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Professor Sir Michael Lyons
Lyons Inquiry into Local Government
Room 3/12
1 Horse Guards Road
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Date 27 July 2006

Dear Michael,

Thank you for sending me a copy of your interim report National Prosperity, Local Choice and Civic Engagement which is very good and well researched. You asked if I might provide views and these are enclosed. My aim, as you would expect as Comptroller and Auditor General, is to ensure that there is adequate transparency to Parliament for the way money it has voted is used. I fully recognise and support, however, the need for this to be achieved in a way which supports local democracy, choice and civic engagement. I hope you find my comments helpful. I would, of course, be happy to meet to discuss them.

Yours sincerely,

John

JOHN BOURN



INVESTOR IN PEOPLE

NATIONAL AUDIT OFFICE RESPONSE TO

Sir Michael Lyons's Inquiry into Local Government: "National Prosperity, Local Choice & Civic Engagement" of May 2006

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GENERAL

- 1) We agree with everything that is said about increasing the responsibilities of local government and reducing central control so that local people will come to appreciate that it is locally elected councillors who are responsible for their local services, not central authorities pulling the strings of local puppets. This means, of course, as Sir Michael Lyons makes clear, that elected members and officers must win the trust of those whom they serve.

INCORPORATION OF PREVIOUS NATIONAL AUDIT OFFICE COMMENTS

- 2) It is encouraging for us that "National Prosperity, Local Choice & Civic Engagement" takes on board most of the observations made by the National Audit Office (NAO) in response to "Lyons Consultation Paper & Interim Report".
- 3) The report recognises the distinction between local authorities' output-based role (e.g. street cleaning services) and their remit to change behaviour for the benefit of local communities (e.g. tackling childhood obesity or anti-social behaviour), and could have developed our view that these two roles warrant very different performance frameworks. As we stated in our previous response to the Lyons Inquiry, output-based activities may be suited to contractual relationships that can set out the acceptable unit cost and standard, and their performance frameworks are therefore designed not to drive performance in the first place but rather to ensure contracts succeed in improving performance. However, behaviour-shaping activities - given their scope, the large number of organisations involved, and the lack of clear outputs - do not as easily lend themselves to contractual relationships and warrant different performance frameworks that cover a range of acceptable interventions and costs.

PARLIAMENTARY ACCOUNTABILITY

- 4) The report rightly states that "the principle of subsidiarity suggests that responsibilities, powers and arrangements to tackle economic issues should reflect the fact that they impact across a much wider area than the individual authority". Indeed, in cases where certain powers or services have significant impacts beyond local boundaries - for example, infrastructure projects - oversight is required above the level of the local authority. Value for Money studies into such projects, carried out by the NAO, represent one important element of this oversight. In doing so the NAO will continue to work with Parliament to ensure that the Comptroller and Auditor General is given sufficient access into such projects to ensure that studies proceed and, when they do, that they consider the wider context in which the project functions. In doing so, the economy, efficiency and effectiveness of such projects can be assessed in relation to the wider environment, and lessons can be learned for the future.
- 5) The valuable observation is made that "there are valid questions about the efficiency, accountability and incentives on authorities which rely largely on resources that they are not responsible for raising". Indeed, genuine concerns regarding the accountability of national funds would arise if the situation arose whereby national taxpayers funded local authorities without an element of national accountability. It is our view, therefore, that to help to demonstrate the British taxpayer's money is spent well, nationally-funded but locally-delivered services should be held to account - though not through detailed oversight and

second guessing - at the national level through Parliament, as well as at the local level.

- 6) The principle of holding to account nationally-funded but locally-delivered services through Parliament should be applied in the context of the recent and continuing reforms to the funding of local government. Some balance is needed in establishing simplified funding arrangements which promote local choice and autonomy while at the same time ensuring that there is still adequate independent transparency to Parliament for the way expenditure it has voted is used.
- 7) In particular, we continue to consider the potential impact of LAAs, which are designed to simplify funding paths and devolve greater decision-making powers to the local level by channelling central government funding through fewer funding blocks, on the Comptroller and Auditor General's ability to follow funding through to final recipients. Importantly, we note that although local authorities will be accountable for achieving the outcome targets agreed in the LAAs, they will not be expected to account for how they have used resources in each of the funding streams making up the larger pools. There is a valid concern that without formal recognition of the need for Comptroller and Auditor General inspection rights into LAA funding blocks, inspection may be inequitable across different departments, and the Comptroller and Auditor General could be forced into negotiating on a case by case basis which would clearly be inefficient and would run counter to the arguments put forward by Lord Sharman in his Review of Audit and Accountability and accepted by the government. The Department for Communities and Local Government (DCLG) and the NAO are developing an assurance framework for LAAs where the responsibility for management is clearly laid on the local authority, with a fully articulated mechanism for reporting to DCLG which relies on the local authority's own control system, supported by a risk-based review process at the Department which can identify problems when they arise and provide a means for undertaking further work. The issue of ensuring the accountability of national funds is of vital importance to Parliament and the NAO.
- 8) We note that Sir Michael Lyons is "interested in exploring ways in which the expectations placed on local government could be evaluated after the event and corrected in subsequent financial settlements if they turn out to be wrong" and also his view that "it may also be worth considering whether the system could include a greater element of independent assessment to reduce the ability of each side to blame the other in arguments over whether funding is adequate". Indeed, we consider independent assessment to be very important in such situations. The NAO already publishes Value for Money reports on subjects covering the implementation of central government policies at local level. We also carry out distinct studies such as our Independent Performance Assessments of Regional Development Agencies. We would be very well-placed to conduct further independent assessments along the lines Lyons indicates, either alone or in conjunction with other audit and inspection agencies. We would be interested in taking discussions forward on this matter.
- 9) We agree that "by being clearer about which services, decisions and functions should be subject solely to local scrutiny and accountability, it should also be possible to reduce the costs of monitoring and inspection". However, as outlined above, care should be taken to ensure good judgement when assessing "which services, decisions and functions should be subject solely to local scrutiny and accountability", and where there should be a degree of national accountability for money voted by the nation to local government. In this connection, the NAO has

always and will continue to support reliance on the work of other auditors and co-operation with other means of oversight such as government inspection arrangements. It is also very important that any rationalisation of inspection and monitoring mechanisms is risk-based and that the role inspection and monitoring plays in the accountability model is properly understood and reinforced.

TARGETS

- 10) The report highlights a number of drawbacks that are associated with national targets for local government. The point that "the scale and complexity of national targets and inspection require the vast majority of local government's resources to be used to deliver nationally defined priorities" which can "crowd out local action to meet local needs and priorities, and restrict the space local government has to undertake place-shaping" is particularly well made.

DEVOLUTION AND SERVICE DELIVERY

- 11) The paper concludes that devolution is desirable but could give greater attention to the debate over different degrees of devolution for different services. This is a complicated issue as the balance is likely to vary from service to service. This is important to Parliament because of the need to ensure that "accountability gaps" do not appear due to insufficient consideration of accountability roles.
- 12) The paper rightly discusses the potential of partnerships. A partnership approach recognises that many issues - including economic, social and environmental priorities - cannot always be addressed by local parties alone because of local, regional, national and international interdependencies. The value of such a partnership approach was recognised by the joint NAO-Audit Commission-Healthcare Commission report *Tackling child obesity - first steps* (February 2006), which called on national, regional and local organisations to align their activities to ensure they are mutually supportive and drive progress towards the Government Public Service Agreement (PSA) target for childhood obesity.
- 13) There is, however, a need for more strategic cross-government working to assist in the pursuit of economic, social and environmental priorities. For example, the NAO report *Success in the Regions* (November 2003) pointed out that targets set for Regional Development Agencies (RDAs) were not always in line with PSAs, Regional Economic Strategies, or the targets of RDA partners. The NAO report, *Connexions Service: Guidance and advice for all young people* (March 2004) - which may be of special interest to the Lyons Inquiry given the remarks made in Section 4.11 of the latest report - went further by calling on partnerships to introduce local targets for reducing the level of young people not in education, training or employment that reflect local conditions while still feeding into the national target.
- 14) We have some concerns that, when it comes to proposals to extend economic and infrastructure development powers to many new authorities, further levels of bureaucracy are generated that could compete with each other in unhelpful ways. In increasing the involvement of larger coalitions above the level of the individual authority in assessing and helping to manage the local economy - for example through RDAs - it is important that the Comptroller and Auditor General on the behalf of Parliament has the right to follow where public money goes.

LOCAL ACCOUNTABILITY

- 15) The paper rightly points out the importance of public knowledge and ensuring public involvement in the decision-making process. And the paper might, have gone on to develop practical mechanisms for increased consultation and information provision. For example, in their written communications, local authorities could learn from our report *Using leaflets to communicate with the public about services and entitlements* (January 2006), which highlighted the importance of producing accurate, quality-assured and easily available leaflets.
- 16) The paper highlights the importance of ensuring locally elected representatives are representative of the community they represent and are skilled, but it is also important to emphasise that effective local accountability rests on a multiplicity of complementary elements including organisational capacity, capability and strategy.