



## Accountability: Adapting to decentralisation



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September

ISBN: 978 1 4098 3167 9

# Report to the Cabinet Secretary by the Permanent Secretary for the Department for Communities and Local Government, version provided to the Public Accounts Committee to inform their hearing of 14 September

## Introduction

1. The Government's programme of decentralisation will shift power from the centre into the hands of local communities and individuals. This will include the power to direct how money spent locally is used, and to hold local public service bodies to account for their use of resources.
2. At the same time Parliament, rightly, continues to expect Accounting Officers to account for the proper use of the public funds at the disposal of their department, including funds disbursed to local bodies. This is a potential tension that will need to be addressed to avoid it becoming a barrier to reform.
3. In December the Cabinet Secretary therefore commissioned a report on the implications of decentralisation and localism for the traditional forms of Parliamentary accountability. This is an issue the Public Accounts Committee has also investigated in its report *Accountability for Public Money*, published on 5 April, the summary and conclusions of which are attached at Annex A<sup>1</sup>. It sets out five 'fundamentals of accountability' that the Government should embrace in ways that support decentralisation<sup>2</sup>.
4. This paper focuses on the Accounting Officer's responsibility to account to Parliament for the money voted to their department. Ministers, obviously, also have responsibilities to Parliament and the public, and the policy framework ministers adopt sets the parameters that Accounting Officers operate within. It therefore sets out a framework for developing strong local accountability arrangements, and highlights some of the issues Accounting Officers will need to consider. Given that accountability systems will differ significantly between services, and are a matter for the relevant Accounting Officer and their ministers to determine, we have not sought to specify the approach that should be taken in specific service areas. The framework has, however, been tested against a number of policy areas. More detailed work has also been carried out to collate the evidence that underpins the argument set out below, in particular in relation to choice and competition.

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<sup>1</sup> Committee of Public Accounts *Accountability for Public Money: Twenty-Eighth Report of Session 2010-11* House of Commons, 2011

<sup>2</sup> *Ibid* p5

5. The paper argues that there is a distinction between those services that Government delivers directly and those that it may fund but are delivered in more decentralised arrangements. For the latter Accounting Officers should be responsible for ensuring that there is a robust local accountability system in place covering the resources that they distribute, but should not be seen as directly responsible for, or managing the actions of, individual local institutions.
6. The rest of the paper sets out:
  - the context for the report – including the role of ministers and Parliament's expectations (paragraphs 7 to 10)
  - the implications of the Government's approach to decentralisation for accountability (paragraphs 11 to 17)
  - an overview of the elements that will come together to form strong local accountability systems, and some of the issues that policy makers will need to consider (paragraphs 18 to 42); and
  - our recommendation that Accounting Officers should publish statements setting out the accountability systems for the funding streams they are responsible for in order to (paragraphs 49 to 56):
    - ensure clarity about the respective responsibilities within the system
    - aid internal and external scrutiny of the system; and
    - provide assurance to Parliament that a robust system is in place

## **Context**

### ***Role of ministers***

7. Ministers and Accounting Officers have complementary roles in accounting to Parliament for the stewardship of public money. In essence ministers decide on policy, which Accounting Officers then implement. The boundary between these roles is not fixed. Where they overlap ministers and Accounting Officers work together to ensure policies are feasible and are implemented in the most effective and efficient way. Ultimately ministers have the final word.
8. As part of setting policy ministers determine both the outcomes they are seeking to achieve and how resources are allocated between them. These determine the parameters within which Accounting Officers operate in providing assurances to Parliament on the use of public money - the delivery systems that they rely on must fit within the policy framework agreed by ministers.

### ***What does Parliament expect?***

9. Parliament expects the Government to provide it (through the Public Accounts Committee) with assurance that the money voted to departments has been used for the purposes for which it was authorised (regularity), has been spent within the rules on propriety and that value for money has been achieved. The Government has chosen to make departmental Accounting Officers personally responsible for providing these assurances<sup>3</sup>.
10. The recent Public Accounts Committee report *Accountability for Public Money* reasserted the Committee's support for the Accounting Officer system – and the Committee's determination to be able to 'follow the pound' if necessary. It also set out five fundamentals of accountability (annex A) which the Government should embrace in a way that supports its intention to decentralise power. The framework set out below is in-line with the fundamentals.

### **Implications of decentralisation**

11. The Government's programme of decentralisation will shift power from the centre into the hands of local communities and individuals. This does not mean, however, that central government will devolve all its responsibilities to local bodies, nor stop taking an interest in what happens locally.
12. As power is decentralised a structural split between different ways of organising the delivery of public services will also become clearer. It is helpful to consider the difference between those services that are:
  - **direct** - where central government delivers a function itself, either by a department doing it itself (for example Her Majesty's Revenue and Customs) or through its arms length bodies or contractors; and
  - **decentralised** - where the Government sets the framework for, and funds, autonomous local bodies to deliver the services that they are responsible for
13. Decentralised bodies include both those that are independent local elements of a national system (e.g. NHS Foundation Trusts) - where ministers are ultimately politically accountable - and those with their own local democratic mandate such as local government. At the heart of the Government's agenda is that these institutions should primarily be accountable locally for their actions - through the ballot box or to their users - and national accountability frameworks will need to reflect this.

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<sup>3</sup>Accounting Officers' responsibilities are spelt out in chapter 3 of *Managing Public Money*, HM Treasury

14. This approach has parallels with the 'Tight Loose' approach taken by ministers to the role of the centre that states that Government should tightly manage corporate areas, such as HR, procurement, finance and property, where co-ordinated action can increase transparency and achieve the largest economies of scale. At the same time, individual policy decisions which are best taken locally should be devolved to the lowest appropriate level.

### ***Role of Accounting Officers***

15. Accounting Officers will continue to be expected to maintain a tight grip on the effective use of money within their departments, and ensuring the bodies that report directly to them have robust systems in place. Accounting Officers should expect to be held directly accountable for how they discharge this responsibility.
16. Central government, and Parliament, will continue to set the framework within which nationally funded services operate, even where central government is not delivering them directly. Accounting Officers will continue to be responsible for accounting to Parliament for how, overall, this funding is used. However, a restrictive interpretation of an Accounting Officer's role that he or she were personally responsible for the detail of how resources, once allocated, were used by autonomous, or statutorily independent, local bodies would be neither realistic nor compatible with a decentralist approach.
17. Instead the focus of Accounting Officers' accountability in these areas should be on ensuring that there is an effective system in place to ensure that funding that is devolved is used appropriately and, overall, secures value for money. In reality, in many cases, this is not far from the practical position now.

### **Strong local accountability**

18. Decentralisation cannot mean a weakening of the focus on ensuring that public money is used properly and the maximum value is squeezed from it, both locally and nationally.
19. The Government will therefore need to ensure that there are strong local accountability systems in place for decentralised services which will ensure the proper use of public money. Within those systems there must be a strong alignment between responsibilities and accountabilities, and a means to demonstrate that they are robust in practice.
20. The following sections therefore set out the range of checks and balances that an effective local accountability system is likely to include and the specific issues Accounting Officers will need to consider to:
  - ensure choice and competition mechanisms drive value for money effectively

- be clear about the implications of greater diversity in the number and types of organisations providing public services
- ensure that accountability systems support greater local variations and cross-agency working, including the pooling of resources; and
- make sure that robust continuity regimes are in place to identify and prevent or mitigate the impacts of underperformance or failure

### ***Local accountability systems***

21. An effective local accountability system will be based on a web of different checks and balances rather than any one single lever. This reflects the fact that local bodies have a number of different accountability relationships. To local people as users or taxpayers; to local third parties for their contribution to collective goals, especially where they are pooling resources; and to the centre for the funding they receive and their contribution to national outcomes, for example the contribution of local police forces to the Strategic Policing Requirement.
22. Within any local accountability system there will be some common elements:
  - a mechanism for **allocating and distributing central funding**, on objective criteria
  - a **legislative and regulatory framework** that defines the powers and duties of the various organisations in the system (including their formal financial reporting requirements) and individuals' rights
  - a means to set out organisations' **strategy** and the **outcomes** they are seeking against which they can be held to account
  - **independent audit** of spending at the local level
  - if necessary a system for **intervening** to protect the interests of the public in the event of a service or institution failing; and
  - underpinning the system, **transparency** to inform the making of choices and scrutiny of performance
23. These will be underpinned by further mechanisms that will reflect the particular characteristics of the services in question, including:
  - user **choice** and/or **competition** between providers of services, which should drive quality and efficiency (see paragraphs 29 to 30)
  - **election** of key decision makers for collective services

- **scrutiny** of bodies' decisions and spending by, for example, local councillors, governing bodies, local people and the media
  - a means for individuals to achieve **redress** for providers' failures, for example through an ombudsman
  - independent **regulation** to set and enforce minimum quality and safety standards
  - **partnership arrangements** with other local bodies, especially where services are being delivered jointly and/or resources are being pooled
  - in very limited circumstances **central performance management**
24. How these systems operate in practice will, as now, vary significantly, reflecting the particular characteristics of the services being delivered and the communities and individuals who are their clients. The relevant Accounting Officer will therefore need to assure themselves that the system covering the funding that they are accountable for is both robust, and flexible enough to deal with local variation.
25. Although they share many common characteristics, there is a difference between those bodies whose local accountability is primarily democratic, essentially local government but including Police and Crime Commissioners in the future, and those who will need to be more directly responsive to individual users. Democratic forms of accountability are well understood, and Parliament and the public have confidence in them.
26. The Government's reforms will strengthen local democratic accountability. In part this will be by creating greater scope for local decision making and responsiveness to communities' priorities through reducing central prescriptions, such as ring-fencing of local government budgets. Increasing public sector transparency, of which the publication by local authorities of spend over £500 is an example, will make it easier for the public, their elected representatives, pressure groups and the media to scrutinise the performance of local decision makers.

### ***Choice, competition and value for money***

27. Choice and competition mechanisms, although increasingly widespread in the public sector, are not understood so instinctively. As noted above these are only ever likely to be part of a wider accountability system. However the evidence shows that choice and competition are, where used appropriately, significant drivers of improvements in quality and efficiency, thus underpinning the delivery of value for money.

28. For example it is estimated that the introduction of personal budgets in social care can drive efficiencies of 6 per cent -7 per cent because individuals have an incentive to maximise the value of what they commission from their fixed budget and can better fit how they use resources to their specific needs<sup>4</sup>. In other cases, where personal budgets are not appropriate, fixing the tariff which providers will receive means that competition should be based on quality rather than cost. In theory, therefore, the value achieved for a fixed cost should increase over time, assuming the tariff is set at the appropriate level.
29. To be effective choice and competition mechanisms will have to have both effective demand and supply sides<sup>5</sup>. On the demand side there will need to be:
- awareness by the consumer that choice is available - even if to be effective not all, or even the majority, of users actively have to use it<sup>6</sup>
  - sufficient information to make informed choices. There will be a role here for information generated by the public sector that is comparable across and within services, and the Government will be consulting on the information users will need in specific services. But through opening up public data the Government can also stimulate the market to provide more innovative solutions than the public sector will generate; and
  - the capability to act and make decisions - in many cases intermediaries such as GPs or social workers may be needed to assist users to make choices
30. On the supply side policy makers need to consider:
- the incentives on providers to compete - it must be beneficial for providers to compete for consumers, both in overall terms (i.e. they are effectively compensated for being successful in attracting more choices) and to prevent 'cream skimming' where providers only compete for those who are the cheapest to serve, for example through a 'pupil premium' attached to the funding for disadvantaged children.
  - the rationing mechanism - all public services require, to a certain extent, some form of rationing. If this is in the form of constrained supply by individual providers, for instance of school places if popular schools cannot or will not expand, this can dampen the effects of consumer choice, as not all parents can send their children to their first choice

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4Cited in Griffiths, S. (2009) *Personalisation, choice and empowerment: a political and economic reality check*, Social Market Foundation

5 Office of Fair Trading (2010), *Choice and Competition in Public Services*

<sup>6</sup>Burgess, Propper and Wilson "Will More Choice Improve Outcomes in Education and Health Care? The Evidence from Economic Research" CMPO, p20-21

- entry and exit - to be efficient and effective a competitive market will need to allow new providers to enter and ineffective incumbents to exit. Exit in particular can be difficult in the public sector owing to the risk of unacceptable disruption in services to the public. In some cases replacing management (for example converting failing schools into academies) may be a less disruptive policy approach
31. How these issues will be addressed will depend on the particular service. The complexity of the decisions and information required to make an effective choice will vary significantly across services, as will the ease with which providers can enter or exit the market.

### ***Diverse range of providers***

32. Building an effective supply side will require a diverse range of providers. However, some commentators have expressed concerns that a significant expansion in the use of private and third sector providers to deliver public services will result in a reduction of the services' accountability because of a lack of clarity over who is ultimately accountable and that they will not be responsive to the needs of their users, or actively exclude certain groups.
33. The use of private, voluntary and community providers is already widespread across the range of public services, so there is substantial experience for departments and public services to build on.
34. In the majority of cases the relationships are contractual in nature. The commissioning body therefore needs to ensure that the contract, or grant agreement, generates sufficient information to provide the necessary assurances that public money has been used appropriately and effectively. Where necessary rights of access for the National Audit Office or regulators to provide independent verification should be included. As far as possible this information should be made public, in-line with the Government's transparency strategy, in order to inform scrutiny both of the process for awarding the grant or contract and the results achieved.
35. If users or communities have the power to choose, inefficient or un-responsive providers are unlikely to continue to win business and will be replaced by others (assuming the market is reasonably efficient). Where commissioners are making a choice of provider on behalf of the public they should expect to be held to account for the outcomes that the contract delivers - and if appropriate the robustness of the contingency procedures in place if providers fail (see paragraphs 40 to 42).
36. The expansion of the use of payment by results models should drive innovation, as the commissioner will not be prescribing the approach to be followed, and provide strong incentives to providers to ensure that they deliver results. Commissioners will of course need robust means of

ensuring that the claimed outcomes have been delivered. Ultimately the commissioning body will be held to account for ensuring that, as with any other approach, the contracts deliver the intended outcomes and that they have secured value for money.

### ***Supporting local flexibility***

37. The Government is encouraging local communities and institutions to explore new ways of working together in order to tackle shared priorities. A practical application of this will be local agencies sharing assets or pooling their resources. By working together local agencies should deliver better outcomes and value for money. This will be through both eliminating overlaps and gaps between services, especially for people who are clients of a number of them, and being able to better focus their collective resources on the most effective interventions for their area.
38. These new arrangements will cross the service silos down which lines of accountability have traditionally run. Departments are therefore adapting their arrangements to support this new approach, whilst ensuring that there is not a weakening of accountability for the money involved. Community Budgets are an example of how local delivery bodies are harnessing these new ways of working.
39. Local partners involved in Community Budgets are developing agreements that will specify resources, outcomes and strong local governance arrangements. Initially, accountability to Parliament for the funding flowing through Community Budgets will be provided through a memorandum of understanding between the relevant spending departments that specifies a single Permanent Secretary who will be accountable for the funds pooled locally using the systems they have in place, supplemented by the local authority's democratic accountability. This approach will be kept under review as Community Budgets are widened and deepened.

### ***Dealing with under performance and failure***

40. Choice and competition will increase the demands on providers as they respond to users' expectations, and some organisations will be better placed to meet them than others. Indeed in the long-term the exit of weaker performers to be replaced by more effective ones will be a significant driver of improved performance. These services will not simply be allowed to fail. In many cases users will be able to switch to other providers with limited disruption, but commissioners will need to have contingency plans in place to handle cases where that is not possible. There is also, of course, the risk that public sector organisations not subject to competitive pressures seriously under perform or fail, wasting resources and potentially putting vulnerable people at risk. As a principle, organisations should be supported to rectify poor performance before failure occurs.

41. Accounting Officers will therefore need to have a clear concept of what unacceptable under performance or failure will look like and be assured that there are robust mechanisms in place to identify and either prevent failure or mitigate its impact on the public. The form these take will depend heavily on the characteristics of the service and its client base, and the Accounting Officers' perception of the risk and likely impact of failure.
42. On the one hand where they are confident underperformance is likely to be visible, that local accountability mechanisms are strong and therefore likely to rapidly correct underperformance and the likely impacts of failure are not likely to be serious an intrusive regime may not be required. On the other hand if the client base is particularly vulnerable and/or has limited voice, and failure is likely to have a substantial impact a more intrusive regime of external inspection and regulation allied to a more activist approach to intervention may be more appropriate. The public accountability for providing quality services and good financial management should remain firmly with the provider.

### **Accounting to Parliament**

43. It is not sufficient for there to be a robust system in place to ensure regularity and propriety and to secure value for money, Accounting Officers must also be able demonstrate to Parliament that it works in practice.

### ***Regularity and propriety***

44. Providing assurance on propriety and regularity will continue to rely on a mixture of statutory and regulatory requirements setting out the financial controls that the bodies they fund must follow, including requirements to publish and/or provide to the centre financial accounts and other data. Assurance on compliance will likely be delivered by independent audit and inspection as well as local scrutiny.

### ***Value for money***

45. For value for money the Public Accounts Committee have raised concerns that a lack of robust comparable data will hinder their ability to make comparisons between performance in particular areas and make overall judgements on value for money<sup>7</sup>. This may become more acute where local areas are given the freedom to innovate with new ways of working and or choose to prioritise different outcomes, as the variation will make comparing between areas or organisations more difficult.
46. Local innovation and variation are major drivers for the service improvements in the Government's approach and the natural consequences of a more decentralised approach. Accounting Officers should still, however, be able to demonstrate that there are robust

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<sup>7</sup> *Accountability for Public Money* p.7 & 11-12

structures in place as part of the wider accountability system that will drive value for money locally. These could be an effective quasi-market (meeting the criteria set out in paragraphs 29 and 30) or other mechanisms that provide the right incentives, including potentially the need to satisfy auditors or inspectors, for local commissioners and providers to seek to secure value for money.

47. Accounting Officers will still need to monitor the performance of the system to assure themselves that it is operating as expected. Although there will be a reduction in central targets and inspection, a substantial and growing amount of performance data and information will be generated for other purposes. Depending on the service this will include:
- although fewer in number and more strategic, performance against nationally defined outcomes will still be collected in a number of areas, for example the NHS outcomes framework
  - Government will also continue to collect a more streamlined, range of other data to support its work. For instance the 'single data list' for local government will set out those areas of national importance that the Government will continue to collect comparable performance information on. This will include on those issues that it has decided to hold more tightly in order to drive efficiency
  - a number of services will still be subject to external inspection, and all public sector bodies will continue to be independently audited with the results published
  - as a result of the Government's transparency agenda significant amounts of extra data will also be published locally, in order to inform local scrutiny. In limited cases central government may also prescribe data that will be published to ensure users and users have the comparable data on their local front-line services necessary to hold them to account. This will obviously also be available to national bodies
48. The quality and quantity of information is expected to improve over time, especially as the transparency agenda beds in and the market for processing public sector data matures. However given the importance of good information to driving local accountability, ensuring that potential failure is identified and mitigated, as well as accounting to Parliament, this is an area that the Government will need to keep under review. Where reforms are being made Accounting Officers will also want to consider as part of the policy design what evaluations will be necessary to test whether the new systems are operating as expected.

### **Conclusion - accountability system statements**

49. Decentralisation challenges Accounting Officers to find new ways of demonstrating that public money is being used properly. These will

reflect the significant differences between the organisation, culture, aims and client base of different public services, and the approach the department takes to those issues it has chosen to maintain a 'tight' grip on, such as procurement, in order to drive efficiency.

50. Achieving what is required will rely on:
- greater clarity about accountability at each level of the process; and
  - proactive explanation of the systems in place and why they will be reliable
51. We therefore propose that Accounting Officers should draw up, and publish, concise, 'Accountability System Statements' setting out the system to be used for each major decentralised funding stream through which they will provide the necessary assurances to Parliament. These statements would provide both a means through which departments can think through the systems they are proposing to put in place and help inform scrutiny of the systems and their performance.
52. Given the differences between different systems they will be describing it is not sensible to prescribe a set format for these statements. However, they should cover a similar set of issues. They are:
- the scope of the statement including:
    - the system it covers and how it is organised; and
    - the responsibilities of the various constituent parts of the system, and who they are accountable to (this should include a diagram of how the system fits together and how money and accountability flows through it)
  - how the system operates (drawing on the framework set out in paragraphs 21 to 42):
    - the process for distributing funding and how distribution decisions are made
    - the framework providing assurance on the regularity and propriety of local spending
    - the framework for ensuring that value for money is secured; and
    - the arrangements for dealing with underperformance and failure
  - how the Accounting Officer will assure himself that the system is working
  - work in hand to strengthen the existing system
53. The attached note (annex B) sets these out in more detail. Also attached are two draft system statements covering local government and the police, which exemplify the approach in practice.

54. Drawing up these statements should not be merely a bureaucratic exercise, especially where they are covering areas undergoing significant reforms. It is likely in some areas that the process of having to explain how the system works will expose areas where further strengthening of local accountability mechanisms will be necessary.

### **Implementation and next steps**

55. The most appropriate forum for routinely publishing accountability system statements will be as part of departmental governance statements within department's annual reports. Where major changes are being proposed Parliament is likely to want an explanation of how the accountability systems will work and a draft system statement may fulfil that role.
56. Once agreement is reached on this general approach, HM Treasury will need to revise annex 3.1 of *Managing Public Money*. This new annex was published in draft earlier this year, to take effect from the accounts for 2011-12, to be published in mid 2012.

# Annex A – Summary and conclusions of *Accountability for Public Money*

## Summary

This report addresses an issue at the core of the relationship between Parliament and government - accountability for public spending. We recognise that this is just one dimension of the accountability framework that underpins our constitution: Ministers have a separate accountability to Parliament and the public for their policy choices and outcomes achieved; and local authorities are answerable directly to their own electorate. We also recognise the inherent tensions between these different dimensions of accountability and that as government has evolved demarcation between them has become less clear. Our concern is to ensure that regardless of what public money is spent on, or which bodies are spending it, it is spent properly with due regard to value for money, hence our focus on financial accountability.

Our hearing addressed policy issues surrounding parliamentary accountability because the Committee of Public Accounts and the Comptroller and Auditor General have particular statutory charges in this regard. While the Public Accounts Committee is most engaged with the effectiveness of accountability for public spending, the issues are of significant interest to other select committees and to Parliament as a whole.

We were interested in the implications for accountability of two recent developments: the governance reforms which include ministers chairing departmental boards and greater non-executive involvement in those boards; and the reform and localism proposals which envisage a significant devolution of responsibility for service delivery to a wide range of new bodies, in some cases independent of both central and local government. We took evidence from the Minister for the Cabinet Office, the Cabinet Secretary, the Permanent Secretary to the Treasury and the Government's lead non-executive. Our concern was to understand rather than challenge the underlying policy intentions. The testimony we heard on the governance reforms raised a number of practical points on which we have written to the Treasury in response to their consultation on the draft Corporate Governance Code (copy attached as the annex to this report). The testimony we heard on the reform and localism proposals raised more fundamental points about the current model of accountability, which we explore in this report.

We wanted to understand whether the Government intended that its departmental boards or reform proposals should alter the accountability structure of which this Committee is part. Our concern was that Parliament gives government the authority to raise revenue, and that it approves public spending and in turn holds government to account for the use of public funds and for what is achieved. In practice government has long chosen to discharge this accountability through the senior civil servant in each department, the Accounting Officer. Government vests in each Accounting Officer a direct and personal accountability to Parliament for his or her

department's stewardship of public funds. While significant sums are spent locally, local taxes account for just 5 per cent of revenue raised and so the overwhelming majority of public spending in the UK is routed through departments and is the responsibility of the departmental Accounting Officer. Parliament vests responsibility in this Committee to hold Accounting Officers accountable on its behalf.

The Accounting Officer model has a number of strengths: it promotes high standards of propriety in public spending and an understanding within departments of the importance of securing value for money. The Accounting Officer model has also stood the test of time, adapting to new and diverse methods of delivering services to the public.

The environment within which Accounting Officers operate has evolved since they were first appointed in the 1870s. The clear demarcation between ministerial responsibility for policy and Accounting Officer responsibility for implementation has blurred as ministers in successive administrations have taken a closer interest in how their policies are delivered, and the present public service reforms will inevitably impact on senior relationships within departments. These developments, taken to their logical conclusion, might have been thought to argue for a shift from the current individual accountability model to a collective model in which departmental boards would be held accountable. We were told very clearly, however, that the Government intends to continue with the current model, and our Report therefore starts from this premise.

The Government has recognised the need to reconcile the policy objective of its reform and localism agenda with the demands of accountability to Parliament through the Accounting Officer model, and has asked Sir Bob Kerslake to review how this might be achieved. We welcome this review and the commitment to consult this Committee, and have taken the opportunity in this report to set out our view of the fundamental elements that need to be in place to ensure the accountability process is effective. These are set out [below], and provide the context for our consideration of the current reform proposals.

### ***Fundamentals of accountability***

**The Accounting Officer is personally and ultimately responsible to Parliament for the spending of taxpayers' money and must be unfettered in the discharge of these responsibilities.** The Accounting Officer must therefore be given, and be willing to exercise, the authority to ensure that all funds allocated to the department are spent properly and with due regard for value for money.

**Where a department provides funding to other bodies, the Accounting Officer is responsible for ensuring that there is an appropriate framework in place to provide him/her with the necessary assurances and controls.** These assurances should cover: whether the funding has been spent with propriety and on the purposes intended by Parliament; whether

value for money has been achieved; whether the bodies concerned are financially resilient; and how to respond to any failure to ensure taxpayers' money is protected and the public interest is served.

**Responsibilities and authority for policy and operational decisions are clear throughout the delivery chain.** Where arm's length bodies are responsible for delivery, the departmental Accounting Officers designate the relevant Chief Executive as Accounting Officer, and for major projects and programmes should nominate a Senior Responsible Owner. It is important to ensure that those to whom responsibility for service delivery is devolved understand what they are expected to deliver, at what cost, with what local discretion, how they will be held accountable and what action will be taken should performance fall short. Designated Accounting Officers and Senior Responsible Owners should support but not replace departmental Accounting Officers in discharging their accountability to Parliament.

**There is a clear process for measuring outcomes, evaluating performance and demonstrating value for money, which allows organisations to be held to public account and which enables proper comparisons to be made across organisations delivering the same or similar services.** This should cover the information needed for both local accountability and the assurance required by Accounting Officers to fulfil their central accountabilities. We welcome the Government's commitment to transparency, but the information must be relevant and robust if its publication is to enhance accountability. Information should include comparative information to highlight and understand variations in performance. Where value for money is not clearly demonstrated by arm's length bodies, this Committee reserves the right to hold departmental Accounting Officers to account for systemic performance issues and for the effective operation of governance in individual bodies; and individual public bodies to account for their use of taxpayers' money.

**All bodies which receive public funds are well governed and have robust financial management arrangements in place.** Departments are responsible for ensuring that the bodies through which they choose to deliver public services spend public money properly and with regard to value for money and are subject to adequate audit.

### ***Conclusions and recommendations***

- 1. We welcome the Government's acceptance of the need to reconcile the policy intention of its reform and localism agenda with the legitimate demands of parliamentary accountability.** We urge the Government to consider the fundamentals of effective accountability set out in this report and consult fully with Parliament on how accountability will be delivered within the context of its reform agenda.
- 2. Local accountability and reformed structures do not absolve departmental Accounting Officers of their personal responsibility to gain assurance on the way funds voted to their departments are spent.** The

Cabinet Office and the Treasury distinguished between Accounting Officers' accountability for system-wide issues and accountability to the local community or service user for the performance of local bodies. Our interest is in the financial management and value for money secured from all departmental spending and we expect Accounting Officers to put in place arrangements to provide us with the assurances we need. Parliament needs to be able to assure the public that value for money is obtained and Government must put in place arrangements to enable Parliament to do its job.

**3. The accountability arrangements supporting the localism agenda are unclear.** The National Audit Office estimates that 37 per cent of central government tax receipts are devolved to local bodies. We support the aim of enhancing local accountability and user accountability, but thinking on how local communities and users hold bodies accountable in practice is rudimentary. The Government's review of accountability needs to consider the extent to which local accountability will act as an effective pressure to secure service improvements without due regard to value for money, particularly where there is no local financial incentive to keep costs down.

**4. The reform agenda anticipates a plethora of delivery and accountability models, some of which are untested.** Responsibility for delivering public services will be devolved to established entities such as local authorities with a strong record of managing public funds but also to new and untested bodies, for example GP consortia or free schools. The Government's accountability review should map out the landscape of the different delivery models and proposed accountability arrangements for each form of reform and ensure they comply with the fundamentals we have outlined.

**5. Accountability regimes must be underpinned by sound information systems, yet our experience suggests this is an area of systemic weakness.** Whether to aid the 'armchair auditor' and the users of local services, or to provide the assurance that Accounting Officers need to fulfil their responsibilities to Parliament, information about local delivery needs to be comparable and robust. The Government acknowledged that where resources are devolved to local providers, performance is likely to vary. Currently, users of local services have little or no access to information on the cost, quality or value for money of the services and this limits their ability to make informed judgements between alternative providers. Even if they did have access to the necessary information, service quality would be likely to prove the overriding priority for service users; cost and value for money would be secondary considerations in selecting the appropriate service. Government should specify what performance, financial and outcome information is needed to enable effective transfer of responsibility to local service providers.

**6. Accountability for the delivery of major projects and programmes must be clear so those responsible for delivery can be held to account.** There are weaknesses in personal responsibility and accountability for major projects due to the high turnover and lack of central oversight of Senior Responsible Owners. Government acknowledges that there is a shortage in

project management expertise. This dilutes control over major projects, has led to cost overruns and delays and further weakens accountability to Parliament. The Cabinet Office is updating its current approach to enhancing project management expertise. At a project level, Senior Responsible Owners should be held accountable for delivering projects within an agreed budget and timeframe and should have authority to direct those involved in delivering the project. For all major projects and programmes, the Accounting Officer should nominate a Senior Responsible Owner who is accountable to Parliament alongside the departmental Accounting Officer. Steps should be taken to reduce the present turnover of staff, which undermines efficiency and effectiveness and makes a nonsense of personal responsibility and accountability.

## Annex B: Accountability system statements - issues to cover

The questions below are intended to provide a guide to the issues that a system statement should cover and the type of questions that might be asked of it when it is being scrutinised. They are not intended to provide a rigid structure to be followed. Individual statements will need to place different levels of emphasis on different questions reflecting the nature of the specific system, and some systems may raise particular issues that are not covered here.

### **Principal question (i.e. overall aim of the statement to answer)**

- How does the system allow the Accounting Officer to fulfil his or her responsibilities as set out in *Managing Public Money* - including being able to provide assurances to Parliament that the system ensures funds are used with regularity and propriety and secures value for money - whilst strengthening local accountability?

### **Questions to cover in the statement**

These are the issues that the statement should cover - departments may wish to flex the order or language in order to fit the particular system, and there may be issues specific to the system not listed here that they will also wish to cover.

To assist people in navigating the system it is helpful to include a diagram (similar to the examples attached) that summarises the relationships between different bodies and the flows of funding and accountability.

- **Scope of the system - what is covered by the statement:**
  - What is the departmental Accounting Officer responsible for - particularly important where more than one body is contributing funding?
  - **Outcomes** - what is Government seeking to achieve through the system/with the money voted by Parliament?
- **What are the responsibilities within the delivery chain:**
  - What are individual organisations within the delivery chain responsible for, and to whom?
  - Who is accountable for their budgets? Who is the responsible person(s) that money is devolved to within an organisation and will be held to account for its use?
- **Distribution** – how does the system for distributing central government funding secure propriety, regularity and value for money?

- What is the system for distributing the money?
- What information are decisions on distribution based on?
- **Framework at the local level to secure propriety and regularity** - What is the framework for securing proper use of money at the local level?  
Could include:
  - **Rules** - what is the statutory or regulatory framework? (e.g. statutory duties, processes prescribed in statute or regulation, ring-fences on the use of money etc.)
  - **External scrutiny** - what external/independent scrutiny are local bodies subject to? (e.g. external audit, independent regulators, Government inspection)
  - **Democratic pressure** - accountability of decision makers to voters, scrutiny by elected councillors etc.
  - **Transparency** - publication of budgets/spend data etc. feeds arm chair auditors.
- **Framework for securing value for money e.g:**
  - **Rules** - what is the statutory or regulatory framework? (e.g. statutory duties, centrally imposed targets or outcomes, requirements to set local targets.)
  - **External Scrutiny** - what external/independent scrutiny are local bodies subject to? (e.g. external audit, independent regulators, Government inspection)
  - **Democratic pressure** - accountability of decision makers to voters, scrutiny by elected representatives etc.
  - Restrictions on budgets
  - Choice and competition
  - **Transparency** - publication of budgets/spend data performance against objectives etc. feeds arm chair auditors and pressure groups.
- **How does the accounting officer know the system is working?** - How will the Accounting Officer be able to demonstrate to Parliament that his system is robust in practice (for instance that is delivering value for money nationally)? Could include:
  - **External Scrutiny** - e.g. external audit, independent regulators, Government inspection
  - **Data Monitoring** - collection and aggregation of local data to monitor performance
  - Trust in the framework
- **What is the process for dealing with failure or underperformance - both localised and systematic?**
  - How will localised and systematic failure or underperformance be defined?

- How will it be identified?
  - Who will be responsible for managing it and what is the process?
  - What will the aim of any intervention be? (e.g. we will intervene in a market to protect the interests of service users not to save a particular provider)
- **Work to strengthen the system** – are there reforms in hand that will strengthen the system, and what effect will they have?

## Annex C - DCLG Accounting Officer System Statement for Local Government

*This document provides an example of what a completed system statement could look like. It covers the DCLG Accounting Officer's accountability in relation to local government. This is the core accountability system for local government. As local authorities run a much wider variety of local services than other public bodies, it is envisaged in future this statement would be supplemented by statements covering individual services, which would be produced by the government department overseeing the relevant service.*

1. As Accounting Officer for the Department for Communities and Local Government (DCLG), I am accountable to Parliament for the proper stewardship of the resources allocated to my Department. The key requirements, as set out in the HM Treasury Guidance *Managing Public Money*, are to ensure regularity, propriety and value for money. This statement defines my responsibilities in relation to local government.
2. The vast majority of DCLG funding is distributed directly to local authorities, principally through formula grant, which DCLG manages on behalf of Government. Formula grant represents the second largest central grant to local authorities, and supports delivery of their core services<sup>8</sup>. As custodian of these resources, I am therefore the lead Accounting Officer across central government with respect to local government.
3. Local authorities' budgets comprise money from a number of sources, including funding from other government departments and locally raised sources (principally council tax), and these resources are pooled at local level. I must therefore provide assurance that a core framework is in place which requires that local authorities act with regularity, propriety and value for money in the use of all of their resources.
4. This is my statement of how this system operates. It covers:
  - the scope of my accountability in relation to local government
  - how the core accountability system for local government works
  - how the system responds to failure
5. The system statement is a living document. It will need to be updated as Government policy changes. For example, Government has recently

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<sup>8</sup> The Dedicated Schools Grant, distributed by the Department for Education, is the largest central grant to local authorities. Value for money in regard to this grant is mostly outside the scope of this statement, since the funding is transferred directly to schools with less control for local authorities in determining locally what services are commissioned

consulted on the future of local audit and a consultation is currently underway on the retention of business rates by local authorities (which will affect the amount of central grant to local authorities).

6. The core system for local government exists alongside additional accountability arrangements for some of the services provided by local government, such as children's services and adult social care. These systems are owned by other government departments, and their relevant Accounting Officers, and are set out by them in their own accountability statements. The main additional systems are set out at Annex A.

### **Scope of my accountability in relation to local government**

7. I am accountable for two budgets which provide some funding for local government. Most importantly, the Local Government Departmental Expenditure Limit is the budget for local authority core funding, which I manage on behalf of Government. This amounts to £26bn in 2011-12, of which £25bn is paid to local government to support the delivery of their core services. The budget for DCLG policy areas, the DCLG Departmental Expenditure Limit, has also allocated £2bn to local government in 2011-12 to support the delivery of DCLG policy areas such as housing and planning.
8. I am **directly** accountable for ensuring regularity, propriety and value for money in the distribution of resources from these budgets between local authorities. Other Departmental Accounting Officers are accountable for distribution of additional grants from their budgets to local government to support delivery of other policy areas, such as children's services, adult social care and so on.
9. I am accountable for a core **system** which provides the necessary assurances that local authorities will spend these resources with regularity, propriety and value for money. In practice, this is the framework within which local authorities spend all of their resources, including other locally and centrally raised resources. It can be relied upon by all other Departmental Accounting Officers who provide funding for local authorities. I am accountable for changing the system and, should it fail to provide me with the necessary assurances, I will make the appropriate recommendations to ministers.
10. Councils are accountable to their electorates for the spending decisions that they make. Where other government departments have placed additional accountability arrangements on local government services, they are accountable for the functioning of these systems.

### **How the core accountability system for local government works**

11. As local authorities are creatures of statute, this system is largely set out through a framework of legal duties, of which councils are subject to

more than 1200<sup>9</sup>. The duties set out what councils must do, and set checks and balance on their actions, including the role of officers and, most importantly, accountability to the public.

### ***The allocation and distribution of resources to local government***

12. I am accountable for the distribution of Formula Grant, which distributes resources from Local Government Departmental Expenditure Limit to local authorities - £25bn in 2011-12. The objectives of Formula Grant are: to provide funding based on the relative needs and relative resources of each local authority; to provide stability and predictability; and, (for the 2011-12 settlement period) to ensure that those local authorities that are most dependent on government funding get smaller reductions of formula grant funding.
13. Formula Grant is distributed by a complex formula, which aims to achieve a fair and sustainable distribution of resources between authorities. The formula takes into account the needs and resources of each authority relative to all other authorities providing the same service. It is also 'damped' to put a limit on how authorities' grant can change year-on-year. Stability in an authority's funding is provided by the grant 'floor' - that is, a lower limit to the percentage year on year grant change for any authority. When calculating formula grant allocations, DCLG uses the best data that is available on a consistent basis for all authorities at the time of calculating the multi-year settlement.
14. As set out in the Local Government Finance Act 1988, local government must be consulted on this distribution before it is finalised and Parliament must sign off the distribution through the Local Government Finance Report each January/February. The formula and results are published on the internet<sup>10</sup>.
15. With regard to the DCLG Departmental Expenditure Limit, grants to authorities are distributed either via various formulae or through a bidding process, depending on what distribution process is appropriate for the purpose of the grant.
16. The vast majority of funding to local authorities from Local Government and DCLG Departmental Expenditure Limits, including all current revenue funding, is distributed by unringfenced grant<sup>11</sup>, which means that the grant itself imposes no conditions on what the money is spent on or how it is spent. It is the Government's policy that all grants to local

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<sup>9</sup> A list of these duties is available here.

<http://www.communities.gov.uk/localgovernment/decentralisation/tacklingburdens/reviewstatutoryduties/>

<sup>10</sup> *Local Government Finance Settlement 2011/12*, DCLG

<http://www.local.communities.gov.uk/finance/1112/grant.htm>

<sup>11</sup> Housing Revenue Account Subsidy is distributed by DCLG as ringfenced funding. However, it is not a grant and is being abolished by the Localism Bill. We will continue to provide Decent Homes funding in future, and for the duration of the Spending Review this will be given as ringfenced grant. There are some other small capital grants which are ringfenced.

government should be un-ringfenced, as this gives local authorities freedom and flexibility in allocating the money across the range of services they are required to provide to meet local needs.

17. The vast majority of central funding for local government is unringfenced. The two major exceptions are schools funding and a new Public Health grant in 2013-14 where there are conditions on what the money is spent on, and how it is spent. It is therefore for the Department for Education and the Department for Health to take additional measures, beyond those set out in this paper, to ensure that those grants are spent according to the conditions.

### ***Ensuring regularity and propriety at the local level***

18. There are legal and formal controls in place to ensure that it is clear who is accountable for the money at the local level. Ultimate accountability lies with the full council (the elected members of the council collectively), with specific duties delegated to the council executive. The relevant legislation is the Local Government Act 2000, which currently requires all councils except some small district councils to adopt governance arrangements based on an executive, which should be either a Mayor and Cabinet or Leader and Cabinet. According to the guidance on the Act, *“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”*.
19. A system of legal duties requires councillors to spend money with regularity and propriety. Under section 151 of the 1972 Local Government Act, *“every local authority<sup>12</sup> shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers [known as 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, as he/she has duties and powers to alert councillors and the auditor in the case of unlawful expenditure. Legislation therefore sets the standards councils must meet and provides an internal check that they have been met.
20. Some of the main legal duties are as follows<sup>13</sup>. 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 1992 and, for the Greater London Authority, Part 3 of the Greater London Authority Act 1999). Under section 25 of

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<sup>12</sup> In England, this means county councils, district councils, London borough councils and parish councils; similar provisions in the Greater London Authority Act 1999 apply for the GLA and in the Local Government and Housing Act 1989 for the Common Council and certain other authorities.

<sup>13</sup> Controls for parish councils are different in certain respects from those described here which apply to principal councils.

the Local Government Act 2003, 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.

21. Authorities must restrict borrowing to what is affordable (sections 2 and 3 of the Local Government Act 2003). They must comply with the Chartered Institute of Public Finance and Accountancy Treasury Management Code of Practice (Local Government Act 2003 section 15) which requires authorities to produce an Annual Investment Strategy to outline policies on monitoring and managing investment risk, agreed by full council. Accounts and Audit (England) Regulations 2011 require that Members maintain a sound system of internal control including arrangements for the management of risk, and an effective internal audit.
22. There are mechanisms in place for where routine processes fail. The Local Government Finance Act 1988 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 entering into new agreements involving the incurring of expenditure. Councillors therefore cannot avoid being aware of illegal activity, for which the auditor can pursue them in the courts (sections 17 and 24 of the Audit Commission Act 1989). This is a strong incentive to avoid illegal actions.
23. The system includes external checks. Local authorities are required to have an annual external audit under section 2 of the Audit Commission Act 1998. The auditor is required to give an opinion on the accuracy of the financial statements of the audited body and to satisfy themselves that arrangements are in place in the authority to achieve effectiveness, efficiency and economy, and that all statutory provisions relating to the accounts have been complied with (section 5).
24. The auditor has powers to ensure they have the information they need. The auditor "*has a right of access at all reasonable times to every document relating to a body subject to audit which appears to him necessary for the purposes of his functions*" (section 6). Audited bodies are required to co-operate with their appointed auditor. When deemed necessary, an auditor may make a "*report in the public interest*" under section 8 of the Act. The section 8 report must be considered by the full council within 14 days (section 10).
25. Under section 24 of the Act, an auditor may make an application for judicial review with respect to any decision of a body, or failure of a body to act, which it is reasonable to believe would have an effect on the accounts of that body. This system provides a robust independent check on regularity and propriety and, through the checks on arrangements to secure efficiency, provides some assurance on value for money.

26. In future, the Government plans to replace the current centralised audit system with a local audit by an accredited provider. Robust audit will remain in place. In developing new arrangements, the Government will have regard for the principles of public audit, including that there should be a *“wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money”*<sup>14</sup>.

### ***Achieving value for money at the local level***

27. The key value for money check on councils is that within a limited financial envelope, they are under legal duties to carry out a wide range of functions. As councillors are democratically elected as representatives of the people (Local Government Act 1972), they are well placed to decide on what local communities need and can be voted out if they do not deliver what the public wants. Democratic accountability provides a strong assurance that councillors, knowing what their communities need, will strive to deliver as much as they can within their financial envelope. Councils are under a duty to achieve continuous improvement in how they deliver their functions. Their performance can be scrutinised by the public and by councillors. This is made possible by the availability of transparent data.
28. Local authority functions include the provision of a broad range of services - the main areas of local government (Formula Grant) spend - adult social care, children's services and specific duties, for example, to house unintentionally homeless people (Housing Act 1996, Homelessness Act 2002). In two tier areas, functions are split between county and district councils.
29. Within the framework of these statutory duties, councillors are free to set their own priorities and determine outcomes. They make complex decisions about how to allocate resources to competing priorities, such as providing care services, improving roads or keeping council tax low.
30. There is no requirement on councils to have a single framework setting out value for money targets or indicators. However, as effective organisations, councils will need goals and the majority set out their own strategic framework. Councillors then hold officers to account for delivery. Many councils use sophisticated data systems to monitor their performance against this.
31. The incentive to manage their affairs effectively is reinforced by the Best Value duty on local authorities. Under the Local Government Act 1999, a council must *“make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a*

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<sup>14</sup> The consultation closed on 30 June 2011.

<http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult>

*combination of economy, efficiency and effectiveness*". They must consult local persons on how they should fulfil this duty.

32. Being responsible for the *"proper administration of [a council's] financial affairs"*, the section 151 officer has a role in helping councils to fulfill their financial duties, which includes achieving best value. The Chartered Institute of Public Finance and Accountancy guidance, *The Role of the Chief Financial Officer in Local Government*<sup>15</sup>, makes it clear that achieving best value is expected of section 151 officers as part of their professional standards, stating that the section 151 officer *"must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively."* There is therefore a clear role for officers in supporting achievement of value for money.
33. Ultimately, the requirement to undergo re-election creates a strong incentive for the council executive to set, explain and deliver on their priorities. The council Mayor or Leader is likely to communicate to the electorate how they have achieved the priorities that they set out in their electoral manifestos.
34. Like other organisations, councils can benefit from support on how to improve their performance. The Department provides funding to the Local Government Group for the delivery of improvement services to all local authorities by top-slicing Revenue Support Grant. The Local Government Finance Settlement for 2011-12 and draft settlement for 2012-13 set out that, in these years respectively, £32.5m and £29.25m will be paid to Local Government Improvement and Development (part of the Local Government Group) through top-slice. The Local Government Group has published a Prospectus setting out the improvement services to be provided with this resource and the outcomes to be delivered. The Local Government Group will meet with the remaining regulators and Government to receive information about the performance of the sector, which will help them offer the right support at an early stage.
35. In addition to the wider democratic checks, councils are subject to scrutiny which may cover value for money more directly. Councils can be questioned by individual members of the public who have an interest in council business. More formally, all councils currently have at least one Overview and Scrutiny Committee (introduced in the Local Government Act 2000) made up of backbench councillors. They have powers to 'call-in' a particular council decision shortly after it has been made. They can refer an executive decision back to the executive for further consideration. If they believe the decision was taken outside the policy or budget framework, they can refer it to the full council.

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<sup>15</sup> Available here [http://www.cipfa.org.uk/pt/download/role\\_of\\_CFO\\_in\\_LG\\_2010\\_WR.pdf](http://www.cipfa.org.uk/pt/download/role_of_CFO_in_LG_2010_WR.pdf)

36. Audit provides an additional check on value for money, as auditors are required to satisfy themselves that arrangements are in place in the authority to achieve effectiveness, efficiency and economy (section 5, Audit Commission Act 1998). As mentioned above, in developing future audit arrangements, DCLG will have regard for the principles of public audit, including that there should be a *“wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money”*.
37. Effective scrutiny requires information on spending and the outcomes achieved with spending. All councils produce public accounts, have open meetings and are required to consult with the public, and all are subject to the Freedom of Information Act.
- **Spending:** Councils are required to publish their financial statements (Accounts and Audit (England) Regulations 2011). Government has recommended that all councils publish details online of all their expenditure over £500. All councils except one have now done this.
  - **Comparable information on performance:** the Government still collects a wide range of data relating to local government, which can enable performance to be compared. The available data is set out in the Single Data List, published on the DCLG website. Also, data.gov.uk provides a consolidated, searchable index of datasets released by public bodies, covering a wide range of policies and services. The index includes an increasing number of datasets held by local authorities and their partner organisations. The Local Government Group are leading the development of performance and benchmarking tools for use by the sector.
38. In summary, in the core system for which I am accountable, there are clear roles for the public, the council executive, back bench councillors, the sector and auditors in ensuring that value for money is achieved. For many services, this provides sufficient assurance.
39. For a range of services, there are additional accountability arrangements in place to secure delivery and ensure value for money. 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. In other areas, councils have statutory duties to set out a strategic plan, for example a Transport Strategy (Transport Act 2000). The nature of the additional checks is proportionate to the nature of the service, and all government departments are currently considering how their approach can be made more localist. For example, a number of departments have developed payment-by results schemes for services to be delivered by council or other service providers – including the voluntary and community sector - and will have built in value for money measures into these contracts. The additional arrangements [will be] set

out in full in system statements by the relevant department. These are summarised at Annex A.

### **How the system responds to failure**

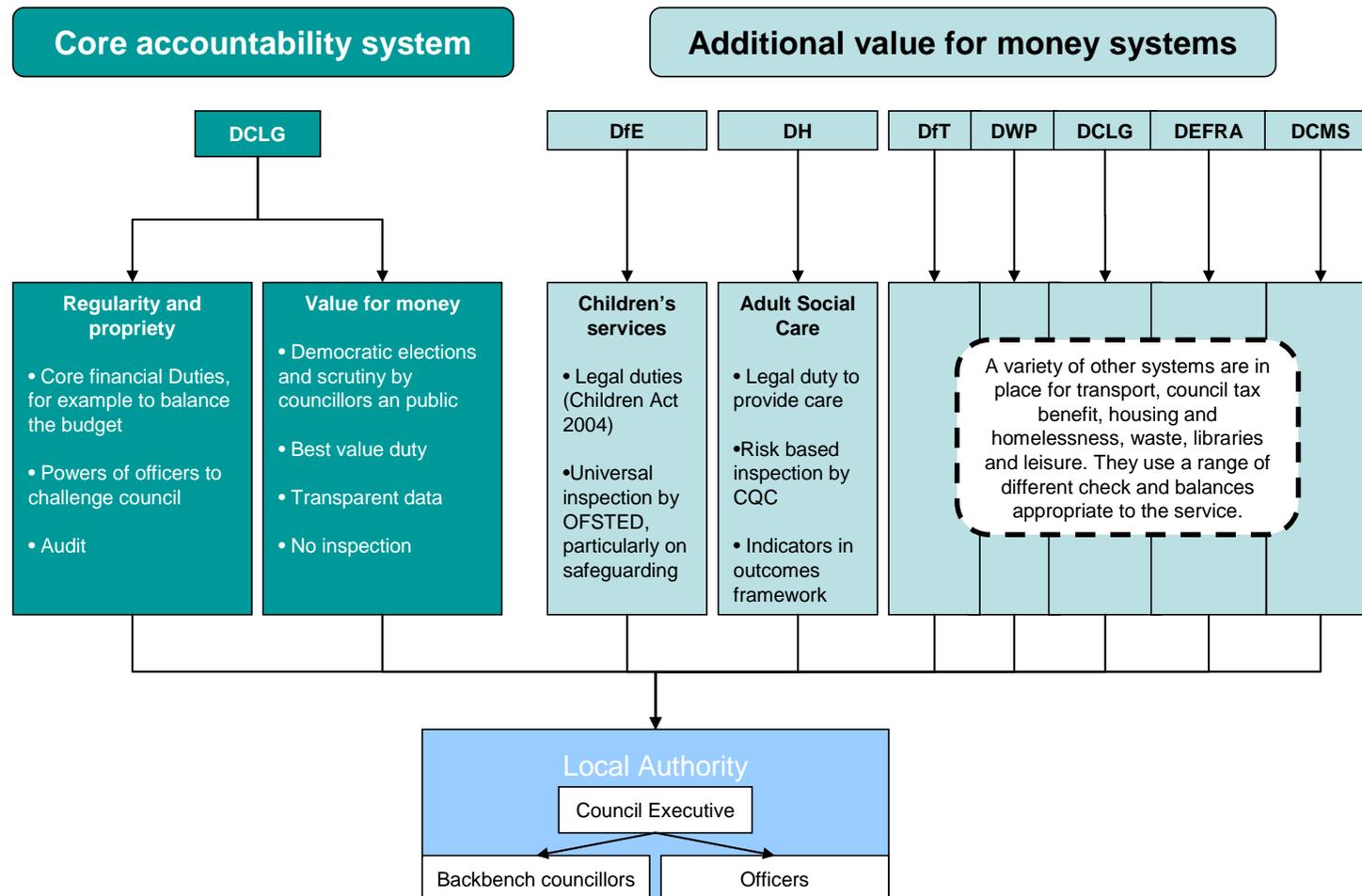
40. There are checks in place for when councils fail to fulfil their functions. Where service failure occurs in an individual case, the Local Government Ombudsman (established under the Local Government Act 1974) can investigate. All council services can be investigated including housing, planning, education, social care, council tax, housing benefit and highways.
41. With regard to systematic failure in local government, the most serious cases involve children services and adult social care, where the safeguarding of vulnerable people may be at stake. Arrangements for tackling these cases are covered under additional accountability statements. They involve programmes of inspection to identify failure and powers to intervene by Government.
42. As part of the core system, there is a process in place for rare cases where a council experiences serious corporate failure. These are cases where relationships between councillors and officers have irretrievably broken down and there is failure across a number of services. To identify these cases, Government can draw on range of information flows to gain advance notice of these cases. In addition to audit reports and transparent data mentioned above, there are:
  - reports from service inspectorates, such as OFSTED for children's services and the Care Quality Commission for adult social care
  - sector-led improvement processes, led by the Local Government Group, who have a network of Regional Associates who are in regular touch with councils; and
  - DCLG is developing locality partnership arrangements, whereby senior civil servants have responsibility for developing local links in set areas of the country
43. Information sharing arrangements are being put in place by the Local Government Group with government departments and inspectorates to ensure that they can inform preventative support offered by the sector.
44. Should one of these sources of information flag up a serious concern about a council, the Secretary of State has a power under section 10 of the Local Government Act 1999 to ask the Audit Commission to carry out a corporate governance inspection, which would uncover evidence about whether further action was required. Under section 15 of the same act, he has powers to intervene. He can direct authorities to take actions, and ultimately direct another body to take over specific functions of a council. Based on available information, it is the Secretary of State who takes the final decision about whether intervention is necessary.

45. DCLG has a model for handling intervention based on recent experience of intervention at Doncaster, based working closely with the local government sector. This can be used for future interventions, although it will be adapted to allow for the disbanding of the Audit Commission.
46. The process in Doncaster was as follows. After a Corporate Governance Inspection report by the Audit Commission and discussion with key stakeholders in Doncaster and the local government sector, the Secretary of State issued an intervention direction. This direction appointed a non-executive Recovery Board and three Commissioners to support and challenge the council and monitor recovery. The Secretary of State also appointed a new Chief Executive. These actions placed experienced leadership at the helm in Doncaster to closely monitor events and seek to bring about cultural change.

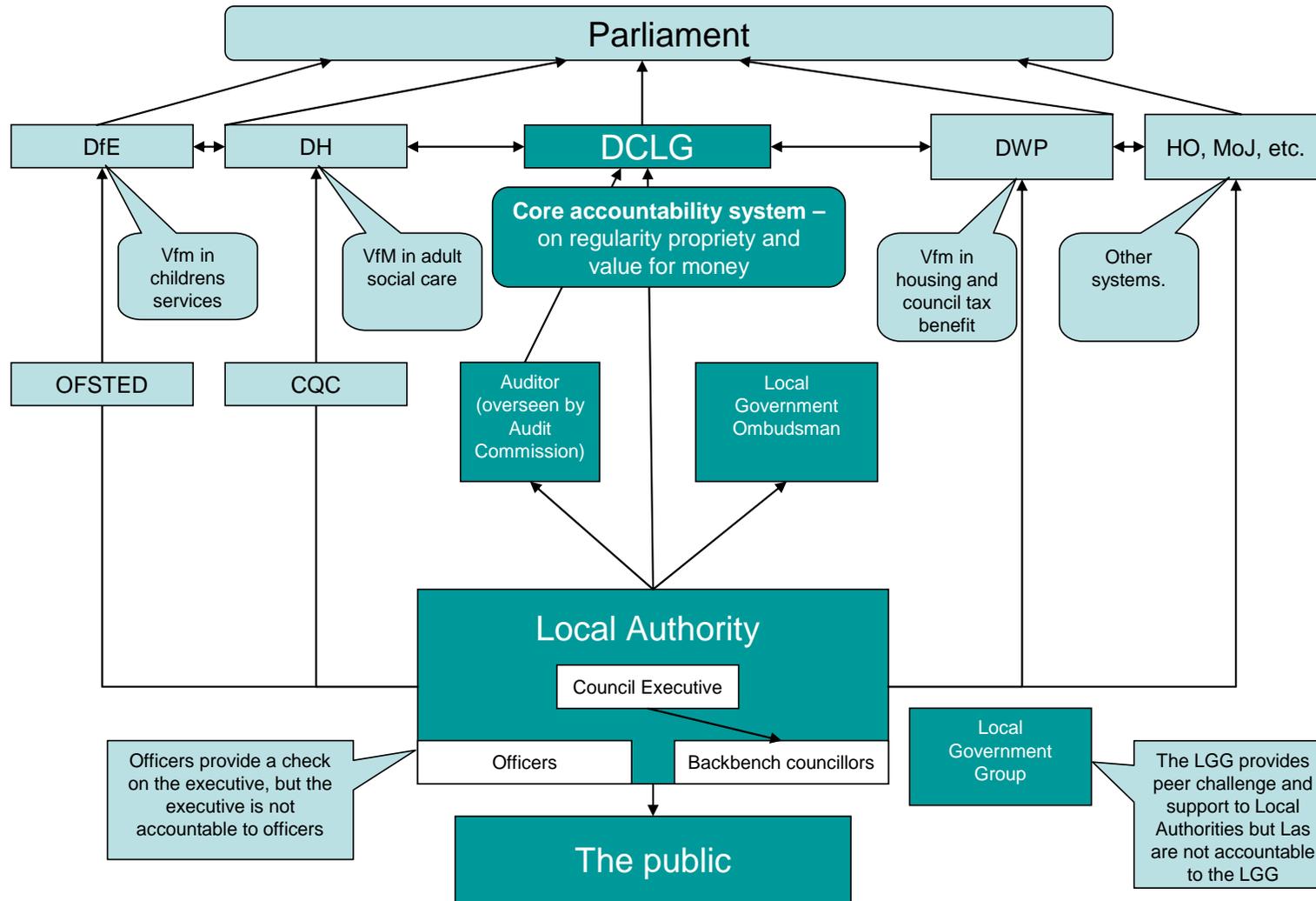
## **Conclusion**

47. There is a robust core framework in place which I can rely on as Accounting Officer for DCLG to provide assurance that councils will spend their money with regularity, propriety and value for money. The key elements are legal controls and democratic accountability to local people. The system provides assurance that the Government's decentralising agenda can be achieved in relation to local government without compromising the proper spending of public money.

Annex A: Example diagram showing the relation between core accountability framework for local government, and the principle service specific frameworks



Annex A: Example diagram showing the relation between organisations within the core accountability framework for local government, and other bodies



## Annex D: Home Office Accounting Officer System Statement for Police and Crime Reduction

*This document provides an example of what a completed system statement could look like. It covers the Home Office Accounting Officer's accountability in relation to police and crime reduction for the current system (i.e. prior to the introduction of the Police Reform and Social Responsibility Act).*

1. As Accounting Officer for the Home Office, I am accountable to Parliament for the proper stewardship of the resources allocated to my Department. The key requirements, as set out in the HM Treasury Guidance *Managing Public Money*, are to ensure regularity, propriety and value for money. This statement defines my responsibilities in relation to policing and crime reduction.
2. The vast majority of Home Office funding is distributed directly to Police Authorities, principally through the Police Main Grant. I must therefore ensure a framework is in place to provide assurance that this money is being properly managed by police authorities; that system also encompasses any other expenditure by police authorities, including any other grants from Government departments as well as taxation raised locally and other sources of income. This framework must ensure that Police Authorities act with regularity, propriety and value for money in the use of all of those resources.
3. This is my statement of how this system operates. It covers:
  - the scope of my accountability in relation to policing and crime reduction
  - how the accountability system for policing and crime reduction works
  - current work to strengthen the system
4. The system statement is a living document. It will need to be updated as Government policy changes.

### **Scope of my accountability in relation to policing and crime reduction**

5. I am accountable for a system to allocate the Annual Police Core Settlement as set out in Police Grant Reports that are approved by a vote in the House of Commons. National allocations of Home Office 'specific' grants to the police (including counter terrorism and Arms Length Bodies funding) are also provided by Parliament, within the ambit of funds voted to my Department and others.
6. I am **directly** accountable for ensuring regularity, propriety and value for money in the distribution of resources from these budgets to police authorities. Other Departmental Accounting Officers are accountable for distribution of any additional grants from their budgets to policing, to support delivery in other policy areas.

7. I am accountable for a **system** which provides the necessary assurances that police authorities will spend these resources with regularity, propriety and value for money. Regularity, propriety and value for money are defined in *Managing Public Money*. Regulations and efficient and effective regulatory oversight are designed to give me adequate assurance for each of those dimensions of my accountability. Other Accounting Officers can rely upon those systems in relation to police authority expenditure of funds allocated through their own processes.

## **How the accountability system for policing and crime reduction works**

### ***The allocation and distribution of resources to police authorities***

8. I am accountable for the distribution of the Police Main Grant, which distributes resources from within Home Office Departmental Expenditure Limit to police authorities. Police Main Grant is distributed by a complex formula which takes into account relative needs in each police authority area.
9. Police authorities receive further funding through grants from:
  - spending on special grants from my Department, including in relation to security and counter-terrorism
  - grants from arms length bodies
  - grants from other Government departments, particularly the Department for Communities and Local Government and the National Assembly for Wales
  - the police precept component of council tax; and
  - any income generated locally, such as through provision of charged-for services or from the sale of assets
10. Alongside police authorities, arms length bodies such as the National Policing Improvement Agency and Serious Organised Crime Agency also receive funding for policing and crime reduction through the conventional system for ensuring propriety, regularity and value for money in central Government.
11. Police authorities receive ring-fenced and non-ring-fenced grants. Non-ring-fenced grants mean that the grant itself imposes no conditions on what the money is spent on or how it is spent, save that section 46 of the Police Act 1996 requires the grants to be made 'for police purposes'. This gives police authorities freedom and flexibility in allocating the money across the range of services they are required to provide to meet local needs. Ring-fenced grants have conditions on what the money is spent on and how it is spent, for which police authorities are accountable.

### **Local accountability, and ensuring regularity and propriety**

12. There are legal and formal controls in place to ensure that it is clear who is accountable for money at the local level. The voted fund and precept

revenue flows to statutory police authorities. There is a formal delegation from authorities to police forces, alongside priorities in Policing Plans.

13. Funds are granted to police authorities for the purpose of policing and crime reduction (Police Act 1996), within the Ambit of monies voted by Parliament to my Department. This is then scrutinised by the Audit Commission. Her Majesty's Inspectorate Constabulary is also key to ensuring propriety, as it takes receipt of complaints, including allegations of fraud. Wherever necessary, Her Majesty's Inspectorate Constabulary has conducted preliminary investigations and instigated criminal/Independent Police Complaints Commission investigations as necessary. The link provides details of the Home Office grant allocation for policing.  
[www.publications.parliament.uk/pa/cm201011/cmhansrd/cm101213/wmstext/101213m0001.htm#10121320001175](http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm101213/wmstext/101213m0001.htm#10121320001175)
14. Where funds are ring-fenced, for a specific purpose, this is set out within the terms of the grant. Grant agreements include requirement to report expenditure and impact to my Department in-year, and all such agreements include right of access, for audit purposes, for my Department's officials and the National Audit Office.
15. A framework for financial management is set out in the Financial Management Code of Practice for the police, established under section 39 of the Police Act 1996, alongside other requirements established in Regulations. The Financial Management Code of Practice sets out roles and responsibilities for police authorities and forces, including financial regulations such as approval procedures, management of assets, and agreeing contracts that comply with relevant legislation. The Financial Management Code of Practice requires that financial dealings are conducted properly and meet best practice requirements, including safeguards and to encourage the delegation of responsibility. It also requires police authorities to draw up a set of standing orders relating to contracts and financial regulations. The aim is to bring together operational and financial management with accurate, complete and timely information. Independent assurance is provided by external financial auditors appointed under the Audit Commission Act 1998.
16. The financial robustness of police authorities is the subject of audit opinion in Annual Accounts and Annual Accounting Statements, following annual audit under section 2 of the Audit Commission Act 1998. The auditor is required to give an opinion on the accuracy of the financial statements, to satisfy themselves that arrangements are in place in the authority to achieve effectiveness, efficiency and economy, and that all statutory provisions relating to the accounts have been complied with (section 5). Audited bodies are required to co-operate with their appointed auditor. When deemed necessary, an auditor may make a "*report in the public interest*" under section 8 of the Audit Commission Act 1998. My Department receives copies of those audit opinions each year.

17. Under section 24 of the Audit Commission Act 1998, an auditor may seek judicial review of any item of account which is, in the auditor's opinion, contrary to law. This system provides a robust independent check on regularity and propriety and, through the checks on arrangements to secure efficiency, provides some assurance on value for money.
18. Grant streams are arms length in nature. The outcomes are set by the grant making body and articulated as part of the legislative authority process. They are then reflected in the grant agreement and terms and conditions. The outcomes are then achieved by the funded party. The grant agreement clearly outlines the responsibilities of both parties. My Department monitors delivery and ensures funding is provided upon evidence of need. Areas of doubt are audited.

### ***Achieving value for money at the local level***

19. Adequate value for money is assured through transparent, robust, comparative data, and external scrutiny by financial auditors and Her Majesty's Inspectorate Constabulary. Police authorities produce public accounts, have open meetings and are required to consult with the public; like other public bodies, they are subject to the Freedom of Information Act 2000.
20. Alongside the requested publication of audited accounts, other data on expenditure over £500 published routinely in the interests of transparency. The Home Secretary sets standard reporting requirements in relation to crime reduction, and other policing outputs and outcomes. Some of those data form National Statistics that are subject to stringent reporting and validation standards.
21. Comparative crime and cost reports, and reports on specific operational performance themes, are published by Her Majesty's Inspectorate Constabulary (sometimes in partnership with Her Majesty's Inspectorate of Prisons, and other public regulators). Proper comparisons can be made across organisations delivering similar services, enabling a link to be made between what is spent and what is achieved.
22. For counter terrorism policing, Association of Chief Police Officer's Terrorism and Allied Matters Group collects standardised performance data for the nine lead counter terrorism units in England and Wales. This data is used to assess performance in those police forces areas that include lead Counter-Terrorism Units in England and Wales, through oversight by my Department. Financial control is subject to audit in the usual way, and operational performance is assessed by Her Majesty's Inspectorate Constabulary. To help safeguard national security, data and inspection reports are not usually made public but fall within existing arrangements for Parliamentary oversight.
23. Both police authorities; and the police forces they oversee; are responsible for the administration and use of significant public funds. The Financial Management Code of Practice focuses on value for money. Forces must

include a value for money strategy in their policing plans. Forces are accountable to police authorities for delivery. I am assured value for money is being achieved through a combination of Audit Commission and Her Majesty's Inspectorate Constabulary scrutiny.

### ***System failure and reviewing the system***

24. The Home Secretary possesses backstop powers by virtue of sections 40 and 40A of the Police Act 1996. These allow her to give direction to police authorities or forces in cases of systemic failure, lack of efficiency, or when public protection is at risk.
25. Standard grant agreements terms enshrine the ability to claw back funding if they have been misappropriated or spend inappropriately, this ensures failure in respect to propriety, resilience and value for money.
26. Ultimately, drawing on advice from Her Majesty's Inspectorate Constabulary, external audit reports, and other sources, I may advise the Home Secretary to discharge her back stop powers under sections 40 and 40A of the Police Act 1996 to give direction to police authorities or forces.
27. I will review this system from time to time to assure myself of its continuing fitness.

### **Current work to strengthen the system**

28. Weak, unaccountable local police authorities will be replaced by directly elected Police and Crime Commissioners, delivering direct accountability to the public they serve. This will be reinforced through robust transparency arrangements to enable the public to make informed decisions about the performance of the Police and Crime Commissioners, including on their use of resources. The absence of genuine local accountability in the system is being addressed and should drive Police and Crime Commissioners to ensure forces achieve value for money.

Department for Communities and Local Government  
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**ISBN: 978 1 4098 3167 9**