within the sector, which local authorities or groups of authorities are at highest risk of financial stress, service failure or governance failure and information on progress on all statutory and non-statutory interventions.
9. The System Statement makes reference to the government funding the LGA’s sector led improvement programme as an additional way that they assure themselves and strengthen the overall corporate performance of councils across the sector.
10. A comparison of MHCLG’s Accounting Officer System Statement with that for other departments is notable in that there are far more checks and balances in place for local government than all other parts of the public sector.
11. Despite the significant reduction in resources over recent years councils have prioritised direct service delivery and resident satisfaction continues to remain healthy. Councils have bought in to the sector’s approach to improvement and the number of cases of organisational failure requiring Government intervention remains low.