

Local public accounts committees

Dealing with the governance of complexity at a local level

July 2018

Introduction

Local policy-making is now defined by partnerships – some formal, some informal – between public sector bodies and between the public and private sectors. These trends have created greater complexity and raise challenges for governance and accountability. Where is the public pound being spent and by whom? Who is responsible and accountable for spending decisions? How are spending priorities aligned and how does delivery against these priorities get measured?

Recently we carried out a survey of councillors and officers working in scrutiny on the subject of complex governance. Over half of those responding thought that governance had become significantly more complex. Half, too, felt uncomfortable with this complexity – often because they felt that they did not understand how new delivery and management systems in the sector operate. Moreover, most felt that scrutiny which attempts to engage with these issues is currently of limited impact.

We believe that a mechanism is necessary to knit together accountability and responsibility for outcomes at a local level (what “local” means is a question we address below). Through a direct focus on value for money, local PACs would mirror the role of the Public Accounts Committee in Parliament – challenging a range of organisations whose decisions and actions impact the public to align their priorities and vision, to focus on the impact their spending delivers, and opening up the business of “partnership” to accountability, transparency and the involvement of local people.

In January 2018, we published an earlier draft of this discussion paper to set out some of the ways to take these issues forward. We received a number of responses and have used these to refine our plans and approach. We don’t think that trying to find an area to “pilot” a fully-fledged local PAC is the right approach at the moment – what we are doing instead is identifying some ways to experiment with joining up local accountability in different ways to try to get some practical results which can give us a strong way forward.

This discussion paper now includes some detail on those proposed experiments, and suggestions as to how this work might be funded. We have simplified and truncated parts of the paper from its previous iteration.

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Our local PAC proposal: why it is needed, what it will deliver, how it will work

Why is it needed?

Assurance on value for money (VfM) in public spend is at the heart of this agenda and is the challenge which we designed local PACs to solve. Our conception of VfM encompasses the need to secure environmental and social value from investment. It is about more than applying the principles of social value to procurement (although this is an important element) – it is about integrating that understanding of the wider impact of public spending into everything a commissioner or provider of services does.

The Royal Society of Art's research commissions on City Growth and Inclusive Growth, both demonstrated the critical importance of social action alongside action to enhance the economy. Similarly, Centre for Local Economic Strategies' research on "community economic development" published in late 2017 highlights the risk that looking at economic development in isolation from wider social factors is unbalanced. This suggests an approach that replaces a focus purely on economic growth with one that looks at wellbeing and local wealth – precisely the broader VfM focus that we consider would be the key driver for local PACs. Localis recently highlighted in its research "In Place of Work" the links between social issues, the local labour market and economic growth. Many of the contributors to its essay collection "Neo-Localism" drew some of the same conclusions about where some of the key challenges to economic development lie.

Locality's "Commission of the Future of Localism", chaired by Lord Kerslake (who is also the Chair of CfPS), has also influenced our recent thinking. The Commission's argument that local power is about people and communities is well-made – in what is still a heavily centralised state, this should not feel radical. The Commission highlighted the need for strong structures around accountability at local level.

The ongoing Institute for Government "Accountability in modern government: directions for change" research similarly highlights shortcomings on accountability at national level – and posits local PACs as a potential solution at local level, highlighting our work.

This combination of drivers – the need for joined up accountability and the need for strong leadership on value for money which focuses on social value – have driven us to develop the local PAC model.

Our paper on local PACs published in March 2015 set out a number of challenges for local public service governance. Since then, further developments have made the need for local PACs more urgent, and which allow us to reflect on the research above. These are highlighted by developments such as:

- The concerns highlighted by the National Audit Office about Local Enterprise Partnerships (LEP) governance in 2016, and the Ney Review of LEP governance in 2017, which has been a prelude to more concerted efforts by Government to address the issue. This was an issue raised in our publication "Growth through good governance" (2014);
- Major changes and developments in other sectors which highlight the issue of governance and accountability, namely:

- Sustainability and Transformation Partnerships (STPs) and Accountable Care Systems, as covered in our “STP checklist on governance and engagement” (2016) and ‘Verdict so Far’ (2017);
 - The fire at Grenfell Tower, which raises profound questions about contracting out and arms length management, and the outsourcing of accountability between partners;
 - Changes to funding, delivery and oversight in education.
- The broader challenge and opportunity of devolution. We highlighted these issues as part of our comprehensive research and practical support on devolution and governance, reflected in “Devo how? Devo why?” (2015), “Cards on the table” (2016) and “Charting the way” (2017);
 - The wider agenda around service transformation, commercialism and new methods of service delivery – strategic commissioning, deeper collaboration, more complex partnerships. These were issues we highlighted in our publication “Change game” (2015);
 - Brexit. The UK’s decision to leave the European Union will inevitably have an impact on the way that local services are designed and delivered (something which is being examined by CIPFA’s Brexit Advisory Commission). It should also stimulate how we think about those who make decisions on our behalf, and where those decisions are made.

In brief, some of the big questions that need answers are:

- How are services funded, and how is that funding overseen?
 - Funding for local services comes from a huge range of different sources. A local PAC can help to unpick and understand how spending is joined up so as to make a difference to local people’s lives;
 - A vast range of different organisations, in the public, private and voluntary sector, are now involved in service delivery. Relationships are based on a complicated web of contracts and agreements, many of them subject to minimal public scrutiny and hidden from view because of commercial confidentiality;
 - There is evidence of cost shunting and cost duplication between various parts of the public sector, which provides poor VfM to taxpayers, and potentially poor services too;
 - Devolution deals bring with them significant additional funding, which is subject to some oversight, but this oversight focuses on the deal and the national/combined authority relationship, not the relationship that combined authorities have with their citizens.
- How are decisions made, and by whom?
 - Decision-making in partnership often happens in private and/or informally, in ways that are unpredictable and difficult to understand;
 - Recent trends are moving towards making this kind of governance – across partners – more complex. Council reorganisation, greater commercialisation (the creation of Teckals / trading companies, and so on), all pose challenges to the systems for oversight of individual organisations. STPs/ACSs, and similar pressures to innovate elsewhere in the system, are accelerating this trend without necessarily clarifying where political and democratic responsibility and accountability lie.

- How can we therefore have confidence that services are value for money – and that partners have a shared understanding of what “value for money” means?

What will it deliver?

The importance of culture

A local PAC would engage head-on with the challenge of the governance of complexity. To be effective in doing this it would need to focus not on the structures of partnerships, the legal relationships between partners or the way that performance and delivery are “formally” managed, but on culture.

Culture is critical to value for money. The behaviours, values and attitudes that decision-makers and providers think are important are what drive them to be more, or less, open – more, or less, responsive to the needs of local people. Compliance with minimal governance standards – even when those may seem robust from the perspective of an individual institution – will not be enough in the reality of the messy and often overlapping governance systems that typify modern public services.

As such, we have suggested a framework for local PACs which emphasises that they are locally led but based on a national framework of powers, with a narrow and well-defined role that complements other local actors.

They will exist to act – to identify, act and report on risks, to knock heads together, to give local organisations, Government and local people the confidence and assurance that public services are properly joined up, and to shine a light on novel delivery methods which might currently sit outside the governance systems of any one organisation. They are about promoting a culture of innovation, learning, sharing and openness – between partners, and between partners and the public.

We will know that local PACs are effective when local partners and partnerships work in ways that reflect a culture of openness and accountability and are driven to engage with a wide range of others – including local people. Practically, the outcomes for a successful PAC would be:

- Local decision-makers to be more easily identifiable. Individual responsibilities will be clearer, and the intersection between the responsibilities of individual bodies and “the partnership” will be clearer. As it stands in many areas, there may be detailed bilateral agreements between partners, and general agreements across a partnership, but little information available publicly about the division of duties in a more comprehensive and comprehensible way;
- Systems of accountability between partners (for service delivery in particular) to be understandable, with decision-makers behaviours and attitudes backing up the governance systems that exist on paper. Ethical issues (particularly those relating to conflicts of interests) will have been flagged up as part of the detailed design of the above systems – meaning that there are fewer chances that administrative solutions to such problems will need to be invented on the fly;
- A more understandable process for policy development – backed up through robust and consistent data collection and sharing across the area (see below);

- The public to influence decisions, policy, and performance at the right time. This involves partners together having consistent systems for public involvement and engagement on key issues and decisions at all levels of decision-making;
- Assurance to be provided on the way that organisations individually and collectively establish whether public expenditure is VfM.

The importance of data and information

One of the principles that underpins effective partnership working is the sharing of information, and the use of that information to plan and design services.

Public bodies have in recent years taken a number of approaches to how they think about drawing this data together. Rather than the rather managerial push for “big data”, we prefer a model that is more collaborative; its publication enables anyone to analyse it and to reflect on its meaning. This can lead to conflicting interpretations of the same data – this is a good thing, because it challenges the assumptions of professionals. It is an approach which accepts that data takes a large number of forms, and that professionals will never be able to draw all of that into a single agreed repository.

A local PAC would need on it (and working to support it) individuals who understand the challenges and opportunities arising from data and information and the increased opportunities provided by technology to draw conclusions from it (often in real time). A local PAC would itself need a robust way to draw together, sift and understand information in order to carry out its work – the amount of data produced and available locally is colossal, and it would be very easy for a PAC to drown in it. PACs will need to be able to take a more discriminating approach, using data to underpin how work is prioritised as well as to challenge the design and delivery of VfM services.

How will it work?

The duties and powers

In order to deliver the outcomes we have talked about – both improvements to culture and to the way that local partners use information, alongside bringing a forensic approach to value for money to bear on local services, a local Public Accounts Committee would be a body with the following duty:

To hold to account the delivery of public services by organisations working together across a locality, and to investigate the value for money of those services.

The local PAC would not look at the day-to-day activities of individual organisations – which have their own, existing governance arrangements. It would however need to be aware of the roles, duties and work of those organisations, using that insight to look at the way these individual organisations interact. In particular, it would examine the way that VfM is used as a driving force to align the priorities of different bodies delivering public services. There would be an expectation that broader, systemic issues identified through the governance systems of individual organisations might be “escalated” to the PAC. The PAC could also provide support and advice to those engaged in non-executive activity in the local area.

Importantly, a local PAC model would be scalable and sustainable. Its strategic focus would mean that, as more services come under local control (and hence the purview of the PAC), substantial changes to its means of operation would not be necessary.

Meaning of “public services”, “locality” and “value for money”

Our description of the duty demands that we explain the meaning of these words:

- **Public services** are services delivered with support from public money. Rather than the powers of a local PAC being limited to some named organisations, this would see it having the freedom to follow the “public pound” around a local place – across all sectors.
- **Locality** is the area covered by the local PAC. We think it makes sense that councils, local communities, and local partners think together about the best geography for a local PAC. Because we think they are best tackling strategic cross-boundary issues, we think a larger footprint would be more appropriate.
- **Value for money** we have already explained as having a focus that focuses on social value as much as economy, efficiency and effectiveness.

Possible powers

- **“Enter and view”** – similar to powers held by Local HealthWatch. “Enter and view” is about giving a PAC the right to directly inspect and investigate public services, to speak to those in receipt of those services, and those delivering them.
- **Rights of access to papers and documents** held by any organisation delivering, commissioning or otherwise directing public services in the local area. This right would need to be broadly expressed to be meaningful.
- **Rights to require people to attend and answer questions.** This right would need to be carefully expressed and proportionately applied. The focus of evidence-gathering sessions in public – to which witnesses would presumably be invited – would need to be on partnership issues and their intersection with VfM, rather than specific service issues.
- **A power to require a specified response to recommendations.**
- **A specific audit function.** The audit needs of different kinds of organisation are likely to themselves be very different. CfPS does not propose that a local PAC might undertake an “area-wide” audit in addition to these activities – it would be counter-productive and costly. However, the PAC could review the outcome of those audit exercises, review associated risks, identify instances where risks are shared, and make recommendations accordingly.

How would PACs be supported, and where would their powers come from?

In the short term a local PAC’s powers would derive from local agreement. Between them, local organisations could agree a range of powers and duties for a local PAC without the need for Government backing (or to augment and develop powers provided for in statute). At the

outset, and certainly while options are being trialled and piloted, we consider this to be the only viable solution.

Practical operation

Operating models and funding

In the short term, we think that the best model for establishing local PACs is for them to be hosted by an existing local organisation. This might be a council, or a combined authority, or some other body.

For the PAC to take a forensic approach towards VfM would require the appointment of people with expertise in finance, accountancy and public policy; effort would need to be made to recruit to these posts beyond the standard “local government” talent pool. There is nothing to suggest that these skills do not exist beyond England’s major cities, or that recruitment would necessarily be a problem, but the fact remains that these would be completely new posts, requiring a blend of generalist skills, specialist subject knowledge and highly developed interpersonal skills. The consequent funding implications of this are discussed in more depth below.

We consider that in areas with a Combined Authority, the combined authority overview and scrutiny committee could be augmented to become a local PAC, as the CA’s strategic functions make such a merger a good fit. In these arrangements the CA would effectively become the PAC’s host organisation.

An entirely independent local PAC would require independent funding. We have considered the possible scale and sources for this funding.

A local PAC with a secretariat of the kind that we have described above would cost between £300,000 and £500,000 annually. At the outset this is clearly impossible to secure without significant and sustained national commitment to introducing local PACs, and this has influenced our plans on experimentation.

PAC meetings would happen in public.

Membership

We think that the membership of a local PAC should be as follows:

- Chaired by an independent person (as with local audit committees);
- A mix of non-executives from local authorities and other local organisations, probably with a majority of elected councillors.
- Co-opted experts who have specialist knowledge.

The local PAC would probably need to establish time-limited task groups to carry out some of its duties (in particular, the dealmaking/devolution transition/improvement duties we introduce later in this document). The local PAC itself would probably work best if its members numbered between 12 and 15.

Members should benefit from an allowance reflecting their responsibilities. There would need to be agreement about issues such as the length of membership term.

Two opportunities for the local PAC to exercise more direct oversight in the longer term

While we do not consider that the local PAC should have a permanent role in the scrutiny of individual organisations, we do consider that it should have such a role on a temporary basis. There are two circumstances where this might be appropriate:

- during the devolution “dealmaking” process with Government, and following this, when preparations are being made for the deal to be implemented on the ground (the “transitional” period when services and issues are passed from central to local control);
- when service failure (or the serious risk of service failure) has occurred or is occurring, and increased oversight and improvement support is necessary – this support/oversight would be co-ordinated, and provided, by the PAC.

These are two specific areas where direct local need would draw a local PAC away from its more general VfM role. At the moment, we do not consider them to be feasible roles as the local PAC model is tested, but, with Government agreement, they might form part of a more formal model in the future.

Next steps: experimentation

At this stage we do not think it is realistic – for reasons of funding and political commitment – to attempt to “pilot” a fully-fledged local PAC in one or more locations.

We do, however, want to test out some of the practical ways in which the local PAC might operate. We want to pursue an experimentation programme that will see areas testing some of the building blocks of a local PAC – seeing what approaches work, and which don’t – in advance of our seeking more sustained support for the idea in due course.

We have designed these potential experiments with the questions we asked in our original discussion paper in mind.

We hope that the experiments, in themselves, will lead to improvements in accountability at local level irrespective of what might happen to the local PACs idea itself.

Potential experiments include:

- **Talking about accountability.**
 - Hypothesis: if local partners can work together to develop a shared understanding of what “accountability” means for them, and how it helps them to improve what they do, it can make governance more streamlined and straightforward, limiting the risk of things falling between the cracks.
 - Method: mapping the internal and external governance systems applying to a range of local partners in a given area and coming to agreements both about how they might be better aligned, and how cross-cutting issues might be identified and addressed.
- **Building from local need**
 - Hypothesis: where the needs of local people are better understood, partners can work together to think about how decisions relating to those issues are subject to robust public governance.
 - Method: those working in governance and scrutiny can work with their partners to share insights about the community they serve and what they understand of that community’s needs. They can investigate what this tells them about the way that services are designed and delivered.
- **Engaging with culture**

- Hypothesis: governance can help to identify and promote positive culture, and is well placed to tackle poor practices – particularly in relation to partnership working. Scrutiny can tackle cultural barriers to collaborative working.
- Method: local government scrutiny will work with non-executives in other authorities to review the behaviour, attitude and values of officers and leaders in working together. A model will be developed to identify gaps, assumptions or approaches which lead to tension, and where different cultural attitudes result in confusion or an atomisation of the local public service landscape.
- **Developing a VfM model**
 - Hypothesis: a model can be built which focuses scrutiny on “value for money” issues, making it more proportionate, but which is still able to cut to the practical heart of issues that are important to local people.
 - Method: working with a local authority scrutiny committee to develop a model for how value for money can be assessed using publicly-available information; in particular looking at social value. Discussion with other public service partners to try to understand how their viewpoints might influence this model.
- **Engaging local people in scrutiny**
 - Hypothesis: scrutiny that cuts across organisational boundaries is better able to engage local people, because it can be designed in a way that suits them rather than to conform to artificial organisational boundaries.
 - Method: carrying out cross-cutting scrutiny work (probably led by the local authority), designed from the perspective of local people and the way that they experience services, and seeing how this influences the range of public, private and third sector organisations which need to be actively engaged in that work.

Funding and support for experiments

We expect to provide support to five areas to conduct experiments. While we would hope that all five of our experimental ideas will be taken up, we are keen to amend experiments to meet the needs of those on the ground, and we also recognise the benefits of doubling up on experiments in the interests of comparability.