

Housing, Communities and Local Government Committee

Oral evidence: Local Government Finance and the 2019 Spending Review, HC 2036

Monday 13 May 2019

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Members present: Clive Betts (Chair); Bob Blackman; Mr Tanmanjeet Singh Dhesi; Helen Hayes; Andrew Lewer; Teresa Pearce; Matt Western.

Questions 1 – 80

Witnesses

I: Professor Tony Travers, London School of Economics; Neil Amin-Smith, Institute of Fiscal Studies; Professor Pete Murphy, Nottingham Trent University; Rob Whiteman, Chartered Institute of Public Finance and Accountancy.

II: Sir Amyas Morse, Comptroller and Auditor General, National Audit Office.

Examination of Witnesses

Witnesses: Professor Tony Travers, Neil-Amin Smith, Professor Pete Murphy and Rob Whiteman.

Chair: Good afternoon to you all. Thank you very much for coming to give evidence to the Committee this afternoon, in the first evidence session in our inquiry into local government finance and the 2019 spending review. I will just ask Committee members to put on record, to begin with, any interests they have that may be directly relevant to this inquiry.

Teresa Pearce: I employ two councillors in my office.

Matt Western: I employ one councillor in my office.

Chair: I am a vice-president of the Local Government Association.

Bob Blackman: I am a vice-president of the Local Government Association and I employ a councillor in my office.

Q1 **Chair:** We have some new faces and some older faces. No, not older



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faces—faces that have been here before. Can I ask you to say who you are and the organisation you are from? That would be really helpful.

Professor Murphy: My name is Professor Peter Murphy. I am from Nottingham Business School, which is at Nottingham Trent University. I am the professor of public policy and management, head of research, vice chair of the Learned Society for Public Administration and a member of the advisory group at the Centre for Public Scrutiny.

Previously, I spent 23 years in five local authorities as a chief planning officer and chief executive in Leicestershire. I was then in the civil service in the local government modernisation team in 2000, where I was responsible for performance management regimes, and for piloting and then implementing the intervention in failing or substantially underperforming local authorities. I currently research the drivers, barriers and interrelationship between policy development, service delivery and public assurance. I am helping to design the performance management arrangements for higher education institutes, known as the research excellence framework.

Rob Whiteman: I am Rob Whiteman, chief executive of CIPFA, the Chartered Institute of Public Finance and Accountancy. We set accounting standards for local authorities, and most CFOs are regulated accountants under our scheme of membership. I am a previous local authority director of finance and chief executive. I used to run the Improvement and Development Agency, the then improvement body for local government. I am a former senior civil servant.

Professor Travers: I am Tony Travers from the London School of Economics. I have a long-term research interest in local government and its finance.

Neil Amin-Smith: I am Neil Amin-Smith. I am a research economist at the Institute for Fiscal Studies, where I work on local government finance.

Q2 **Chair:** Thank you all very much for coming this afternoon. To begin with, local government has had significant reductions—cuts—in its spending power since 2010. Could you put that in context? How does this relate to other periods of time when local government had its spending or its grants cut? I can remember back to the 1970s and the famous statement that the party is over. How does it compare with those sorts of periods?

Professor Travers: You are right, Chair. In the late 1970s and again in the early 1980s, there were significant, although relatively short-term, reductions in local government spending on both occasions, as part of an attempt to reduce public spending overall. There have also been other periods of feast in some ways, such as the Heath-Barber boom even earlier in the 1970s and between 2000 and 2009. In that period, there was a significant increase in local government spending. It is fair to say that the reduction since 2010-11 is without parallel in modern times. The



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scale, intensity and the long time period over which it has taken place are greater.

If you compare the pattern of local government and central Government spending over the longer period, embracing back to the beginning of 2000, local government spending has gone up—the IFS’s evidence shows that—but central Government spending has gone up very substantially more over that period. There are periods of slow and fast for reductions and increases in local government spending, but this one is unusual in its intensity.

Rob Whiteman: I would agree with that. I would make the additional point that, because it has been a lengthy period of pressure, that has highlighted some other things as well. Compared to other periods when savings were made, we are more aware of service pressures for elderly people in social care or volumes in children’s social services. On this occasion there is a double whammy of those service pressures going up for a lengthy period of time, at the same time that there is a lengthy period of savings.

My final point would be that that, therefore, puts pressure on a number of other things. In terms of distribution, which I understand we may talk about today, I can remember periods, as my colleagues will, when there were arguments about who would get the most growth from a redistribution system. Nonetheless, at the time the sector was getting more money. Things like fair funding or redistribution become all the more serious and under more scrutiny when they take place during an unprecedented period of cuts and rising service pressures.

Professor Murphy: I would endorse that. The figures basically speak for themselves at the moment and have done for the last seven or eight years.

Q3 **Chair:** Turning to the IFS, you have produced some figures for us, but there was a big period of growth up to 2009, and then a big period of cuts in the following decade. Is local government still getting more in real terms than it was in 2000, looking at the two periods together?

Neil Amin-Smith: It is getting more in real terms, and it is also getting more in real terms per person by about 10%. That is 2017-18 compared to 2000-01. But, as a percentage of national income, the funding that local government gets has fallen by 7% between those two points. Although there were large increases across the 2000s, that still results in a fall as a percentage of national income.

Q4 **Chair:** In terms of reasons why and attempts to look at what the impact is going to be, what are your views about why central Government decided to identify local government for the level of cuts they did compared with other parts of the public sector? What attempt was made to identify the effect of those cuts before they were introduced? Was that something that was dealt with afterwards?



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Professor Murphy: Can I make one further point on the last question before we go into that? In reality, the population has been growing. That is quite a change. The population has been growing but, more importantly, the parts of the population that rely on the services or have demand for the services have been growing more quickly than the population as a whole. We are getting fairly significant increases in demand, and the most obvious thing is social services.

Chair: That is helpful.

Professor Murphy: I would like to come back on the other point.

Rob Whiteman: The mechanism for local government finance probably plays a role, in that at the beginning of the period Government sucked in money in order to then redistribute it. Moving to giving less back, in order not to redistribute, was quite an easy mechanism compared to some other parts of the public sector. Government were able to deliver departmental savings for the Treasury through a mechanism of giving less back than they received in their redistribution role. On the whole, we moved away from the revenue support grant, where many councils lost grant, but that was resource that was, in the old days, taken in in order to redistribute back.

Professor Travers: At some level, what has happened is a mathematical inevitability, given that the Government had made other decisions that were nothing to do with local government. At its simplest, they involved constraining overall public expenditure growth over the medium term in order to reduce the deficit but, within that decision, protecting some large chunks of public spending, particularly the NHS, and some parts of the welfare system, particularly the state pension, and to increasing spending on overseas aid and so on.

All those effectively prior decisions meant that, for unprotected services, it was simply mathematically inevitable. If the whole total is constrained and big parts of it are protected, the unprotected bits will fall more. That is a sort of safety valve effect, given that the Government had decided to protect significant parts of overall public spending from the impact of deficit reduction.

Professor Murphy: I agree that part of this is because of the macroeconomic policies that were determined for how we deal with overall spending issues. A short-term approach was taken in those first two years that was supposed to deal with the structural deficit within two years. The structural deficit has never been dealt with satisfactorily, and we have continued to have short-term prioritisations as we have gone along. Strategically, that builds up because it is suboptimal decision-making.

Thinking about the protection of Whitehall or parts of it, local authorities deliver services from nine Whitehall Departments. They do have a single champion, but the impacts are spread across nine Whitehall



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Departments. Adding them all up and then seeing the significance of them is therefore a lot more difficult than if you are dealing with the NHS, which is essentially the Department of Health's and the Treasury's concern.

Neil Amin-Smith: I would echo what Tony said. To put it in the context of the reductions in funding for other Departments, cuts to local government were comparable to the Home Office and not as substantial as cuts to funding for the MoJ and Defra.

Q5 **Chair:** Is there any evidence of an attempt to look at the impact of the cuts before they were made? Coming back to the point Peter Murphy just made, it is spread across Government Departments. Is that too difficult to do, so the Treasury just got on and did it, and local government was asked to sort the problems out afterwards?

Professor Murphy: They did not know how. To use the phrase, it was put in the "too difficult" pile. In the short term, it is enormously difficult. I do not think it was done initially, in the first two years. By taking a strategy and continuing with that particular strategy, nobody has stopped and thought, "We need to do a strategic reassessment of this whole thing and think about our long-term strategy". Part of the issue we have at the moment is that there are some things we can do in the short term that might help, but in reality over the long term there needs to be a structural change to how we go about financing local government.

Rob Whiteman: It is important to remember that the performance architecture for local government changed considerably as well. Recently, there are discussions about whether cuts to youth services have led to problems with knife crime being debated in the media. There has not been a watchdog body for local government, since the abolition of the Audit Commission, that might consider the effect on services or service quality of cuts taking place within the sector. The Government or another body did not fill that vacuum left. The Audit Commission did many, many things. One of them was to report on service quality in general. On the whole, that went.

Professor Travers: We are going to echo each other again here, I suspect. In the way that spending reviews are undertaken in Britain, Ministers have to come forward with bids, and some are accepted. Once you have done your deal with the Treasury, you decide on what happens to the other Departments, in effect. The initial process, the first spending review the coalition Government did, had as its main point the reduction of the deficit. That is almost the inevitability of the way public spending reviews are conducted, including the point that local government is scattered among several Departments, which is important.

Beyond that, the nine years since this all began happen to have coincided with substantial demographic changes, which are more and more being taken into account. Again, if you look at the IFS or the Resolution Foundation's excellent work on this front, it tends now to show figures



with and without changes in demography, such as per capita impacts. In a sense, as the period has extended and the demographic realities, particularly of older people's social care, have become more and more important, something that seemed less important in 2010 now seems much more important today.

Neil Amin-Smith: This question of whether they have done this analysis touches on a broader issue about local government finance, which is that, when Government assess the spending needs of councils, they only do so on a relative basis, so how much councils need relative to each other. They do not attempt to make an assessment of how much councils need in total to provide a given level of services at a certain quality and at what efficiency they should be able to do that. It is a very difficult task to do that, but, especially given the spending review, it could be quite an important one to do. It would also force the Government to be more transparent about what we expect from local government and to have that discussion.

Q6 **Bob Blackman:** Mr Murphy, you were talking about the levels of expenditure and the fact that the population and the number of people who need the services from local authorities are growing. Surely there is an issue here. For example, if 100 people originally required a service and it suddenly becomes 150, you still need the same level of administration. Your overheads are often the same; they do not necessarily increase, but the cost of providing the service could reduce per head by having more people. Is that your experience in assessing local authorities?

Professor Murphy: There is a general thing about economies of scale. In various work in the past, we have looked at what the right size of host population is to make individual services as efficient, effective and economic as possible. You tend to get a different size of host population for the different services. There are about 160 services provided by large local authorities. We tended, therefore, to look for groups of those sizes to make the most efficient redistribution when looking at local authority boundaries.

The numbers have gone up in terms of economies of scale. In general terms, you are right; you are correct. Up to a certain size, you will make more economies of scale and effectiveness. That is true, but, in terms of this pattern, what is happening is that people are going into homelessness and social care. Those changes and trends are much more significant. We did undoubtedly get more and more efficient between 2000 and 2012-13, as the former Audit Commission evidence shows. Local authorities were getting more and more efficient and effective. They were terrific in comparison with some other parts of the world.

There is less evidence of it after 2012-13. The evidence there is sporadic and anecdotal but fairly consistent: local authorities are still making efficiencies, but they are not making them at the same co-ordinated aggregate level as they were in that period, when we—I am



speaking as a former local authority; I should not do that—when, as my friend here says, the Audit Commission was charged with that performance management, and it did it fairly effectively.

There is some comparative evidence. Colleagues of mine in the International Research Society for Public Management have recently been looking at the financial resilience of local authorities across 11 European countries. They seem to have found that, because of that previous period when the Audit Commission was there and what have you, this discipline was very good for our local authorities, in comparison to the rest of the states that were studied: Belgium, Germany, France, Italy et cetera. They managed significant reductions fairly well in the early days. In terms of their own financial resilience, they have just about outperformed local authorities in the other 10 states that were studied.

Professor Travers: I can see that there are some services, such as the fire brigade, where population increases may, on balance, cause a bit more demand, but it will not be pro rata. The challenge is this. Over the period, between 2000 and 2018-19, the proportion of comparable local government spending that is devoted to social care has gone up from around 44% or 45% to nearly 60%. In those services, the demand is not one to one, but it is nearer, as the population of older people and, as your own report showed last week, the demand for children's services both increase. In those bigger services, the demand is probably nearer one to one, rather than achieving economies of scale on an existing service base.

Rob Whiteman: Very often, it is the number of people receiving a service that affects the amount of money spent. Why did Northamptonshire have roughly the same number of children in care as Essex with half the children's population? What can we learn there?

On the other hand, going beyond the volume to the number of people receiving a service, on the whole there is variation in the degree of the service offered and the length of the service offered, and that can affect it. Going the other way, small unitaries would sometimes argue that, where they have to provide top-tier services like children's and adults', there is a cost to providing that service that is then divided into fewer cases. It goes both ways.

Q7 **Bob Blackman:** Yes, exactly. If you have to provide a service and there are relatively few people receiving that service, you have the overhead of providing that service. If there is no one receiving the service, there is no cost.

Rob Whiteman: Small unitaries make that point.

Bob Blackman: If the cost goes up because the number of people goes up, the overhead reduces.

Rob Whiteman: Yes, exactly. Smaller authorities providing top-tier services will sometimes say that it works the other way for them.



Q8 Mr Dhesi: Professor Travers, many of us have noted that some of the most deprived areas have seen the largest cuts in Government spending since 2010, including my own constituency of Slough. According to a study by the Centre for Cities, despite having areas of high social deprivation, Slough has experienced some of the largest cuts in the whole of the south-east. Can you please clarify whether those areas got significantly more money between 2000 and 2010?

Professor Travers: At the beginning of the period we are discussing, certainly in the early years—policy changed somewhat afterwards—the Government reduced funding for local government. At that time, there were three sources of funding: council tax, business rates and, at that time, rather more grant than there is today. Actually, at that time it was just grant and council tax; business rates came later in time. The way the grant was reduced had a greater impact on councils, in effect, that were more grant dependent. That was the way the grant reduction was made.

In effect, that meant the authorities that received the most grant, which tended to be higher-spending ones, because it was based on needs and resources, but particularly need equalisation, tended to see and have tended over the longer period to see their spending fall by a larger percentage from the starting point of overall spending. In fact, the policy changed somewhat later and became more evenly spread. If you look at the impact over the whole period from 2010-11 to today, your made is well made. There are charts, not in my evidence but in other evidence, that show that precisely.

Q9 Mr Dhesi: Mr Whiteman, in terms of absolute spending power, in your opinion, do those poorer areas still have more money to spend?

Rob Whiteman: It is difficult to give a shorthand rule that covers everybody. On the whole, areas that have tended to lose more grant because they were more grant dependent have less spending power, all other things being equal, but not always. There are some authorities in that category that still have relatively good spending power, or their financial resilience overall still looks very healthy, if you look at the degree to which they have felt the need to raise council tax or other factors. On the whole, yes, their spending power has, in relative terms, gone down because, as Professor Travers said, they were more dependent on grant, which tended not to favour them over that period.

Q10 Mr Dhesi: That is one of the reasons that many of them are indeed struggling more than many of their other counterparts. Professor Murphy, let us explore that a bit more. In your opinion, is deprivation a good indicator of spending needs? If so, which councils are struggling at the moment?

Professor Murphy: Can I just make a point that breaches the previous one? It is an obvious point, but it needs to be made. From my recollection of receiving spending announcements every year and having to deal with it on the ground, I never went through a year that was not



different from the one before—it changed all the time—and, because an awful lot of your spending in a council is in effect committed, the amount of flexibility you have is severely reduced. Although there may not seem to be great big changes in the general weightings overall, they can be very significant on the ground. They are very significant on the ground for all local authorities. What appear to be small changes in reality have big consequences at the local level.

Secondly, there will undoubtedly be areas—Northamptonshire would be one—that say they did poorly in both, not only inter-year but inter-decade. They would point, quite legitimately, to the major growth and demographic changes that happened in Northamptonshire, which is a significant growth area. The whole of the weighting did not, they would say, recompense them for the services they had to provide. My biggest point would be that it is very complex; it is not that simple. Small changes can be significant for an individual council.

The index of multiple deprivation has been developed over 30 or 40 years, and it has served us well over those 30 or 40 years. It has changed all the time, in terms of the indices and what comes in and out. It is pretty sensitive and sophisticated now. The index of multiple deprivation is a relatively good measure. My answer to you would be this: be careful about the details, but, yes, in general it is a good indicator.

Q11 Mr Dhesi: Mr Amin-Smith, the Institute for Fiscal Studies, of which you are a member, noted that the councils facing the greatest problems tended to be county councils, which had not experienced the greatest cuts. Can you substantiate that with some detail on why that may be the case?

Neil Amin-Smith: Yes. It is worth saying first that the most high-profile cases of councils in financial difficulty have been county councils, such as Northamptonshire and Surrey. It is slightly less clear whether, in general, counties have struggled more with delivering cuts than other types of councils over the past decade. Some CIPFA work looking at reserves shows that counties tend to have lower reserves relative to their spending than other councils. If you look at the rate at which councils are depleting their reserves, it is not clear that counties are going to deplete theirs more quickly than other upper-tier authorities.

To the extent that counties have struggled more, in terms of why that is, relative to district authorities, clearly, county councils have a responsibility for adult social care and social care in general, which councils have tried to protect. That makes it that bit harder to deliver cuts. Relative to other upper-tier authorities, you might think that, because counties provide fewer other services, they have less flexibility to make cuts elsewhere while still protecting social care. Again, it is not clear that unitaries or metropolitan boroughs have made greater cuts to other services than districts have.



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That potentially suggests that there are political or institutional reasons why county councils have been less able to deliver cuts than other areas. Perhaps they have more engaged electorates that are less willing to tolerate the levels of cuts required.

Rob Whiteman: Whatever I say here, I will upset one of my colleagues in the sector somewhere. On the whole, counties are under, in relative terms, the greatest pressure, when looking at their budgets. This is because, remember, most councils are spending more on children's services, for example, and they have diverted money into children's services by making bigger cuts in other areas. Very often, counties do not provide the services that have tended to be cut by a bigger amount. They are dealing with the pressures of adults' and children's without the ability to direct money from cutting other services by an even greater degree. I can think of cases that vary from what I have just said, but on the whole counties are under a particular amount of pressure.

Professor Murphy: I would concur with that, but there is one other point that you might like to take into account, although it might not have come out to date. That is the lack of flexibility in a county council versus a unitary, because you are spread across a number of services. For a county council, the service the public are most interested in is undoubtedly social care. They have also recently lost two of the seven spending blocks they had in my day, namely the police authority money and the fire authority money. Their flexibility has been reduced even more.

Professor Travers: I have one final point. It is worth adding that, in effect, needs and resources equalisation, particularly needs equalisation, has been frozen since 2011. While that does not answer this question precisely, it must mean that some authorities, had needs and resources been revised in the meantime, would otherwise have more money and others would have less. I cannot say which, whether it would have been Slough, or whether it would have been urban or rural authorities, but over that seven or eight-year period there would have been shifts. Given that we have a broadly equalised base between authorities, had equalisation kept pace, things would have changed.

Q12 **Chair:** Before we move on, if it is true that the counties are in more difficulties because they have fewer places to go to make cuts apart from social care, can we provide figures to prove that?

Rob Whiteman: Yes.

Chair: If so, who can do it?

Rob Whiteman: We have to differentiate resources from cost and then differentiate that from what we see in people's budgets, as my colleague from IFS said, when directors of finance are making their section 25 statements at budget-setting on the adequacy of reserves to cover their medium-term financial plan. CIPFA provides data, called a resilience



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index, to section 151 officers and CFOs in order that they can make a judgment. This looks at the level of reserves but also factors like how much of your budget is taken up by the big-ticket items. Looking at those data, we put councils in categories of resilience risk. In CIPFA's view, the counties are facing particularly—

Q13 **Chair:** Can we have that?

Rob Whiteman: At the moment it is not published. When it is published we will provide it to the Committee. We have been providing that data to councils in the first year and not making it public in order that they can test it and comment on it, and we can get the indicators right.

Chair: When do we get that, then?

Rob Whiteman: Later this year, we will be publishing it. We plan to do it in the autumn.

Q14 **Chair:** Does the Department get it?

Rob Whiteman: The Department does its own thing, but it will be receiving it as well, as will auditors.

Professor Travers: In a simple way, social care spending as a proportion of budget is not a perfect measure, but it gives you a sense as to how far that heavily demand-driven service might be thought to create greater pressure. I am not saying it does, but it is a measure.

Neil Amin-Smith: On that, we have looked at some of the authorities that have experienced the most financial difficulty. Even if you take into account the fact that, for county councils, social care makes up a bigger proportion of their budgets and that, relatively, councils have tried to protect that, those are not necessary the authorities that have experienced the greatest cuts.

Rob Whiteman: No. Northamptonshire was in the middle of the pack, was it not? If you look at its cuts, it was ranked 15th out of 27, if memory serves me right.

Chair: There were things other than cuts going on, but cuts are still important.

Rob Whiteman: There were other things, but it is my colleague's point that sometimes the councils under most pressure are not the ones that have lost the most resources.

Q15 **Chair:** It would be interesting to see a breakdown of how spending on social care has gone up in different categories of authority.

Professor Travers: That can be done by individual authority, I suspect.

Q16 **Chair:** It might be helpful to see it for different categories of authority. Does somebody have that information?

Rob Whiteman: We already provide things like that already.



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Chair: So you can provide that.

Rob Whiteman: Yes, we can provide that to the Committee.

Chair: That is great. Thank you for the offer.

Q17 **Teresa Pearce:** I just wanted to talk a little bit about how local authorities have responded to funding reductions, which you have all already touched on in previous answers. What have they cut back on? Have they become more efficient? The other part of the question is this: can they continue to make savings, or have we got to a tipping point where everything that can be cut has been cut?

Rob Whiteman: Financial management in local government is generally very strong. Again, I will upset members in other sectors now, like the NHS or Government Departments. On the whole, local government has strong financial management, because it also has quite a strict regime. It is illegal not to balance a budget for a council in a way that is tougher than many other parts of the public sector. On the whole, councils have tried to make savings through efficiency or visible and transparent reductions in service.

There are some taps that you can turn off relatively quickly. Take, for example, youth services. We often refer to statutory services, which is where you have a right as a citizen to have that service: to be assessed for elderly care or to be assessed if you are a vulnerable child. We refer to non-statutory services where the council has a duty to provide them, but you as an individual do not have a statutory right to that individual service. Non-statutory services have been cut. Youth services are an example. Many councils have cut youth services in order to balance the budget, and it is a tap that you can turn off more quickly than you can grapple with the difficulties of those budgets.

Councils worry that, in the medium to longer term, there may be unintended consequences of those services no longer being provided. To give you what I hope is a straight answer, councils have balanced the books. They have done as good a job as possible of doing that while protecting services, doing it through efficiency or, where services are being reduced, reducing services that do not have unintended consequences. All councils would acknowledge that, at times, they have cut money for prevention or preventive actions, which in the longer term may lead to acute budget pressures further down the line, although it has been possible to cut them in the short term.

Q18 **Teresa Pearce:** You are saying that they could turn off a tap and have reduced the financial cost, but it might not be a long-term saving. It might result in more deprivation.

Rob Whiteman: Yes, and it could shunt to another service. If local government cuts public health, you can make savings now, but, if fewer people give up smoking, in 10 years' time we may see more people presenting at A&E with respiratory disease. There is a real worry that



prevention is difficult to protect, given the degree of budget cuts being made.

Q19 **Teresa Pearce:** Do you believe that all the red tape and the inefficiencies have gone and we are now as lean as we could possibly be? Have we reached a tipping point?

Rob Whiteman: The low-hanging fruit went quite some time ago, in all honesty. That is not to say there is never any more, but councils are having to deal with the medium-term restructuring of their services, particularly statutory services, and look at how they can be provided in a different way. The easy savings went a long time ago.

Professor Murphy: I would echo the point about them having strong financial management. I remember that there were three or four ways that we looked at them in comparison with central Government or the agencies of central Government. When we did the Invest to Save Budget, the best schemes tended to come from local authorities. When you looked at the negotiations on local public service agreements or local area agreements, it was generally the local authorities that were able to present the strongest evidence and make the best case.

The level of reserves that local authorities have at the moment is historically low. They are raiding their reserves for non-recurrent expenditure, so we have a lot less left afterwards. There is pretty clear evidence across many services that protection and prevention investment, relative to service delivery or reactive investment, is now systemically being underestimated. There were recent reports from the National Audit Office and from Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services, which has just done its first tranche of inspections of 14 fire services. One of the biggest messages from those reports—the second 14 are coming out, showing exactly the same situation—is that protection and prevention have been proportionately underinvested in when compared to reactive services.

That seems to come to the point that Rob was making. None of us would turn round and say we are getting to the tipping point where there are no efficiencies to be made in local authorities, because they have been remarkably good and technology changes all the time, but you would say that the risks are undoubtedly rising. The resilience or the resources they have to combat those risks are declining and declining rapidly.

Q20 **Teresa Pearce:** Professor Travers, in your submission you said that satisfaction with local services has held up, which seems counterintuitive. Answer the question I asked your colleagues first, but why is that the case?

Professor Travers: To answer the first part of the question, given the description of the way the national UK Government have protected and then unprotected services, with the unprotected services including local government, whose spending has fallen significantly more than the



average, within local government it itself has protected, for reasons we have discussed already, adult care and children's services. That means that everything else in local government has had to face a disproportionate reduction compared with the average.

Services such as highways, leisure, arts and culture, youth services and, to a lesser extent, environment have faced bigger than average reductions within local government. That has taken those services closer to a tipping point earlier, and in some authorities, because this is all an average, earlier than others. There is always a question about which services in which authorities reach the inevitable tipping point first.

As far as satisfaction is concerned, there is no doubt that the independent and regularly undertaken—it is more than annually—Local Government Association polling work shows that satisfaction with local services has remained much higher than the NHS, for example. Although it has fallen slightly recently, it still remains pretty high. Why is that? I do not know. Theoretically, I suspect it is because a lot has been said about cuts to local government: how libraries were going to be cut, how this was going to be cut and how that was going to be cut. In the end, for most people in most places, the library is still open and the services are still there.

Against the public debate about the subject, most people most of the time, remembering that most people do not often use some of the more expensive local government services, probably feel the change has been less severe and somehow, miraculously, most of it is still there. They may be satisfied, given the debate.

Q21 Teresa Pearce: It is more of the satisfaction of people with universal services rather than specific services like children's social care or elderly social care.

Professor Travers: What I am saying is that we judge things against expectations as well as against absolutes. I think that is what I am saying.

Rob Whiteman: Or the service is now delivered in a way where it is not clear to the public that there is a lot less money being spent on it. CIPFA publishes library statistics every year. If you look at the library statistics, the number of volunteers as a ratio to paid staff has changed considerably. The public may see libraries open without realising that the cost base for them has transferred from staff to volunteers.

Professor Travers: A lot of the reductions in refuse collection type services are presented elegantly as environmental improvements. They are green.

Neil Amin-Smith: Tony touched on this, but one of the reasons behind this satisfaction holding up could be—I am just theorising here—that if cuts have occurred in services that are less visible to the public and, in



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particular, services that only certain minorities use, for example the most deprived, you might expect that to show up less in satisfaction measures.

To provide some numbers, as is the IFS's wont, to what Rob was saying—again, this could relate to the satisfaction evidence—councils have generally tried to protect more acute services at the expense of broader and more preventative services. For example, funding for homelessness has gone up by 23%, but, at the same time, budgets for renewing private sector housing and housing advice have fallen by 87% and 60% respectively. Similarly, while acute children's services have been protected, Sure Start funding has fallen by about 60% over the same time period.

These are things that, one, might show up later if they are more preventive measures and, two, might be less visible to the public. That could be why we are seeing satisfaction stay at the same level.

Q22 Teresa Pearce: Do we have enough data on services that are less visible to the public? You have quoted some percentages there. Is the data good enough?

Neil Amin-Smith: I suppose it depends—

Teresa Pearce: On what you want to use it for.

Neil Amin-Smith: Yes. It depends on the particular services and how granular the services are that you want to break it down into. The NAO is probably better equipped to discuss what data is available than I am.

Professor Murphy: Having done a study for the NAO on the same thing, first of all, I would say that this is not new as a problem. I remember having to tackle it from 2000 to 2010. We called it a syndrome after a local authority that I am not going to name here, which had very poor services but maintained its satisfaction levels throughout the period. It is not just now that we have this problem. Sometimes the public undoubtedly expect other people to scrutinise and monitor the services for them. For the emergency services there is good evidence to say that is the case. We expect the local authority to keep on top of the fire and rescue authority or the police.

Sometimes there definitely is not enough information. There are measures in the performance management regime for whether you have a service or a sector that is data poor or data rich, that uses intelligence data or, ideally, is so good at using the data that it becomes self-policing. We were asked to look at it for the NAO in 2015, when it took over the responsibility from the Audit Commission, and we found that the quality and quantity of data was going down and getting poorer. There is no reason to believe that has changed since we undertook that.

Lastly, as a senior civil servant dealing with performance management, one of the entertaining things for me is that politicians always want subjective indicators, because that is what they get voted in on, whereas



the senior civil servants and the officers in the local council want the real, objective indicators. They want a basket of cases. Where there are only subjective indicators available, you find that the politicians use them and it can go either way. They can say they are better than they are or sometimes they say they are not as good as they should be. What you need for this is a proper basket of both subjective and objective indicators, so you can triangulate the evidence and see where the pattern is.

Rob Whiteman: It would be great if, at some point, we could look at local authority data and see what is needed compared to the legacy that we have now. Voluntary data collection, on the whole, has suffered from the cuts. If I think of CIPFA benchmarking clubs, sometimes there has been a cut and people do not have time to give the benchmark information they used to, from which everybody else can then benefit.

It has been quite a while since the Audit Commission regime went. Without bringing back the template of what good looks like, it would be nice to review the range and quality of data, and see whether there is a way of collecting data that would help drive better redistribution for those purposes and better benchmarking for performance management. At some point, data will have to be looked at by the Department as a theme that it may want to help establish again.

Chair: We are going to have to finish this session by 5.15, because we have another panel to start then. Can we concentrate now? We have a number of important subjects to get through before we finish.

Q23 **Andrew Lewer:** I will cut mine down to a reflection, which is that the subjective data from officers to indicate to their political leaders that they were successful is not an unknown phenomenon, notwithstanding your comment. My main question is this. As central grant funding has been cut back, councils have to be more reliant on business rates retention and their own council tax. I wanted you to reflect on the benefits and drawbacks of that approach.

Neil Amin-Smith: Yes, and it will increase further. From next year, councils will retain, as a whole, 75% rather than 50% of business rates revenues and grant funding will be reduced commensurate with that. One of the reasons for this change, and the key advantage of making local government more reliant on its own revenues, is to provide an incentive to local government to grow those revenues and, ideally, promote economic growth within their areas. The flipside of that, of course, is that you have to reduce redistribution, essentially, in order to create that incentive. If some councils, for reasons beyond their control, are less able to grow their local economies than others, you might see greater divergences between councils in their ability to fund local services and meet local spending needs.

Another benefit of having councils more reliant on local revenues is that it means they can better reflect local preferences. If there are different



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preferences between areas, in the balance between taxation and spending, that can be reflected. If councils have better information than we have centrally about needs in their areas, it gives them some flexibility to increase the funding they have.

It is worth saying that, going forward, as councils are going to be reliant on revenues simply from council tax and 75% of business rates, projections of adult social care suggest that the need for spending on that is going to grow a lot more quickly than those revenues. At the moment, adult social care spending amounts to about 40% of the total of council tax and 75% of business rates. In 15 years' time, even if council tax is increased by 3% every year, that will be about 60%. That raises quite a large question as to whether we expect local government to do significantly less, whether grant funding will have to be reintroduced in quite a substantial way or whether councils will have to be given additional sources of tax revenue in future.

Professor Travers: I agree with that. The difficulty is that we are going to move, which is a good thing, towards a system that is slightly back to the future, where local authorities depend on council tax and business rates as their income. That is where the whole thing started a long time ago.

Even inside this system, equalisation will continue to live and it will be operated through this system. Most people in most areas are going to think, "Our council gets the income from the council tax and the income from the business rates", but in truth it is not that simple. It is all going to have to be adjusted behind closed doors in order to that your Westminsters do not do too well and your Knowsleys do well enough. That is inevitable, but when it no longer takes place through a grant but by adjusting what most members of the public would think of as their local tax, it becomes a degree more difficult to explain.

A grant at least could go up or down, and you could say, "Here is this money from the Government. It reflects different needs and different resource levels". If those adjustments are made from what some people think of as their tax resources, or by getting somebody else's tax resources through some mechanism, that takes us another step away. It is very difficult to explain and quite difficult to understand.

Rob Whiteman: It is welcome to retain income locally. The degree to which councils have incentives to collect council tax and business rates, to keep that locally and to determine their own finances is welcome. That localism of controlling one's resource base is very welcome. That leads to a question about whether those taxes could be more efficient. CIPFA published a paper on council tax called *The Case for Reform*, and it asked these sorts of questions: should we charge it to owners rather than occupiers, comparing back to the rates system? Are there efficiencies that could be made in tax collection?



However, even if local government is given other means of raising money—Scotland is introducing a tourism tax; if local authorities could introduce a tourism tax, it would add to the quantum of resources available to local government—we will come back to the fundamental point, as my colleagues have said, that social care is not on an economic cycle, whereas the revenue we raise through business rates, for example, may be. Down the road, how will local government finance work, in old money, for authorities with high need but a low resource base? Is there going to be a form of redistribution, a form of regional grants or a form of allowing other tax-raising powers? That is going to have to be dealt with one day.

Professor Murphy: That is true. I am very happy to rely on my colleagues' answers.

Q24 **Andrew Lewer:** I have a very brief follow-up. Do you feel—some of you have touched on this—that business rates retention is worthwhile? However, is there any evidence that it helps incentivise economic growth, given the massively centralised tax system we have and, therefore, its slightly peripheral nature, if that is not too leading a question?

Neil Amin-Smith: It is very difficult for there to be any robust evidence on that question, because business rates retention was rolled out nationally so there is no obvious control group that you could compare it to. The very suggestive evidence that we have been able to gather—the House of Commons Library has done similar work—shows that growth in business floor space, which is essentially what the retention system rewards, does not seem to be historically correlated with economic growth, which suggests that, even were councils to be able and decide to respond to the incentive to grow their business rates revenues, it would not necessarily go alongside wanting to promote economic growth in their local areas.

Professor Travers: That says it all. That is it.

Rob Whiteman: We can look at it the other way round. Wanting to regenerate one's local economy, to encourage business and to do everything you can to see a more vibrant economy is something that local government sees as part of its core business. It may do that even if there are not particular incentives being set. I hate to say that, because I believe in business rates retention and I believe in trying to incentivise that, but local authorities without that would still really want to rejuvenate their local economies through other means.

Professor Murphy: There are some other ways you can measure it. You will only do it at the local level. Because it has been very difficult to get that money, the business community is not going to let it be misspent. The heightened scrutiny on it tends to say that, whether you mention it by a cost-benefit analysis, by return on investment or by social return on investment, it tends to be spent pretty effectively.



Q25 **Chair:** Moving on to the balance between tax collected at the centre and tax collected locally, we are an outlier, as the figures show, in having a very small percentage of our total tax collected at a local level. Is this one of the challenges? If we want a more democratic system and to enhance local democracy, and we allow more tax to be collected at a local level, does that cause major additional problems and disparities because of the different tax-raising abilities of different areas? Is it something we just have to accept in this country? We are not like Sweden, where there is great equality between areas. Do we just have to accept that the disparity exists and we cannot really do much at a local level?

Professor Travers: It is true that there are much wider levels of geographical or territorial inequality within England than there would be within Sweden. That is the case. On the other hand, even if there were a radical increase in the amount of local taxation retained locally, it is unlikely that the bulk of taxation would not still be in the hands of the UK Government, which can effect redistribution from area to area as it sees fit using that. It is fair to point out that the level of equalisation we are used to in England, or the target of 100% equalisation, which is a spot relative spending number, is very precise by international standards. Most countries have generalised forms of equalisation for resources and assessed spending needs, but not quite to the level of precision that we were used to in England, and indeed in other parts of the UK hitherto.

The other point of your question, Chair, is this. Rob mentioned tourism tax. Almost inevitably a tourism tax would raise a lot of money in some places and not much elsewhere. Neil's paper, which the IFS and others produced recently, looks at a number of different potential taxes, and makes the point that some of them are so unequally distributed that inevitably—I think I am not misquoting this—people would ask, "How do you redistribute to take account of the differences between some authorities and others in terms of tourism tax?" The difficulty with that is that, if you start equalising for everything, you are always back at the point where you do not give authorities an incentive to introduce it in the first place, if it is a discretionary tax, which a tourism tax probably would be.

Given that it is unlikely that we are ever going to get to a point where national Government does not set, at the very least, 90% of all taxes, there are still enormous opportunities within that total to lead to a fair distribution of resources between different geographical areas, even if it is not done precisely within the local government finance system. As Neil said, it does not always work out like that now anyway, so it would just be building on something that is already there.

Neil Amin-Smith: There are also ways in which you could design tax devolution that can reduce these kind of disparities between areas, while still maintaining the provision of incentives for areas and the sense of local areas being able to affect the funding they have available to them. For example, if you devolve a local income tax, instead of simply giving



local councils control over their income tax rates, they could be allowed to levy, within a small band, a surtax on the basic rate band, and that would substantially reduce the disparities in revenue between different areas.

Chair: Sorry, just explain that.

Neil Amin-Smith: For example, if councils could vary the basic rate of income tax by 2% either way, and that was the bit they retained rather than simply the whole spectrum of income tax, the disparities in revenue between Westminster and Redbridge would be significantly less than if they were simply allowed to retain a percentage of all income tax revenues in their area.

Professor Murphy: There are fewer high earners.

Neil Amin-Smith: There would still be differences but they could be substantially reduced.

Rob Whiteman: Going back to Layfield, what is local government for? When you know what local government is for, how is it funded? The unusual thing in England and the United Kingdom—it varies across the UK; Northern Ireland still has domestic rates and does not have the council tax—is this hypothecated tax that pays for local services through the council. The developed world tends to have a greater range of taxation plurality than the developing world. We have taxes on sales, buying properties, death, income tax and capital gains, whereas developing economies just have a few taxes for mineral extraction or oil. A developed economy has this wide range of tax raising.

Why do we hypothecate a property tax purely for councils, and why are councils not funded from income tax, VAT, death duties or sales taxes as much as they are funded by a property tax? It is a historical anomaly. The Statute of Elizabeth created the rate in order to fund the Poor Law, and later on Parliament wanted to build a navy so it created income tax, but somehow, and I am sorry to make the very simple point, compared to other systems around the world, the fact that local government is not funded from the plurality of taxes is very, very unusual. That is the problem. It puts too much pressure on the council tax or on business rates because it is the only source of tax raising that local government has, and that is very rare. This year it means council tax is seeing increases of 4.5%, which are the biggest in 10 years

Q26 **Chair:** There are two ways of dealing with that. One would be to give an ability to vary tax rates, and the other one would just be to say that local government is entitled to a certain amount in the pound from income tax.

Rob Whiteman: Yes. I suppose what happened with devolution to Scotland is that, at first, taxation was assigned to say, "You are now responsible for a wider range of services. Here is the assigned taxation with it", and later on the ability to vary those taxes was granted, but you



are quite right, Chair. In the first place that money could be assigned, even if not varied locally.

Professor Travers: The Barnett formula for Scotland, Wales and Northern Ireland has elements of that, because it moves the resources available to Scotland, Wales and Northern Ireland in line with overall public spending changes in England. One might argue it has some of the characteristics of an assigned revenue, although that has been slightly altered now by the arrival of more locally set taxes there too. But, yes, it would be possible to have an assigned revenue. In fact, in a complicated way, non-domestic rates is really assigned revenue, but you could have an assigned chunk of income tax. That would give a buoyant source of revenue, which gets round some of the problems referred to earlier of how to fund social care in the medium to long term at the local level, when council tax and business rates are unlikely to go up, linked to CPI or something like it, at the speed of the demand for those services.

Q27 **Bob Blackman:** A number of local authorities have decided to invest in commercial dealings. They have borrowed money in order to do so, sometimes quite substantial amounts of their potential assets that they have borrowed against, in order to achieve it. Do you have any concerns about the impact of this decision-making on their short-term and long-term funding?

Professor Murphy: You do not want to stop any real innovative activity. As a general thing, you would not want to do that, but it is going to be risky, and the vision of Icelandic banks comes hovering into mind. On the other hand, you could say Manchester Airport has been very successful for Manchester. Exploiting local assets is one thing, and local authorities know their areas. They know their areas better than anybody else, and therefore exploiting assets on their doorstep that they have lived with and built are one thing.

Q28 **Bob Blackman:** You are saying, if they exploit assets they own already, that is reasonable.

Professor Murphy: They could acquire assets they know and all the rest of it. As for buying assets at distance or overseas, is that really what we expect their energies to be spent on and what we pay our local taxes for? What local authorities could spend their money on was too restricted in the late 20th century, and it was quite rightly eased at that time, but I inherently have a risk antennae for getting into areas where you might temporarily have a local knowledge of that particular area, but, the electoral cycle or the movement of officers being what it is, you might lose that skill and expertise. It is not one that I would normally associate with local authority employees. To a certain extent, I would not want to stop properly researched investments, but I would be concerned if we are getting towards investments like the Icelandic banks.

Rob Whiteman: It is an irony that, while local government is relatively revenue poor compared to some other parts of the state, it has relatively



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good capital freedoms compared to other parts of the state, such as the NHS. Local government has seen commercialism and its borrowing freedoms as part of balancing the books in order to protect frontline services, and that is understandable.

Borrowing in order to provide local services is a good thing. Borrowing in order to regenerate one's local economy is a good thing. When one is borrowing purely for commercial purposes in order to earn income from it, we often refer to that as borrowing in advance of need. CIPFA has just tightened up the prudential code that we set on behalf of Treasury because we think there has been some excessive borrowing. Everyone talks about Spelthorne, a district council with a £30 million turnover that has borrowed £1 billion in order to invest commercially, so we have just tightened the code in order that it is against guidance for that degree of commercial investment outside of one's area.

Although you could look at any one decision or one council's decision, and there may be independent advice, good governance, et cetera, as a whole you want to see local government have a mixed portfolio of investments. I have some concerns about individual degrees of borrowing, but also I have some concerns about possible overexposure to retail parks, for example. If they took a hit in the economy, local government investments could be less attractive. I hope that the quite proactive work that we have done with the Department and Treasury to tighten up the prudential code deals with the problem, because there has been some excessive borrowing for commercial purposes.

Professor Travers: I agree with all that has been said.

Neil Amin-Smith: One of the problems, if councils are only allowed to invest in their local area, is that that prevents diversifying of risk. For example, if there were a local economic shock, as councils are more dependent on local revenues for funding, if all their investments were also local they could take a hit on both fronts at the same time. It is also worth noting that at the moment we do not take into account commercial income in equalisation, so if it grows over time that will want to be looked at.

Q29 **Helen Hayes:** Are the spending needs of councils properly understood by central Government? Discuss briefly. Linked to that, does the funding formula appropriately reflect that understanding of the spending needs of local government? If not, what needs to change?

Rob Whiteman: The answer to that is possibly no, no, no and no. The spending review coming up, which should look at the quantum of resources that local government can raise, is really very important. The fair funding review has quite a bit of work to do yet, and although I like to see things progress I wonder if the fair funding review might best be delayed in order that there are no unintended consequences to it, that the sector is clear on the quantum and its ability to raise money, and that any redistributive effect of the fair funding formula is understood with



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more than a year to go, in order that transition and dampening can be effected.

There is a huge amount of work to do to make sure you have the right foundations for distribution, around population or sparsity, for servicing specific areas, such as children's or adults', and for how you look at cost, et cetera.

If I could make one more point, I hope that one day a Government would consider some of that work being carried out independently. In my career, I have generally seen Labour Governments redistribute to Labour councils and Conservative Governments redistribute to Conservative councils. There are various technical arguments made for doing that, but at some point I would like to see an independent body considering the drivers, the data used, the evidence, and in a transparent way advising Government how a fair funding formula could be achieved. Government would still have the power to agree with that or not agree with it, but at the moment it is not transparent enough and it never has been.

Professor Travers: The point came up earlier about spending need. It is often discussed as spending need, but it is always relative spending need: how much does this authority get compared with that? There is no equivalent overall analysis of local government need to spend, given demographics, demands and so on. Intriguingly, new demands and burdens are costed out, but not the total of the existing ones. Looking forward, the real problems this creates for the spending review is that, if there is any redistribution of resources and spending power between authorities—just assume there is no extra money in the system, which would be very generous compared with most recent years—that would simply mean taking money from some councils to give it to others. There will be no way of ensuring that it does not simply have that effect, because it is a relative, not an absolute need assessment.

Q30 **Helen Hayes:** Is your argument that there should be an absolute assessment?

Professor Travers: As I said in my evidence, I am wary of absolute need assessments, for the simple reason that every attempt that has been made in the past to measure minimum standards and to cost them in local government has failed. There is a problem of trying to work out what minimum standards are and then cost them. We do not even do it for the NHS, really. There are relative costs within the NHS, which are sort of reflected from time to time by needs measures within the NHS; I think I am right in saying that. It is quite hard to work out how to cost a minimum library service. It has always defeated efforts to deliver it. I am with you in spirit but I know it is difficult in practice.

Professor Murphy: It is not possible to do it in the time we have available for the 2019 spending review, but the vast majority of services that a local authority provides are needs-based. There are then universal services that are not needs-based, and there are services, such as the



fire and rescue service, that are effectively risk based, as you work it out. The vast majority are needs-based, and therefore, whether it is relative need or absolute need, or proxy indicators rather than absolute indicators, we should be moving to an evidence base that looks at needs across the country. That is just not going to be done in time for the 2019 spending review.

I am with Rob on this, in that there is a long-term problem that we have, as well as a short-term problem. We need to start on the long-term problem, and I have long advocated that it should be a parliamentary issue and not a Government issue, for exactly the same reasons that Rob is talking about. The ones in the past that were left to a Government to do got into a political argument far too soon, before you got the basic facts on the table, and therefore they did not last long. When we used to have royal commissions, and we had a royal commission for local government, right back until 1890, those would come out, and—forgive me—the politicians would play at the margins. They tend to endure for 20, 30 or 40 years. When we have short Government-inspired voluntary reorganisations of local government, they just do not last. For me, it is one of those things that Parliament is going to have to do, rather than ask a Government to do it, and that means coming together. Almost by definition, that is going to be difficult and long.

Rob Whiteman: Can I make one more point? I suspect, in 20 or 30 years' time, we will aggregate the state in local areas, and we will understand how much is spent in an area on all services. We will have a balance sheet to consider how we can rationalise its estates and align local public services. Public Health England thinks that 4% of the NHS budget is spent on prevention. If you include drug treatments for diabetes or blood pressure, it is maybe 6% or 7%. That is probably the same for local government but we do not have figures on it. Now is not the time, because organisations are under enormous pressure just to survive as organisations, but the idea is that, at some point, you can look at the totality of spend within an area, and that may help with assigning taxes for some of those services, which can then be decided upon locally. You can look at all of their assets, and you can look at spending more on prevention across their budget. One day that is where we will be. I just do not know how we get there in the immediate future.

Neil Amin-Smith: To return to your original question, it is important to be aware that a spending needs assessment is always going to be subjective and judgment-based, because it entails looking at how past expenditure relates to various socioeconomic and demographic characteristics of local areas, so the year you pick for that past expenditure—for example, 2010 or 2017—is going to have a large effect on how you judge spending needs. If you use 2017 data rather than 2010, you are going to think that deprived councils need less relative to other councils than if you use 2010 data. It is impossible to escape that.

Q31 **Helen Hayes:** How does the current system do at capturing changes in



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local populations? If you have an ageing population, large numbers of people being relocated due to the housing market and benefits changes, or reducing or increasing levels of deprivation in an area, how does the current system perform?

Neil Amin-Smith: The current system aims not to update needs within certain periods. Within a period of, say, five years, the idea is that the needs assessments will not be updated so the councils have an incentive to reduce deprivation or others needs drivers in their areas. Every five years or so, the needs will be updated so that we do not see excessive divergences between councils. The fair funding review proposes that, from next year, each year councils' needs will be updated according to population projection, so still not adjusted by other needs drivers but at least population will be taken into account.

Professor Travers: There is a straightforward trade-off there, as elegantly put, between getting a system that is reasonably predictable for councils, and having one that reflects real changes from year to year. It used to be done from year to year, to the point that Ministers and everybody else got fed up with it, so then they moved to this longer period. There is a trade-off between how precise it is in keeping up to date, and how irregular it becomes, needing dampening, safety nets and all sorts of other things, which simply means everybody thinks they lose out. That is the trouble with safety netting.

Rob Whiteman: With my independent body, I would also like to have regular revaluations of council tax and business rates, rather than the system needing huge amount of change because they get delayed and delayed. In the future, it would be nice to have some normality and routine in the system.

Q32 **Bob Blackman:** Very briefly, and in a sentence, this Committee is obviously looking at local government finance and the settlement. Every review of local government finance—the Lyons review, et cetera—has been largely ignored. Can you think, in a sentence, of one thing that we could recommend that would actually demonstrate what needs to happen?

Rob Whiteman: I would give a process answer, which is not to have a review unless the Government recommend that they are minded to agree it. In other words, whatever the solution would be from the range of things that we have discussed today, the Government would have to decide that that sounds like a good idea, and the review is how best to implement it, rather than asking, "Should we do it?" Otherwise it gets laid off.

Professor Murphy: It has to be an all-party thing. At some stage, you have to agree that this is going further and further, and becoming more and more inefficient, uneconomic and ineffective. Only radical change will change it, and radical change will only come about when all the major political parties accept the basic point.



Professor Travers: Make whatever reforms are to be made, be they to the taxes or to the balance of funding between areas, on a sub-national basis, and allow sub-national areas, as in Scotland, remembering that Wales has an economy that is no greater than Greater Manchester or the Leeds city region. Do these things at a sub-national level, which makes the pain of redistribution, and the pain of council tax and other revaluations, much less obvious at the national level. As a result of that, it would be possible to make more changes, and then use whatever that sub-national level was to ensure there is a reasonable balance of resource from place to place that the UK Exchequer would always be responsible for.

Neil Amin-Smith: There needs to be a bigger national conversation about the questions that underlie this. In particular, how big are the differences between areas that we are willing to tolerate in exchange for providing incentives or giving greater local control? That question basically underlies everything we have discussed, but in itself is not being addressed at the moment.

Rob Whiteman: If you want wholesale reorganisation, the accountants are with you.

Q33 **Chair:** Thank you all very much for coming to give evidence to us.

Examination of Witness

Witness: Sir Amyas Morse.

Q34 **Chair:** Sir Amyas, thank you very much for coming to give evidence to the Committee this afternoon on this important subject. Your time is appreciated, and I do not think you need any introduction to the Committee, so thank you very much. I will begin by saying that, in 2010, a decision was made to make significant reductions to public spending, and particularly very large reductions to local government spending. Do you think DCLG, as it was at the time, and the Treasury really understood the likely impact of what they were doing, or did they do it and then think they would work the impacts out later?

Sir Amyas Morse: No, that is what I think happened. What you have just said, Chair, is what happened. There was great pressure to find savings, and at the time I used the immoderate phrase "out of sight, out of mind" for passing very tough news over the wall. Since then, we have consistently called for a clearer understanding of how services are being affected by spending reductions and particular decisions on benefits and so forth could have the effect of pushing further costs into local government. In all those areas, we have been calling for progress. There has been some, but not as much as we would like to see.



Q35 **Chair:** What has been happening as well is that the actual balance of spend within local government has significantly changed, in that the pressure on statutory services, particularly adult social care and now children's services, is taking a larger and larger share of a smaller cake. Are there wider concerns about how the local government, and the balance and range of services it provides, has changed? Are there concerns about what is happening, and can it carry on down that road?

Sir Amyas Morse: It is a fact that overall service spending has been reducing, and has been more concentrated on social care activities, which are statutory. Some non-social care activities have seen very large reductions in spend. In the six years to 2016-17, we saw a reduction in non-social care spend of 32.6%, so a very substantial amount. Our 2018 financial sustainability report called for Departments to be aware of this change in spending activity, and think through at the next spending review what they wanted from local authorities. Is it to be a reduced offer centred on social care, or will it continue to say that it is a broader offer, including a wide range of service provision? Which of those is it? There is going to need to be some clarity as we approach the spending review as to what the purpose is.

Q36 **Chair:** You start off by asking what local government should be doing and what money it needs to do it. That is not an unreasonable place, I suppose, but I do not think it happened in 2010. One thing that has been said right the way through is that, despite the massive cuts that local government has faced, it has managed fairly well and has carried on with the efficiency savings. Have we got to the point where it simply cannot carry on managing in this way? Are we almost at that point now?

Sir Amyas Morse: First of all, I am always informed by the sector itself that it is the most efficient sector of public spending. I have not seen any particularly methodical assessment of why that is so, but I take it in the spirit in which it is intended. We have not formally assessed this question of efficiency, but it seems likely, and from all our work over time we have seen, that authorities have become more efficient in some respects. In our contact with them, they have always said that they have tried to protect frontline services and tried to reduce their spending on overheads. That is clearly true, although you can get to a point where you do not have the administrative ability to run the machine properly. When you are talking about reductions of the size that I mentioned to you before, it is difficult to characterise all of that as possibly efficiency savings. What you are talking about there is simply stopping doing things, to quite a degree.

Q37 **Chair:** Right, so there is a mixture of the two.

Sir Amyas Morse: A mixture of the two. To be fair, from what I have observed, it has mostly been that you start with efficiencies, and then there is a point at which the efficiencies become more and more difficult to sustain.



Q38 **Chair:** More and more you are simply stopping doing things.

Sir Amyas Morse: It has to be something more radical.

Q39 **Chair:** In general terms, just trying to examine what is going on, it is generally said that local government is so complex and opaque that very, very few people understand it. There was one famous comment: "There are only two people who understand it, and one of them is not the Minister". Is one of them you or your people?

Sir Amyas Morse: No, I stand back in wonder. I would simply say this. The test for me—it is an odd thing to say this—is that you look at it and think, "Is it intuitive as to why one authority comes out with more or less funding per head of the population than another? Why does that appear to be different?" It is not always obvious. Because there are so many sources of income and so many grants with so many considerations, it is really not possible to look at it and say, "Well, I would expect this to happen".

That is unfortunate. It does not build up confidence that there is something fair going on, because there are so many different complicated adjustments, particularly damping adjustments. You can look at those and say, "That means, even when it comes out, that I should get more funding; actually, I do not get it for quite a long time". I can understand it from the point of view of taking funding away from an authority, but for an authority that has significant needs it presents some difficulty.

Q40 **Chair:** One thing that was quite concerning was that we had a submission from the Bureau of Investigative Journalism, which did an analysis of information provided by councils. It said that the basis of the information was often inconsistent, councils counted things in a different way, and data produced by the Department itself was inaccurate. Do you have a problem with the fact that you do not have the data coming out that enables you to do the appropriate comparisons, and come to a reasoned judgment about what is going on?

Sir Amyas Morse: Well, let me separate the knowing what is going on thing from the rest of that statement. We do not think the returns that are coming in on a national basis are free from error, but on the other hand we think they are adequate for picking up major trends and developments. Therefore, if I may come back to the point I made to you before, having better-quality information, when you have organisations that are under so much pressure, is not something that they are going to greet with a particularly enthusiastic cry. There has to be a pretty good reason that you need the information, rather than a general principle that we would like to have it to be able to analyse things a bit better. That is not clear enough. If we were clearer on the question of what it is that Departments want, what decisions they might make, and what this information is going to be used for, you might have more enthusiasm for upping the quality. Remember, it is not just getting information; it is the quality of information on which you might base a reliable decision.



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Q41 **Chair:** Is this the Department's job to be clearer to local councils about what they actually want the data for?

Sir Amyas Morse: Making a general broadcast appeal for better information, with all the millions of items of information that it could be, is unlikely to be responded to, because it is just too broad.

Q42 **Bob Blackman:** Welcome. Before you arrived, the previous witnesses said to us that there is evidence of local authorities improving their efficiency and effectiveness in many ways. What evidence is there of any decline in the performance of local authorities?

Sir Amyas Morse: We have not tried to evaluate whether local authorities are better at achieving planned outcomes. I am now describing it quite clearly and, I hope, technically. Are they getting better? The test will be whether they are better or worse at achieving planned outcomes. We have not evaluated that. I have no particular reason to think they are any worse at it, frankly. If we are talking about the opinion survey as a basis for making a challenge like that, that is a pretty broad survey. In some areas it has got a little less favourable, but I do not think it is enough to base a charge of inefficiency in local authorities on.

Q43 **Bob Blackman:** Are there any types of authority that give rise to concerns about their efficiency and effectiveness?

Sir Amyas Morse: There are some types of authorities—unitary authorities and district councils—that are having recourse to reserves more than one year running. I am not so much concerned about efficiency as about financial sustainability.

Q44 **Bob Blackman:** Is that in any particular area? We look at counties, districts, unitaries.

Sir Amyas Morse: We deliberately do not operate like that. That is actually not our responsibility. We do not have a watch list or anything of that sort, so we do not do that.

Q45 **Bob Blackman:** That is fine. That is helpful. Is there a need for better comparative data on local authorities, and if so who should do it?

Sir Amyas Morse: I have more or less answered that already by saying there probably is a need, but you need to know what you want. I am not being glib.

Q46 **Bob Blackman:** Do you have a view on who should do the work and provide that comparative data?

Sir Amyas Morse: If you want to have good-quality data, that was always done in the days of the Audit Commission by paying the auditors to do additional analysis. There is certainly less of that going on now than there used to be. There is a body there, but, again, you are talking about paying for it. Where is that money going to come from? Unless you are



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clear what the purpose is, local authorities are certainly not going to be keen to come up with money for that.

Q47 **Chair:** Sir Amyas, you said that you do not have a watch list, but on the other hand, if you see authorities doing things like spending their reserves, or a substantial proportion of them, in one year and the next year, are you looking at those things as indicators of concern? Do you have a formal or informal system of notifying the Department of those concerns?

Sir Amyas Morse: No, we do not have a system like that. First of all, it is definitely a source of concern. It is not our particular job; it is a job of the auditor of those authorities to draw attention to circumstances like that rather than us. It is just important to remember that we are not in the reporting line of the auditors. It is true we set the code of audit, and in setting the code we consult with local authorities and we try to understand the issues that we can pick up that need to be focused on. We make sure we do that, and in developing the code we point in those directions.

Q48 **Mr Dhesi:** Sir Amyas, as a result of the 2010 announcement by the incoming Government to disband the Audit Commission, the Audit Commission is obviously no longer there.

Sir Amyas Morse: That is true.

Mr Dhesi: The financial audits that are now being done are being done by private firms at a lower cost. What is your view—and hopefully it is a very candid view—on the arrangements that the National Audit Office now oversees?

Sir Amyas Morse: Forgive me for saying so, but we do not oversee the arrangements. We set the audit code and issue guidance. First of all, it is very early days. This system is only now starting to fully run. We still have not had the first lot of either ICAEW or FRC reports on quality. Notwithstanding that the Audit Commission has been gone since 2015, nonetheless this is actually winding itself up as a system, rather than one where you can say, “We have seen everything it has to offer”. We are informed, and as far as we can see, the core audit offering has not changed at all. What happens less is all the subsidiary analysis that used to be instructed by the Audit Commission. The body that handles audit appointments tells us that it is specifying just the same core audit activity as it did before the demise of the Audit Commission.

Q49 **Mr Dhesi:** The Government said that these arrangements would save councils money with respect to their audit fees. Does that mean that less work is being done now than under the Audit Commission?

Sir Amyas Morse: I tried to say this a moment ago. There is less wider analysis work, but the core audit work is the same, as far as I can tell from having inquired with those who are appointing and from the guidance we provide. The wider analysis of spending and other activity that was done by the Audit Commission has gone. The other point is that



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we do some of the work that the Audit Commission used to do, and which it used to re-charge local government for, in the form of what the Audit Commission called national studies. We do not actually charge for that, so in some ways the cost picture has changed a bit.

Q50 Mr Dhesi: What sorts of issues are currently being flagged up to the National Audit Office by auditors of local authorities? In your opinion, would auditors flag up councils that were in danger of getting into difficulties like Northamptonshire, perhaps?

Sir Amyas Morse: They would not primarily flag them up to me. My job is to set the code; I am not their distress phone call taker. That is not my job. On the other hand, they do raise issues with us, as we are consulting on the next version of the audit code at the moment. As we do that, we are hearing from local auditors as to where they think the issues arise. They are mostly pointing to issues around arrangements for delivering value for money in local audit as being the area in which they would like to see more development in our code. They think we should be clearer in guidance on that area, so we are happy to take that on board. We are working on that just now.

Q51 Chair: Would it not mean collecting a lot more data in order to do that?

Sir Amyas Morse: I am not sure it necessarily will. It is too early for me to say that.

Q52 Chair: You mentioned the national studies, which for obvious reasons you do not do as many of as the Audit Commission.

Sir Amyas Morse: No.

Q53 Chair: Do you think there would be benefits if you were able to do more?

Sir Amyas Morse: If we thought we needed to do more, we would do them. Because we are very kindly funded by Parliament, we could do. It is a dialogue we could have. For the most part I am perfectly happy. How we decide to do studies is that we have issues raised with us and we are asked to look at them, either by MPs or others, and we respond to that. If I had correspondence from anyone, including from this Committee, saying to me, "Would you consider doing a study on a particular matter?" remembering that it has to be an overarching sectoral matter, I would be happy to do that. We are there to support MPs in doing their work, so I would be responsive to that.

Q54 Chair: There are specific legal restrictions on you going and looking at the affairs of an individual council.

Sir Amyas Morse: That is true, but it would not prevent us from looking at a group of councils.

Q55 Chair: Does two amount to a group?

Sir Amyas Morse: You need to put a specific proposition on the table. I am not getting into hypotheticals.



Q56 **Chair:** Should that restriction be in place, or is it an artificial one? That is what I am really asking.

Sir Amyas Morse: It is real. There are things that are generic. For example, there are a series of councils that have investments in waste incinerators. I am perfectly happy to do a study looking at waste incinerators in various councils. That means getting involved with the councils, asking for information, and doing some quite deep work as to how that has worked. It involves engaging with specific councils and looking at their circumstances.

Q57 **Helen Hayes:** Do you think that central Government are doing enough to properly understand the spending needs of local government?

Sir Amyas Morse: They have progressed somewhat in that. The cross-Government work, drawing in all the Departments that are involved with local government, has improved somewhat, and we saw that in the 2015 review, but there are still gaps. It needs to be better as we approach this spending review.

Q58 **Helen Hayes:** We had a discussion with the previous panel about the fact that the current analysis that central Government undertake is largely based on a relative understanding of spending needs and spending patterns. Accepting that a totally objective analysis is a very difficult thing to do, is there a need for a more objective analysis of absolute spending needs?

Sir Amyas Morse: Absolute and relative bring you different information, but for both of them you have to remember something. If the money involved is not enough to support the services, you need to start with that conversation. Modelling what the absolute need is and looking at the reason that some councils need more than others, so relative need, is fine, but to be frank with you, when you finish that, you have to know that there is some possibility of there being resource to respond to your analysis.

Q59 **Helen Hayes:** An analysis based on relative needs sometimes results in a somewhat circular conversation, with local authority X saying, "We do not have enough to deliver the services we need", and the Government saying, "Well, local authority X gets more than local authority Y, so why does it have a problem?" Round you go, in an argument that you cannot get out of unless there is a more objective evidence base.

Sir Amyas Morse: I agree with that. You have to look at it holistically as well and ask, "On a systemic level, what are the needs?" I agree with that.

Q60 **Helen Hayes:** Do you think that central Government have enough of an understanding of the impact that some of their policies have on local government? Take, for example, some of the benefits changes and the introduction of a cap on the local housing allowance. Do you think that the Government adequately understand the impact that those services



have in driving the need and demand for services at local level?

Sir Amyas Morse: No, there should be much more modelling and testing before these policies move forward, to actually understand the impact, which may be relatively different in different authorities. There is not enough modelling of sensitivity and impact, and understanding how that might develop. There is not enough curiosity in that area to really try to test those things before we move forward.

Q61 **Helen Hayes:** In relation to this spending review coming up, do you believe that the Treasury has sufficient data and knowledge of local government to make informed decisions about funding within the spending review? In your experience, how does the Treasury's knowledge of local government compare to its knowledge of other parts of the public sector?

Sir Amyas Morse: First of all, I suppose I would say that the Treasury probably does not feel that its job is to be a repository of very deep knowledge about any particular Department. It expects the Department itself to come forward with the detailed proposals, and the Treasury will react to that. The Treasury does not have a worse knowledge of local government than it has of anywhere else, but there is a challenge. We recently published a report on medium-term planning, which sounds thrilling, but it is really important. We were proposing that, if you are going to have medium-term planning to deliver better public value, the Treasury is the only potential body that could provide the troops to police that.

At the moment, Treasury spending teams are just what it says on the tin: teams that are primarily focused on spending control. If you want the Treasury to have the insight that you are mentioning, it has to become more focused on value for money itself, looking for plans that it believes will deliver public value. That is the challenge that we have put forth to the Treasury, so I am not saying anything that they will find surprising. In fact, I know they are considering the way ahead in that area. They have had a report on it and they are looking at it. It would be extremely beneficial to local government if they took that stance, and I will be looking very closely to see if they do some of that in the spending review.

Q62 **Chair:** Should they speak about local government, or should they be taking a view about public sector spending in general in an area?

Sir Amyas Morse: It is the latter. My remarks are not particular to local government. I would like to see them doing this in every area. Our problem at the moment is that—and I apologise for talking about planning for a moment, but it is quite an important subject—we have these single departmental plans, which so far we have found are not particularly used by the Departments for running their business. In order for that to work better, we need to have maybe a three or five-year plan that is done seriously, produces realistic projections and comes back and drops into each year's plan, and that plan is then used to run the



business. That needs to all be policed by the Treasury; nobody else is going to make any of that happen. That is really what I am talking about.

Q63 **Chair:** That should be linking different Departments together, so you have an analysis of what work and pensions is doing, which relates to what health is doing, which relates to local government.

Sir Amyas Morse: That is right. I really believe that will make a big difference.

Q64 **Chair:** Coming back specifically to local government, is it realistic that we seem to be approaching a situation where councils are going to totally rely on council tax and business rates for their funding? Is that a reasonable position to be in and to take forward?

Sir Amyas Morse: Of course, what is being proposed is not that they will be independent of each other. As you know, Chair, the proposal is that there will be a framework for allocating business rates across local authorities, and that will be controlled entirely from the centre. Authorities will have very little say in how that is to work once it is in place. As proposed, the business rates system would have features for less or more well-provided authorities for moving top-ups, tariffs, safety nets and resets, so there will be a lot of things there. In looking at redistribution, the Department is entitled to look at local government's ability to raise council tax as well. They are able to look at everything to do with local councils and reach a determination on how they are going to operate the system. As I see these proposals at the moment, we are really quite a long way from a UDI for local government.

Q65 **Chair:** Thinking forward about the services councils are going to have to deliver and the pressures on them, do council tax and business rates look like the sources of funding that could provide adequately for those services in the future? Are you comfortable with that going forward?

Sir Amyas Morse: I have concerns about it from a different angle. I am concerned as to how realistic basing everything on business rates really is. You will have seen all this in the papers, but it is concerning as to whether something that is based on a square footage formula in the modern day is going to be terribly relevant to measuring business activity. That is really difficult. I asked myself whether I would say this to you, and I thought I really must, because it is just hard to understand. If I happen to be running a large square footage distribution centre, you are going to get a lot of business rates from me, but on the other hand if I am in another business with a remote fulfilment arrangement somewhere else, and I am just doing everything online, you are not going to get very much from me at all. That is a really odd state of affairs to be in. Even though it may be convenient to go forward with it now, I cannot believe it will endure forever, because it is just such an odd way of trying to measure business activity.

Q66 **Chair:** Knowing how you think about these things, Sir Amyas, you have probably thought about what would be a better way of doing it, if you do



not like the way we have.

Sir Amyas Morse: No, no. Fortunately for me, I am in the position where I am the squawking crow that points out what is wrong with things. The policy area is one I have been absolutely ordered to stay away from, so I will do so.

Q67 **Chair:** Ordered to stay away from it? Who by? You are nearly your own person now. Let us hear your thoughts.

Sir Amyas Morse: I am very sorry, Chair. I am being slightly jocular; I apologise. There are many ways. In different countries round the world there are different ways of doing local taxation. None of them have ours. Nobody has a local tax system based on square footage like this. Other systems are local taxes, local sales tax, and other things like that. There are loads of them. In the United States or other places there are a lot to choose from. I am not trying to say which one is appropriate, but, if you find something that really does not reflect the underlying activity level and it is being used as a tax base, it will be a bit of a problem over time, probably creating perverse incentives.

Q68 **Chair:** We should probably look to change it before it actually breaks.

Sir Amyas Morse: I would have thought so. It is difficult to see that that can be an enduring basis.

Q69 **Chair:** In terms of what we have, and the Government are moving on now to 75% retention and 100% retention. You said you would like to see some assessment. Do you think we should have a fundamental assessment of what the Government are proposing before they actually do it now?

Sir Amyas Morse: Yes, I do.

Q70 **Chair:** There is no sign of that happening at this stage.

Sir Amyas Morse: I have not detected any.

Q71 **Chair:** Right. Is that something that the NAO could do and help with?

Sir Amyas Morse: That is policy. That is a direct policy. I am behaving naughtily in saying this to you, but I could not help it. Given we were talking about this subject, I was direct. No, we are not in the policy business.

Q72 **Bob Blackman:** One of the concerns that we have is that many local authorities are borrowing money in order to fund the purchase of commercial properties, in order to generate revenue. Do you have any concerns about that activity, and the level of borrowing that is taking place?

Sir Amyas Morse: We are doing some work on it. We are doing a report on this at the moment, and it is in process. Our report is looking at how rigorously the Department is supervising this. We are not at a point



where I can give any conclusions; I have not talked to the Department about what our emerging findings are, but for that reason you will guess from the fact we are doing a report on it that we think it is an interesting subject. It is fair to ask questions about it.

The other thing is that we have just issued new auditor guidance, and the auditor guidance is encouraging auditors to look at the capability of councils to really make these investments well. We are not at all saying it is up to us to say, "You should not be making commercial investments", of course not. Councils are entitled to do it, but do they have the right skillsets on board? Do they have the experience? Do they have portfolio management skills? Those are the sort of things we are urging auditors to look at as they approach this, so they can understand the level of risk involved. We have done a fair bit on it.

Q73 **Bob Blackman:** On the contrary, local authorities are selling off assets. Has the NAO looked at the value-for-money aspects of those particular sales?

Sir Amyas Morse: We have not, because in part it is normal business to sell assets in order to fund capital expenditure. I know that some local auditors have been looking at where you have qualifying expenditure designed to save money on future expenditure flows, and in that case we have taken that. It is interesting to see what they find, but the local auditors are on to that point. They do not need any help from us on it.

Q74 **Bob Blackman:** So you are not doing any work on that particular aspect.

Sir Amyas Morse: It is not that we have not thought about it, but I just do not see it as something where we have an awful lot to add at the moment. I would be most likely to look at it if I saw a significant trend going somewhere that we needed to get involved in. If you think about why we are doing something on borrowing in order to fund investment, it is because there is a trend, and it is quite localised to some authorities in some areas, so it is worth having a look at that.

Q75 **Bob Blackman:** It is quite extreme in certain authorities as well, which is the other concern. The potential risk is quite high.

Sir Amyas Morse: That is right. There are all sorts of other questions about portfolio risk distribution and so forth, which we are trying to understand.

Q76 **Mr Dhesi:** Sir Amyas, the National Audit Office submission highlighted that some of the councils are not sustainable in the medium term. The exact submission was this: "A combination of reduced funding and higher demand has meant that a growing number of single-tier and county authorities have not managed within their service budgets and have relied on reserves to balance their books. These trends are not financially sustainable over the medium term". Could you please specifically advise which councils and services you are most concerned about?



Sir Amyas Morse: We have only done this analysis on a sectoral basis, so I am not in a position to name particular councils. You can extract this information at a pretty high level, so it would be invidious of me to say, "I am going to start naming councils". I am not being coy with you; I genuinely have not done enough work for it to be fair for me to do that. It is a concerning trend. If we find ourselves in a position where we have a significant number of councils in this state, that is something we should all be worried about. To the extent that I can see it, we are raising it with the Department.

Q77 **Mr Dhesi:** What needs to change in the short and the long term to ensure that the sector is financially sustainable? What recommendations would you like to make to the Government?

Sir Amyas Morse: You want me to make recommendations that will cause the whole sector to be financially sustainable. I would normally charge a small fee for turning the sector round. First of all, if budgets are being put together that consistently fail to be met, that must tell you something about the quality of budgeting. A certain amount of rigour is needed there, and it is very important for the auditors concerned to be looking at that. The first thing is that your reaction to being under pressure cannot be putting optimistic or unrealistic budgets together, if that was the case.

I still come back to what I said to you earlier on: there needs to be a discussion with Government about how much it takes to run a system like this. In order to have that discussion, you need to know what it is that central Government actually believe that local government is for, that it needs to deliver to the citizens, and therefore that it needs to be funded to deliver to the citizens. That is a discussion that really does need to take place. It is not something I can conduct, but I can take the liberty of saying that is really a discussion that needs to happen.

Q78 **Chair:** Is there anything else that you think we ought to be focusing on, to be concerned about, to be interested in, or to look to be making recommendations on for the future?

Sir Amyas Morse: What I have just said to you is the main thing. Let us consider what I have said. I have said that there needs to be a very clear exchange between central Government and local government on what the mission is, and whether there is enough resource to deliver. I am not sure there has really been a clear-eyed assessment of that. That is very important.

I have expressed my concerns frankly, going forward, about the basis of thinking that you can build local authority funding on a tax base that is a specific tax and quite an anomalous one in many ways, which, by the way, the Chancellor is presumably entitled to make decisions about. There are lots of odd features to this, which are at least worth calling out to you. Mostly, I would like to see a comprehensive approach to tackling them. Local government has done very well over the last 10 years in



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handling the enormous pressures that have been on it, but you just cannot go on with it forever.

Q79 **Chair:** It is about having a serious look at the totality of what local government does and how it is funded.

Sir Amyas Morse: Yes. You cannot have different versions of what it is supposed to be doing at different ends, one in Whitehall and one out in local government. That is going to end in frustration and anger.

Q80 **Chair:** Is there anything else you would like to say to us?

Sir Amyas Morse: No, I think that is fine. Thank you very much for inviting me.

Chair: Thank you for coming, Sir Amyas. I think this will probably be your last visit to the Committee, and obviously you are—I would not say retiring—leaving your post and maybe looking to do other things.

Sir Amyas Morse: That is true. I am looking to do other things, so do not hesitate to send me any job offers through the post.

Chair: On behalf of the Committee, but I am sure more widely, thank you very much indeed for your significant and valuable contribution to public service and public finances over the last 10 years, and particularly trying to help parliamentarians with their understanding of it. It has been absolutely invaluable. Thank you very much indeed.

Sir Amyas Morse: How kind of you. Thank you.