

Local Government Association

Local Audit and Accountability Bill – On the day briefing

10 May 2013



Introduction:

The Local Audit and Accountability Bill¹ will introduce a new regime for the auditing of public bodies, extends the council tax referendum provisions introduced in the Localism Act and enshrines the legal status of the local authority publicity code. It will abolish the Audit Commission and create a framework where councils will have to establish an independent auditor appointment panel in order to be able to appoint their own auditors. The Bill will also extend the council tax referendum provisions introduced in the Localism Act and will allow residents to veto council tax rises by authorities such as Waste Disposal Authorities, Integrated Transport Authorities, Pension Authorities and Internal Drainage Boards.

You can find links to the Bill, explanatory notes and other related documents by clicking on this link: <http://services.parliament.uk/bills/2013-14/localauditandaccountability.html>

LGA key messages:

- The Bill extends the council tax referendum provisions introduced in the Localism Act. A centrally imposed limit should not be included as local elections are the opportunity for people to pass judgement on their council.
- The Bill gives the code of recommended practice on local authority publicity statutory underpinning. It provides the Secretary of State with the power to direct a local authority regardless of whether that authority is complying with the code to which these powers relate. These are wide ranging powers that allow central government to interfere with, dictate to and second guess councils. There is no evidence that council publications are competing unfairly with local newspapers and therefore no reason for the existing code to be put into primary legislation.
- The Bill abolishes the Audit Commission. The Government has previously delivered on its commitment to reduce inspection and assessment on councils by stopping the Audit Commission from carrying out such inspections.
- National procurement of audit is the most efficient way for councils to procure auditors. The recent tendering exercise by the Audit Commission delivered savings to councils of £250m. Sufficient flexibility should be retained in the Bill to allow national procurement to continue

¹ Further information on the Bill can be found at:

<http://services.parliament.uk/bills/2013-14/localauditandaccountability.html>

Briefing

- The new requirement on the National Audit Office (NAO) to consult with relevant parties on any studies into the economy, efficiency and effectiveness of local and health authorities is welcome and something the LGA has called for.

In summary, the main elements and key proposals in the Bill are as follows:

Council Tax

Part 7, clause 39 extends the council tax referendum provisions introduced in the Localism Act and is extended to include levying bodies such as Waste Disposal Authorities, Integrated Transport Authorities, Pension Authorities and Internal Drainage Boards.

LGA view

- As we currently understand the proposals will add a **new threat to funding for essential local services** at a time when the sustainability of local government finance is on a knife edge in many areas. We await further details on these proposals.
- The existing 33 per cent cut in funding from central government, combined with the cap on council tax increases and restrictions on raising income in other ways, has left local government with few options in dealing with the rapidly rising cost of adult social care. **This move would place a further limit on those options.**
- A centrally imposed limit should not exist. The **ballot box on local election day exists for people to pass judgement on their councils.** It is inconsistent to subject council tax increases to a referendum when other taxes are rightly judged to fall within the mandate of the elected government. Nationally set taxes such as VAT and business rates have a much greater impact on people's income than council tax, and the public was not directly consulted over the large rises in both.
- Levies are often dictated by central government agencies and **therefore beyond the control of local government.** In some cases this will mean council services will have to absorb the costs of decisions over which the local authority has no control.

Publicity Code

Part 7, clause 38 gives the code of conduct for protecting the independent press from unfair competition a legislative underpinning. It also provides the Secretary of State with the power to direct a local authority regardless of whether that authority is complying with the code to which these powers relate.

LGA view

- There is no evidence that council publications are competing unfairly with local newspapers and therefore **no reason for the existing code to be put into primary legislation.**

- Before the Government changes the status of the current code it **should set out the evidence for this decision**. An independent review should be undertaken to establish what, if any, impact council publications have on local newspapers.
- Councils actually support the commercial newspaper industry by paying them £26 million a year to publish statutory notices. When you take into account total spend, including general advertising, **councils are subsidising the commercial newspaper industry by nearly £44 million per year**. Furthermore, 15 per cent of councils have print or distribution contracts with their local newspaper.
- Current legislation, which imposes a duty on local authorities to have regard to the Publicity Code i.e. Section 4(1) of the Local Government Act 1986 as amended, allows for the Secretary of State to bring proceedings against a council if he has evidence that they have breached the code. **So far the Secretary of State has not used these existing powers against any council**.
- The proposals relating to lobbying activity are vague and **could result in councils being prevented from raising legitimate concerns** with parliamentarians and central government on behalf of their residents.
- Current legislation which **requires councils to publish statutory and other notices in local newspapers should be repealed** at the earliest opportunity. They do not represent value for money and are a monopoly. 84 per cent of councils say that there are more cost-effective ways to publish notices.
- The majority of councils produce newsletters because they are the **most cost effective way of reaching a high proportion of residents**. 79 per cent of council publications reach 90 per cent or more of the local population. Just one per cent of local newspapers reach 90 per cent or more.

Abolishing the Audit Commission

Part 1, clause 1 of the Bill abolishes the Audit Commission. Until that time the Commission's main functions will be letting and managing audit contracts, supporting the audit regime and analysing the results and outcomes of audit and publishing reports.

LGA view

- The Government's commitment to cutting back on external inspection and assessment has undoubtedly helped cut red-tape and saved money, while also providing an opportunity for local government to drive its own improvement free of bureaucratic inspections. A system of centralised purchasing of audit has however helped councils secure a 40 per cent reduction in audit fees last time the contracts were negotiated, saving over £250 million over five years. **National procurement of external audit is the most efficient way of procuring audit at the best possible cost to councils. It is vital that the Bill allows the opportunity for national procurement of external audit in the future**. It would simply be short-sighted to rule out the option of delivering significant savings that can be achieved through

such a route in the future.

Appointment of Auditors

Part 3 of the Bill set out the procedure by which local and health authorities should appoint auditors. It makes provision for councils to procure audit either jointly as part of a regional or national framework, or to appoint auditors on by themselves. Further details on the process are contained within schedule 4 of the Bill.

LGA view

- National procurement of external audit is the most efficient way of procuring audit at the best possible cost to local councils. Whilst the Bill allows councils to jointly procure audit, it does not allow for procurement of external audit including the appointment of auditors and the setting of fees to be done nationally. The Bill should provide for this option going forward in order to maximise the potential savings for councils.
- The proposed requirement for auditor appointments to be made on the basis of advice from an independent audit panel comprising a majority of independent members and an independent chair is **both unnecessary and impracticable**. Local councillors must be trusted to make these appointments.

National Audit Office

Part 7, clause 34 sets out the National Audit Office's (NAO) powers to carry out examinations into the economy, efficiency and effectiveness of local and health authorities. It includes a provision that the NAO must consult relevant parties, including councils, about any examinations they wish to undertake.

LGA view

- **The promised new requirement on the NAO to consult relevant parties such as the LGA when they are developing their value for money studies is welcome.** Whilst the LGA has questioned the NAO being given a role in producing these studies, it is good to see that the Government has listened to our concerns in respect of consultation. There should be a limit in the number of studies the NAO carries out.
- The Government's decision **not to give additional powers to the NAO to collect performance data and benchmark council performance is in line with the LGA's recommendations** made during pre-legislative scrutiny.
- The Bill **rejects the proposal that the NAO should undertake a review of the effectiveness of sector led improvement**, referring instead to the evaluation commissioned by the LGA. This is a positive development as these evaluations are rightly for local government to lead on the provision of comparable local performance data.

The LGA will be producing further briefings for parliamentarians, members and stakeholders as the legislation passes through Parliament.