



Lessons learned from VfM audit

CIPFA SE Conference

27 April 2023

Tom Foster



Agenda

Item

Update on PIRs and other interventions

Case Study

Emerging findings in Financial Sustainability

Lessons learned from PIRs and other interventions – An update

Timeline of reports

Part I



- S114 Notices Northamptonshire County Council Feb and July 2018
- Best value inspection report – Northamptonshire County Council March 2018
- Public Interest Report Nottingham City Council August 2020
- Public Interest Report L.B. Croydon October 2020
- S114 Notices L.B. Croydon November and December 2020
- Public Interest Report Northampton Borough Council January 2021
- Best Value Inspection Liverpool City Council March 2021

Timeline of reports

Part II



- Statutory Recommendations – Copeland Borough Council February 2021
- Best Value Inspection – Liverpool City Council March 2021
- Public Interest Report – York Council April 2021
- Statutory Recommendations – Slough Borough Council May 2021
- S114 Notice – Slough Borough Council July 2021
- Statutory Recommendations – Slough Borough Council July 2021
- Statutory Recommendations – Thanet District Council October 2021
- S114 Notice – Nottingham City Council December 2021
- Statutory Recommendations – Sandwell Borough Council January 2022

Timeline of reports

Part III



- Public Interest Report – L.B. Croydon January 2022
- Public Interest Report – Pembrokeshire County Council January 2022
- Public Interest Report – Blaenau Gwent County Borough January 2022
- Statutory Recommendations – Copeland Borough Council March 2022
- S114 Notice – Northumberland County Council May 2022
- Independent Monitoring Officer report – Thanet District Council May 2022
- Independent Governance Review – Northumberland County Council June 2022
- Threatened Statutory Recommendations – Middlesbrough Council July 2022

...and interventions continue

- Best Value Inspection – Thurrock Council, **September 2022**
- DLUHC Non-statutory independent review, Woking BC, **Oct 2022**
- S114 Notice – LB Croydon, **November 2022**
- Statutory Recommendations – West of England CA, **November 2022**
- S114 Notice – Thurrock Council, **December 2022**
- Public Interest Report – Spelthorne BC, **December 2022**
- Public Interest Report - Cheshire East Council, **January 2023**
- Best Value Notice – Cambridgeshire and Peterborough CA, **Jan 2023**
- Best Value Notice – Middlesborough Council, **January 2023**



Department for Levelling Up,
Housing & Communities

Engaged by DLUHC

An independent evaluation of councils facing financial risk, governance issues, or commercial risk.

Key themes

The key themes from the latest set of reports are:



- 1 Leadership, cultural and governance failures
- 2 Failure to understand and manage the risks associated with external companies
- 3 Failure to address and resolve relationship difficulties between senior officers and members
- 4 Financial capability and capacity
- 5 Audit Committee effectiveness

1. Cultural and governance failures



- Information not shared – politicians not including officers in discussion/ officers not sharing with Members
- Corporate reluctance to make U-turns
- Not using or not fully using processes for declaring interests, gifts and hospitality.
- Member Code of Conduct not used
- Patterns of denial - Transparency and selflessness in public office not being paramount
- Delegating parts of tasks – so that no one can see the whole.
- Instructions not given in writing

2. Failure to understand and manage the risks associated with external companies



Support to failing companies to avoid reputational damage, *can lead to...*

- ➔ ...unlawful public subsidy, and lack of efficient, effective and economic use of public money – losses as high as £30m in one case
- ➔ Insufficient understanding of the Companies Act and Financial Reporting regulations
- ➔ Poor investment in risk management
- ➔ Lack of skills around commercial decision-making/undermined quality of oversight



3. Failure to address and resolve relationship difficulties between senior officers and members

- Members using FOI requests to access information they are entitled to
- NDAs used to stifle transparency
- High value severance payments to very senior officers - > £100,000
- Complainants involved in the governance of investigations about themselves
- Failure to establish and recognise statutory responsibilities in relation to whistleblowing
- Inadequate disciplinary procedures

4. Financial capability and capacity



- Prevalence of interim and acting up arrangements in senior finance officer roles. Effective back-fill arrangements not in place
- Unclear where future s151 Officers will come from/similar issues may apply to Monitoring Officer role
- Only 69% of councils in England submitted draft 2021/22 accounts to their auditors by the required deadline (2020/21: 77%)
- Diminishing reserves and lack of medium term financial planning
- Financial accounting impacts of new schemes not always understood

5. Audit Committee effectiveness



- CIPFA requires that the membership is “balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role” with a “strong, independently-minded chair...who promotes a-political open discussion”
- We have seen examples of committees voting on party lines and failing to accept the merits of challenges from opposition party members
- Right skills, knowledge and training needed to secure effective oversight
- Independent experts could be considered
- Focus should be on focus on asking the right questions and ensuring the implementation of agreed actions

Practical steps to safeguard arrangements



- ✓ Regular reviews of key governance policies such as the Constitution, whistleblowing and confidential reporting, fraud prevention and anti-corruption policies
- ✓ Code of Conduct training for Members and Officers
- ✓ Training in external companies and update this regularly, for both Members and Officers
- ✓ Skills audit where Members and Officers are directors of companies. Buying-in appropriate independent professional advice.
- ✓ Explicit shareholder agreements and nominated shareholder representatives
- ✓ Regular reviews of complaints. Conflict of interest management for investigations and grievances

Practical steps to safeguard arrangements



- ✓ Training needs assessments and succession planning for finance teams
- ✓ Capacity assessments/vacancies identified/clear plans developed for preparing financial statements
- ✓ Consider the CIPFA Financial Management Code and what actions are required to ensure full compliance with these requirements
- ✓ Training for Audit Committee members; annual self-assessment of Committee effectiveness; consider commissioning independent review of effectiveness
- ✓ Action Plans for open Audit Committee recommendations
- ✓ See internal and external audit as critical friends. Challenge to be seen as an opportunity to reflect

Case study

January 2023 Public Interest Report (PIR)

Cheshire East Council

Background

- In January 2023 we issued a PIR which concerned the culture at Cheshire East Council, the role and conduct of the then Leader, and a particular set of events around a procurement, with the procurement being an exemplar of the Council's culture at that time.
- There was an anonymous whistleblowing communication in 2015.
- Our audit inquiries were delayed for a number of years by an investigation by the Police, which did not lead to any prosecutions.
- We hope this report will encourage the ongoing debate around the effectiveness of the standards regime for local government and support mechanisms for both officers and members facing the same intractable difficulties.

Key findings

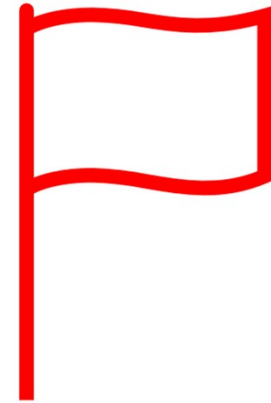
- A procurement of physical exercise classes for schools in 2014 inappropriately favoured a company owned by the “trusted friend” of the Council Leader.
- The procurement was anyway unusual – physical exercise classes were normally procured through schools’ own budgets.
- The pilot for the physical exercise classes was not put out to market.
- Unusual support in submitting tender documents for the main contract was given to the company running the pilot.
- The pilot was extended when the company running the main pilot came 5th in the competition for the main contract.
- The scope of work on the extended pilot increased from £85,000 to £188,000 without competition.

Key findings (cont'd)

- The then Leader was deemed to have behaved in a manner that sought to influence certain senior officers into taking steps and decisions that would achieve his own objectives in relation to the company who was appointed, even if this meant bypassing or overriding the Council's established controls. In our view, some of his wider behaviours were bullying, intimidatory and aimed at seeking to get his own way in matters without recourse to
- The report criticised a number of senior officers, including the then CEO for not fostering governance standards that would have prevented the procurement, and the then COO for inappropriately acting on the wishes of the leader.
- The then Head of Internal Audit demonstrated high standards of professional behaviour and personal bravery in bringing these matters to our attention, in spite of the challenging organisational culture in place at the time.

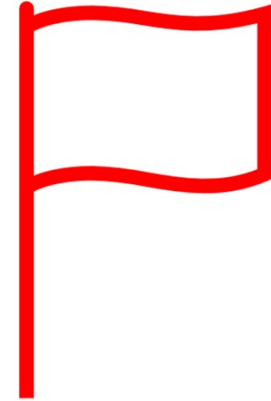
The red flags

- Officers called it the ‘Core Fit procurement’
- Help with tender
- Gathering of all senior officers at evaluation panel
- Core Fit came fifth – on price and quality
- Extend pilot but with Core Fit alone
- Piloting beyond the date for re-procurement
- Scope creep and waivers/no compliance records
- No DBS checks



The red flags

- Leader's comms with Core Fit's director, his 'trusted friend'
- Leaking 'confidential strategy' to a supplier
- Relationships within Cabinet and party
- Trip to Spain
- Other senior officers
- Culture had normalised 'drawing the line' in the wrong place



Emerging findings

Financial sustainability

Our work on financial sustainability

- As a firm, we have reviewed or are in the process of reviewing financial sustainability at over 100 councils in England for 2021/22.
- This includes a cohort of London boroughs and other single-tier and two-tier councils.
- This is primarily through our external audit VfM responsibilities.
- While most councils are experiencing financial stress, we have raised concerns and significant weaknesses in financial sustainability and the associated management arrangements in a number of cases
- While these findings relate to Councils, we see common themes across the public sector
- We highlight some emerging themes on the following slides.

Signs of financial stress

- The number of S114 notices remains comparatively small, however, some councils are closer than they were in previous years.
- Inflationary pressures have been hard to deal with across staffing costs, contract spend and capital programmes – not just social care.
- In many cases, the settlement alleviated the position somewhat
- But, most councils faced a significantly larger medium-term deficits than they had set in February 2022.
- This has commonly resulted in the use of reserves and other short-term measures to balance finances for 2023/24, and expanded savings programmes from 2023/24 onwards.

Characteristics of a resilient council - Strategy

- Early resolution of financial imbalances – major structural reform
- A firm understanding of the cost of services and modes of working
- Clarity and transparency on the underlying financial position
- Investment in bringing the politicians and public on board
- Consultation and communication on core priorities (e.g. Core Offer)
- Adoption and expectation of continuous drive for efficiency
- A strong financial culture, throughout the services
- Strong financial accountability and responsibility

Characteristics of a resilient council - Reserves

- Those that resisted calls to write down reserves, have fared better
- Use of earmarked reserves to manage financial uncertainty and risk
- Backed by a robust financial risk assessment
- Regular review of earmarked reserves that could be re-deployed
- Priority in budget management and MTFP to protect and build reserves
- Where reserves expended, strict policy to build back in the MTFP
- Benefit of early and open dialogue with members

Characteristics of a resilient council - Savings

- Established management infrastructure around savings and transformation that can be expanded
- Some had got 'out of practice' over the past 3-4 years
- Service budget holders who are experienced in delivery
- Availability and access to specialist support
- Effective training, processes and templates
- Ownership and accountability for delivery among service managers
- Strong corporate governance of delivery
- Genuine transformation over multiple years, rather than top-slicing

Characteristics of a resilient council – planning

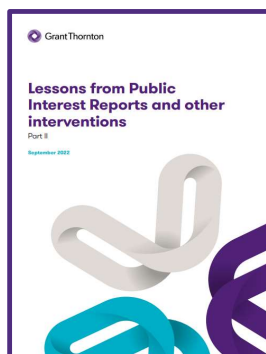
- Some councils benefitted from reacting quickly over the summer
- Harder task for those who delayed and waited for the settlement
- Regular or more frequent MTFP updates
- Most councils maximised Council Tax and Social Care Precept
- Supporting strategies for workforce and care market
- Longer term financial planning horizons useful to plan recovery
- Use of scenarios and sensitivities
- Willingness to make assumptions about future funding policy

Lessons learned 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/>



Here's a link to the Cheshire East Council Public Interest Report: [Report in the Public Interest on the impact of the Council's culture and governance arrangements during 2014 -2018 \[cheshireeast.gov.uk\]](https://www.cheshireeast.gov.uk)



Our procurement and contract management lessons learned report was published in December 2022: <https://www.grantthornton.co.uk/insights/local-government-procurement-and-contract-management-lessons-learned/>

Presenter contact details

Tom Foster

Principal Consultant, Grant Thornton UK LLP

T 07920 073654

E Thomas.foster@uk.gt.com



grantthornton.co.uk

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