



Department for
Communities and
Local Government

Accounting Officer System Statement

June 2017

Department for Communities and Local Government



© Crown copyright, 2017

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at <http://forms.communities.gov.uk/> or write to us at:

Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: <https://twitter.com/CommunitiesUK>

June 2017

ISBN: 978-1-4098-5071-7

Contents

1. Introduction	5
2. Statement of Accounting Officer responsibilities	6
3. The accountability system	7
4. Responsibilities within the core department	8
4.1. The governance framework	8
4.2. The financial control framework – principles	9
4.3. Budget Delegation	11
4.4. Decision making for business cases	11
4.5. Spend delegations	13
4.6. Performance and planning	14
4.7. The risk framework	15
4.8. Governance assurance exercise	177
5. Relationships with arm's length bodies	18
6. Local Funding arrangements	23
6.3. Local government accountability system	23
6.4. Local Growth Fund accountability system	23
7. Third party delivery arrangements	24
8. Grants to Private and Voluntary Sectors	24
8.1. Grant award	24
8.2. Monitoring and Compliance	25
9. Major Contracts and outsourced services	25
9.2. Procurement	25
9.3. Contract Management	26
10. Investments, joint ventures and other assets	26
10.4. The HCA	27
10.5. Devolved funding	28
10.6. The full portfolio view	29
Annex A: Accounting Officer Accountability System Statement for Local Government	30
Introduction	32
The overall scope of my accountability	32
How the core accountability system works	37
How the accountability system responds to failure	42
How the department gets assurance	44
The accountability framework and devolution deals	46
Conclusion	468

Annex B: Accounting Officer Accountability System Statement for the Local Growth Fund	50
Introduction	50
The Local Growth Fund and Local Enterprise Partnerships	52
The Scope of Accounting Officer accountability in relation to the Local Growth Fund	53
How the accountability system works for the Local Growth Fund	55
Monitoring and evaluating delivery	57
How LEPs receive their Local Growth Fund allocations	59
Conclusion	60

1. Introduction

- 1.1. Principal Accounting Officers in government departments are accountable to Parliament for the proper stewardship of the resources allocated to their departments. Details of the requirement to ensure regularity and value for money are set out in the HM Treasury guide *Managing Public Money*.
- 1.2. The Department for Communities and Local Government has documented and published details of local accountability systems for a number of years. The first was the Local Government Accountability System Statement published in 2012. We then published the Local Growth Fund Accountability System Statement in 2015.
- 1.3. The purpose of this Accounting Officer System Statement is to provide Parliament with a single statement setting out all of the accountability relationships and processes within the Department of Communities and Local Government and across the system for which we are responsible. This system statement has a wider scope than those already published. It incorporates both the Local Government and the Local Growth Fund Accountability System Statements (see Annex A and B for detail).
- 1.4. A review of the department's governance structures and performance for 2016-17 is published in my governance statement within the department's Annual Report and Accounts 2016-17 (pages 32 to 45). The governance statement covers accountability for all public money and other public resources which fall within the department's responsibilities. It outlines standard processes which apply within the department and any significant bespoke arrangements which apply.
- 1.5. The Accounting Officer System Statement complements the governance statement. The governance statement charts how, in my role as Principal Accounting Officer, I have carried out responsibilities to manage and control the resources used in the department over the course of the latest financial year. The Accounting Officer System Statement charts the accountability relationships in place now and for the future. It is a live document that will be updated as systems change.

2. Statement of Accounting Officer responsibilities

- 2.1. I am the Principal Accounting Officer for the Department for Communities and Local Government. This system statement sets out all of the accountability relationships and processes within the department, making it clear who is accountable at all levels of the system.
- 2.2. As Principal Accounting Officer, I am personally responsible for safeguarding the public funds for which I have been given charge under the Department for Communities and Local Government Estimate and the Business Rates Retention and Non-Domestic Rates Trust Statement. Where I have appointed additional Accounting Officers, their responsibilities are also set out in this system statement.
- 2.3. This system statement covers the core department, its arm's length bodies and other arm's length relationships such as local authorities and local enterprise partnerships. It describes accountability for all expenditure of public money through the department's Estimate, all public money raised as income, and the management of shareholdings, financial investments and other publicly owned assets for which I am responsible. This system statement describes the system which I apply to fulfil my responsibilities as an accounting officer in accordance with Treasury guidance set out in *Managing Public Money*, and ensure that spending is carried out with regularity, propriety and achieves value for money.
- 2.4. This system statement describes the accountability system which is in place at the date of this statement, and which will continue to apply until a revised statement is published.

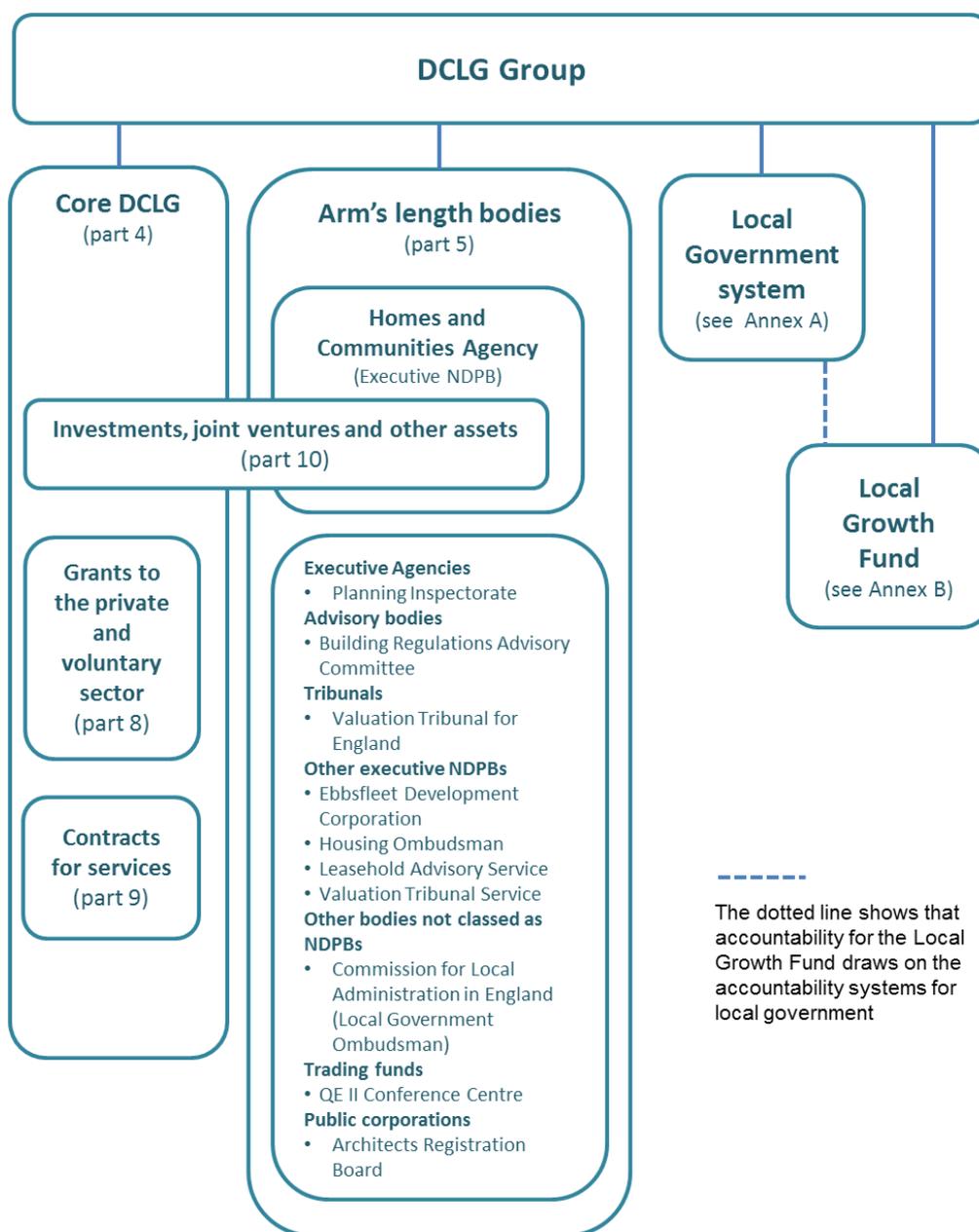
Melanie Dawes
Principal Accounting Officer and Permanent Secretary

3. The accountability system

3.1. The diagram below shows how accountability flows from the departmental group to its arm’s length bodies and delivery partners and references where in this document each part of the accountability system is described. There are three distinct accountability systems:

- funding through core DCLG and our arm’s length bodies;
- the Local Government accountability system; and
- the Local Growth Fund accountability system.

3.2. The department has two finance directors – one for spending through the core department and ALBs, and one for funding to Local Government.

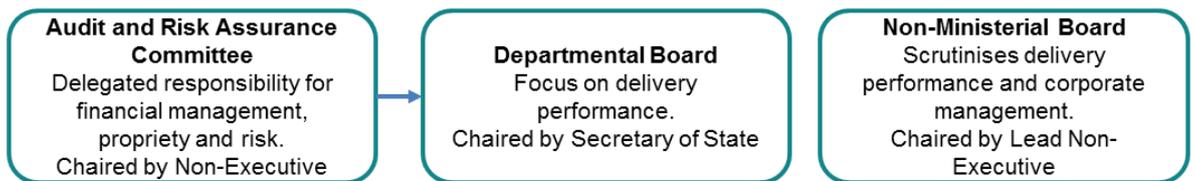


4. Responsibilities within the core department

4.1. The governance framework

4.1.1. As Permanent Secretary, I am appointed by Treasury as the department’s Principal Accounting Officer. I take personal responsibility for maintaining a sound system of internal control that supports the delivery of the department’s policies, aims and objectives, whilst safeguarding public funds and departmental assets. The governance framework for the department has been designed to maintain the existing internal control environment whilst developing further controls as appropriate as the department’s risk profile evolves. The structures are shown below in the diagram.

Board committees:



Executive committees:



4.1.2. Alongside the Board structures set out on page 8, Ministers and the Permanent Secretary have clearly defined responsibilities that support good governance within the departmental group through parliamentary accountability:

- The Secretary of State is responsible and answerable to Parliament for the exercise of the powers on which the administration of the department depends. He has a duty to Parliament to account, and to be held to account, for the policies, decisions and actions of the group.
- The Principal Accounting Officer may be called to account in Parliament for the stewardship of the resources within the department's control and the system of accountability for funding devolved to the local level.

4.2. The financial control framework – principles

4.2.1. For each financial year, HM Treasury agrees budget control totals and issues 'Delegation Limits' to each department. This gives me, as the department's Principal Accounting Officer, standing authorisation to commit resources or incur expenditure from money voted by Parliament without specific approval from HM Treasury, within the agreed framework. This includes a delegation for expenditure on new projects, programmes, policy proposals and financial transactions. These are set out in the table below. The table also shows 'disclosure thresholds' – new projects or programmes above these limits must be disclosed to HM Treasury.

Nature of delegation		Delegated Limit	Disclosure threshold
All projects and programmes; and announcements and policy proposal within a defined lifetime	Resource	£10 million	n/a
	Capital	£30 million	£20 million
Announcements and policy proposal creating ongoing expenditure	Resource	£10 million per year	n/a
	Capital	£30 million per year	£20 million per year
Financial Transactions	AAA-CCC counterparty credit rating	£50 million	£20 million
	CC-D counterparty credit rating	£0 million	N/A

4.2.2. Other delegated authorities include those for write offs and impairments; claims waived or abandoned; and special payments. HM Treasury specifies those types of expenditure where delegated authority does not apply and approval should be sought (for example, any novel and contentious expenditure).

4.2.3. In my role as the Principal Accounting Officer I delegate responsibility through the department's financial delegation framework. This provides a structure for control and compliance throughout the organisation. It ensures that the roles and responsibilities of staff in relation to resources, expenditure and financial transactions are clear. Guidance on resource management and corporate governance responsibilities is refreshed annually and circulated to all senior staff alongside formal delegations.

4.2.4. There are three types of financial delegation that operate within the department:

- Budgets are delegated from the Accounting Officer to the Director Generals and Directors. Budget responsibility can be sub-delegated no lower than Director level.
- Business case approval is required for all funding decisions for commitments with total costs of over £20,000. This is supported by the Finance Sub-Committee which reviews business cases greater than £50 million in value, and the Investment Sub-Committee which reviews all cases between £1 million and £50 million. A separate Finance Sub-Committee for Investments takes decisions on business cases for financial transactions, such as loans or guarantees.
- Spend delegations which restrict the value of funds that staff can commit or authorise for payment. This is managed within a standard framework, except when there is a business need for staff to commit higher levels (for example, authorising regular grant in aid payments).

4.2.5. These financial delegations are described in more detail in sections 4.3, 4.4 and 4.5.

4.3. Budget Delegation

4.3.1. I delegate resource and capital programme budgets, for which I am responsible as part of the Estimate by HM Treasury, to Directors General and Corporate Service Directors. Directors General sub-delegate budgets to Directors in their group. I delegate administration budgets directly to Directors. Budget delegations cannot be sub-delegated. The flow diagram below shows the process of programme and admin delegations.

Programme budgets



Admin budgets



4.4. Decision making for business cases

4.4.1. We have put in place a system that requires teams to prepare business cases for spending proposals, and subjects the most significant to robust scrutiny before spending is approved. This gives me assurance that investments the department makes are value for money, well-designed and any assumptions are tested.

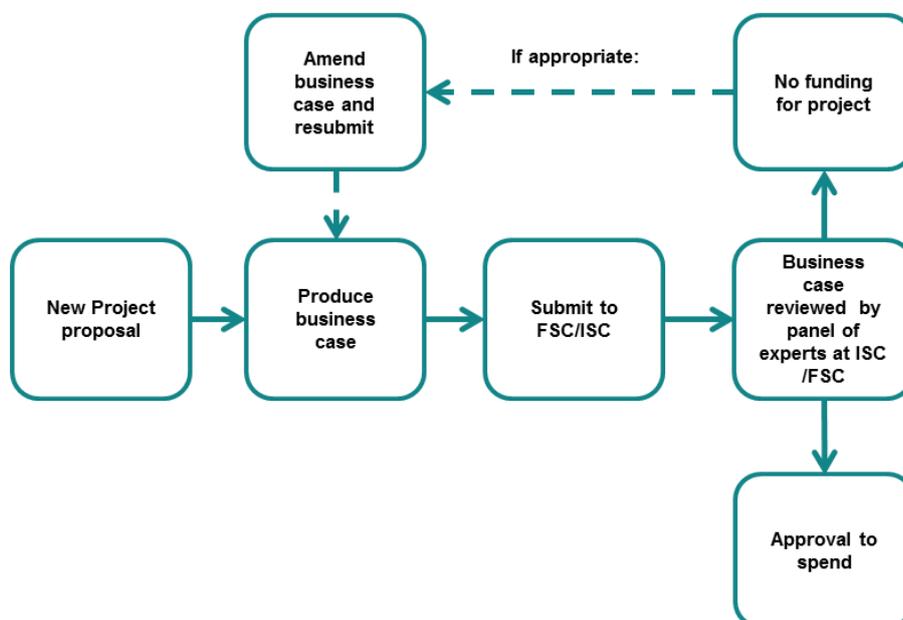
4.4.2. The department requires a business case for all expenditure over £20,000. Each business case should be:

- Signed off by the director to demonstrate that funding can be used from within their delegated budget; and,
- Approved by finance before any expenditure can take place.

4.4.3. Business cases follow HM Treasury's five case model. Business case approval depends on the nature and size of spend as shown in the table on page 12. The department has separate processes for decisions about financial transactions such as loans or guarantees – these are set out in part 10.

Total funding	Business case approval required by
Below £1m	Grade 6 Finance Business Partner (or above)
Above £1m	Investment Sub-Committee (ISC)
Above £50m	Finance Sub-Committee (FSC)
Commitments beyond the current Spending Review period	Finance Director

4.4.4. Sub-committees of the Executive Team (Finance and Investment Sub-Committees) take decisions about funding business cases over £1 million. These decision-making bodies are chaired by a senior member of the finance directorate and include a panel of experts from across the department who are independent of the policy team presenting the business case. The panel includes experts from policy, finance, commercial, legal and analytical services. The experts evaluate the business case and advise the chair of their conclusions. The process is shown in the flow chart below.



4.5. Spend delegations

- 4.5.1. Once the decision to spend has been made, officials in the department can commit funds and make payments within agreed limits. Spend delegations set out who is approved to carry out these processes.
- 4.5.2. Spend delegations are issued in line with a standard framework across the department (see table below). I issue exceptional delegations above the limits in the table below where business circumstances dictate – for example, for regular payments of grant in aid to an arm's length body.

Grade	Maximum limit per transaction
Accounting Officer	Any amount
Director General	£5m
Director	£1m
Deputy Director	£100,000
Grade 6 / 7	£2,500

- 4.5.3. Directors are responsible for sub-delegating their spend delegations to Deputy Directors and grades below where appropriate, and are supported by Finance Business Partners. This is reviewed annually as part of the Governance Assurance Exercise (see section 4.8).
- 4.5.4. I issue further delegations during the year in response to senior staff changes or unforeseen exceptions. In addition, temporary delegations are issued when senior members of staff are on leave.

4.6. Performance and planning

4.6.1. During the year the Executive Team and Departmental Board receives assurance from a number of sources that projects and programmes are being delivered as planned, and that commitments we have made to deliver outputs and outcomes are achievable. The primary sources of these assurances are:

- The Strategy Directorate tracks and challenges progress on implementing the Government's priorities. It produces a quarterly report for the Executive Team covering the department's top delivery priorities. The report is discussed with the Executive Team, with a focus on the red RAG-rated programmes and recommendations for action. It is then taken for discussion at the Ministerial Board and agreement of any actions.
- The Finance Directorate tracks our financial performance and position and reports a Finance Performance Pack each quarter to the Finance Sub-Committee and the Executive Team. The pack has been developed to include a balanced scorecard covering key financial risks to our in-year financial position, spend and forecast data for both administration and programme budgets and information on how the finance function is performing such as forecasting accuracy.
- Portfolio Boards for each of the three departmental groups meet monthly. Boards are chaired by Directors General, and sit above programme boards. The boards oversee delivery progress, risks and opportunities across work areas, and escalate emerging issues to the Executive Team.
- The Finance Directorate supports project and programme managers to apply consistent approaches to project and risk management. It also provides reports on all projects and programmes to Programme and Portfolio Boards every month to support discussions about progress.
- The People Committee has delegated authority from the Executive Team on the delivery of our People Plan. It receives a wide variety of metrics covering all aspects of people and resource management at the department, and reports progress to the Executive Team. We have developed a series of KPIs which we use to monitor our performance such as time to fill posts, diversity and inclusion and vacancy rates.

4.7. The risk framework

4.7.1. The Finance Director oversees our risk management framework, which ensures that risk is considered at all levels of the organisation and that risks are escalated appropriately. Our risk framework includes:

- **Strategic risks.** The Executive Team oversees our management of the strategic risks faced by the department as a whole. The Executive Team owns the strategic risks and nominates a responsible officer for each one.
- **Project and programme risks.** Risks are managed by policy teams during the day to day delivery of the department's policies and programmes. We have issued guidance and training to ensure that risks are managed consistently across the business. Programme boards are in place for each of the department's major policies and performed as described in 4.6.1. Where necessary, risks are escalated from the programme and portfolio boards to the Executive Team and considered alongside our strategic risks. For our priority projects and programmes, risks are also reported quarterly to the Executive Team as part of the Implementation Unit report (paragraph 4.6.1 first bullet).
- **Credit risk.** The department has increasingly made use of loans and investments to deliver its objectives. It now holds a credit portfolio of some £7.5 billion of loans and investments and has issued guarantees of £2.5 billion. We have a specialist credit risk function and the assurances it provides are described in more detail in section 10.4.
- **Financial risks.** The Finance Directorate manages financial risks for the department using the tools and reporting mechanisms detailed in 4.6.1, second bullet.

4.7.2. Our approach is supported by an assurance framework which underpins the monitoring and management of risk, based on the three lines of defence model.

4.7.3. The department receives internal audit services from the Government Internal Audit Agency (GIAA.) Each year a plan for audit work is agreed to cover key risk areas and provide assurance, in my role as Principal Accounting Officer, that processes are operating as designed. The department further contracts with GIAA to provide audit services on monies spent from the European Regional Development Fund (ERDF). The annual audit plan is agreed with the Accounting Officer and reviewed by the Audit and Risk Assurance Committee. To conclude each audit GIAA provide a series of recommendations which the department responds to.

4.7.4. Based on their findings throughout the year, and the actions the department has taken in response, GIAA provides an opinion on the overall adequacy and effectiveness of the department's framework of governance, risk management and control. This is reported in my Governance Statement in the Annual Report and Accounts. The Audit and Risk Committee gets regular reports from GIAA about the progress of the audit plan and any outstanding recommendations.

- 4.7.5. External audit services for our financial statements are provided by the National Audit Office (the NAO). The NAO assesses the key risks of material misstatement in the departmental group's accounts early in the financial year. They then test management controls and transactional controls to gain assurance that our published financial statements are true and fair and properly prepared, and that expenditure recorded within them was spent in line with parliament's intentions. They also review other parts of our Annual Report to confirm it has been properly prepared, and that we our presentation of our performance is consistent.
- 4.7.6. The NAO reports the results of their inquiries to management and the department responds to each recommendation made. Our Audit and Risk Assurance Committee gets regular updates on progress of the audit including any recommendations. The NAO reports publicly (by exception) the results of their audit work in an audit certificate that is published within our Annual Report and Accounts. In recent years the NAO has given the department's financial statements a clear audit opinion.
- 4.7.7. The department is also the subject of reviews of value for money by the National Audit Office on a range of topics each year. Recent reports have covered financial sustainability of local government, accountability for devolved funds and our public sector land programme. The Accounting Officer may be called to give evidence to the Committee of Public Accounts in Parliament. When the Committee makes recommendations for the department, we respond publicly through the Treasury Minutes process. We track the implementation of these recommendations until they are completed, and periodically report progress on recommendations in Treasury Minute Updates. We update our Audit and Risk Committee on progress in implementing recommendations from the Committee of Public Accounts every quarter. We also track implementation of recommendations from the National Audit Office reports, reporting progress internally.
- 4.7.8. I also take assurance from the activity and oversight of our Audit and Risk Assurance Committee which is a delegated committee of the Board. The committee meets at least five times a year and considers reports from all our auditors and management information about risks across the department (as set out in 4.7.1 to 4.7.6 above). The committee also reviews specific or emerging risk areas more in depth as appropriate.

4.8. Governance assurance exercise

- 4.8.1. In order to test our assurance over the internal control environment, the department undertakes an annual governance assurance exercise at the end of each financial year. The exercise provides independent scrutiny of the assurance framework in place for that year.
- 4.8.2. The governance assurance exercise is structured around our four departmental groups – Housing and Planning, Local Government and Public Services, Decentralisation and Growth, and Corporate Services. The process involves directors setting out how they have complied with departmental governance and internal controls, and summarising achievements and challenges faced during the year. Director's assurance statements are scrutinised by an independent panel of experts in a series of panels, attended by the Director-General and all Directors from each group.
- 4.8.3. The panels are held at the end of the financial year and are chaired by the department's Non-Executive Directors, attended by an independent member of the Audit and Risk Assurance Committee and Internal Audit. They are observed by the National Audit Office. The panels focus on financial control, change management, risk management and delivery of priority areas. Results from the annual exercise are reported to the Executive Team and the Audit and Risk Assurance Committee.

5. Relationships with arm's length bodies

- 5.1. The department has 11 arm's length bodies (ALBs) of which nine are executive bodies. The table on pages 21 and 22 provides a list of current ALBs, including their current designated Accounting Officer, and a short description of their responsibilities. This section explains the systems and processes in place for the department to manage delivery, ensure appropriate corporate governance and monitor risk.
- 5.2. I am the Principal Accounting Officer for the departmental group. I ensure that we have practical and proportionate arrangements for controlling or working in partnership with our ALBs. The department's Finance Director is responsible for the framework in which we manage our ALBs, and works in partnership with a senior policy sponsor (typically a policy Director or Director-General) who oversees the day-to-day relationship with each ALB.
- 5.3. As the Group Head for the Finance Function, the department's Finance Director is responsible for ensuring the department has an appropriate framework to manage and escalate risk in our ALBs, ensure sound financial management across the Group and that ALBs have effective assurance arrangements in place. The Finance Director reports the Group's financial position (including all ALBs) to the Executive Team regularly, and publicly reports the Group's financial position in our Annual Report and Accounts. The department's Finance Director meets regularly with the Finance Directors from HCA and PINS to support and challenge progress on the development of their Functions and to ensure that they consider the wider position of the Group in making decisions about their financial operations. The Finance Director is also responsible for managing the process of Public Appointments to ALB's boards.
- 5.4. As the Group Head for the HR Function, the department's HR Director is responsible for ensuring the department has an appropriate framework in place to ensure that HR functions in ALBs comply with good practice. The department's HR Director meets regularly with the HR Directors from HCA and PINS to support and challenge progress on the development of their Function to meet the requirements of their organisations, and to ensure that they consider the wider position of the Group in making decisions about their HR operations. The HR Director has delegated authority from the Accounting Officer to review the process for every appointment to confirm its compliance with the Governance Code on Public Appointments.
- 5.5. Senior policy sponsors in the department are responsible for oversight of ALBs including managing day-to-day relationships, and delegate administrative and programme budgets to ALBs from their own delegated budgets (where applicable). Sponsors ensure that there is strategic consistency between ALBs' strategies and

the Government's wider agenda and that the ALBs fulfil expectations on operational performance.

- 5.6. Executive ALBs are required to provide the department with a monthly financial performance report which provides detail on the financial performance of the ALB against its budget. These reports provide a detailed breakdown of the ALB's expenditure.
- 5.7. Each Executive ALB has an agreed framework document in place (between the department and the body) which sets out roles and responsibilities and secures propriety, regularity and value for money in accordance with Managing Public Money. The Framework Documents cover all aspects of the partnership with ALBs including:
 - The departmental priorities relating to the ALB;
 - The ALB's strategic aims;
 - Lines of accountability between the department and the ALB; and,
 - The terms of engagement.
- 5.8. All of the department's ALBs are subject to scrutiny by the Communities and Local Government Select Committee and Committee of Public Accounts.
- 5.9. The department has established a risk-based approach to determine the appropriate level of governance and assurance for its ALBs. This is informed by an annual Impact Analysis which ranks ALBs according to different risk categories including:
 - operational performance;
 - financial management;
 - delivery environment;
 - assurance arrangements;
 - risk management; and
 - organisational capability.
- 5.10. The Impact Assessment is carried out by the Finance Director and senior policy sponsor, in partnership with the ALB. The outcome is reviewed on an ongoing basis through routine engagement with the ALB to ensure that the assessment outcome continues to be appropriate. This ensures that the department's resources are targeted effectively, and that each ALB has an appropriate degree of oversight.
- 5.11. Each ALBs' strategic direction is set by its board, or senior management where the ALB does not have a board, with input and agreement from the department. Board members are non-executives normally appointed by the department's Ministers to hold the executive to account. ALB budgets are mostly determined by Ministers on the basis of corporate and business plans. Each ALB has KPIs which it reports on, and these are monitored and challenged by the Finance Directorate and policy sponsor leads.

- 5.12. The department receives assurance from ALBs on specific issues such as workforce planning and apprenticeship employment where periodic returns to Cabinet Office are required. ALBs also require departmental approval for the creation of any new senior civil servant roles and the majority of ALBs are subject to pay remit constraints.
- 5.13. Each of the nine executive ALB bodies has its own Accounting Officer, appointed at the discretion of the Principal Accounting Officer. Regular (at least quarterly) Accounting Officer meetings are held between the ALB Accounting Officer, and the Principal Accounting Officer and/or relevant departmental director to review and escalate key issues.
- 5.14. Senior members of the department's Finance Directorate attend ALB Audit and Risk Assurance Committee meetings as observers. This provides assurance for the Principal Accounting Officer that risks are being escalated appropriately and that corporate governance is effective. The policy sponsor lead also attends the ALB Board meeting as an observer. In the Planning Inspectorate, the department's Planning Director is a formal member of its Advisory Board.
- 5.15. We maintain a risk register that captures and helps mitigate key ALB risks. Each executive body has an internal audit service and an external audit function. The audit function is provided by National Audit Office with two exceptions: the Architects Registration Board, and the Leasehold Advisory Service.

Table: The department's arm's length bodies and accounting officers, as at 30 June 2017

Arm's-length body	Status	Accounting Officer¹	Policy responsibilities
Architects Registration Board	Public Corporation	Karen Holmes	Regulator of architects in the UK to ensure good standards are maintained in the profession
Building Regulations Advisory Committee*	Advisory NDPB	Not applicable	Expert Committee to advise the Secretaries of State for Communities and Wales on making building regulations and setting standards for the design and construction of buildings
Commission for Local Administration in England / Local Government Ombudsman	Other public body	Michael King	Conducts the final stage of investigations into complaints about councils and certain other organisations providing local services
Ebbsfleet Development Corporation	Executive NDPB	Paul Spooner	Working with local authorities and communities to speed up the delivery of up to 15,000 homes in North Kent
Homes and Communities Agency	Executive NDPB	Nick Walkley	Uses investments and guarantees to deliver housing across a range of programmes in England, excluding London. The HCA is also the main disposal agent for public land across government and the Regulator of registered social housing providers for the whole of England
Leasehold Advisory Service	Executive NDPB	Anthony Essien	Provides free information, initial advice and guidance to members of the public about residential leasehold and park homes law

¹ Accounting Officers in post on 30 June 2017

Table (continued): The department's arm's length bodies and accounting officers, as at 30 June 2017

Arm's-length body	Status	Accounting Officer¹	Policy responsibilities
Planning Inspectorate	Executive Agency	Sarah Richards	Deals with planning appeals, national infrastructure planning applications, examinations of local plans and other planning-related and specialist casework in England and Wales
Queen Elizabeth II Centre	Executive Agency / Trading Fund	Mark Taylor	The largest dedicated conference, events and exhibition service in central London, providing a high quality service and facilities.
The Housing Ombudsman	Executive NDPB	Denise Fowler	Resolves disputes involving the tenants and leaseholders of social landlords as well as voluntary member private landlords.
Valuation Tribunal for England ²	Tribunal NDPB	Not applicable	Independent tribunal to hear appeals against non-domestic rates and council tax valuations
Valuation Tribunal Service	Executive NDPB	Antonio Masella	Provides the administrative function for the Valuation Tribunal for England

² Not an executive ALB, i.e. does not have its own budget nor staff

6. Local Funding arrangements

- 6.1. I and previous Principal Accounting Officers have documented and published details of local accountability systems within our responsibility for several years. The department has published a Local Government Accountability System Statement since 2012 and a Local Growth Fund Accountability System Statement since 2013. A summary of my responsibilities for these systems is below.
- 6.2. Updated system statements, which explain how I discharge my responsibilities, are included in **Annexes A and B**.

6.3. Local government accountability system

- 6.3.1. As set out in Annex A, in my role as the department's Principal Accounting Officer, I am responsible for the core local government accountability framework for local authorities and for ensuring that it is effective as a national system within which local authorities take their own decisions.
- 6.3.2. In addition to the core accountability system, other departments which oversee services run by local government publish statements that explain any other grants made to local authorities, and relevant legislation and regulation in relation to those services, including the Department for Education, Department of Health and Department for Transport.

6.4. Local Growth Fund accountability system

- 6.4.1. As set out in Annex B, in my role as the department's Principal Accounting Officer, I am responsible for the allocation, payment and monitoring of the Local Growth Fund to Local Enterprise Partnerships (LEPs), through Growth Deals. I am accountable to Parliament for those elements of the Fund which are awarded to LEPs from the department's Departmental Expenditure Limit (DEL). I am also responsible for the Growth Deals delivery system within which LEPs invest the Fund.
- 6.4.2. Those elements of the Fund which remain on other departments' Departmental Expenditure Limits (DEL) are subject to their own funding and oversight mechanisms (the Department for Transport and the Department for Business, Energy and Industrial Strategy).
- 6.4.3. The department also provides funding via the "Single Pot" to mayoral combined authorities which have been set up as part of devolution agreements. The Single Pot represents different lines of funding from both the Department for Communities and Local Government and the Department for Transport. Assurances over the use of funding provided through the Single Pot are obtained via the accountability systems for both local

authorities and the Local Growth Fund, and the Department for Transport accountability system.

7. Third party delivery arrangements

- 7.1. Any significant third party delivery arrangements that the department has in place are managed within the contract relationships described in part 9 or the credit risk function described in part 10.

8. Grants to Private and Voluntary Sectors

8.1. Grant award

- 8.1.1. The department awards grants to the private and voluntary sectors. The Finance Director is responsible for oversight of compliance with the department's processes. Any new grant funding requires ministerial approval. Grant funding can only be awarded after funding for the project is approved, as set out in section 4.4.
- 8.1.2. The department follows a single set of principles and processes for all grants to the private and voluntary sectors. We evaluate project costs, value for money and compliance with UK and EU legislation as part of the business case approval process. As part of the project approval the department agrees milestones, outcomes and outputs which grant recipients must meet in order receive funding.
- 8.1.3. The department draws up a grant funding agreement with the grant recipient. This includes conditions that ensure the grant has been used for the purposes intended, and that the grant recipients retain records which enable it to demonstrate compliance, and that the use of the funds complies with HM Treasury requirements in accordance with the department's delegated spending authorities.
- 8.1.4. The department distinguishes between grants which are awarded to local authorities and other organisations. Accountability for grants to local authorities is explained in Annex A, "Local Government Accountability System Statement."

8.2. Monitoring and Compliance

- 8.2.1. The department agrees measurable outputs and milestones which set out in the Schedule to the Grant Funding Agreement so that effective monitoring can be carried out.
- 8.2.2. The department requires every grant recipient to produce a Statement of Grant Usage in the year following the funding period. Where the grant is over £20,000 this must be audited by an independent reporting accountant paid for by the grant recipient. If grant money is used for ineligible purposes or the grant recipient fails in any other way to comply with the terms on which grant is paid, the department will seek to recover an amount or to withhold or reduce payment, using legal powers if necessary.
- 8.2.3. Policy leads in the department are responsible for ensuring that the Statement of Grant Usage is completed and retained for audit purposes. We will recover any ineligible expenditure or unspent funds.

9. Major Contracts and outsourced services

- 9.1. The Finance Director is responsible for oversight of procurement and the department's contracts. This section explains how we ensure we have effective processes to manage major contracts and procurement. Before starting a procurement (valued at over £20,000), a business case must be approved as set out in 4.4.

9.2. Procurement

- 9.2.1. The department's policy is that all contracts over £10,000 must be competed and awarded either through the department's procurement team in the Finance Directorate, or the Crown Commercial Service (CCS) – see table below. The department has a contractual delegation which rests with the in-house Procurement team (where the requirement is niche) or with the CCS (where the requirement is for common goods and services).

Amount	Treatment
Below £5,000	One quotation should be obtained
£5,000-£10,000	At least three quotations should be obtained
Above £10,000	Procurements should be dealt with by DCLG Procurement or CCS

- 9.2.2. The department makes use of any existing central government contracts for common commodities to meet need.
- 9.2.3. The department only uses single tender action in permissible and exceptional circumstances as set out in the public procurement policy.

9.3. Contract Management

- 9.3.1. The department follows best practice Cabinet Office processes and controls for managing contracts, specifically following the Cabinet Office Commercial Operating Standards.
- 9.3.2. The department's large and/or complex contracts are assigned a dedicated Senior Responsible Officer in accordance with the Standards. All contracts are managed by an individual within the business area whose responsibility is to measure supplier performance and ensure value for money is achieved throughout the life of the contract.
- 9.3.3. The department offers contract managers training and access to professional guidance about best practice.

10. Investments, joint ventures and other assets

- 10.1. The department designs and oversees a number of programmes that expose it to credit risk and potential financial loss. This includes programmes underpinned by financial instruments, such as loans and guarantees, as well as land sale agreements that give rise to credit risk (for example, where payment is deferred). At 31 March 2017 the department had loans and investments totalling £7.5 billion, and had issued guarantees of £2.5 billion to housebuilders. If we spend in line with our budgets, we expect our total loans and investments to reach almost £16 billion by 2020.
- 10.2. The department's portfolio consists of programmes delivered by the HCA (explained in part 10.4) or by devolved bodies such as the Greater London Authority (part 10.5). Departmental oversight of the whole portfolio is explained in part 10.4
- 10.3. I am the lead accounting officer for the Group's portfolio and am ultimately accountable in terms of the department's financial exposures and any losses that may be incurred. I am supported in my responsibilities by:

- The department's Finance Director who, with the Chief Risk Officer, sets and agrees the overall framework within which shared risks are managed and escalated and ensures visibility of risks in HCA programmes in the department.
- The Chief Risk Officer, who acts in a combined capacity for the Accounting Officer of the department as well as the Accounting Officer of the HCA and oversees the day-to-day credit risk management of the portfolio.
- The HCA Accounting Officer who is responsible for day- to-day management of the delivery of programmes including taking decisions on investments up to delegated levels, and appropriate management of risk and managing, with oversight from the HCA Board.
- The department's Audit and Risk Assurance Committee which reviews assurances and information about the management of credit risk and financial losses and reports to the department's Board periodically. The HCA's Audit and Risk Committee reviews risk management processes in the agency and assurances over their operation. The Chair of the HCA's Audit and Risk Committee also attends the department's Audit and Risk Assurance Committee.
- A senior policy sponsor from the department who oversees the relationship with HCA as set out in part 5
- Review of corporate risks by the department's Executive Team level as part of the strategic risk framework.
- A sub-group of the department's Executive Team (the Accounting Officer, the Finance Director and the Director-General for Housing and Planning), who can approve requests where investments fall outside the HCA's delegated authority or are considered novel or contentious a sub-group and manage onward approval for transactions that require HM Treasury approval.

10.4. The HCA

10.4.1. For the majority of our investment programmes, the responsibility for delivery sits with the Homes and Communities Agency (HCA), with oversight and approval from the department and, where appropriate, HM Treasury.

10.4.2. Delegations are in place between HM Treasury, the department and the HCA to manage the day-to-day delivery of the individual transactions that make up the department's loan and guarantee portfolio and are applied in conjunction with financial risk appetite thresholds set up by the department³. Help to Buy and land transactions have their own delegation arrangements that are managed through the processes set out in section 4.

³ Delegated authority relates to transaction specific amounts, whereas risk appetite thresholds are set up in terms of the aggregated position (across all financial instrument programmes) to a single counterparty or group of connected counterparties.

- 10.4.3. As a general rule, with the exception of the Housing Guarantees Scheme, the HCA has final approval of individual transactions that fall within delegations and risk appetite and are not considered novel or contentious. HCA Investments notifies the department of financial transactions approved within delegated authority through regular reporting at committee meetings attended by the department.
- 10.4.4. The HCA operates a ‘three lines of defence’ model. Programme delivery staff own and manage risk within the business conducting due diligence, credit assessment and conforming to its agreed governance processes. It has a dedicated risk function providing second line risk assurance and challenge, and credit approvals.
- 10.4.5. Where a transaction breaches delegations and/or risk appetite and for all guarantee transactions, while reliance is placed on the HCA’s recommendation, final approval is provided by the department and HM Treasury. The department and HM Treasury assure that there are no wider portfolio-level issues that need to be taken into account, that the HCA’s decision is within the agreed investment parameters for the programme, and that appropriate Know Your Customer checks have been carried out.

10.5. Devolved funding

- 10.5.1. The department currently provides funds to the Greater London Authority (GLA) and Greater Manchester Combined Authority (GMCA) for recoverable investment in housing. Departmental funds are provided on the basis that operational responsibility is passed to the devolved authority. This is set out in a legally-binding contract. It is the authority’s responsibility to ensure that appropriate governance over credit risk approval and management is in place. Authorities must ensure that they meet a minimum recovery rate and repayment schedule agreed with the department, but there are no requirements for transaction review or approvals from the department.
- 10.5.2. Authorities provide on-going assurance through the annual reporting statement provided to the department. The department is also working with these authorities to promote appropriate controls for the risk management of their investment portfolio.
- 10.5.3. The department also holds authorities to account for delivery of housing units through clear expectations set out in contracts and accompanying documents, as well as regular engagement on delivery progress.

10.6. The full portfolio view

- 10.6.1. The Chief Risk Officer oversees the Group's credit portfolio and the department's Financial Risk Management Framework. The framework details procedures for identifying, mitigating and monitoring the department's risk exposure from financial transactions (below). The Chief Risk Officer and her team works with the HCA, GMCA and the GLA to assure appropriate application the financial risk management framework.

Our Financial Risk Management Framework



- 10.6.2. The framework includes a risk appetite statement, which sets out the headline risk policies and limits to manage the level of credit risk being taken on by the department. Over the coming year the framework will be updated to include DCLG's exposure to credit risk through its land disposal programmes. The framework and supporting policies draw on banking industry practices. However, unlike a bank, the department also has a wider role developing policies to respond to market failure and macroeconomic stress.

Annex A: Accounting Officer Accountability System Statement for Local Government

Introduction

Local government, through elected councillors (and, where applicable, mayors), is accountable to its local communities for the proper stewardship of all of its resources. Over recent years, Government policy has been to free local authorities from some of the previous Governments' accounting and reporting requirements, and to devolve greater powers and accountability to them, including through the Cities and Local Government Devolution Act 2016.

Nevertheless, there remains a role for Accounting Officers in government to maintain the statutory framework of legal duties and financial controls on local authorities, to ensure proper democratic accountability, transparency, public scrutiny and audit.

HM Treasury Guidance, *Managing Public Money*, sets out the key requirements for Accounting Officers in government departments to ensure regularity, propriety and value for money. The *Accounting Officer System Statements guidance*⁴ published in April 2017 set out how central government departments should construct an Accounting Officer System Statement covering all of their relevant accountability relationships. This should include relationships with arm's length bodies and third party delivery partners.

⁴ HM Treasury: [Accounting Officer System Statements guidance](#)

As the Accounting Officer for the Department for Communities and Local Government, I am responsible for the core local government accountability framework for local authorities and for ensuring that it is working and contains the right checks and balances.

This statement sets out the core local government accountability framework. It covers:

- in **Section one** (pages 32 to 36) - the overall scope of my accountability in relation to local government funding and spending;
- in **Section two** (pages 37 to 41) - how the core accountability system for local government works;
- in **Section three** (pages 42 to 43) - how the system responds to failure;
- in **Section four** (pages 44 to 45) - how the department gets assurance and information on financial sustainability and effectiveness; and
- in **Section five** (pages 46 to 49) - how the framework applies and is being adapted in the light of devolution deals within England, in the context of the Cities and Local Government Devolution Act 2016, including the arrangements for London.

Section one

The overall scope of my accountability

- 1.1. This section explains the scope of my accountability in relation to local government funding and spending. Specifically, it covers:
- the issues for which local authorities are directly accountable;
 - the scope of my accountability for local government funding and spending;
 - my responsibility for co-ordinating advice to Ministers on the overall position of local government;
 - my accountability for the overall core local government accountability framework, and its maintenance, review and amendment; and
 - the role of other government departments.

Local authorities' accountability

- 1.2. Local authorities' budgets comprise money from a number of sources. This includes general funding from the Department of Communities and Local Government on behalf of government; and specific funding from other government departments via Section 31 payments⁵ and locally raised sources (principally council tax and locally retained business rates). These resources are pooled at the local level.
- 1.3. Individual councils are responsible for their own financial performance. This comprises a number of different responsibilities including delivering a balanced budget, providing statutory services (including, for example adult social care and children's services) and securing value for money and propriety in spending decisions. In two tier areas, functions provided by unitary councils elsewhere are split between county and district councils. Introducing the 'general power of competence' in the 2011 Localism Act increased local authorities' discretion over the range of services they provide.

⁵ [Section 31, Local Government Act 2003](#)

- 1.4. Within the framework of statutory duties, councillors are free to set their own priorities and determine outcomes. They make decisions about how to allocate resources to competing priorities, such as providing care services, improving roads or keeping council tax low.
- 1.5. The direct democratic accountability of councillors to the electorate is an important assurance that they will manage spending and services effectively. Assurance for the taxpayer is reinforced by the Best Value duty on local authorities. Under the Local Government Act 1999⁶, a council must “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”. They must consult local people on how they should fulfil this duty.
- 1.6. Local authorities have an important role in making their decisions on resourcing transparent. Effective scrutiny by councillors and the public requires the availability of comparable information on spending and the outcomes achieved. All local authorities produce public accounts, have open meetings and are required to consult the public, and all are subject to the Freedom of Information Act.⁷ The public are also entitled to have access to documents relating to council meetings and documents relating to executive decisions made by executive members or officers.

The scope of my accountability for funding

- 1.7. I am accountable for two budgets which provide funding for local government:
 - The Local Government Departmental Expenditure Limit is the budget for local authority core funding, which I manage on behalf of the Government; and
 - The budget for the Department for Communities and Local Government’s own policies. This budget is to support the implementation of departmental priorities such as housing, planning and local growth. The Local Growth Fund has its own Accountability System Statement⁸ due to the particular nature of the arrangements for that spending.
- 1.8. I am directly accountable for ensuring regularity, propriety and value for money in the distribution of these two revenue budgets to local authorities. Other departmental accounting officers are accountable for distribution of grants from their budgets to local government to support delivery of other policy areas.
- 1.9. I am also accountable for the framework that determines the sums payable to and from local authorities under business rates retention which came into effect in April 2013, and for those funds from business rates which pass through Government accounts. Since April

⁶ [Part 1, Local Government Act 1999](#)

⁷ [Freedom of Information Act 2000](#)

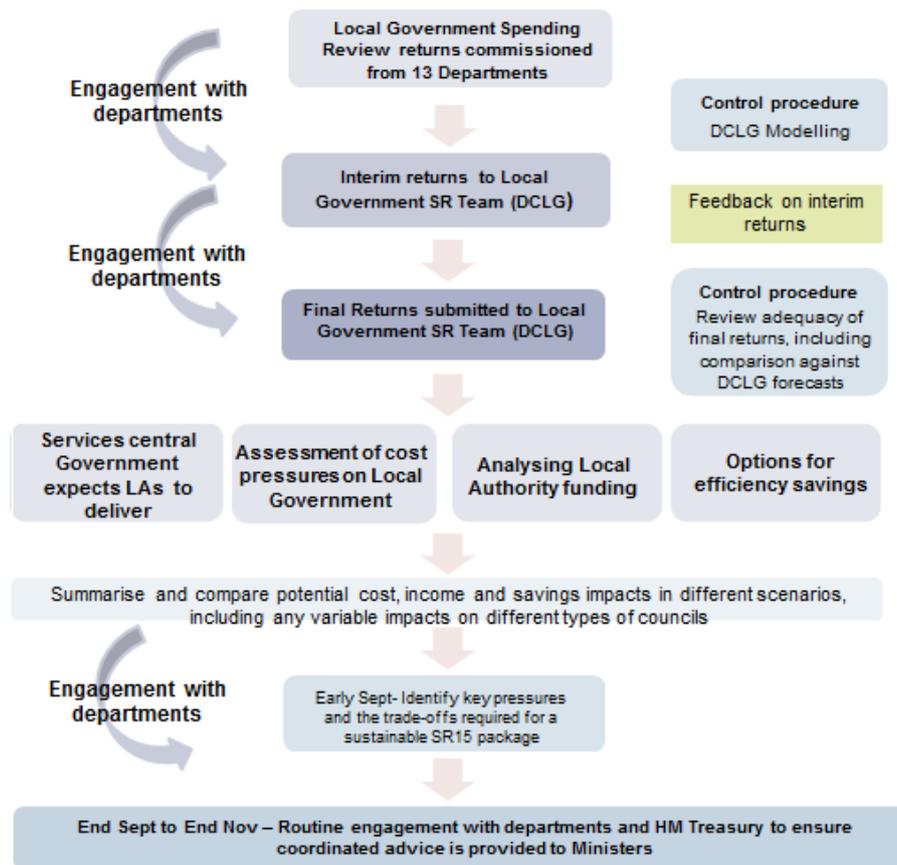
⁸ [Accounting Officer: Accountability System Statement for the Local Growth Fund](#)

2013, the Government has allowed the local authority sector to retain 50 per cent of business rates revenue and the growth on their share to incentivise them to promote economic growth. The 50 per cent of business rates revenue that is surrendered to central government is redistributed to local government in full through a variety of grants, not all of which are allocated by the Department for Communities and Local Government.

Providing comprehensive advice to Ministers

- 1.10. The Department for Communities and Local Government is also responsible for ensuring that Ministers have comprehensive advice in order to make decisions on the level and distribution of local government funding. Other Government departments that rely on local authorities to deliver policy objectives or services are responsible for understanding demand, costs and the scope for efficiency in those policy areas for which they are accountable. My role is to ensure that the Government has an overview of the expected spending power of local government, the overall cost pressures arising from its various statutory and policy delivery responsibilities, and the opportunities for savings.
- 1.11. To provide full and adequate advice to Ministers, the Department co-ordinates work across government departments that brings different analysis together on a common basis to understand the overall position that local authorities are in and particular risks and opportunities.
- 1.12. The process by which the Department did this in the 2015 Spending Review is summarised at Figure 1. This process has been strengthened in recent years, in part reflecting recommendations from the National Audit Office studies on the Financial Sustainability of Local Authorities. For example, the analysis we co-ordinate now considers in more detail the potential impact of policy options on different types of local authorities.
- 1.13. The analysis the Department develops across government is then central to the advice the department provides to Ministers to enable discussions about spending allocations with departments and, crucially, HM Treasury. It is my responsibility, as Accounting Officer with responsibility for local government overall, to provide clear and honest advice if I have significant concerns. Ultimately, however, it is for Ministers to make final decisions on funding allocations both for the sector as a whole and for individual councils.

Figure 1: The 2015 Spending Review Process



1.14. As set out in the Local Government Finance Act 1988, the Government must consult on the proposed annual distribution between individual councils of both government grant and revenue from business rates. This local government finance settlement is then approved by the House of Commons through the Local Government Finance Report before councils set final budgets. Key data, including breakdowns of funding assessments and calculations, are published on the Department for Communities and Local Government website.⁹

My responsibility for the accountability system for local government

1.15. To discharge my responsibilities set out above, I am responsible for maintaining the overall accountability system for local government. The specific aspects of this system are set out in section 2.

⁹ [Final local government finance settlement: England, 2017 to 2018](#)

- 1.16. Once decisions and allocations are made by Ministers and Parliament, I am accountable for ensuring that this system ensures local authorities are accountable for acting with regularity, propriety and value for money in the use of their resources.
- 1.17. I am accountable for maintaining the effectiveness of the system framework (as set out in section 2 below) and publish highlights of how the framework has worked over the previous year in the Governance Statement of the Department's Annual Report and Accounts. Should I be concerned that the framework is failing to provide me with the necessary assurances, I am responsible for making the appropriate recommendations for change to Ministers.
- 1.18. Central government departments can rely on this framework for accountability arrangements for unringfenced funds allocated to local authorities. However, where Departments, including the Department for Communities and Local Government, have specific ringfenced grants which have additional accountability measures put in place by the relevant Accounting Officer, these additional measures are described in the relevant Department's systems statement. Departments are responsible for regularly revising and publishing their own systems statements.¹⁰
- 1.19. The majority of central government funding for local government is unringfenced. The two major exceptions are schools funding and the Public Health Grant. These grants impose conditions on what the money is spent on and how it is spent. It is therefore for the Department for Education and the Department of Health respectively (and any other departments who might issue ringfenced grants in the future) to take any additional measures that they judge necessary, beyond those set out in this statement, to ensure that those grants are spent according to their grant conditions. The Department for Education and Department for Health have set out the relevant arrangements in their respective accountability statements.

¹⁰ Department for Education: [Accounting officer: accountability system statement for education and children's services](#);

Department of Health: [Accounting officer system statement](#);

Department for Transport: [Accountability system statement](#); and

Department for Environment, Food and Rural Affairs: [Accountability systems statement](#).

Section two

How the core accountability system works

- 2.1 This section covers the essential elements of the core local government accountability framework. It shows how the elements work together and relate to each other, to ensure local government acts with regularity, propriety and value for money in the management of its resources.
- 2.2 Key elements of the framework are:
- a. clarity about who is responsible for resources;
 - b. a set of statutory codes and rules which require councils to act prudently in their spending;
 - c. a framework of internal and external checks and balances including audit and whistleblowing;
 - d. transparency and publication of data; and
 - e. requirements to have strategies and action plans on fraud.

Clarity about who is responsible for resources

- 2.3 There are legal and formal controls in place to ensure that it is clear who is accountable for money at the local level. Ultimate accountability lies with the full council (elected members of the council collectively). The relevant legislation is the Local Government Act 2000 (“the 2000 Act”)¹¹, which introduced governance arrangements based on an executive, either the mayor and cabinet executive or leader and cabinet executive, and the Localism Act 2011 (“the 2011 Act”)¹², which allows councils to return to the committee system form of governance. The 2000 Act also enables local people to hold councils and their officials to account for their spending decisions through public scrutiny via overview and scrutiny arrangements.
- 2.4 For executive forms of governance, the 2000 Act (and underpinning secondary legislation) provides that the full council sets the budget and policy framework. The executive implements that budget and policy framework. The executive is responsible for proposing the policy framework and budget to full council. For councils that adopt the committee form of governance, the 2011 Act (and underpinning regulations) allows local authorities the

¹¹ [Local Government Act 2000](#)

¹² [Localism Act 2011](#)

flexibility to make decisions in full council or delegate decision making to committees, sub-committees, other local authorities or officers. The council must make it clear in standing orders how and by whom decisions will be taken. Also under these regulations, the Secretary of State could, by regulation, provide that certain matters are reserved for the full council to decide.

A set of statutory codes and rules which require councils to act prudently in their spending

- 2.5 A system of legal duties requires councillors to spend money with regularity and propriety. Under section 151 of the Local Government Act 1972,¹³ “every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers [the section 151 officer or Chief Finance Officer] has responsibility for the administration of those affairs”. The section 151 officer is an important mechanism for holding councils to account, and has duties and powers to alert councillors and the auditor in the case of unlawful expenditure. This role is complemented and reinforced by authorities’ duty under section 5 of the Local Government and Housing Act 1989¹⁴ to appoint a monitoring officer, who must report to the council when any proposal, decision or omission is likely to lead to contravention of any enactment, rule of law or statutory code.
- 2.6 In handling the routine management of their budgets, local authorities must set their council tax at a level which will balance their budget (Part 1 of the Local Government Finance Act 1992¹⁵ and, for the Greater London Authority, Part 3 of the Greater London Authority Act 1999).¹⁶ Under section 25 of the Local Government Act 2003,¹⁷ the section 151 officer must report to the council when the council tax is being set on the robustness of the estimates and the adequacy of the reserves allowed for in the budget. Elected members must have regard to the report.
- 2.7 Authorities must restrict borrowing to what is affordable (sections 2 and 3 of the Local Government Act 2003).¹⁸ They must comply with the statutory codes issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and DCLG when making borrowing or investment decisions. This requirement covers county councils, unitary councils, district councils, and parish councils. Similar provisions in the Greater London Authority Act 1999 apply for the Greater London Authority and in the Local Government and Housing Act 1989 for the Common Council and certain other authorities.

¹³ [Section 151, Local Government Act 1972](#)

¹⁴ [Section 5, Local Government & Housing Act 1989](#)

¹⁵ [Part I, Local Government Finance Act 1992](#)

¹⁶ [Part III, Greater London Authority Act 1999](#)

¹⁷ [Section 25, Local Government Act 2003](#)

¹⁸ Sections [2](#) and [3](#) of the [Local Government Act 2003](#)

- 2.8 The Accounts and Audit Regulations 2015¹⁹ require that elected members maintain a sound system of internal control including arrangements for the management of risk, an effective internal audit, and that local authorities prepare annual accounts. These accounts are subject to external audit. Independent auditors are required to form an opinion on whether the accounts give a true and fair view, and to conclude on whether the authority has made proper arrangements for securing value for money.

A system of internal and external checks and balances including audit and whistleblowing

- 2.9 There are mechanisms in place for occasions when routine processes fail. The Local Government Finance Act 1988²⁰ requires the section 151 officer to issue a report (a section 114 notice) to all councillors if there is unlawful expenditure or an unbalanced budget. The authority's full council must meet within 21 days of the issuing of the section 114 notice to consider it, and during that period the authority is prohibited from either pursuing the course of action which is the subject of the report (in the case of unlawful expenditure) or entering into new agreements involving the incurring of expenditure (in the case of an unbalanced budget). Councillors therefore cannot avoid being aware of illegal activity. Also, external auditors can pursue action in the courts where they believe that either elements of the accounts, the actions or decisions of an authority, or the authority's failure to act, are unlawful (sections 28 and 31 of the Local Audit and Accountability Act 2014).²¹ This is a strong incentive to avoid illegal actions.
- 2.10 The system includes external checks, such as a local authority being subject to an annual external audit. The independent auditor is required to give an opinion on whether the financial statements of the audited body give a true and fair view, and whether all statutory provisions relating to the accounts have been complied with. They are also required to satisfy themselves that proper arrangements are in place to achieve effectiveness, efficiency and economy in the use of resources
- 2.11 The auditor is also under a duty to consider making "a report in the public interest" on any significant matter coming to their notice during the course of an audit which they feel should be brought to the attention of the public. Any public interest report must be considered by the full council within one month of receipt. All of this information must be placed in the public domain. The auditor is also required to send a copy of the report to the Secretary of State. All Public Interest Reports are forwarded to the Department for Communities and Local Government to consider.

¹⁹ [Part 2, Accounts and Audit Regulations 2015](#)

²⁰ [Section 114 Local Government Act 1988,](#)

²¹ [Local Audit and Accountability Act 2014](#)

- 2.12 The Financial Reporting Council and professional bodies have an oversight role in the new audit framework, mirroring their regulatory roles within the companies audit sector. The National Audit Office produces the Code of Audit Practice²² and supporting guidance, which sets out what auditors are required to do in order to fulfil their statutory responsibilities in carrying out the audit of local authorities. Both the external Auditor and the National Audit Office are prescribed persons under the Public Interest Disclosure Act 1998, to which employees may make protected ‘whistle blowing’ disclosures.
- 2.13 Councils are strongly recommended to have whistleblowing arrangements in place as recommended in the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives Delivering Good Governance in Local Government: Framework (2016).²³

Transparency and publication of data

- 2.14 As part of the overall core accountability framework, the *Local Government Transparency Code 2015*²⁴ requires principal local authorities to publish, on a regular basis, certain information about their expenditure, procurement and assets. Access by the public to this data makes it easier for local people to hold their local authority to account, contribute to the local decision making process, and help shape public services.

Requirements to have strategies and action plans in place on fraud

- 2.15 Although there are no specific statutory requirements to prevent or detect fraud, local authorities are under an overriding duty to protect the public purse and should ensure their systems are robust. The above mentioned 2015 Transparency Code sets out the specific counter-fraud requirements they must publish annually. Local authorities are required to comply with Part 2 of the Code and the Department undertakes periodic reviews to test this.
- 2.16 Local authorities should ensure they have a clear counter fraud policy embedded into their systems and follow the recommendations set out in the Local Government Counter Fraud and Corruption Strategy, published by the sector in March 2016 and funded by the Department for Communities and Local Government.²⁵ A practitioner’s guide, also funded

²² [National Audit Office Code of Audit Practice](https://www.nao.org.uk/code-audit-practice/) - <https://www.nao.org.uk/code-audit-practice/>

²³ [CIPFA/Solace, Delivering Good Governance in Local Government: Framework](#)

²⁴ [Local Government Transparency Code 2015](#)

²⁵ [Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019](#)

by the Department and published by the Chartered Institute of Public Finance and Accountancy²⁶, sets out the practical measures local authority counter fraud staff should take to identify and detect fraud.

- 2.17 In summary, the core local government accountability framework for which I am accountable, has roles for the public, the council executive, councillors, the sector and auditors in ensuring that value for money is achieved. For many services, this provides sufficient assurance.
- 2.18 As stated above, departments have put additional accountability arrangements in place for some specific services to provide additional assurance. This may be because a service is high risk or because the service is being used by vulnerable people who are less able to influence service delivery through choice and voice. One example is children's safeguarding, where universal inspection is in place to ensure that children are protected. These decisions are the responsibility for those departments which are accountable for the relevant services.

²⁶ [CIPFA Code of Practice on Managing the Risk of Fraud and Corruption](#)

Section three

How the accountability system responds to failure

- 3.1 This section describes what happens when councils do not meet the statutory requirements for which they are responsible to deliver adequate services or value for money in their local communities.
- 3.2 There are a range of external systems in place should councils fail to fulfil their functions, and which contribute to the maintenance of regularity, propriety and value for money. These are summarised below.
- 3.3 For any case of service failure affecting an individual (including all council services), the Local Government Ombudsman²⁷ provides an independent route of complaint and redress. The Ombudsman reports annually on complaints investigated.²⁸
- 3.4 For service specific failure, where the safeguarding of vulnerable people may be at stake, the relevant government department has in some cases put in place specific failure and improvement regimes. Accountability arrangements for tackling these cases are covered under separate system statements (e.g. the Department for Education system statement). Actions which may be taken on failure may include improvement activity from the local government sector, led by the Local Government Association; programmes of inspection to identify failure and make recommendations; and powers for central government to intervene.
- 3.5 To assure and strengthen the overall corporate performance of councils across the sector, funds are provided from Local Government Departmental Expenditure Limit to the Local Government Association to provide peer support, including mentoring and peer challenge. Peer support can be particularly effective at key moments, such as when an authority is experiencing a transition. The Local Government Association is responsible for this work and has a systematic approach to identifying those councils that could benefit from sector support, based on data and informal conversations with all councils in the sector.
- 3.6 As a last resort, the Government has powers to investigate and intervene based on councils' best value duty. If an inspection identifies a failure or very high risk of failure, to comply with the best value duty, under section 15 of the Local Government Act 1999²⁹ the Secretary of State has powers to intervene. Under section 15(5) he can direct an authority

²⁷ [The Local Government Ombudsman](#)

²⁸ [Local Government Ombudsman Reports](#)

²⁹ [Section 15, Local Government Act 1999](#)

to take any action which he considers necessary or expedient to secure compliance with the best value duty. Under section 15(6) the Secretary of State may direct that any (or all) functions of the authority be exercised by him or a nominee (e.g. a commissioner).

- 3.7 Though intervention in a local authority is rare, the Department for Communities and Local Government has experience of doing this where necessary, including recently in Rotherham and Tower Hamlets. We also work closely with colleagues in the Department for Education and the Department of Health who have their own service specific inspection regimes and means of intervention.
- 3.8 It is my responsibility to ensure that advice is given to the Communities Secretary about the relative merits and risk of statutory and non-statutory intervention in particular cases, based on evidence and the department's own analysis and risk assessment of the issues, to maintain the integrity of the overall accountability system.

Section four

How the department gets assurance

- 4.1 This section describes how the Department collects and analyses information to provide assurance that the core local government accountability framework is working and to assess risk.
- 4.2 The department collects and analyses information from a wide range of sources. This includes both financial data, information on outcomes and specific services and soft intelligence. All financial data is taken from one or a combination of Office for National Statistics data, the publicly available statistical returns provided by local authorities to the department, or from authorities' Whole of Government Account Returns submitted to Her Majesty's Treasury. Other information including soft intelligence is primarily gained from our interaction with authorities and from other government departments.
- 4.3 The main sources of financial data available annually are:
- Income data published December / January as part of the Local Government Settlement.
 - Expenditure data published in the Autumn.
 - Reserves level and liquidity data published in the Autumn.
- 4.4 Other sources of information include:
- The Department's local intelligence collected through relationships built with authorities by teams in the Department.
 - The Local Government Association, especially through their regional Principal Advisers and from their sector support work.
 - Department for Education, including Ofsted reports.
 - Department of Health, including Care Quality Commission reports and Better Care Fund plans.
 - Department for Business, Innovation and Skills Local leads across England who provide local intelligence on leadership, local relationships and progress on devolution deals.
 - Information published on local authorities websites, for example, minutes of Council meetings.
 - Media reporting, focused on the sector and generally.

- Correspondence from local councillors, Members of Parliament and members of the public.

- 4.5 This data and intelligence is considered and analysed in the Department to provide indications of which local authorities or groups of authorities are at highest risk of financial distress, service failure or other inability to meet statutory duties. This represents a strengthening of the Department's analysis and oversight following the recommendations in the Public Accounts Committee 2014 Report - "*Financial Sustainability of Local Authorities*".³⁰ Regular meetings are held to probe and assure the analysis; consider what further work is being done or might be done through service departments and/or the Local Government Association's sector support; determine any specific actions or advice to ministers in the Department; and consider any trends e.g. risk for particular types of local authorities.
- 4.6 In addition, twice a year, the Department provides me with comprehensive assurance advice on how the core local government accountability framework is working. This advice presents research from the sector and think tanks; work the department has produced; and specific advice on whether the framework needs amending.
- 4.7 I also meet regularly with Accounting Officers from the Department for Education and the Department of Health to discuss the analysis described above, alongside any specific pressures on children's services and adult social care. This ensures both that the Department's analysis reflects a cross-Government approach and also that other Accounting Officers with responsibilities for particular services have the benefit of a broad assessment of the sector.
- 4.8 The combination of all of these sources of information and activities above mean that the Department is well-placed to understand risk, both across the system and in relation to individual Councils.

³⁰ [Financial sustainability of local authorities 2014 – National Audit Office](#)

Section five

The accountability framework and devolution deals

- 5.1 This section explains how the core local government accountability framework applies in the light of devolution deals in England, in the context of the Cities and Local Government Devolution Act 2016 (the 2016 Act).³¹ It also covers devolution to London, setting out the accountability arrangements for the Greater London Authority (GLA).

Devolution in England

- 5.2 This accountability system statement applies to all local authority bodies. This includes new combined authorities and other governance structures in local government.
- 5.3 The Government has set out a clear aim of devolving powers and budgets to local areas through bespoke devolution deals. In response to this the Department has taken steps to strengthen the accountability system, to allow a greater variety of local governance arrangements while ensuring that there is clear and strong accountability, particularly where the Government is devolving the most powers.
- 5.4 The 2016 Act enables the Government to create mayoral combined authorities, where groups of local authorities agree locally that they wish to work together to deliver particular functions across the combined area, led by a directly elected mayor. Directly elected mayors enhance accountability by providing clear and visible leadership and by being directly and personally accountable to the local electorate at the ballot box through regular elections. The establishment of each mayoral combined authority is subject to locally-led statutory consultation, approval by individual local councils and the Parliamentary approval of relevant orders.
- 5.5 Combined authorities are, like local authorities, bound by the legal and technical requirements set out in this statement. The 2016 Act sets out that - in addition - all combined authorities (including mayoral) must have at least one overview and scrutiny committee and an audit committee to hold both the authority and the mayor to account.
- 5.6 To help ensure clarity about the powers and functions being devolved to combined authorities, and meeting its commitment in devolution deal agreements, the Government has now published guides to the devolution deals for those combined authorities whose mayors were elected this year as well as for Cornwall. These seek to set out, as simply as possible, a summary of the powers and budgets being devolved where applicable to Mayors, Combined Authorities, or in the case of Cornwall, the county council and NHS

³¹ [Cities and Local Government Devolution Act 2016](http://www.legislation.gov.uk/ukpga/2016/1/contents/enacted/data.htm) - <http://www.legislation.gov.uk/ukpga/2016/1/contents/enacted/data.htm>

Kernow, and who is responsible for what. The Government will continue to publish such guides for any new mayoral combined authorities that may be established, to help ensure that changes to accountability arrangements in local areas resulting from devolution deals are communicated clearly and accessibly to Parliament and the public. .

- 5.7 In addition to devolution of specific powers, several devolution agreements with local areas have included a commitment to increase the flexibility with which combined authorities can use devolved funds, creating a 'Single Pot' which the combined authority will be able to use in a way that best meets local priorities.³²
- 5.8 To strengthen accountability and value for money assurance for combined authorities the Government has put in place new arrangements, in addition to the existing statutory structures on Best Value. New combined authorities must put in place a Local Assurance Statement that is agreed with the Department. This must be done before new devolved funds are made available. In addition, for the new investment funds, which provide 30 year funding from Government through the Department for Communities and Local Government, combined authorities will be subject to scrutiny from an external, expert panel that will provide evidence on the procedures to determine spending and the impact of spending locally.
- 5.9 Finally, the Government will lay before both Houses of Parliament an Annual Report on Devolution, pursuant to the provisions of Section 1 of the Cities and Local Government Devolution Act 2016. This will contain a range of information, specified in Section 1 of the 2016 Act,³³ on the progress of English devolution to inform MPs and others of the latest developments. The first such Annual Report was laid before Parliament on 2 December 2016.³⁴

Devolution in London

- 5.10 Particular arrangements apply to London. The Greater London Authority (GLA) was established through the Greater London Authority Act 1999 according to a strong Mayoral model with a directly elected Mayor taking decisions and being scrutinised by the London Assembly. In the last Parliament, the Government devolved further responsibilities to the Mayor for housing, planning and economic development through the Localism Act 2011.
- 5.11 Underpinning the Mayor's strategic delivery role in London is a financial settlement, the London Settlement, which was agreed between the Department for Communities and Local

³² [Single Pot assurance framework: national guidance](#)

³³ [Section 1, Cities and Local Government Devolution Act 2016](#)

³⁴ [Devolution annual report 2015 to 2016 - GOV.UK](#)

Government and the GLA. This was issued in February 2012, and reissued in December 2014.

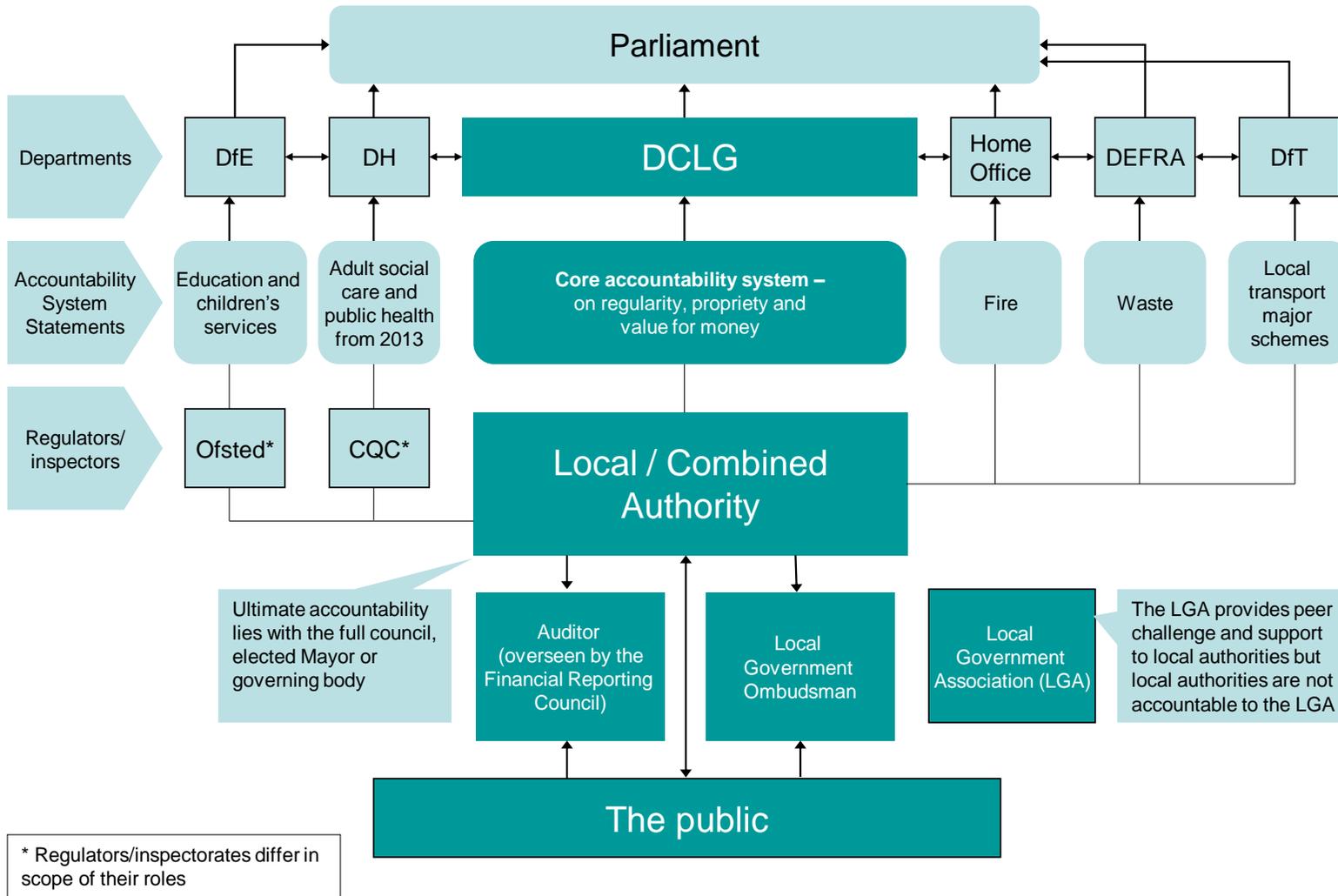
- 5.12 As the lead Accounting Officer for the London Settlement, I have the same responsibilities as described in section one of this statement. Accountability for spending decisions rests solely with the Mayor of London and scrutiny of those decisions with the London Assembly.
- 5.13 The Government is also taking forward and supporting London partners' proposals for further reform in relation to fiscal devolution, employment and skills, congestion, health, social care and justice. Appropriate governance and accountability arrangements are being co-designed to underpin delivery. As any changes are made they will be reflected in this statement.

Conclusion

- 5.14 There is a robust core local government accountability framework in place which I can rely on as Accounting Officer for the Department for Communities and Local Government to assure me that councils will spend their money with regularity, propriety and value for money. The key elements are: legal and formal controls; local audit; and transparency and democratic accountability to local people as set out in Section 2.
- 5.15 Inevitably, as the core local government accountability framework reflects current policy, so it will need to change when new policies are developed and implemented. As this document has been amended to reflect changes with the development of devolution deals, and as policies such as Business Rate Retention are developed, the Department will consider their impacts fully, including upon my accountabilities. This statement, as a living document, will be updated as appropriate to reflect all such changes.

Melanie Dawes CB

Diagram showing the accountability system statements relevant to local government and the main organisations involved in them



Annex B: Accounting Officer Accountability System Statement for the Local Growth Fund

Introduction

Accounting officers in government departments are accountable to Parliament for the proper stewardship of the resources allocated to their department. Details of the requirements to ensure regularity, propriety and value for money are set out in the HM Treasury Guidance *Managing Public Money*.

The DCLG report *Accountability: Adapting to Decentralisation* (2011) proposed that, in future, departmental accounting officers should publish accountability system statements explaining how they achieve accountability for the grants they distribute to local bodies. This allows accounting officers to demonstrate that, as the government moves to decentralise power to local communities, the appropriate accountability mechanisms are still in place. The Treasury has now included this requirement in *Managing Public Money*.

I have published an Accountability System Statement for Local Government as a whole, in Annex A. That document sets out the core accountability system for local authorities and explains the statutory duties, defences and safeguards through which value for money is assured.

Other Departments which oversee other services run by local government have published further accountability system statements in relation to these services. These cover:

- education and children's services (Department for Education)³⁵
- adult social care and public health (Department of Health)³⁶
- transport (Department for Transport)³⁷
- waste (Department of Environment, Food and Rural Affairs)³⁸
- policing and crime (Home Office)³⁹.

³⁵ <https://www.gov.uk/government/publications/accountability-system-statement--2>

³⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/362786/AO_system_statement_Oct_2014.pdf

³⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/475107/dft-accounting-officer-system-statement_2015.pdf

³⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/328633/defra-accountability-systems-statement-2014.pdf

This Local Growth Fund accountability system statement sits alongside the Local Government system statement in Annex A. This Annex sets out the specific accountability structures and processes through which value for money is assured on this funding. It covers:

- in **Section one** (page 53), the Local Growth Fund and Local Enterprise Partnerships;
- in **Section two** (pages 54 to 55), the scope of my accountability in relation to the Local Growth Fund;
- in **Section three** (pages 56 to 57), how the accountability system works for the Local Growth Fund;
- in **Section four** (pages 58 to 59), monitoring and evaluating delivery;
- in **Section five** (page 60), the allocation of the Local Growth Fund;
- in **Section six** (page 61 to 62), how LEPs receive their Local Growth Fund allocations.

³⁹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/410711/March_2015_Accountability_System_Statement_for_Policing_and_CrimeFINAL.pdf

Section one

The Local Growth Fund and Local Enterprise Partnerships

- 1.1 The LGF was established in 2013 and brought together a number of funding streams. This statement focuses on how it is allocated, and the system which has been put in place to ensure that it is spent with regularity, propriety and value for money. Some funding streams within the LGF are subject to other Departments' established accountability processes and structures. This is explained below.

- 1.2 The LGF is a £12bn fund, established in the 2013 spending round as a means of devolving national funding streams to local places. The LGF comprises funding commitments to Local Enterprise Partnerships (LEPs) running from 2015-16 to 2020-21.

- 1.3 The Local Growth Fund is awarded via Growth Deals negotiated with Local Enterprise Partnerships on the basis of their Strategic Economic Plan. There are 39 Local Enterprise Partnerships (LEPs) across England. They are strategic partnerships of business, local authority leaders, and other public sector partners. Some LEPs have formed companies and therefore have a legal structure, but many are established as unincorporated partnerships and as such are unable to enter into direct legal agreements.

- 1.4 Given LEPs' non-statutory status, the LGF and other public funds are not paid to them directly, but rather to an 'accountable body'. The accountable body receives these funds on the LEPs' behalf and ensures that they are properly accounted for alongside other funding for local government, as set out in the Accountability System Statement for Local Government. A local authority within each LEP's geographical area acts as the single nominated accountable body for each LEP. These accountable bodies play a fundamental role in ensuring that funds are spent with propriety, regularity, and value for money.

Section two

The Scope of Accounting Officer accountability in relation to the Local Growth Fund

- 2.1 I am the accounting officer for the award of the LGF to LEPs, through Growth Deals. I am accountable to Parliament for those elements of the LGF which are awarded to LEPs from DCLG's Departmental Expenditure Limit (DEL). Those elements of the Fund which remain on other Departments' Departmental Expenditure Limits (DEL) are subject to their own funding and oversight mechanisms. These comprise funding from the Department for Transport⁴⁰ and the Department for Business, Innovation and Skills⁴¹.
- 2.2 I am also responsible for ensuring that the Growth Deals delivery system within which LEPs invest the LGF works effectively. Building on the system set out in the Accountability System Statement for Local Government, the LGF assurance system is based on the following elements:
- a. The national LEP assurance framework which sets out standards around transparency, accountability and value for money which LEPs must comply with in composing their own local assurance frameworks;
 - b. regular reporting against agreed output metrics;
 - c. an evaluation framework;
 - d. annual performance conversations with each LEP.
- 2.3 Together these elements establish a mechanism for ensuring that funds are spent locally with regularity, propriety and value for money. They also provide me with oversight of what is being delivered. Further details on these are set out later in this statement.

⁴⁰ LGF funding for which DfT is accountable includes the £475m element relating to Local Major Schemes and other elements noted in section G of the DfT Accountability System Statement here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/475107/dft-accounting-officer-system-statement_2015.pdf

⁴¹ See <https://www.gov.uk/government/groups/local-enterprise-partnership-area-esif-sub-committees> for details of the European Social Fund system, and <https://www.gov.uk/guidance/understanding-the-regional-growth-fund> for the Regional Growth Fund system.

- 2.4 Where the LGF is part of a 'Single Pot' of funding awarded to devolution deal areas, Single Pot assurance framework will replace the LEP assurance framework. DCLG has asked places to write their Single Pot Assurance Frameworks with reference to the National Guidance which has been published online⁴². The Single Pot assurance frameworks will explain how combined authorities, working collaboratively with LEPs, will spend investment funds, consolidated transport grants, LGF and other funding added to the Single Pot with regularity, propriety and value for money. DCLG will formally sign off these assurance frameworks before they become operational.
- 2.5 Given the widespread interest in the LGF and the government's wider strategy for maximising local economic growth, the government has established the cross-departmental Cities and Local Growth Unit. This unit brings parts of the Department for Communities and Local Government and the Department for Business Innovation and Skills together to ensure lines of accountability are clear, and to enable collective decision-making and joint working between departments. This also enables the delivery of a joined up support offer to places. The Unit also works closely with the Department for Transport to ensure that transport expertise is sufficiently built into the award and oversight of the LGF when considering infrastructure projects.

⁴² <https://www.gov.uk/government/publications/single-pot-assurance-framework-national-guidance>

Section three

How the accountability system works for the Local Growth Fund

- 3.1 The accountability system for the LGF builds on the checks and balances established in the Accountability System Statement for Local Government. It includes a national LEP assurance framework, regular reporting, an annual performance conversation, and a robust approach to monitoring and evaluation. This system enables decision making which is accountable, transparent, and which delivers value for money. Through the annual performance conversation, the Department can also review the level of funding and flexibility that each LEP has.

The Accountability System Statement for Local Government

- 3.2 The Accountability System Statement for Local Government sets out how I meet my responsibilities and assure myself that local government spends its money with regularity, propriety and value for money. It sets out the core local government accountability framework and, since the LGF is paid to local authority accountable bodies, applies to how the LGF is managed by those local authorities.
- 3.3 This statement (the Accountability System Statement for the Local Growth Fund) provides the additional specific arrangements to assure me of value for money for the LGF, given its particular arrangements.

LEP assurance frameworks

- 3.4 The government has worked with LEPs, local authorities, and government Departments to co-produce an additional national assurance framework for LEPs. This framework is used to support accountable, transparent local decision making, which delivers value for money. This national LEP assurance framework sets standards which LEPs and their accountable bodies must adopt through their own local assurance frameworks, providing assurance to the government in exchange for delegated funding arrangements and local flexibilities.
- 3.5 These local assurance frameworks have been agreed by the LEP board, published, and signed off by the accountable body through the Section 151 officer. Each accountable body's Section 151 officer has written to the Department verifying that a local assurance framework has been developed, and is compliant with the standards articulated in the national LEP assurance framework. These local assurance frameworks must also be reviewed each year to ensure they remain current.

- 3.6 The assurance frameworks set out details of:
- a. the LEP's constitution, and within that the arrangements for taking and accounting for decisions, including a clear description of roles and responsibilities;
 - b. transparent decision-making and ways of working – ensuring effective public engagement, with key documents, decisions etc made public in line with the requirements placed on local authorities, and an agreed means to manage conflicts of interest;
 - c. the responsibilities of the accountable body role - ensuring that the local system established through each LEP's local assurance framework supports effective LEP decision making;
 - d. a clear and transparent basis against which projects and programmes are identified, appraised and prioritised. Appropriate methodology to assess value for money with business cases developed in line with government guidance.
- 3.7 Given this context, we expect accountability and value for money for LGF resources to work in the following way. The accountable body, as the legal recipient of grant, must put in place appropriate arrangements for the proper use and administration of funding, building on the existing local government system outlined in the Accountability System Statement for Local Government. The LEP as strategic decision maker develops and maintains its Strategic Economic Plan, determining the key funding priorities to which LGF and other resources should be directed, and ensures there is adequate capacity to deliver against those. Democratic accountability for LEP decisions are provided through local authority leader representation, with business community representation coming from the business leaders on each LEP board.
- 3.8 In places where not all local authorities are represented directly on the LEP board, it is important that those who do sit on the board have been given a clear mandate, through an underpinning local authority arrangement, such as a joint committee or combined authority or other similar arrangement, which brings all the local authorities together in the area, formalising decision making. This is also important for facilitating collaboration and the pooling of resources and efforts between local authorities in support of agreed LEP priorities. The detail of how these arrangements work will be picked up in each LEP's assurance framework.

Section four

Monitoring and evaluating delivery

- 4.1 The government has developed a coherent approach to the monitoring and evaluation of Growth Deals. We have agreed with LEPs a range of data on inputs, outputs and outcomes that they should use to demonstrate success, providing clarity to government and the public about what LEPs have delivered with their LGF resources.
- 4.2 Relevant metrics include the amount of private sector investment leveraged, levels of employment, housing units completed, and qualifications achieved. LEP performance is monitored by government, enabling it to target support where issues arise. Past delivery and performance will also inform the award of future growth deals.
- 4.3 LEP performance is monitored in the following ways:
 - a. Monthly Relationship Manager (RM) discussions. RMs are regionally based civil servants who provide the LEPs with day to day advice and support, and are the main channel of communication between the LEPs and central government. Each month RMs hold a performance discussion with their LEPs, ensuring a regular dialogue is maintained and emerging risks and issues can be dealt with early.
 - b. Quarterly LEP monitoring returns. LEPs provide central government with a comprehensive set of data relating to each Growth Deal project on a quarterly basis, including both total and forecast spend, and output metrics.
 - c. Quarterly Relationship Manager reporting returns. RMs provide the Department with a quarterly report on LEP progress, which includes an assessment of each LEP's overall progress with Growth Deal delivery and provides an early warning system which highlights any emerging risks so that prompt action can be taken to address these.
 - d. Annual performance review. Each year the Department conducts a performance review with every LEP which reviews their progress on Growth Deal delivery over the past 12 months. This leads to an agreed set of actions and next steps, if there are any issues to be addressed either by the LEP or by central government.
- 4.4 The evaluation approach is based on three key pillars:
 - a. Local evaluations, produced by LEPs, which mainly focus on process questions concerning how best to deliver outputs.

- b. Evaluation demonstrators, where government has worked with a few local areas to run control trials that provide information about impact for specific policy interventions such as mental health and employment trailblazers.
- c. The activity of the What Works Centre for Local Economic Growth to collate and disseminate evaluation results into material that is useful to local partners for feedback into their growth strategies.

4.5 The approach to local evaluation was co-designed by the government and LEPs to guide LEPs in developing their own local evaluation plans. The guiding principle behind these LEP Evaluation Plans is that they should be SMART:

- e. specific enough to provide the level of detail LEP officials and scheme promoters will require to guide delivery of evaluations ;
- f. measurable so it is clear whether the evaluation work carried out fulfils the evaluation plan or not;
- g. achievable so that the LEP has a realistic chance of producing evaluations in line with its plan;
- h. relevant so that the plan is of practical use to the LEP and covers the most important areas for delivery of evaluations;
- i. timed so LEP officials know what they need to do by when in order to keep delivery of their evaluation plan on track.

4.6 The LEP plans are helping to create an evaluation programme that is proportionate and maximises the possibilities for joint working with local academic institutions. Evaluations that assess how effectively schemes are delivered and their causal effect on planned outcomes and impacts will provide the government with evidence on the effectiveness of delivery and value for money from Local Growth Fund interventions. The LEP evaluation plans provide a mechanism to ensure that the best evaluation evidence is produced as rapidly and effectively as is technically feasible.

4.7 In addition to the evaluation which LEPs will be undertaking, central government is commissioning further evaluation directly. The Department for Transport has been scoping approaches for technically robust impact evaluation across LEP areas and is exploring possible evaluation demonstrators involving a sample of LEPs and the Local Growth What Works Centre.

Section five

The allocation of the Local Growth Fund

- 5.1 Existing allocations of the LGF were informed by an assessment of each LEP's Strategic Economic Plan (SEP) and associated projects.⁴³ SEPs establish a long-term vision for the area, with defined growth objectives, and a complementary set of growth-stimulating projects. They set out arrangements for LEP governance, and how these support effective decision making and delivery, with a clear commitment to collaborating, and pooling efforts in support of a shared growth agenda.
- 5.2 Each SEP has been assessed against the published criteria of ambition and rationale, and delivery and risk. Business cases for the projects contained within the SEP were also reviewed against the value for money and deliverability criteria. Further information about this can be found in the guidance published to support LEPs to produce their SEPs which is available online.⁴⁴
- 5.3 This assessment, based on Green Book principles, saw those LEPs with the strongest SEPs and projects attract more resources. The assessment was overseen by analysts drawing on input from officials (at a national and local level), providing a fuller understanding, particularly around deliverability and risk. This process was moderated to ensure a consistent and transparent approach to assessment.
- 5.4 This assessment, together with the accountability system described above, forms a strong local system which will ensure decision making is accountable, transparent, and delivers value for money.
- 5.5 Future awards of the LGF are being informed by a consistent track record of successful implementation and demonstration of value for money, which will act as an important incentive to ensure quality and deliverability of projects.

⁴³ For the Growth Deal extensions agreed in January 2015, projects were generally assessed through local LEP assurance frameworks

⁴⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224776/13-1056-growth-deals-initial-guidance-for-local-enterprise-partnerships.pdf

Section six

How LEPs receive their Local Growth Fund allocations

- 6.1 LGF allocations have been and will continue to be paid to the LEP's accountable body. All payments from the DCLG DEL will generally be made by DCLG under Section 31 of the Local Government Act 2003. This is how local authorities receive the majority of their funding from national government. Allocations have been awarded on an annual basis to date. The Department is able to review the level of funding and flexibility awarded to each LEP as part of the annual performance conversation.
- 6.2 As is the policy with section 31, the grant funding agreement will not impose detailed legal conditions which would restrict how funding can be used. The grant offer letter does however set out clear funding requirements which must be followed:
- a. funding is to support the Growth Deal agreed between the government and the LEP and will be used to secure the outcomes set out in the Growth Deal;
 - b. Funding decisions must be agreed between the LEP and the accountable body in accordance with their local assurance framework (which must be compliant with the standards established in the national LEP assurance framework);
 - c. progress will be measured against agreed core metrics and outcomes, in line with the national monitoring and evaluation framework.
- 6.3 A clear incentive has been placed on LEPs to deliver the agreed deals, establishing the principle that future deals will be dependent on the performance and delivery of the previous deal.

Conclusion

- 6.4 There is a clear framework in place which provides assurance that LEPs, working with their accountable local authorities, will spend their money with regularity, propriety, and value for money. The key elements are the legal controls and democratic accountability to local people through the local authority leader representation on LEPs, and the role of the accountable local authority. In addition to the general requirements on local authorities, there are additional arrangements in place through the assurance framework and monitoring and evaluation strategy to ensure LEPs carry out their responsibilities effectively. The system provides assurance that the government's decentralising agenda can be achieved in relation to LEPs without compromising the proper spending of public money.