

Preventing failure in local government

Welsh Audit Office

22 May 2024

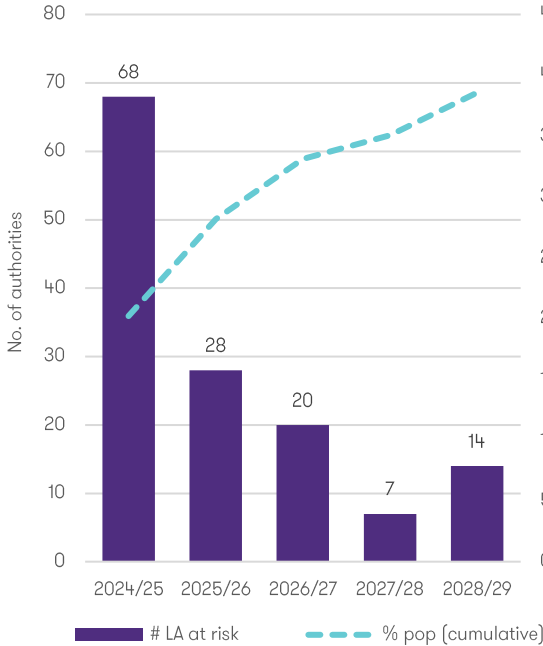
Paul Dossett



Introduction

The financial trajectory of the sector

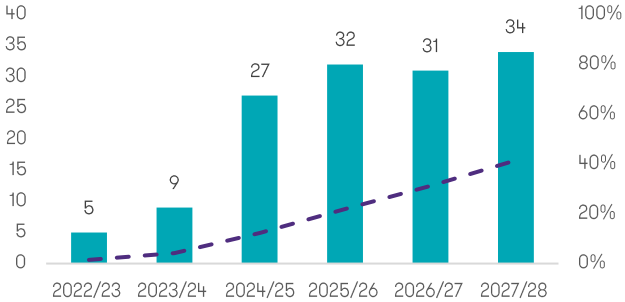
Year at risk



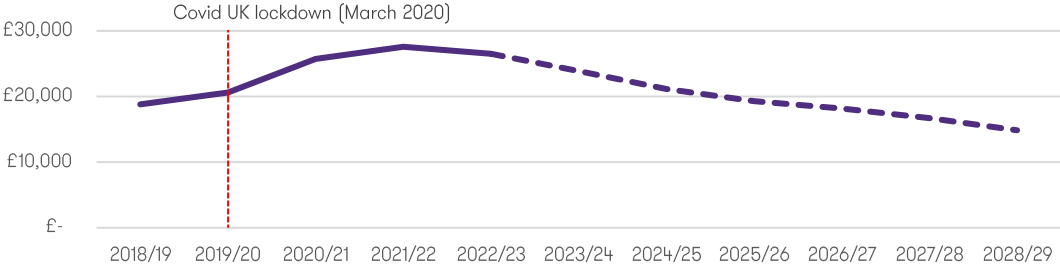
Assumptions

- tve: Inflation continues to add pressure throughout 24/25
- tve: Employee cost pressures continue as a result of the COLC
- +tve: Demand across key cohorts slowing

Year at risk (Historic Position)



Level of reserves



Preventing failure in local government



- Report published on 7 December 2023:
- <https://www.grantthornton.co.uk/insights/how-can-further-local-authority-failures-be-prevented/>
- ALATS, CIPFA, LLG, and SOLACE involved in research phase.
- A follow up report is due to be published in March 2024.

Organisational failure

- Local authority failures remain rare, but they are not as rare as they used to be.
- This report examines the themes that relate to examples of government intervention, auditors use of their statutory powers, and the issuing of S114 or S5 Notices.
- It is important to note that the act of issuing a S114 or S5 Notice may not in itself represent failure. The statutory officers responsible for issuing such notices are typically acting with integrity, often with personal bravery, and in some cases are responding to organisational decisions that took place before they were in role.
- Nonetheless, the issuing of such Notices are signifiers of past or present organisational failure, and this report considers the internal and external factors that can contribute to such circumstances arising, and actions that can help to prevent organisational failure.

Preventing Failure

Report No. 1



Causal factors - structures

Internal factors	External factors
Use of council owned companies	Multiple government departments
S151 Officer or MO not on senior management team	Churn of ministers and civil servants
Over-reliance on interim statutory officers	
Combined authorities	



Causal factors - systems

Internal factors	External factors
Weak risk management and financial management	Funding reductions
Members not fulfilling responsibilities	Competition between councils for additional funding
Internal audit weaknesses	Ease of access to PWLB borrowing
Weak treasury management	Resource constraints on regulators
Lack of commercial expertise	



Causal factors - behaviours

Internal factors	External factors
Weak leadership	Lack of a consistent voice across sector and professional bodies
Poor relationships	
Optimism bias and wilful ignorance	
Statutory officers not fulfilling their responsibilities	
Lack of transparency on decisions	
Lack of commercial skills and failure to take appropriate external advice, including accounting	



Preventing failure - individual councils

Functions and roles	Good practice
Full Council	Effective resource management, ensure members are well informed/trained, auditor's annual reports presented to full Council, allow enough time for in-depth discussion on key decisions.
Executive	Ensure those appointed have appropriate capacity, competence and commitment, and are fully aware of responsibilities.
Overview & Scrutiny	O&SC function respected by Executive and full Council. Forward plan to focus on key strategic issues. Sufficient resources/support to meet functions including for call-ins. Non-partisan approach, independent members. Recommendations should be acted upon.
Audit Committee	Independent chair, members receive specialist training, receive appropriate officer support, internal audit plan focus on key strategic /risk-based areas, be curious, challenge IA/EA.



Preventing failure - individual councils (cont'd)

Functions and roles	Good practice
CEO	Pay attention to development needs, seek mentoring/coaching, have well-developed understanding of legal and financial issues, encourage openness and challenge within the council.
S151 Officer	Undertake CPD, seek independent/external advice where necessary, seek peer support and mentoring when relationships internally are strained.
Monitoring Officer	Ideally be legally qualified, undertake CPD, seek independent external advice where necessary, seek peer support and mentoring.
Internal Audit	Annual plan focus on key risks, complete audits in timely way, clear reporting to AC, follow up recommendations, be adequately resourced.

Golden triangle – active leaders across the organisation



Preventing failure - external bodies

Functions and roles	Good practice/opportunities
NAO	Consider the sector challenges as part of planned review of the Code.
External Audit	Complete audits in timely way, identify poor practice and risks and make appropriate improvement recommendations. Report promptly on issues of concern. Ensure appropriately experienced teams.
LGA	Continue training and development of members, build on recent changes to the corporate peer challenge process, such as expecting all councils to publish the feedback report and an action plan, so that progress on the action plan is reported to Full Council.
CIPFA	Consider oversight activity, consider sanctions regime, management of S151s not CIPFA members.
SOLACE	Offer training to CEOs, specify essential criteria for CEOs, consider mechanism to remove accreditation where appropriate.



Preventing failure - external bodies (cont'd)

Functions and roles	Good practice / opportunities
LLG, CIPFA, SOLACE & ALATS	Develop shared set of standards and expectations for statutory officers, training for aspiring statutory officers, support networks.
DLUHC	Implement Redmond Review recommendations in full, issue guidance on MRP (with CIPFA and HMT), review sector funding regime.
HMT	Consider controls used for PWLB borrowing and early warning system

Summary

- Most councils are well run, and have avoided significant failures, but the sector is facing increasing challenges.
- Legal framework and funding system need to be reviewed.
- Common feature of failures is weak leadership and impact on organisational culture.
- Everyone with expertise, powers or duties should consider safeguards in place and what they need to do individually and collectively – strong collective leadership.
- Understand and learn from past failures, understand and mitigate risk of failure.
- Work collaboratively across professions, hierarchies and organisational boundaries to support good governance and financial management.

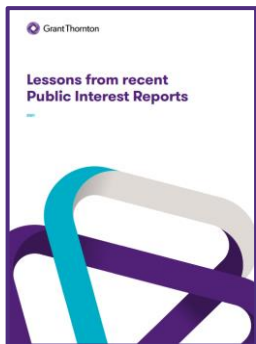
Preventing Failure – follow up report

- To focus on approaches to preventing failure
- Including case studies
- To be published in June 2024

questions



Previous reports



We published our first lessons learned report on Public Interest Reports (PIRs) in March 2021.

A follow up, covering lessons learned from subsequent PIRs was published in September 2022

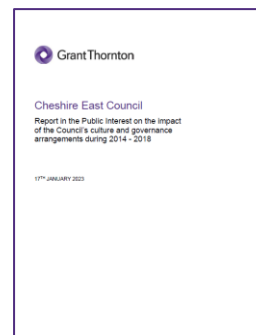


Both reports can be accessed here:
<https://www.grantthornton.co.uk/insights/lessons-from-recent-public-interest-reports/>



Procurement and contract management lessons learned (Dec 2022):

<https://www.grantthornton.co.uk/insights/local-government-procurement-and-contract-management-lessons-learned/>



Cheshire East Council PIR (Jan 2023):

<https://www.cheshireeast.gov.uk/pdf/council-and-democracy/council-finance-and-governance/public-interest-jan2023/cheshire-east-council-final-17-january-2023.pdf>

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