

Leader Decision Making Session

Agenda

Thursday 6 January 2011

A Leader Decision Making Session will be held in Committee Room 1 at Shire Hall, Warwick on **Thursday 6 January at 12.00 noon**

The agenda will be:

1. General

(1) Members' Disclosures of Personal and Prejudicial Interests.

Members are reminded that they should declare the existence and nature of their personal interests at the commencement of the item (or as soon as the interest becomes apparent). If that interest is a prejudicial interest the Member must withdraw from the room unless one of the exceptions applies.

Membership of a district or borough council is classed as a personal interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.

(2) Minutes of the meeting held on 16 December 2010

Minutes enclosed.

2. **Warwickshire County Council submission to the CLG Inquiry into the Audit and Inspection of Local Authorities**

Report of the Assistant Chief Executive is enclosed.

3. **Any other items**

Any other items that the decision maker considers is urgent.

JIM GRAHAM
Chief Executive
Warwickshire County Council
December 2010

Councillor Alan Farnell (Leader of the Council and Chair of Cabinet)
cllfarnell@warwickshire.gov.uk

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Minutes of Leader Decision Making Session held on 16 December 2010

Present: Councillor Alan Farnell (Decision maker)

Other Councillors: Councillors Martyn Ashford, Sarah Boad, Peter Butlin, Alan Cockburn, Jim Foster, Tim Naylor, Jerry Roodhouse and John Whitehouse

Officers: David Carter, Strategic Director of Customers, Workforce and Governance
Janet Purcell, Executive and Member Support Manager

1. General

(1) Members Declarations of Personal and Prejudicial Interests

None

(2) Minutes of the meeting held on 2 November 2010

Resolved

That the minutes of the meeting held on 2 November 2010 be agreed as a correct record.

2. New Homes Bonus Consultation

Councillor Alan Farnell considered a report of the Strategic Director of Resources and Strategic Director of Environment and Economy that set out a response to the Government's consultation on the New homes Bonus.

Resolved

- (1) That the Leaders supports the approach in the draft response to the New Homes Bonus consultation as outlined in the report and in the appendix.
- (2) That the Leader delegates authority to the Strategic Director, Resources and Strategic Director Environment and Economy to
 - Make technical updates as necessary in line with the overall approach contained in the report and
 - Submit the final response to Government by the deadline of 24 December 2010.

3. Any other items of business

None

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Leader

The meeting rose at 3.40 pm

Draft Consultation Response

As an upper tier authority, Warwickshire County Council plays a key role in the delivery of new housing through our responsibilities to provide appropriate infrastructure and services and our involvement in planning and development.

We are responsible for services including social care, education, transportation and traffic, heritage and culture, fire and rescue and public health (from 2013). Each of these services is affected by increases to our population associated with new housing. They are also vital services if we are to develop viable, sustainable communities into the future.

1. Do you agree with our proposal to link the level of grant for each additional dwelling to the national average of the council tax band?

Yes. We agree that local variations in council tax should be removed from the scheme in order that each local authority receives an equal incentive.

However, despite the incentive being financially equal, the ability to attract the New Homes Bonus will vary. Pressure for new housing is not uniform and there are significant differences in the level and type of demand for housing both nationally and across Warwickshire. In Warwickshire, the prosperous south would be able to maximise the NHB incentive. However, the northern areas of the county have different economic pressures and may not be able to attract the NHB to the same level.

2. The Government proposes an affordable homes enhancement of £350 for each of the six years - what do you think the enhancement should be?

Because the reward payment is linked to council tax banding, the scheme as it currently stands provides stronger incentives to build properties in higher valuation bands. In order to redress this balance, the banding should be replaced with a flat payment for each new home built, or be reversed so that more affordable homes receive a higher reward.

The vast majority of affordable homes fall into Bands A and B. Therefore as a minimum, if the banding remains as per the consultation, the payment for affordable homes should be at least enough to bridge the deficit between the reward for a Band A property and the reward for a Band D property and therefore ensure that there is no disincentive to build Band A homes.

Under the proposed scheme, a Band A property would receive £960. The additional bonus for affordable homes should therefore be £480.

3. Do you agree with the proposal to use PPS3 and also include pitches on Gypsy and Traveller sites owned and managed by local authorities or registered social landlords to define affordable homes?

We agree with the proposal to include pitches on Gypsy and Traveller sites subject to our comments on the split between upper and lower tier authorities under question 6.

As an upper tier authority, the planning considerations and costs related to providing pitches on Gypsy and Traveller sites rest almost entirely with us, so we would only welcome their inclusion in the scheme if the upper tier authority attracts a fair share of the bonus.

4. Do you agree with the proposal to reward local authorities for bringing empty properties back into use through the New Homes Bonus? Are there any practical constraints?

We agree that local authorities should be rewarded for genuinely bringing empty homes back into use. However, we have concerns about the definition of empty homes and the possibility of the reward payment being distorted by local interpretations of that definition.

The scheme should be based on clear definitions of an empty property in order to minimise any local distortion.

5. Outside London: Do you agree with the proposal to split the payment of the New Homes Bonus between tiers: 80 per cent to the lower tier and 20 per cent to the upper tier, as a starting point for local negotiation? If not, what would the appropriate split be, and why?

Whilst we recognise that the scheme aims to provide incentives to the planning authority, we do not believe that the default split does not fairly reflect the cost of providing services to the upper tier authority. There are potentially significant financial impacts of keeping an 80:20 split as upper tier authorities are likely to contribute a significant level of top-sliced Formula Grant into the scheme.

The proposed split will be a serious disincentive to upper tier authorities to support new housing development as the cost of providing infrastructure and services would outweigh the bonus received. Furthermore, lower tier authorities would need to approve far fewer new homes in order to recoup losses in Formula Grant, and would have little incentive to approve the number required by the upper tier authority.

We believe the split should be reversed. Allocating a smaller proportion of the payment to the lower-tier authority would therefore provide a stronger incentive for them to approve new homes. The grant should be targeted in proportion to the level and cost of services already provided by each tier of local government.

If this is not acceptable, then the principle that, for each tier, an average authority, providing the average number of new homes should be financially no worse off when combining the NHB and the top-slice of Formula Grant.

If this concern is not addressed, then services provided by an upper tier authority may suffer as the financial consequences of planning decisions are disconnected from the decision making authority.

Parallels can be drawn between the New Homes Bonus and the Local Authority Business Growth Incentive (LABGI) scheme. Originally, LABGI provided the majority of the payment to the lower tier authority, but it was subsequently recognised that it would be more effective to direct the majority of the funds to the upper tier authority.

6. Do you agree with the proposal to use the data collected on the Council Tax Base form as at October to track net additions and empty homes?

We agree with the use of existing data in order to minimise the administrative cost of the scheme to local authorities.

However, we are concerned that only tracking net additions will fail to incentivise the replacement of demolitions. An authority whose net supply is falling will have no incentive to encourage building within that overall reduction, and so the scheme may miss the opportunity to slow reductions in certain areas. Rewarding based on gross additions to supply would incentivise net additions as well as slowing reductions.

7. Do you agree with the proposal for one annual allocation based on the previous year's Council Tax Base form, paid the following April?

The time delay between the period of data analysed and the payment of the reward is inconsequential in comparison to potentially much bigger delays between the approval of planning permission and the delivery of new housing. More detail on this point is provided in our response to question 13.

It would be useful if the New Homes Bonus was paid in March to maximise its incentive effect and avoid the need to accrue for its receipt.

8. Do you agree that allocations should be announced alongside the local government finance timetable?

Yes. This will be crucial in order to effectively build the grant into the budget setting process, particularly as Formula Grant will be reduced to fund the scheme.

9. Do you agree with the proposal to reward local authorities for affordable homes using data reported through the official statistics on gross additional affordable supply?

We agree with this proposal.

10. How significant are demolitions? Is there a proportionate method of collecting demolitions data at local authority level?

We do not believe that demolitions will materially affect the scheme.

11. Do you think the proposed scheme will impact any groups with protected characteristics?

If the final scheme design maintains the proposed split between lower and upper tier authorities, groups with protected characteristics may be impacted upon as funding for services provided by upper tier authorities is reduced.

12. Do you agree with the methodology used in the impact assessment?

Although the New Homes Bonus will only affect the distribution of a relatively small proportion of local government funding, the impact on authorities who lose funding as a result of the scheme would need to be modelled in more detail in order to establish the effect on specific customer groups.

A £1bn reduction in Formula Grant at 2010/11 levels equates to a reduction of approximately 4-5%. For authorities who are unable to build any new homes, this reduction could have a significant effect.

13. We would welcome your wider views on the proposed New Homes Bonus, particularly where there are issues that have not been addressed in the proposed model.

Our response to the consultation is based on an acceptance that the shortage of new housing needs to be addressed. We also welcome the abolition of regional targets and the associated flexibility to plan house building at a level appropriate to our local communities.

However, we do have some additional concerns relating to the current proposals for the New Homes Bonus, detailed below.

Effectiveness as an Incentive: The consultation acknowledges that “the New Homes Bonus only [affects] the distribution of a small proportion of overall formula grant.” This raises concerns that the scheme will not be sufficiently powerful to alter the behaviour of local authorities and will instead redirect funds to areas where levels of house building are already higher than average.

The potential penalty of loss of Formula Grant may well become the key feature of the scheme. Attempting to address the issue by increasing the bonus payment would exacerbate the problems associated with directing funds away from services in areas that cannot build enough homes to recoup reductions in their Formula Grant.

Funding the Scheme: In the long term, the cost of the scheme will be met from Formula Grant. This means that if a local authority does not build new houses, it will be penalised by a reduction in grant funding. This contradicts the scheme’s stated aim of rewarding rather than penalising local authorities as an incentive to deliver new homes. It also penalises areas where the construction of new homes is not possible, practical or needed.

In order to avoid increases in Council Tax or reductions in services where house building is not possible, the scheme costs should be met from outside the current quantum of local authority funding. This is of particular concern when comparing the potential loss of Formula Grant to the potential additional benefit of only 20% of the NHB for an upper tier authority.

Interaction with the Local Government Finance System: In practice the actual implications of the New Homes Bonus are impossible to determine due to the myriad of ways it will impact on the local government finance system. The current consultation fails to acknowledge this and any potential perverse incentives that may result. For example, building more homes will, within the Formula Grant system, result in increased ability to raise council tax locally and therefore a reduced entitlement to Formula Grant. Also there is no acknowledgement that deprivation indices, relative

needs assessments and the floors and ceilings mechanisms, all designed to bring fairness to the grant distribution system, will be affected. In this way, when combined with the need to top-slice Formula Grant to fund the scheme, the NHB can be seen as a simplistic add-on, the exact impact of which is impossible to predict.

Sustainability: The reward payment is limited to six years following the construction of a new house. This means that, after those six years, the level of grant received by an authority will reach a “cliff edge” and begin to reduce unless new house building continues at the same rate. The scheme will therefore provide a short-term benefit from increased income and only serve to delay the financial consequences of increased infrastructure and service demand. This will artificially inflate the financial benefits of house building to the local authority and discourage decisions from being based on a true assessment of the cost and benefits.

The “cliff-edge” effect should be limited as much as possible, potentially by tapering the grant payment so that the reductions are manageable or by paying a higher amount over a much shorter timescale so that authorities are rewarded up-front but maintain a true picture of the financial implications of their decisions.

The scheme is intended to become a permanent part of local government finance, but its impact will be diminished as areas reach saturation in levels of housing. In order to protect the overall level of funding available to local government, any reductions in the total NHB should be accompanied by an explicit commitment to use the funding to increase Formula Grant.

Timing: The scheme is intended to incentivise the construction of New Homes. However, due to the time lag between approving planning permission and the completion of new homes, payments in the early years of the scheme will be based on decisions taken potentially years previously. Conversely, planning decisions made now will not be rewarded until construction is completed. The reward needs to be responsive to the decisions it is intended to incentivise. The current proposal does not do this.

AGENDA MANAGEMENT SHEET

Name of Committee

Leader Decision-Making Session

Date of Committee

6 January 2010

Report Title

Warwickshire County Council Submission into the Audit and Inspection of Local Authorities.

Summary

This paper outlines a draft Warwickshire County Council submission to the CLG select committee inquiry into the Audit and Inspection of Local Authorities.

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Would the recommendation decision be contrary to the Budget and Policy Framework? [please identify relevant plan/budget provision]

No.

Background papers

None

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

Other Committees

Local Member(s)

NA

Other Elected Members

Cllr Farnell, Cllr Tandy, Cllr Roodhouse, Cllr Stevens

Cabinet Member

Chief Executive

Jim Graham

Legal

Jane Pollard

Finance

John Betts, Virginia Rennie

Other Chief Officers

SDLT

- District Councils
- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION:

SUGGESTED NEXT STEPS:

Details to be specified

- Further consideration by this Committee
- To Council
- To Cabinet
- To an O & S Committee
- To an Area Committee
- Further Consultation

Leader Decision Making Session - 6 January 2010.

Warwickshire County Council submission to the CLG inquiry into the Audit and Inspection of Local Authorities.

Report of the Assistant Chief Executive

Recommendation

That the Leader approves the draft Warwickshire County Council submission to the CLG select committee inquiry into the Audit and Inspection of Local Authorities.

1.0 Background

- 1.1 On 13th August 2010, the Communities and Local Government Secretary Eric Pickles announced plans to disband the Audit Commission and refocus audit on helping local people hold councils and local public bodies to account for local spending decisions.
- 1.2 In response to this announcement an inquiry has been launched to carefully examine the full implications for the accountability of local government likely to follow from this decision. Launching the inquiry into the audit and inspection of local authorities, Communities and Local Government Committee Chair, Clive Betts MP, said:

"I expect the Committee will want to satisfy itself that the arrangements which will be put in place for auditing local government expenditure are effective, efficient and avoid any potential for conflicts of interest. We will also be looking closely to ensure that the useful work which the Commission does through 'value-for-money' studies can be continued, for the good of local government as a whole.

We want to hear from all key stakeholders within and outside local government itself, for insights about the consequence of this decision and about the steps which will be necessary to ensure full and appropriate accountability for local authority expenditure in the future."

- 1.3 For this inquiry the committee will consider future arrangements in all the areas that previously fell within the responsibility of the Audit Commission, including:
- Audit of local authority expenditure

- Oversight and inspection of local authority performance
- Value for money studies

1.4 Evidence is sought relating to both the principles involved and the practical arrangements which should be put in place.

2.0 Warwickshire County Council's submission of evidence.

2.1 Our draft response has been attached as Appendix A and for ease of reference the submission has been structured by the three areas of consideration.

2.2 In summary, Warwickshire County Council is satisfied that the oversight and inspection of local authority performance and value for money studies could be led by the sector itself and strong proposals have already been developed by the Local Government Group. We are however concerned about some of the loss in functions relating to the audit of local authority expenditure, specifically the potential procurement risks to local authorities.

2.3 Specifically Warwickshire County Council recommends that the Communities and Local Government Select Committee:

- Consider the establishment of a mutual or equivalent body to take on the role of the former District Audit Service.
- Supports local authorities to establish regional or sub-regional contracts with auditing firms.
- Supports the principles outlined in the Local Government Group Consultation on Sector Self-regulation and Improvement as the basis for a new approach to oversight and inspection of local authority performance.

3.0 Recommendation

- The Leader is recommended to approve the draft Warwickshire County Council submission to the CLG select committee inquiry into the Audit and Inspection of Local Authorities.

MONICA FOGARTY
Assistant Chief Executive

DAVE CLARKE
Strategic Director of
Resources

Shire Hall
Warwick December 2010

Communities and Local Government Committee – Audit and Inspection of Local Authorities

Warwickshire County Council Submission of Evidence

Summary of response

For ease of reference our response has been structured by the three areas of consideration. In summary, Warwickshire County Council is satisfied that the oversight and inspection of local authority performance and value for money studies could be led by the sector itself and strong proposals have already been developed by the Local Government Group. We are however concerned about some of the loss in functions relating to the audit of local authority expenditure, specifically the potential procurement risks to local authorities.

Warwickshire County Council recommends that the committee:

- Consider the establishment of a mutual or equivalent body to take on the role of the former District Audit Service.
- Supports local authorities to establish regional or sub-regional contracts with auditing firms.
- Supports the principles outlined in the Local Government Group Consultation on Sector Self-regulation and Improvement as the basis for a new approach to oversight and inspection of local authority performance.

1. Audit of Local Authority Expenditure

- **Procurement Risks** - The decision to abolish the Audit Commission introduces some real procurement risks for local authorities. There are a limited number of private firms with the capacity and capability to audit local authorities effectively, namely those who act as approved auditors under the Commission's auspices currently. This means that competition for work will be limited, with the consequential danger that prices will rise from current levels and be difficult to contain in future years. There have been suggestions that staff at the Audit Commission are looking to establish a new organisation, a mutual, to take on the role of the former District Audit Service. This will be welcomed and if successful could introduce a further significant player into the market. Whatever the outcome, the challenge for local authorities will be to ensure that prices remain competitive in the face of limited competition.
- The Audit Commission has managed the transfer of auditors to ensure a low cost change of auditors, minimise disruption to all parties and maximise the transfer of the outgoing auditor's knowledge of the audited body. To ensure

that any procurement process exerts real pressure on prices, a similar requirement for managed transfers of auditors at the end of contracts needs to remain as a feature of the new system of audit. For example, by placing information sharing obligations on departing auditors.

- **Audit Work** - It would be feasible to collaborate at County Council level but it would be more beneficial to look at collaboration across the whole of the government sector, with perhaps regional or sub-regional contracts. Such a structure, by providing a body of work to firms in particular geographic areas, would enable firms to deploy their resources efficiently and effectively. The approach to contracting ought to seek to ensure that changes in auditors can be managed effectively (through transfer of documentation, etc.) to ensure that no authority or area is locked into one firm.

2. Oversight and Inspection of Local Authority Performance

- We believe that the principles outlined in the Local Government Group Consultation on Sector Self-regulation and Improvement should be the starting point for a new approach to performance and improvement for local authorities. The LG Group's proposals for sector-owned assessment are based on the principles of self-regulation, transparency and local accountability. According to the consultation, the approach aims to put *"assessment and improvement in the hands of councils, individually and collectively."*
- We would welcome the move to a sector owned and sector led performance framework for local government driven by the Local Government family. We support the idea of collective responsibility of the sector, and believe that this needs to be based on an equal relationship rather than a traditional regulator/regulated relationship. We believe greater emphasis needs to be placed on the behaviours required to achieve this, which is one of mutual respect, trust and the sharing of good practice ideas.
- We believe that the best way to generate a new culture of trust and openness is to move from the assumption that all local authorities need to be regularly inspected by external assessors to a position where inspection is risk-based and therefore initiated by exception. We would favour the move away from an overall judgement of how well an authority is performing to a focus on recommendations for improvement. We believe this may encourage openness as organisations will not become focused on achieving a certain rating.
- We agree that local performance and financial information should be made available to the public in a format that is easy to access and understand. We are already committed to providing this information to Warwickshire residents, and believe that the methods for doing this should be at the discretion of the local authority.

- Overall, we welcome the development of some key indicators that would enable benchmarking across the sector but believe that to ensure that benchmarking and Value for Money comparison is meaningful, performance data will need to be timely and consistent.
- Without comparative information we will not be able to assure local people they are receiving value for money or the best service they could for the money available. This analysis will enable citizens to understand the relative strength of their council in relation to other areas, and improve accountability. Warwickshire County Council will be responding formally to the DCLG consultation on the proposed single data list in the New Year.
- We would welcome the flexibility to plan, deliver and report on improvements that are vital to deliver the vision for the authority, the service improvements customers require and the system improvements that are vital to the efficiency and effectiveness of our authority. We believe that a focus on local priorities for improvement would strengthen local accountability. We would welcome further emphasis on the views of local citizens in the production of self-assessments and as contributors to peer reviews.
- We agree with the value of an annual self-assessment but are keen to ensure that these remain focused and based on the local performance management framework rather than a nationally imposed model. (This links to the answer given to question 2.) We would welcome assessment based on outcomes rather processes to ensure we remain focused on the difference we have made.
- We believe that it remains appropriate to have inspection regimes for adult and child safeguarding but believe assessments need to be proportionate and tailored to the needs of the individual organisation. We would welcome a focus on promoting improvement, disseminating best practice and an increased emphasis on ongoing support for poorer performing authorities. If assessment focuses wholly on safeguarding, it will be important that this is undertaken within the context of broader service based considerations of social care provision.
- Prior to the introduction of the Commission's inspection regimes, many authorities had in place improvement schemes of one sort or another, some involving forms of peer review, others wholly internally driven. Many of these fell into abeyance because of the demands of the Commission's inspection processes. The existing Use of Resources scheme borrowed heavily from the CIPFA Financial Management model, so a ready framework to replace this element would exist.

3. Value for Money Studies

- In the past the Audit Commission has had a duty to undertake studies to identify improvements that could be made to the economy, efficiency and effectiveness of certain bodies, and to improve the financial and other management of local public services.
- We believe that in some circumstance it would be in local government's interest to have common work undertaken and that much of this is likely to be for specific services or areas of special interest across the sector. Collaboration across the whole of local government may be unachievable so it could be more appropriate for individual sectors to consider their own needs and to approach other sectors where there are specific proposals for collaboration.
- There are organisations that may have a significant role in taking this forward. CIPFA and the Local Government Group have considerable expertise in the audit of local authority expenditure, audit and inspection of local authorities and value for money studies as well as wider regulatory environments, promoting self-improvement, and undertaking leading-edge thinking. In relation to Value for Money studies, there are a number of organisations, particularly think-tanks and universities who might have an interest in taking this work forward.
- The CIPFA/LGA Value for Money tool is a strong alternative to the Value for Money Profiles previously provided by the Audit Commission and we would advocate their continued use. The tool has been developed by the sector and made available to all local authorities to use free of charge.
- The continued use of Value for Money tools will be dependent on the sector collecting and returning consistent performance and finance measures. We will press the Government to ensure that the information that local authorities are required to collect facilitates Value for Money analysis and benchmarking.