



Department for
Communities and
Local Government

Accounting Officer Accountability System Statement for Local Government

Archived



© Crown copyright, 2016

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, and London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at <http://forms.communities.gov.uk/> or write to us at:

Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: <https://twitter.com/CommunitiesUK>

July 2016

ISBN: 978-1-4098-4861-5

Archived

Introduction

Local government, through elected councillors (and, where applicable, mayors), is accountable to its local communities for the proper stewardship of all of its resources. Over recent years, Government policy has been to free local authorities from some of the previous Governments' accounting and reporting requirements, and to devolve greater powers and accountability to them, including through the Cities and Local Government Devolution Act 2016.

Nevertheless, there remains a role for Accounting Officers in government to maintain the statutory framework of legal duties and financial controls on local authorities, to ensure proper democratic accountability, transparency, public scrutiny and audit.

HM Treasury Guidance, *Managing Public Money*, sets out the key requirements for Accounting Officers in government departments to ensure regularity, propriety and value for money. *Accountability: Adapting to decentralisation*, published in September 2011, recommended that in future, departmental Accounting Officers should publish accountability system statements explaining how they achieve accountability for the grants they distribute to local bodies.

As the Accounting Officer for the Department for Communities and Local Government, I am responsible for the core local government accountability framework for local authorities and for ensuring that it is working and contains the right checks and balances.

This statement sets out the core local government accountability framework. It covers:

- in **Section one** (pages 4 to 7), the overall scope of my accountability in relation to local government funding and spending;
- in **Section two** (pages 8 to 11), how the core accountability system for local government works;
- in **Section three** (pages 12 to 13), how the system responds to failure
- in **Section four** (pages 14 to 15), how the department gets assurance and information on financial sustainability and effectiveness;
- in **Section five** (pages 16 to 17) - a new section - how the framework applies and is being adapted in the light of devolution deals within England, in the context of the Cities and Local Government Devolution Act 2016, including the arrangements for London.

Section one

1. This section explains the scope of my accountability in relation to local government funding and spending. Specifically, it covers:
 - the issues for which local authorities are directly accountable;
 - the scope of my accountability for local government funding and spending;
 - my responsibility for co-ordinating advice to Ministers on the overall position of local government;
 - my accountability for the overall core local government accountability framework, and its maintenance, review and amendment; and
 - the role of other government departments.

Local authorities' accountability

2. Local authorities' budgets comprise money from a number of sources. This includes general funding from the Department of Communities and Local Government on behalf of government; and specific funding from other government departments via Section 31 payments¹ and locally raised sources (principally council tax and locally retained business rates). These resources are pooled at the local level.
3. Individual councils are responsible for their own financial performance. This comprises a number of different responsibilities including delivering a balanced budget, providing statutory services (including, for example adult social care and children's services) and securing value for money and propriety in spending decisions. In two tier areas, functions provided by unitary councils elsewhere are split between county and district councils. Introducing the 'general power of competence' in the 2011 Localism Act increased local authorities' discretion over the range of services they provide.
4. Within the framework of statutory duties, councillors are free to set their own priorities and determine outcomes. They make decisions about how to allocate resources to competing priorities, such as providing care services, improving roads or keeping council tax low.
5. The direct democratic accountability of councillors to the electorate is an important assurance that they will manage spending and services effectively. Assurance for the taxpayer is reinforced by the Best Value duty on local authorities. Under the Local Government Act 1999², a council must "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". They must consult local people on how they should fulfil this duty.
6. Local authorities have an important role in making their decisions on resourcing transparent. Effective scrutiny by councillors and the public requires the availability of comparable information on spending and the outcomes achieved. All local

¹ [Section 31, Local Government Act 2003](#)

² [Part 1, Local Government Act 1999](#)

authorities produce public accounts, have open meetings and are required to consult the public, and all are subject to the Freedom of Information Act.³ The public are also entitled to have access to documents relating to council meetings and documents relating to executive decisions made by executive members or officers.

The scope of my accountability for funding

7. I am accountable for two budgets which provide funding for local government:
 - The Local Government Departmental Expenditure Limit is the budget for local authority core funding, which I manage on behalf of the Government; and
 - The budget for the Department for Communities and Local Government's own policies. This budget is to support the implementation of departmental priorities such as housing, planning and local growth. The Local Growth Fund has its own Accountability System Statement due to the particular nature of the arrangements for that spending.
8. I am directly accountable for ensuring regularity, propriety and value for money in the distribution of these two revenue budgets to local authorities. Other departmental accounting officers are accountable for distribution of grants from their budgets to local government to support delivery of other policy areas.
9. I am also accountable for the framework that determines the sums payable to and from local authorities under business rates retention which came into effect in April 2013, and for those funds from business rates which pass through Government accounts. Since April 2013, the Government has allowed the local authority sector to retain 50 per cent of business rates revenue and the growth on their share to incentivise them to promote economic growth. The 50 per cent of business rates revenue that is surrendered to central government is redistributed to local government in full through a variety of grants, not all of which are allocated by the Department for Communities and Local Government. In October 2015, the Government announced that by 2020, the grant local authorities receive from central government will be phased out in return for letting authorities keep all of the funding collected in business rates.

Providing comprehensive advice to Ministers

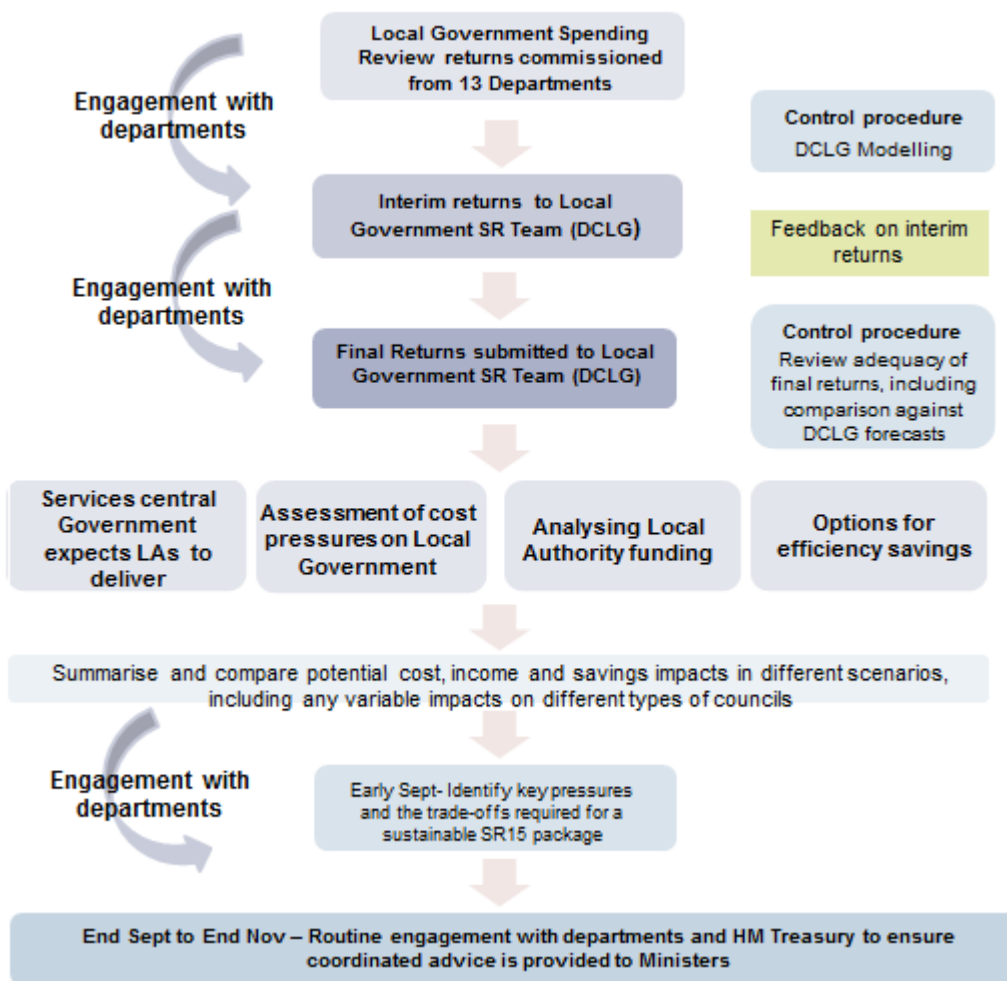
10. The Department for Communities and Local Government is also responsible for ensuring that Ministers have comprehensive advice in order to make decisions on the level and distribution of local government funding. Other Government departments that rely on local authorities to deliver policy objectives or services are responsible for understanding demand, costs and the scope for efficiency in those policy areas for which they are accountable. My role is to ensure that the Government has an overview of the expected spending power of local government, the overall cost pressures arising from its various statutory and policy delivery responsibilities, and the opportunities for savings.
11. To provide full and adequate advice to Ministers, the Department co-ordinates work across government departments that brings different analysis together on a common

³ [Freedom of Information Act 2000](#)

basis to understand the overall position that local authorities are in and particular risks and opportunities.

12. The process by which the Department did this in the 2015 Spending Review is summarised in Figure 1. This process has been strengthened in recent years, in part reflecting recommendations from the National Audit Office studies on the Financial Sustainability of Local Authorities. For example, the analysis we co-ordinate now considers in more detail the potential impact of policy options on different types of local authorities.
13. The analysis the Department develops across government is then central to the advice the department provides to Ministers to enable discussions about spending allocations with departments and, crucially, HM Treasury. It is my responsibility, as Accounting Officer with responsibility for local government overall, to provide clear and honest advice if I have significant concerns. Ultimately, however, it is for Ministers to make final decisions on funding allocations both for the sector as a whole and for individual councils.

Figure 1: The 2015 Spending Review Process



14. As set out in the Local Government Finance Act 1988, the Government must consult on the proposed annual distribution between individual councils of both government grant and revenue from business rates. This local government finance settlement is

then approved by the House of Commons through the Local Government Finance Report before councils set final budgets. Key data, including breakdowns of funding assessments and calculations, are published on the Department for Communities and Local Government website.⁴

My responsibility for the accountability system for local government

15. To discharge my responsibilities set out above, I am responsible for maintaining the overall accountability system for local government. The specific aspects of this system are set out in section 2.
16. Once decisions and allocations are made by Ministers and Parliament, I am accountable for ensuring that this system ensures local authorities are accountable for acting with regularity, propriety and value for money in the use of their resources.
17. I am accountable for maintaining the effectiveness of the system framework (as set out in section 2 below) and will publish highlights of how the framework has worked over the previous year in the Department's Annual Report and Accounts Governance Statement. Should I be concerned that the framework is failing to provide me with the necessary assurances, I am responsible for making the appropriate recommendations for change to Ministers.
18. Central government departments can rely on this framework for accountability arrangements for unringfenced funds allocated to local authorities. However, where Departments, including the Department for Communities and Local Government⁵, have specific ringfenced grants which have additional accountability measures put in place by the relevant Accounting Officer, these additional measures are described in the relevant Department's system statement. Departments are responsible for regularly reviewing, updating and publishing their own system statement.⁶
19. The majority of central government funding for local government is unringfenced. The two major exceptions are schools funding and the Public Health Grant. These grants impose conditions on what the money is spent on and how it is spent. It is therefore for the Department for Education and the Department of Health respectively (and any other departments who might issue ringfenced grants in the future) to take any additional measures that they judge necessary, beyond those set out in this statement, to ensure that those grants are spent according to their grant conditions. The Department for Education and Department for Health have set out the relevant arrangements in their respective accountability statements.

⁴ [Final local government finance settlement: England, 2016 to 2017](#)

⁵ [Accounting Officer: Accountability System Statement for the Local Growth Fund](#)

⁶ Department for Education: [Accounting officer: accountability system statement for education and children's services](#);

Department of Health: [Accounting officer system statement](#);

Department for Transport: [Accountability system statement](#); and

Department for Environment, Food and Rural Affairs: [Accountability systems statement](#).

Section two

20. This section covers the essential elements of the core local government accountability framework. It shows how the elements work together and relate to each other, to ensure local government acts with regularity, propriety and value for money in the management of its resources.
21. Key elements of the framework are:
- clarity about who is responsible for resources;
 - a set of statutory codes and rules which require councils to act prudently in their spending;
 - a framework of internal and external checks and balances including audit and whistleblowing;
 - transparency and publication of data; and
 - requirements to have strategies and action plans on fraud.

Clarity about who is responsible for resources

22. There are legal and formal controls in place to ensure that it is clear who is accountable for money at the local level. Ultimate accountability lies with the full council (elected members of the council collectively). The relevant legislation is the Local Government Act 2000 (“the 2000 Act”)⁷, which introduced governance arrangements based on an executive, either the mayor and cabinet executive or leader and cabinet executive, and the Localism Act 2011 (“the 2011 Act”)⁸, which allows councils to return to the committee system form of governance. The 2000 Act also enables local people to hold councils and their officials to account for their spending decisions through public scrutiny via overview and scrutiny arrangements.
23. For executive forms of governance, the 2000 Act (and underpinning secondary legislation) provides that 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. For councils that adopt the committee form of governance, the 2011 Act (and underpinning regulations) allows local authorities the flexibility to make decisions in full council or delegate decision making to committees, sub-committees, other local authorities or officers. The council must make it clear in standing orders how and by whom decisions will be taken. Also under these regulations, the Secretary of State could, by regulation, provide that certain matters are reserved for the full council to decide.

A set of statutory codes and rules which require councils to act prudently in their spending

24. A system of legal duties requires councillors to spend money with regularity and propriety. Under section 151 of the 1972 Local Government Act,⁹ “every local

⁷ [Local Government Act 2000](#)

⁸ [Localism Act 2011](#)

⁹ [Section 151, Local Government Act 1972](#)

authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers [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. This role is complemented and reinforced by authorities' duty under section 5 of the Local Government and Housing Act 1989¹⁰ to appoint a monitoring officer, who must report to the council when any proposal, decision or omission is likely to lead to contravention of any enactment, rule of law or statutory code.

25. 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 1992¹¹ and, for the Greater London Authority, Part 3 of the Greater London Authority Act 1999)¹². Under section 25 of the Local Government Act 2003,¹³ 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.
26. Authorities must restrict borrowing to what is affordable (sections 2 and 3 of the Local Government Act 2003).¹⁴ They must comply with the Chartered Institute of Public Finance and Accountancy Treasury Management Code of Practice (England). This requirement covers county councils, unitary councils, district councils, and parish councils. Similar provisions in the Greater London Authority Act 1999 apply for the Greater London Authority and in the Local Government and Housing Act 1989 for the Common Council and certain other authorities.
27. The Local Government Act 2003 (section 15),¹⁵ requires authorities to produce an Annual Investment Strategy, outlining policies on monitoring and managing investment risk. This must be agreed by full council. The Accounts and Audit (England) Regulations 2011¹⁶ require that elected members maintain a sound system of internal control including arrangements for the management of risk, and an effective internal audit.

A system of internal and external checks and balances including audit and whistleblowing

28. There are mechanisms in place for occasions when routine processes fail. The Local Government Finance Act 1988¹⁷ 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 either pursuing the course of action which is the subject of the report (in the case of unlawful expenditure) or entering into new agreements involving the incurring

¹⁰ [Section 5, Local Government & Housing Act 1989](#)

¹¹ [Part I, Local Government Finance Act 1992](#)

¹² [Part III, Greater London Authority Act 1999](#)

¹³ [Section 25, Local Government Act 2003](#)

¹⁴ Sections 2 and 3 of the [Local Government Act 2003](#)

¹⁵ Local Government Investments Guidance, [section 15\(1\)\(a\) Local Government Act 2003](#)

¹⁶ [Part 2, Accounts and Audit \(England\) Regulations 2011](#)

¹⁷ [Section 114 Local Government Act 1988](#),

of expenditure (in the case of an unbalanced budget). Councillors therefore cannot avoid being aware of illegal activity, for which the auditor can pursue them in the courts (sections 28 and 31 of the Local Audit and Accountability Act 2014).¹⁸ This is a strong incentive to avoid illegal actions.

29. The system includes external checks, such as a local authority being subject to an annual external audit. The auditor is required to give an opinion on the truth and fairness of the financial statements of the audited body to satisfy themselves that arrangements are in place to achieve effectiveness, efficiency and economy in the use of resources and that all statutory provisions relating to the accounts have been complied with.
30. The auditor is also under a duty to “make a report in the public interest” on any significant matter coming to their notice during the course of an audit. Any public interest report must be considered by the full council within one month of receipt. All of this information must be placed in the public domain. The auditor is also required to send a copy of the report to the Secretary of State. All Public Interest Reports are forwarded to the Department for Communities and Local Government to consider.
31. The Financial Reporting Council and professional bodies have an oversight role in the new audit framework, mirroring their regulatory roles within the companies audit sector. The National Audit Office produces the Code of Audit Practice¹⁹ and supporting guidance, which sets out what auditors are required to do in order to fulfil their statutory responsibilities in carrying out the audit of local authorities. Both the external Auditor and the National Audit Office are prescribed persons under the Public Interest Disclosure Act 1998, to which employees may make protected ‘whistle blowing’ disclosures.
32. Councils are strongly recommended to have whistleblowing arrangements in place as recommended in the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives Delivering Good Governance in Local Government: Framework (2016).²⁰

Transparency and publication of data

33. As part of the overall core accountability framework, the Local Government Transparency Code 2015²¹ requires principal local authorities to publish, on a regular basis, certain information about their expenditure, procurement and assets. Access by the public to this data makes it easier for local people to hold their local authority to account, contribute to the local decision making process, and help shape public services.

Requirements to have strategies and action plans in place on fraud

¹⁸ [Local Audit and Accountability Act 2014](#)

¹⁹ [National Audit Office Code of Audit Practice](https://www.nao.org.uk/code-audit-practice/) - <https://www.nao.org.uk/code-audit-practice/>

²⁰ [CIPFA/Solace, Delivering Good Governance in Local Government: Framework](#)

²¹ [Local Government Transparency Code 2015](#)

