I welcome this opportunity to submit written evidence to the Public Accounts Committee (PAC) on the Financial Sustainability of Local Authorities. This reply draws on my personal senior level experience and recent published academic work on financial sustainability, accountability and transparency in central and local government.

Overall, the main focus of my response concerns the need to have a broader monitoring regime of local government sustainability that takes account of a ‘Whole System Approach’, beyond merely adherence to financial conformance and/or service performance by embracing risks concerning governance arrangements and cultural specificities of local authorities (Ahrens and Ferry, 2015; Ferry, Eckersley and Zakaria, 2015; Ferry, Coombs and Eckersley, 2017).

With regards to financial conformance, the NAO (2016) report on financial sustainability of local authorities has importantly focussed on capital expenditure and the balance sheet as measures of financial resilience. This complements work on revenue spending where attention has understandably most often been directed towards given the immediacy of financial challenges and the statutory duty of local government to set balanced annual revenue budgets.

The NAO report is framed within the current local government funding framework, but this is subject to potentially radical change and so needs due consideration. For example already business rates are to be devolved to local authorities by 2020, Brexit undoubtedly means the status of European funds will change and further devolution will call for a different way of doing business. In this context evidence to the committee has already highlighted alternative means to fund local government (Copus, 2016) and the need for addressing updates to the prudential code for capital expenditure, shortcomings around housing funding for local

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authorities and how the prudential code does not currently extend to cover borrowing power of Combined Authorities (CIPFA, 2016). I agree with these points and so will not focus further upon them.

Assurance on value for money of service performance also needs further consideration. For example, from 2010 the Conservative led coalition government adopted a policy that has been termed ‘austerity localism’ and as part of this they announced abolition of the Audit Commission and scrapped the centralised performance management arrangements (Ferry and Eckersley, 2015a). The National Audit Office (NAO) was now given responsibility for reporting on the financial sustainability of local authorities and there was an expectation that performance would be largely policed by citizens acting as an army of armchair auditors through raw data made publicly available as part of a transparency agenda (DCLG, 2010a, 2010b), but this did not provide the same level of assurance (Ferry and Eckersley, 2015a; Ferry and Eckersley, 2015b; Ferry, Eckersley and Zakaria, 2015; Ferry and Murphy, 2015).

The Communities and Local Government (CLG) Committee (2016) report on government interventions evidenced that the NAO (2014) had found central government was increasingly relying on local accountability systems for assurance on whether local authority spending was value for money. In support of this point the report cited Ferry (2016) that, ‘the DCLG has less oversight of financial and service sustainability of local authorities who have greater control over their own spending decisions. To date the legal requirement on local authorities for balanced budgets has prevented wholesale financial failure, but financial pressure on an individual local authority is not as obvious. The framework is geared to prevent financial failure, which means financial pressure will more likely lead to service rather than financial impacts’. Indeed, DCLG’s understanding of service impacts was relying on other departments and a small number of inspectorates in specific service areas, but the ability of the system was untested to address widespread failures.

However, the CLG Committee (2016) report went on to state that by June 2016 the NAO found in principle the DCLG new arrangements for monitoring local authorities were improved, but still suggested other forms of intelligence were necessary concerning governance and culture as well as financial and service arrangements.
Governance arrangements are important for several reasons including the continuing evolution of corporate governance and codes of conduct in local government (Ferry and Funnel, 2014), increasing scope of cross public-private sector collaborations that have implications for financial and service sustainability (Eckersley, Ferry and Zakaria, 2014; Ferry, 2015), local authorities addressing austerity by enrolling citizens more into governance, delivery and funding of services who in turn have become more challenging of budget decisions (Ahrens and Ferry, 2015), and further significant change arising from both more devolution and Brexit (Ferry and Eckersley, 2017).

Culture is also specifically highlighted as an important ingredient to understand in reform. Indeed, local government is arguably not a completely homogenous institution as it is wedded to its own local democracy, traditions and history. At the field level of local government, Ferry, Coombs and Eckersley (2017) showed the importance of culture to accomplish strategic objectives. In line with particular belief systems of budgetary stewardship local authorities in England and Wales hold down input costs to deal with austerity. Nevertheless in the longer term they need greater freedom to generate revenue, in order to facilitate innovation and develop more sustainable business practices and service models. At the local authority level, Ahrens and Ferry (2015) further highlight the importance of culture in both the assurance of each local authority and their agency based responses to central government around organisational sustainability.

It is therefore my contention that in terms of financial sustainability, assurance and performance improvement of local authorities that a more ‘whole system approach’ is necessary addressing financial conformance, service performance, governance and culture.

References


