



Communities and Local Government Committee

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10 March 2015

Dear Helen Edwards

Sir Bob Kerslake's evidence to the Committee on 3 February

The Committee has reviewed the oral evidence which Sir Bob Kerslake and you gave on 3 February. As Sir Bob is now retired, I should be grateful if you would clarify two factual matters in his evidence to the Committee.

First, at Q61 Sir Bob indicated in respect of the NAO's report, *Financial sustainability of local authorities 2014*, he thought "personally they got that wrong. I was very clear with them in my response that that was my view." He then explained at Q75 that, when he signed it off, he was only signing off "the factual information in the report". Can you please supply the Committee with the terms under which he signed off the report and the exact wording he used to express his reservations and qualifications about the report to the NAO?

Second, at Q64 Sir Bob characterised the NAO's report as "looking for some sort of all-singing, all-dancing process of tracking individually authorities exactly as to where they were on individual services". Page 11 of the NAO's report states that "The Department should develop a targeted approach to assessing the financial sustainability of particular local authorities it deems to be high risk". Is Sir Bob's description accurate?

I should be grateful for a reply by 13 March, please. It may be published.

Clive Betts

Clive Betts MP
Chair, Communities and Local Government Committee



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17 March 2015

Dear Clive,

Thank you for your letter on 10 March 2015 about Sir Bob Kerslake's evidence to the Committee on 3 February and I apologise for the slight delay in replying to you.

I attach copies of Sir Bob's letters to Sir Amyas Morse commenting on matters of substance in the final draft report and his "sign-off" letter. These provide the context for Sir Bob's comments to the Committee. In the first letter Sir Bob challenges the NAO's views on how the department identifies potential problems, and in particular a statement in the press notice that the department was 'waiting around for serious problems to happen'. In the second letter, Sir Bob signs off the factual information in the report itself, but again disagrees with the quote in the press notice.

On your second point, Sir Bob was pointing out that the NAO seem to consider that the department should have a form of financial monitoring that is not compatible with the policy decisions taken by the Government to devolve power, reduce unnecessary reporting and inspection burdens, and strengthen local accountability to communities. I think Sir Bob was clear in his other remarks to the Committee that we draw intelligence from a wide range of sources across Whitehall and beyond so that we do understand the impact of funding decisions on frontline council services. And, as you know, Ministers are prepared to use their reserve powers to intervene where there is an overwhelming public interest as, for example, in the cases of Rotherham and Tower Hamlets.

I do hope this satisfactorily answers your questions.

Yours sincerely,

HELEN EDWARDS



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10 November 2014

Dear Amyas

NAO Report: Financial sustainability of local authorities 2014

Thank you for sharing the latest draft of your value for money report on 'Financial Sustainability of Local Authorities.

I'm grateful that a number of the changes we suggested have been taken on board in the body of the report. However I have some remaining concerns, mostly about the presentation of the key findings in the press notice and summary, which are not fully supported by the evidence. For the most part some quite small drafting changes should be enough, and we have supplied detailed amendments. However I wanted to be clear about the important points on policy and our overall approach.

Firstly, the description of the policy change in overall funding for local authorities in some places suggests that there has been a switch from needs based funding to incentive-based. In fact the vast bulk of funding is still based on need, and more deprived authorities still have significantly higher spending power than others. Although as the report says it is inevitable that grant dependent authorities have most to lose from funding reduction, they have had significant protection. Incentives have been introduced into the system, but these are still relatively small as a proportion of total income. They are not intended to 'mitigate' the reduction in other grants, but to reward authorities who support new housing and business growth.

Secondly, as the detail of the report shows, we have a number of different information sources and mechanisms to help identify potential problems and ensure financial sustainability, including local auditors, the legal duties on councils, inspectorates like OFSTED and various kinds of data and local intelligence. I recognise that some of these are imperfect, but it is not the case that as the press notice suggests that the department is 'waiting around for serious problems to happen', or as paragraph 17 suggests that we rely solely on the legal framework.

Thirdly, the government has made a policy choice to reduce the oversight and monitoring of local authorities, and make them more accountable to local residents. However we do think we still have had enough information to make good decisions at settlements and spending rounds, and DCLG has a role in coordinating the information from many sources and departments, focusing on the key statutory services and biggest area of spend. We recognise that if ministers

in the next parliament make significant further funding cuts, we will need more information about service pressures and the scope for efficiencies than was available at the last spending round.

Finally, on some of the data issues, my officials have supplied some detailed comments on the definition and calculations, which we are glad to see reflected in the new methodology and some drafting changes. But there are key points which need to be reflected in the press notice and summary. These also apply to the separate report on 'Impacts of funding reductions', since many figures appear in both this and the vfm report.

- It is wrong to suggest that the Government's measure of spending power is 'not accurate'. Some funds are not allocated when it is calculated, but these include both falling and rising grants so the percentage reduction (1.8% for 2015-16) is still fair and representative.
- The figures for falls in 'government funding to local authorities (37%)' and 'local authority income (25%)' are presented as simple fact but they are new estimates based on new definitions, which are debatable and with a less transparent method than the Government measure. Clive Betts of the CLG Select committee wrote to the Statistics Authority earlier this year to complain that there were too many different measures of council spending and income. So introducing two new measures is not a trivial technical matter, especially if it is not made clear that these do not include over £6 billion of funding in the Public Health Grant and Better Care Fund.
- Where the department has done modelling of future scenarios, these show the implications of ministers making the same set of choices in both the size and pattern of funding reductions in the next parliament as the current one. This does not mean that the current distribution would necessarily continue, even if overall funding reduces, because there would still be choices in how to implement a fall.

Matthew Style, Director of Local Government Finance, will be happy to meet Aileen in the next few days to talk through how these can be reflected in the report.

SIR BOB KERSLAKE



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14 November 2014

Dear Amyas,

NAO Report: Financial sustainability of local authorities 2014

I am pleased to be able to sign off your value for money report on 'Financial Sustainability of Local Authorities.' However, given the changes that have been made, I do think that your quote in the press note no longer reflects the main body of the report.

The summary (paragraph 21) states that the Department 'risks only becoming aware of serious problems...after they have occurred', which is not the same as 'waiting for serious problems to happen' as your quote currently says.

As the detail in the report highlights, DCLG actively gather information from a wide range of sources including, but not limited to; local auditors, the legal duties on councils, inspectorates like OFSTED, our locality links, and other departments' intelligence.

There is of course an argument to be made that we could go further but we are certainly not sitting back.

I would therefore ask that the quote is amended to reflect the main body of the report.

Yours sincerely,

SIR BOB KERSLAKE