



THE OFFICE FOR LOCAL GOVERNMENT

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ICAEW welcomes the opportunity to submit evidence to the inquiry into **The Office for Local Government (Oflog)** launched by the **House of Commons Levelling Up, Housing and Communities Committee (LUHCC or the Committee)** on 24 November 2023, details of which are available from this [link](#).

Early days in pursuing strategic objectives

- **Empower citizens:** Unclear how Oflog intends to provide insights useful to voters
- **Improve performance:** Data Explorer still under development as a benchmarking platform
- **Identify risk of failure:** Financial reporting and audit crisis hampers monitoring of finances

Annual financial reports must inform and report

- Annual financial reports should be a key source of performance data, but are not used
- Financial statements need to be understandable and provide line of sight on performance
- Local authorities should use annual reports to comment on Oflog metrics and assessments
- Oflog should consider employing analysts to produce 'broker notes' on local authorities

Monthly financial reporting: a rich source of data that is not being utilized

- Lack of a monthly financial consolidation limits ability to monitor in 'real-time'
- Monthly financial reports should provide a rich source of data for Oflog to mine

Data quality and assurance will be key

- Oflog will only be effective if the data it uses is reliable
- Investment in finance teams will be needed
- The role of external auditors in assuring data should be clarified
- Importance of accurate demographic data should not be underestimated

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INTRODUCTION

1. This response has been prepared by ICAEW's Public Sector team within the Reputation & Influence Department in consultation with the ICAEW's Public Sector Advisory Group. We support members working in and with the public sector to deliver public priorities and sustainable public finances, including over 12,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.
2. ICAEW welcomes this inquiry into Oflog. This is an extremely important inquiry given the significant financial challenges facing local government in England, the crisis in local authority financial reporting and audit, and recent high-profile governance failures.
3. ICAEW in 2023 published a [vision for local audit](#) on how to bring confidence to the finances of local public bodies. Our vision makes the case for better financial reporting, high quality and more timely audits, stronger financial management and governance, and a thriving profession that is highly valued.
4. Our response is limited to England given that responsibility for local government in Wales, Scotland and Northern Ireland is with the devolved administrations and is not within the scope of Oflog.
5. For questions on this submission please contact our Public Sector team at representations@icaew.com quoting REP 7/24.

KEY POINTS

EARLY DAYS IN PURSUING STRATEGIC OBJECTIVES

6. According to the Department for Levelling Up, Housing and Communities (DLUHC) [policy paper on Oflog](#), Oflog's strategic objectives are to:
 - Empower citizens with information about their local authority, enabling them to hold local leaders to account.
 - Increase local leaders' and councils' understanding of their relative performance, supporting them to improve and better innovate.
 - Increase central government's understanding of local government performance, highlighting excellence and identifying risk of failure to facilitate timely and targeted support
7. **Empower citizens:** It is currently unclear how Oflog intends to achieve its first strategic objective.
8. The Oflog Data Explorer does not, and is unlikely to, produce information in a form that would be useful to citizens or councillors in holding local leaders to account. By implication the provision of useful information to citizens will not be possible until Oflog is a "mature organisation" that is able to "publish its own analysis of local government performance".¹
9. Local authorities provide multiple local services and face different challenges, some of them unique to their local areas or to their individual circumstances. Even the best run local authorities will have local public services that they could improve, while others (for example) might combine strong operational performance with weak financial performance. We therefore believe an overall Ofsted-style rating is unlikely to be helpful to voters.
10. A **balanced scorecard** approach is likely to be more useful, perhaps with five-colour-traffic-light assessments (blue = excellent, green = good, amber = improvement needed, orange = underperforming, red = failing) for each service area and for other important measures or metrics that may be developed (examples could include financial strength, quality of financial reporting, or governance). Such an approach would enable citizens to understand the overall

¹ [Oflog policy paper, Chapter 3, Figure 2.](#)

picture of local authority performance in a way more likely to prove helpful in making electoral choices than a one-dimensional rating that would inevitably be overly simplistic.

11. **Improve performance:** Oflog is initially focusing on developing its Data Explorer as a basis for benchmarking performance between local authorities. The tool itself is helpful in providing transparency, but it is the choice, quality and accuracy of the metrics used that will determine whether it will be practically useful in improving outcomes, the quality of outputs, and the cost effectiveness of inputs.
12. While the Oflog policy paper states that Oflog will limit itself to data already submitted by local authorities as set out in the [Single Data List](#), we think that it is inevitable that additional data points will be required if Oflog is to deliver sufficiently robust comparisons of performance between different local authorities or to assess areas of performance (such as adequacy of governance arrangements and best value duty compliance) that are essential to understanding the overall performance of local authorities.
13. We welcome the collaborative approach that has been adopted by Oflog in working with local authorities and other relevant parties to build consensus around metrics and data sources. We hope that this will continue.
14. **Identify risk of failure:** System-wide delays in the preparation and audit of financial statements mean that almost all local authorities in England are two years behind with their audited accounts. The lack of timely independently verified financial information will hamper Oflog as it seeks to establish processes for monitoring the financial health of local authorities.
15. We therefore reiterate the urgent need for a resolution to the crisis as set out in [our submission to the Committee's inquiry into Local Financial Reporting and Audit](#).

ANNUAL FINANCIAL REPORTS MUST INFORM AND REPORT

16. The primary purpose of annual financial reports (including audited financial statements) is to enable the leadership and management of organisations to be held to account for how they have used resources to deliver against their objectives and how they have managed their finances.
17. Secondary purposes include providing information needed by other stakeholders, in this case Oflog and DLUHC. Annual financial reports should therefore be an essential element in informing Oflog of local authorities' own assessments of their operational and financial performance as well as critical information on their financial health and any significant risks to which they are exposed.
18. To do so, financial statements and accompanying narrative commentaries need to be understandable and provide a clear line of sight into how and on what local authorities are spending public money, as set out in our submission to the Committee's inquiry into Local Financial Reporting and Audit.
19. On the assumption that Oflog chooses metrics that provide valuable insights into the performance of local authorities, we believe it will be appropriate for local authorities to comment on the same metrics in their annual financial reports in addition to the key performance indicators they use themselves, as well as any assessments that are produced by Oflog. This is so that councillors and residents only need to go to one place (the annual financial report) to understand the performance and financial position of their local authority, as well as ensuring the metrics utilised by Oflog are subject to the same validation processes as other information in the annual financial report.
20. Oflog should consider employing analysts to produce the equivalent of 'broker notes' on local authorities. In the private sector, analyst reports draw on annual financial reports and other available information, as well as discussions with senior management, to provide insights into the strategic, operational and financial position of the organisations concerned and the challenges they face. While a 'buy/sell/hold' recommendation will of course not apply to public sector bodies such as local authorities, this type of analysis would be very helpful in providing a strategic financial assessment of how local authorities are performing, supporting Oflog in its development of performance assessments.

MONTHLY FINANCIAL REPORTING: A RICH SOURCE OF DATA THAT IS NOT BEING UTILISED

21. Unlike private sector organisations, the Government does not prepare a comprehensive monthly financial consolidation that encompasses all organisations that are included in its annual consolidated financial statements (the Whole of Government Accounts). Instead, it uses a more limited dataset to manage the public finances during the course of each financial year that excludes local authorities and is restricted to central government departments, the devolved administrations and certain central government agencies.
22. The absence of a monthly financial dataset that includes local authorities means that Oflog, DLUHC and HM Treasury are unable to access a rich source of 'real-time' data that exists at a local level.
23. We believe that there would be significant benefit to Oflog and DLUHC in overseeing local authorities in England, to HM Treasury in managing the public finances, and to the Office for National Statistics in reporting on public sector finances. Such a dataset would allow much easier and more in-depth comparisons to be made across and between local authorities, faster identification of potential financial problems, and provide a more effective and timely conduit for collecting both financial and non-financial data on a monthly, quarterly or annual basis.
24. While there would be some investment to implement a sub-consolidation system for local authorities in England (and ideally the devolved nations too), the routine collation of financial and non-financial data within a week or so of the end of each month through such a system would enable many existing returns in the Single Data List to be eliminated.
25. Monthly consolidation processes increasingly include the submission of monthly financial reports and analyses prepared locally, enabling data mining techniques to be used to scan for the sentiment of the language used, major variances against budgets and the status of significant financial exposures.
26. This is not about creating new data – this is a rich data source that is already being produced by local authorities on a monthly basis at a local level and is generally publicly available in financial reports provided to councils and published on local authority websites.

DATA QUALITY AND ASSURANCE WILL BE KEY

27. **Oflog can only be successful in monitoring the performance of local government if the data it uses is relevant and reliable.** This will be even more important as Oflog develops and starts to issue 'authoritative' performance assessments – its credibility will depend on the quality of the data it uses to make those assessments.
28. Concerns over the quality and accuracy of financial information generated by local authorities has been one of the drivers of the crisis in local authority financial reporting and audit, and so it is important that there is sufficient investment in finance teams so that these issues can be addressed and fixed.
29. **The role of external auditors in assuring data should be clarified.** The scope of an external audit is designed to provide material assurance about the truth and fairness of financial statements and will not necessarily provide sufficient assurance about individual numbers in the financial statements that Oflog may be relying on.
30. Numbers such as key performance indicators reported outside the financial statements in the narrative commentary are subject to even less assurance (typically 'not inconsistent with'), while data not reported in the annual financial report is not subject to any assurance at all, absent any specific arrangements that might be put in place, for example in the form of assurance procedures on grant returns.
31. Oflog will in due course need a strategy over the level of assurance it needs over the data it uses and the balance between no assurance procedures, internal assurance by data providers (including by internal audit teams), Oflog's own due diligence procedures, and the use of other assurance providers, including external auditors.

32. **The importance of accurate demographic data should not be underestimated.** A significant challenge for Oflog in benchmarking and assessing the performance of local authorities is the lack of accurate demographic data at a local or national data outside of ten-yearly censuses.
33. While some comparisons on performance between local authorities relate to the number of households (where there are more reliable numbers available), many comparisons will only be useful if there is an accurate up-to-date understanding of both the number of people living in each local authority area and their demographic make-up.
34. For example, assessing the respective performance of two local authorities providing residential social care to similar numbers of people, is likely to be extremely difficult without data on how the demographics of the populations they serve may differ.
Improving the quality and timeliness of demographic data at a local level will therefore be critical to the success of Oflog in being able to compare performance across England.

ANSWERS TO SPECIFIC QUESTIONS

What is Office for Local Government (Oflog)’s intended purpose and is it on-track to achieve it?

35. We understand Oflog’s intended purposes to be threefold as set out in its strategic objectives: to empower citizens, to support performance improvement, and to identify risks of failure.
36. Oflog has not yet reached the stage of being able to achieve its first strategic objective to empower citizens by providing them with useful assessments of individual local authority performance.
37. Oflog is making good progress in developing its Data Explorer platform to support benchmarking of performance across a wider range of local public services in pursuit of its second strategic objective. This is necessary, but not sufficient, to achieving its objective of supporting local authorities to improve performance.
38. Oflog is hampered in its ability to achieve its third strategic objective to identify risk of failure by the local financial reporting and audit crisis that means most local authorities are at least a couple of years behind in producing audited financial statements. Ofcom is also handicapped by the lack of a monthly financial consolidation and the absence of an ability to mine monthly financial reports. Oflog is also handicapped by the lack of a monthly financial consolidation and the absence of an ability to mine monthly financial reports.

What problem is Oflog seeking to resolve? What, for example, can Oflog contribute to data and local government that is not already being done by bodies such as the LGA?

39. We believe Oflog has an opportunity to provide practical insights to local authorities as they develop and extend the dataset they are able to analyse, going beyond the limited set of metrics currently collated and analysed by the LGA.
40. As Oflog develops its Data Explorer and its benchmarking expertise it should be able to support local authorities in analysing their performance against their peers, private sector organisations and best practice. In theory, the consequence should be better outcomes, higher quality outputs and/or more cost-effective inputs.

What degree of independence does Oflog have from DLUHC and how will this impact its work?

41. We believe it is important that Oflog is sufficiently independent from DLUHC to ensure local authorities can trust that the information they provide is going to be used for supporting them in improving their performance and not penalise them for being honest about the challenges they face.

Should the Government ensure that Oflog supports the Government's set aims of levelling up and if so, how?

42. Not directly. We believe Oflog has a key role in supporting both local authorities and central government in achieving their respective policy objectives by providing high-quality analysis and early warning that helps improve their abilities. In practice that should support levelling up as local authorities want to support economic development, improve outcomes and enhance wellbeing for their communities.
43. However, we believe it would be a mistake to confuse Oflog's mission by overlaying additional responsibilities to support individual policies of the day. Such mission-creep could undermine Oflog's strategic objectives.

How should Oflog engage with local authorities and other stakeholders?

44. We have been pleased with how Oflog has sought to work collaboratively with local authorities and other stakeholders as it starts to build up its capabilities. We hope this will continue.

How can the Government ensure Oflog is not an additional resource pressure for local authorities?

45. We believe that it is inevitable that Oflog will be an additional resource pressure as Oflog develops its benchmarking and (in due course) assessment capabilities and it is important that there are no misconceptions about this, or misconceived aspirations for delivering improvements without adequate investment.
46. Oflog will only be successful if local authorities put sufficient time and effort into to delivering improved outcomes, higher quality outputs and better cost effectiveness.
47. We believe the Government can alleviate these resource pressures to an extent by providing 'seed capital' resources to local authorities to enable them to invest adequately in performance improvements, utilising the work undertaken by Oflog to help them do so.
48. The Government could also help by rationalising the Single Data List, either by identifying information that does not need to be collected, combining returns to minimise duplication, or by using the vehicles of a monthly financial consolidation (as we propose) and/or the Whole of Government Accounts submission process (that already exists) to collect data that is useful for multiple purposes.

Will Oflog make it easier to identify financial problems further in advance?

49. Yes – by having a body with a specific remit to identify risks of failure and resources available to carry out this remit, there should, by definition, be an improvement in the quality of financial monitoring being undertaken.
50. However, Oflog will be hampered, at least in the next few years, by both the local financial reporting and audit crisis and by the lack of 'real-time' monthly financial data.

The Government has suggested there will be an annual report for Oflog. How should this data be verified and by who?

51. As a central government agency there is a potential role for the National Audit Office in assessing the effectiveness of Oflog in addition to auditing Oflog's own finances.
52. The most effective route for providing assurance on data provided by local authorities to Oflog is for it to be included in financial statements that are audited or in accompanying narrative reports that auditors are required to review for inconsistency with the information they collect during the course of their audits.

What data should Oflog collect and why?

53. We believe that Oflog should continue to work collaboratively with local authorities and other stakeholders to agree specific metrics that will help inform Oflog in benchmarking and analysing local authority performance.
54. We believe that Oflog should utilise annual financial reports as a key source of information on both operational and financial performance, including local authorities' own assessments of their performance.
55. We believe that the Government should consolidate the financial results and position of local authorities on a monthly basis, in line with basic practice in the private sector. Such a dataset would benefit Oflog by providing 'real-time' granular financial information that could be analysed in depth.
56. Such a monthly consolidation process would also provide a mechanism for the submission of other monthly, quarterly and annual financial and non-financial data, potentially enabling the elimination of existing data submissions.

How can the Government ensure Oflog collects data as efficiently as possible?

57. As far as possible there should be a standardised process for submitting data on a monthly, quarterly or annual basis as appropriate.
58. Most monthly financial consolidation systems provide the capability for submitting financial and non-financial data in addition to core accounting, budgeting and forecasting data. This can often include automating interfaces between internal systems and consolidation submissions, minimising the risk of manual data-entry errors and improving the efficiency of the data collection process.

How should Oflog select the data sources that it uses to develop outcome measures?

59. Carefully – and in collaboration with local authorities and other stakeholders.

Which areas of Oflog's focus currently lack adequate published indicators?

60. The Data Explorer currently only covers a limited number of public services and there is potential to extend the number of indicators significantly. In addition to further numerical measures, we expect Oflog will want to extend its analyses to encompass qualitative aspects of local authority performance, such as governance arrangements, compliance with best value duty requirements, and quality of financial reporting, without which it will be unable to carry out its strategic objective of identifying risks of failure.
61. We reiterate our welcome for the collaborative approach that has to date been adopted by Oflog in the choice of data points to collect and analyse.

Could Oflog support cross-departmental approaches to policy solutions and initiatives?

62. Yes, but we think it is important to limit mission creep. It will take several years for Oflog to develop its capabilities to be able to achieve its strategic objectives, and it would be a mistake to try to use Oflog as a delivery mechanism or intermediary for policy objectives. DLUHC and other governments already have other means of working directly with local authorities to deliver policy solutions and initiatives.

How can the Government explore how Oflog might support the NHS and other anchor institutions locally?

63. We agree that as Oflog evolves it will discover that outcomes are affected not only by local authorities but also by other public institutions such as the NHS, academies and further education colleges amongst others.
64. In due course, there is a case for Oflog to work with NHS England's improvement function, the NHS Health Security Agency and the Office for Health Improvement and Disparities on

health and social care related outcomes, with Ofsted on educational and skills, as well as with other departments and agencies that have an impact in local areas.

How will Oflog support central Government's understanding of local areas and the challenges communities face?

65. We believe Oflog will have a significant impact on the Government's understanding of local areas and the challenges communities face as it develops the Data Explorer and starts to publish its own assessments of local authority performance.