Treasury Minute Response – Financial sustainability of local authorities

Congratulations on your re-appointment as Chair of the Public Accounts Committee.

On 27th April you wrote to me with various questions about the Department’s response to the Committee’s report on Financial Sustainability of Local Authorities. We will be providing a full update to our response in the next Treasury Minute, which is due in October. In the meantime I thought it would be helpful to answer the specific questions raised in your letter.

Inaccuracies in previously published data

Firstly, you asked the department to publish any corrections required to data that has been previously published.

The issue - which was raised in the NAO’s report – was that some local authorities reported outturn figures in 2015-16 that were significantly higher than expected. Our investigations and follow-ups showed that twelve local authorities had incorrectly included their Local Enterprise Partnership’s expenditure in their 2015-16 local authority data returns. The total overstatement identified was £289 million. As the overstatement was small, at around 1%, relative to the total local authority capital expenditure of £22.6billion in 2015-16, we concluded that it would be disproportionate to burden these local authorities with a further data return for the affected period, 2015-16. We will however publish the findings of the investigation into 2015-16 data alongside the 2016-17 final capital outturn data so that the aggregate impact on the figure is clear. The data for 2016-17 are to be published on 28 September and these and future data should not be affected by this issue.

Recommendation 1B

Second, you asked for more detail about how the department gathers intelligence on the level of commercial skills in the sector.

Democratically elected members are responsible for taking decisions in each local authority and in doing so they are supported by an appropriately qualified officer, known as the Section 151 Officer. The Section 151 Officers responsibilities include ensuring that members have access to
sufficient training and advice to fully understand the implications of the decisions that they are being asked to make.

DCLG provides funding to the Local Government Association to provide support to the sector. The most recent Memorandum of Understanding between the department and the LGA includes a new requirement for them to help councils become more commercial in the way they commission services and use their commercial opportunities. The required support includes advice, case studies, a commercial skills training offer and access to commercial expertise. More widely, as part of their sector support work, the LGA engages directly with local authorities to assess and support their commercial activities, providing peer support on activities such as strategically reviewing asset bases, using the capital receipts from sales to support housing and regeneration activity, investing in energy supply companies and establishing trading companies. Outputs have included: helping authorities enter into more strategic procurement arrangements providing to support help to councils in improving the way they commission services.

In addition to more informal contact, DCLG officials meet with the LGA on a quarterly basis to discuss the LGA’s progress against the MoU and any notable developments or intelligence that the LGA have gathered.

In addition to this, teams in DCLG regularly meet with colleagues at the LGA, CIPFA, local authorities and other stakeholders to discuss commercial skills and activity as part of their wider engagement.

Collectively, this information provides an insight into the level of commercial skills present in the sector. We then use this intelligence as an input into our work to assess sustainability in the sector and inform future policy development. As a result of this engagement, for example, we are working with CIPFA to update the statutory codes that govern the proper conduct of local authority activity for capital investment and financing to ensure that local authorities take investment decisions after careful consideration of risk and proportionality as well as potential benefits.

More specifically, the Department is looking at how it can extend the requirement for key individuals to demonstrate that they have the right level of skills and knowledge. The requirement in the current framework requires Treasury management professionals to disclose the action that they have taken to ensure that they have appropriate skills and we intend to extend this requirement to Councillors, Officers and those negotiating commercial deals. The update will also strengthen the gate-keeper role of Section 151 Officers.

Recommendation 2

Third, you requested clarification that Treasury input will be provided for the government’s consideration of the build-up of cash held on deposit by local authorities. I can confirm this is the case. DCLG and HM Treasury are working closely to analyse the interactions between the current low interest rate environment, the prudential borrowing framework and investment trends. We will provide further information on this work in our Treasury Minute update in October. We will also share the full findings of this work with the Committee in Spring 2018.

Recommendation 5
This recommendation relates to the purpose and geographical location of capital spending. You asked for assurance that the Committee's concerns are taken into consideration and given due weight, alongside the views of data providers and users across government. We can confirm that all aspects of the Committee's concerns and recommendations have been considered carefully. The changes will include new categories for local authority commercial activity, and where capital grants or loans are made to other organisations, the type of organisation will be categorised too. The changes have been agreed with local authorities and will be signed off by the LGA in October. The changes will be included in the data collections that are sent to local authorities from Spring 2018 and which are scheduled for publication in June and September 2018.

These changes will enable us to identify changes in local authority commercial ventures by local authority. We will provide additional information in our Treasury Minute update in October.

I hope that this update is helpful.

Yours sincerely,

Melanie Dawes

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