



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Communities and Local Government

Local government funding: Assurance to Parliament

Key facts

£36.1bn

government funding to local authorities in 2013-14 (exc. payments to schools and individuals that pass through local authorities)

8

government departments fund local authorities

61

main grants paid to local authorities, 2013-14

£3.2 billion in **ringfenced grants** to support local authorities to deliver their statutory duties – has specific conditions on how local authorities can spend it

£25 billion in **unringfenced general grants** to support local authorities to deliver their statutory duties – no conditions on how local authorities spend it

£7.8 billion in **unringfenced targeted grants** to support local authorities to deliver their statutory duties – where departments expect, but cannot require, that local authorities spend funding on a specific activity

100 per cent of **ringfenced funding** for which local authorities report on how they have used the funding

0 per cent of **unringfenced general funding** for which local authorities report on how they have used the funding

64 per cent of **unringfenced targeted funding** for which local authorities report in varying degrees of detail, on how they have used funding

Summary

1 Government departments must assure Parliament that their spending meets Parliament's intentions and is value for money. For departments that fund local authorities, they must assure themselves that funding they give local authorities meets the same Parliamentary requirements. Since 2010-11, the nature of departments' information to secure assurance on local authority funding has changed, and the volume has significantly decreased.

2 The government set out changes in the 2010 spending review to implement policy to give local authorities more control over their funding, letting them allocate resources to meet local priorities. The government also wanted to reduce the reporting burden for local authorities. The government intended to provide local authorities with flexibility to fulfil their statutory duties despite funding reductions. These changes accelerated the trend of previous governments to increase local authorities' financial flexibility by reducing the number and value of ringfenced grants.

3 The government has made these changes by doing the following:

- **Removing direct conditions (ringfences) and reporting mechanisms from individual grants.** It has also combined grants for specific purposes into larger payments, which local authorities can spend across many activities.
- **Withdrawing some of the detailed frameworks for monitoring local authority spending and performance.** It relies instead on the overall system of local accountability for assurance. This system consists of checks and balances such as inspectorates, external audit, statutory duties on some local authority officers, and local councillors being democratically accountable. Local authorities also provide data to departments on their spending and performance, via a number of data sets contained in the single data list.

4 The new arrangements provide departments with less direct information on how local authorities spend government grants and whether they achieve their outcomes. Departments rely more on systems of local accountability to ensure relevant local authority spending meets with Parliament's intentions and is value for money.

5 The Department for Communities and Local Government (the Department) led the government's changes to local government funding. It is the department primarily responsible for the new assurance arrangements. The Department has led the reduction in the number of grants and removed restrictions on how local authorities can spend them. It coordinates the design of new grants to local authorities from across government. Other departments increasingly channel funding to local authorities through the Department. This is because of the policy of combining separate grants into larger grant payments for multiple service areas.

Our report

6 This report examines how the Department has implemented and oversees the assurance framework that enables departments to assure Parliament on funding for local authorities:

- Part One examines how the departments funded local authorities in 2013-14, how that changed since 2010-11, and how the Department made these changes.
- Part Two examines whether departments' monitoring of local authorities gives them enough assurance on whether local authority grants are used in line with Parliament's intentions and sufficient information on the impact of the grants on policy objectives.
- Part Three evaluates whether the Department ensures the local accountability system is effective for providing assurance on value for money, and considers emerging issues and risks.

7 The report complements our report on the Department's 2013-14 accounts. In that report, we describe how we have carried out our financial audit responsibilities in the context of the Department's current operating environment.

8 Local authorities receive several different streams of funding from government. In 2013-14 departments passed £53.3 billion through local authorities to support schools and pupils or to fund welfare and training payments for individuals. Local authorities have almost no influence over the use of this funding. We do not examine this funding in this report.

Key findings

Local authority funding and assurance, 2013-14

9 In 2013-14, the government gave local authorities £36.1 billion in funding (excluding funding passed directly to schools and individuals). Revenue funding accounted for £32.0 billion, with £4.1 billion in capital funding. Eight different departments gave funding. The Department, which coordinates funding to local authorities, gave £26.5 billion (73 per cent). This funding complements a range of non-departmental sources of funding used by local authorities such as council tax receipts, income from sales, fees and charges and capital receipts (paragraphs 1.3 to 1.6).

10 In order to support the delivery of their core functions and statutory duties, the government funds local authorities through several grant types, which have varying conditions attached. These include:

- **Ringfenced grants**
Local authorities must spend this on a specific activity, for which they give the government evidence through rigorous reporting.
- **Unringfenced general grants**
There is no expectation of how local authorities spend this funding, other than they should spend it lawfully.
- **Unringfenced targeted grants**
Departments provide these grants for local authorities to fund specific activities. However, as they are not ringfenced, local authorities can reallocate these grants to other areas of their work to meet local priorities (paragraphs 1.7 to 1.13).

11 The government gives local authorities most funding via unringfenced grants, to maximise local flexibility. In 2013-14, £25 billion (69 per cent) of government funding to local authorities was through unringfenced general grants. £7.8 billion (22 per cent) was paid in unringfenced targeted grants. In both cases, there are no conditions requiring local authorities to use funding for a specific purpose (paragraphs 1.9 to 1.10).

12 The Department has reduced conditions on how local authorities must use grants and merged some grants since the 2010 spending review. Following the spending review, the Department led an effective review of whether ringfences should remain and whether individual grants should roll into larger grants. It communicated clear guidance to other departments that grants should be ringfenced only in very exceptional circumstances. The Department undertook a second round of rolling individual grants into larger ones as part of the introduction of the Business Rates Retention scheme in 2013-14, which was a significant change to how the government funds local authorities (paragraphs 1.15 to 1.23).

13 The Department has made changes since 2010 that have increased the share of funding that has no specific intentions, other than to support local authorities deliver their statutory duties and core functions. Like-for-like (adjusting for recent changes in local government duties as far as possible) ringfenced revenue funding fell from 7 per cent to less than 1 per cent. The level of unringfenced general revenue funding, where government has expressed no intention for its use, increased from 67 per cent of local authority funding in 2010-11, to 84 per cent in 2013-14. Unringfenced targeted funding made up 15 per cent of local authorities' government revenue funding in 2013-14, compared with 26 per cent in 2010-11 (paragraphs 1.24 to 1.27).

Assurance on how local authorities spend government grants

14 All ringfenced grants have clear reporting mechanisms, where local authorities must show that they have met grant conditions. The government monitors how local authorities use these grants for assurance that local authority expenditure is in line with Parliament's intentions (paragraphs 2.15 to 2.16).

15 In contrast, local authorities do not have to show how they spend unringfenced general grants; none of these grants require local authorities to report back directly to departments. These grants, which include Revenue Support Grant and Council Tax Freeze Grant, are for general rather than specific purposes. The government puts no conditions on this funding. For regularity, departments only need to assure Parliament that local authorities have used the funding within their legal powers. Equally, as there are no specific stated policy objectives for how local authorities should use these grants, departments do not monitor spending patterns directly to assess policy impact. The local accountability system gives assurance on whether this funding is lawful and value for money. Unringfenced general grants form most local authority funding from government. This means that direct monitoring of how local authorities use funding overall is limited. These changes are a specific policy intent of localism (paragraph 2.17).

16 Departments do not have to monitor directly how local authorities use unringfenced targeted grants. However, departments often monitor their use. The Department tries to manage the scale and nature of this monitoring, as part of the government's policy to reduce the reporting burden on local authorities. The Department has given other departments guidance on the nature of information they can collect. It encourages them to monitor these grants through existing data sets rather than new ones. The Department also encourages other departments to consider other factors that affect how local authorities use funding, when designing reporting mechanisms. These include whether the grant is for a statutory purpose and whether the local authority secured the funding through competitive bidding. The Department considers that statutory duties, or having business plans and bid documents, shape local authorities' spending decisions and therefore reduce the need for direct reporting (paragraphs 2.18 to 2.21).

17 The policy of reducing reporting burdens means that for £2.8 billion of the £7.8 billion in unringfenced targeted grants, departments receive no direct information on how local authorities use them. The lack of direct evidence means that departments cannot be confident of the impact of these grants and whether they should continue, change or end them. However, for most (£2.3 billion) of unringfenced targeted grants where there is no direct reporting, there are other factors in place such as statutory responsibilities, business cases or memorandums of understanding. The Department feels that this gives other departments assurance that local authorities will use the funding in line with the policy intention (paragraphs 2.22 to 2.29).

Departments' assurance over value for money locally

18 Central government relies on the system of local accountability for assurance over the value for money of funding it gives local authorities. The system includes local checks and balances. These include the activities of external auditors, having local authority officers with legal duties, and having democratically accountable local councillors. The Department describes this system in its accountability system statement. This includes mechanisms that relate specifically to assurance on value for money. Other departments secure assurance for the funding they give to local authorities from the core accountability system set out in the Department's system statement (paragraphs 3.3 to 3.8).

19 The Department is clear that its role is to assure itself that the local accountability system is effective, rather than to monitor whether spending is value for money. The Department's core principles state that local authorities' prime accountability is to their local electorate, and that local councillors are best placed to decide what is value for money locally. Consequently, the Department thinks that local authorities will achieve value for money differently, according to local priorities. The Department gets assurance over the value for money of government grants to local authorities from the existence of the checks and balances in the local accountability system, which are intended to promote sound and informed local authority decision-making (paragraphs 3.9 to 3.11).

20 The Department has improved how it assures itself that the local accountability system is effective. In September 2013, the Department updated its system statement to include the information it uses to oversee the local accountability system. The Department also advised the Accounting Officer on the system's effectiveness in December 2013. It concluded that the system did not require any changes. The Department will continue to advise the Accounting Officer twice a year. The Department is considering how to address assurance issues that result from the closure of the Audit Commission given the Commission's role in collating information provided by auditors (paragraphs 3.16 to 3.20).

21 Despite recent improvements, it is not clear that the Department knows whether the system is effective in securing value for money. The Department believes that the system creates the conditions for local authorities to achieve value for money through pressure to improve outcomes, reduced incomes and greater transparency of their spending decisions. However, the Department's monitoring information gives limited insight into whether this is happening in practice. Instead, its monitoring focuses more on financial and service sustainability. The Department's advice to the Accounting Officer in December 2013 did not consider whether the system is effective in relation to value for money (paragraphs 3.21 to 3.22).

22 There is a tension between departments using unringfenced targeted grants and relying on the local accountability system. Whilst these grants lack formal conditions, departments seek to exert influence over local authorities' use of the funding by establishing spending expectations for the grant, rather than leaving the decision solely for local consideration. In the Department's view, these types of grants allow national priorities to be pursued locally while also providing a degree of local financial flexibility. For example, local authorities can reallocate unspent grant funding to other activities rather than repaying it to departments. However, the primacy of local priorities within the accountability system could mean that the departments' expectations for these grants are overridden locally. Overall, departments wanting to achieve specific objectives through their funding to local authorities is not fully consistent with an assurance and accountability framework designed to promote local priorities, and where there is limited reporting on local spending (paragraphs 3.24 to 3.29).

23 Public funding comes increasingly through multi-agency, cross-border organisations, which do not fit easily with government relying on the local accountability system. For example, Local Enterprise Partnerships, run by local businesses and local councillors, can have members from many local authorities, with one local authority overseeing how funding is distributed and used. One local authority could therefore allocate funds on behalf of other local authorities, subject to the parameters of a partnership agreement. This blurs the lines of accountability between local authorities and their electorates, on which the local accountability system depends. The statutory duties of local authority officers become more complex, as they apply only to a single local authority. Though they retain responsibility for allocating funds to the Partnership, they may not be involved ultimately in decisions over how it is spent. The growth of these sorts of arrangements will place increasing pressure on the core principles of the Department's local accountability system as it is currently designed (paragraphs 3.30 to 3.31).

24 A system of accountability in which local authorities and other local public bodies report to individual departments is at odds with emerging patterns of local service delivery in which local bodies from different sectors pool budgets and work across institutional boundaries to tackle complex local issues. New arrangements, such as Health and Wellbeing Boards, pooled health budgets, and multi-agency initiatives to tackle complex local social problems, mean that local authorities are increasingly designing and delivering services jointly with health bodies and other public sector agencies locally. Despite this local integration, different public bodies remain accountable to different departments via separate accountability systems. The Department needs to understand the fit between the different departmental accountability systems to ensure that jointly delivered local schemes are suitably accountable to the relevant departments, whilst ensuring that these accountability arrangements are not detrimental to joint local working (paragraphs 3.31 to 3.33).

Conclusion

25 The Department has implemented the government policies to increase local authorities' flexibility over their funding and reduce reporting burdens. Local authorities have more freedom to allocate resources according to local priorities. However, at the same time, reductions to government funding have put increasing pressure on budgets. The Department's arrangements to assure Parliament over funding are in transition as government adapts to receiving less evidence on how local authorities spend funding. It is moving to a model of local accountability focused on understanding, rather than shaping, how local authorities use funding. Tensions remain where departments continue to specify policy objectives for grants, despite local priorities now taking precedence for how funding can be spent.

26 Under the new arrangements the Department does not have to monitor local spending decisions. However, it still must assure itself that the local accountability system that oversees local spending is effective. The Department has improved its understanding of how the system prevents financial and service failure. It could do more to understand whether the system is effective in delivering value for money.

Actions to consider

27 It is for the Department to set out, and Parliament to consider, current assurance arrangements as set out in our report. Our findings, though, lead us to suggest a number of actions departments should consider concerning their assurance over funding granted to local authorities:

- a** Assess the appropriateness of continuing to fund local authorities through targeted grants in the context of an approach to value for money based on local priorities.
- b** Departments may judge that unringfenced targeted grants are appropriate. If so, they should assess how far reporting arrangements for targeted grants give enough assurance that local authorities spend this funding according to policy intentions.
- c** Consider value for money as well as financial and service sustainability, when assessing whether the local accountability system is effective.
- d** Consider updating the guidance on specific grant determinations, as it is now outdated.
- e** Review their accountability system statements against ongoing changes to public services involving partnerships and cross-border working.