

NAO study: local government governance and accountability

Purpose of report

For discussion.

Summary

This report invites members' comments on the NAO study into local government governance and accountability. Representatives of the National Audit Office (NAO), will be attending the Board meeting.

Recommendation

Members are invite to comment on 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. The National Audit Office has commenced a study that will examine governance and accountability in local government in England. The NAO study flyer describes the study in the following terms:
2. *“Local governance and accountability arrangements are key in securing value for money and financial sustainability locally. They provide assurance both to departments on the local use of funds voted by Parliament and to the local communities to whom councils are accountable.*
3. *The Ministry for Housing, Communities and Local Government (the Department) is responsible for maintaining the overall accountability system for local government.*
4. *The study will examine key elements of local arrangements in the light of current financial challenges and recent changes in the institutional landscape. It will also examine the extent to which the Department has an understanding of the effectiveness of the system.*
5. *Our new study will address three main questions:*
 - Q1.** *How has the governance and accountability landscape changed since 2010-11?*
 - Q2.** *Do key elements of the governance and accountability framework function as intended?*
 - Q3.** *How is the Department exercising its responsibilities as the steward of the system?*
6. *The study will be informed by a mix of methods. This includes a series of interviews with government departments and sector stakeholder bodies, systematic review of relevant documentation, and focus groups and surveys to gather views from participants in the accountability system.*
7. *The study will examine three principal areas:*
 - Systemic changes:** *What changes have been made to the accountability system since 2010-11? How have financial pressures and institutional changes created challenges for the system?*
 - Local operation:** *What is expected of local governance arrangements? How do key elements operate and are there future risks to effective functioning?*
 - Departmental role:** *How does the Department assure itself about the effectiveness of the accountability system? What information and intervention mechanisms does it have available to it?”*

8. In terms of timescales the study flyer envisaged publication of the final report in December.
9. Representatives from the NAO will attend the Board to talk about the study and invite views.

Current accountability arrangements

10. The core accountability arrangements for local government are set out in the MHCLG Accounting Officer System Statement, July 2018 and include the following:
 - 10.1 Councils are directly accountable to local people through the ballot box.
 - 10.2 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.
 - 10.3 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.
 - 10.4 Councils must adopt a Code of **Corporate Governance** and produce an Annual Governance statement.
 - 10.5 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
 - 10.6 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).
 - 10.7 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.

11. 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.
12. 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.
13. 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.
14. 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.
15. At the same time this is clearly not the case in other parts of the public, as demonstrated by a simple comparison with the health sector

2016/17	Adverse/except for VFM conclusion	Referrals to Secretary of State/ S 114
NHS Trusts	61%	39%
CCGs	26%	29%
Councils	7%	0.3%

NB Referrals to the Secretary of State = where financial limits have been exceeded.

16. A further factor is that from 2019/2020 – almost half of councils will no longer be receiving revenue support grant from central government and therefore the question arises as to why government should have any responsibility for oversight of these councils.

Sector led improvement

17. One of the additional ways in which the local government landscape has changed since 2011 has been the development, by the sector, of its own approach to improvement. This sector-led approach to improvement has been effective because:

17.1 It is based on what the sector has learnt works for improvement – strong political and managerial leadership, challenge from one’s peers, the ability to benchmark performance against others through the use of comparable data and the sharing and spreading of good practice;

17.2 It is a peer-based approach with improvement support provided by peers who bring with them their practical knowledge and experience of working in local government and the challenges councils are facing.

18. Evidence of the **effectiveness of the approach** is demonstrated in a number of ways

- 18.1. Over two-thirds (70 per cent) of a raft of performance indicators commonly used by councils to assess their performance have improved. (Evaluation of SLI Data analysis report. May 2018)
- 18.2. Residents remain satisfied and continue to trust their local council. 61 per cent of residents remain ‘very’ or ‘fairly’ satisfied with the way their local council runs things. (Polling on resident satisfaction with councils: June 18).
- 18.3. 96 per cent of leaders and 95 per cent of chief executives say support from the LGA has a positive impact on their authority. (LGA perceptions survey 2017)
- 18.4. 99 per cent of councillors say they feel more confident in their role having participated in our leadership academy and leadership essentials programmes.
- 18.5. Over 85 per cent of Leaders, Chief Executives and Directors responding to the LGA’s Perceptions survey 2017 said that sector led improvement is the right approach in the current context.

Implications for Wales

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

Financial Implications

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

Next steps

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