



**South East Region  
Essex Hub Group Meeting  
24<sup>th</sup> January 2024  
at  
Essex County Council**



# Preventing failure in local government

CIPFA South East: Essex Hub

24 January 2024

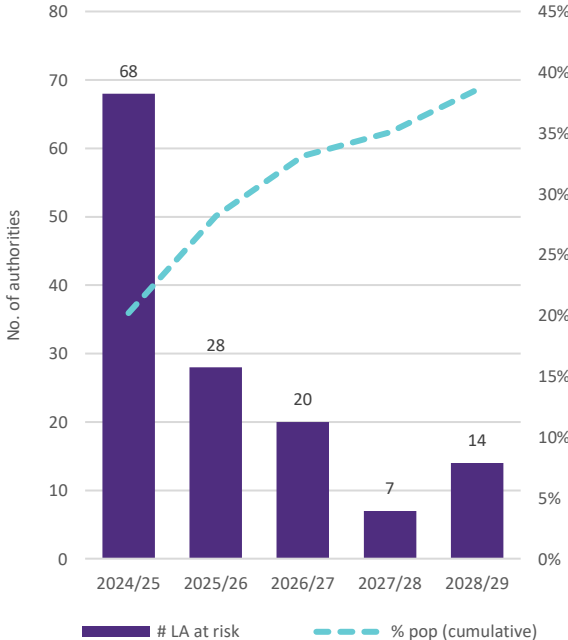
Guy Clifton and Richard Thomas



# Introduction

# The financial trajectory of the sector

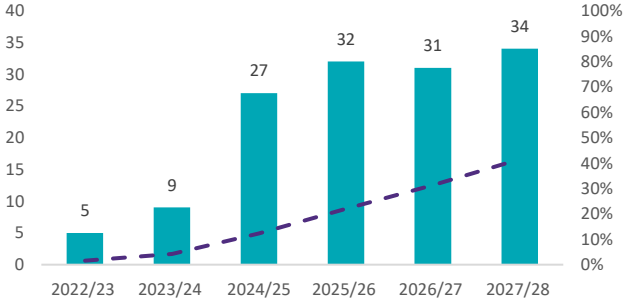
Year at risk



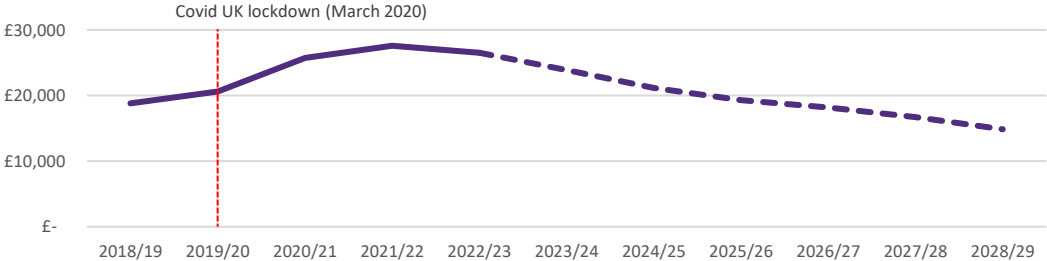
Assumptions

- 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 February 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

Report No. 2

**This represents a preview of our findings**



# Principles informing our second report

- Although a common feature of failure has been weak leadership and its impact on organisational culture, many well-run authorities are now reaching the point of failure.
- Even if governance, leadership and culture are effective, it may not be possible to prevent failure.
- The sector needs to understand and learn from past failures to mitigate future risk; however, this will have limited impact without fundamental reform to local government finance.
- Statistical grip on sector performance has been weak post Audit Commission, which has contributed to why current issues have gathered a head of steam.

# Identifying your council's risk category

## High-Risk Councils (Immediate Threat within 6-12 Months)

These councils face imminent financial failure or severe service disruption.

Characteristics include critical budget deficits, rapidly depleting reserves and unsustainable debt levels. Immediate action is necessary to avert a crisis.

## Medium-Risk Councils (Potential failure within 12-24 Months)

These councils risk encountering significant financial difficulties in the short to medium term.

They will be experiencing mounting pressures, moderate debt levels and/or budgetary strains that could escalate into more severe problems if not proactively managed.

## Lower-Risk Councils (Stable, with Potential Risks Beyond 24 Months)

Councils in this category are currently financially stable, with sound reserves and manageable debt.

However, they must be vigilant and proactive to maintain this status, as potential risks may arise in the longer term (beyond 24 months).

# High-Risk Councils

## Immediate threat within 6-12 months

### Workstreams:

- Developing a customised financial turnaround plan
- Ensuring compliance and good governance
- Stakeholder engagement (DLUHC, LGA, Auditor etc.)
- Long-Term Recovery Planning

### Three-Levers Cost Reduction Methodology

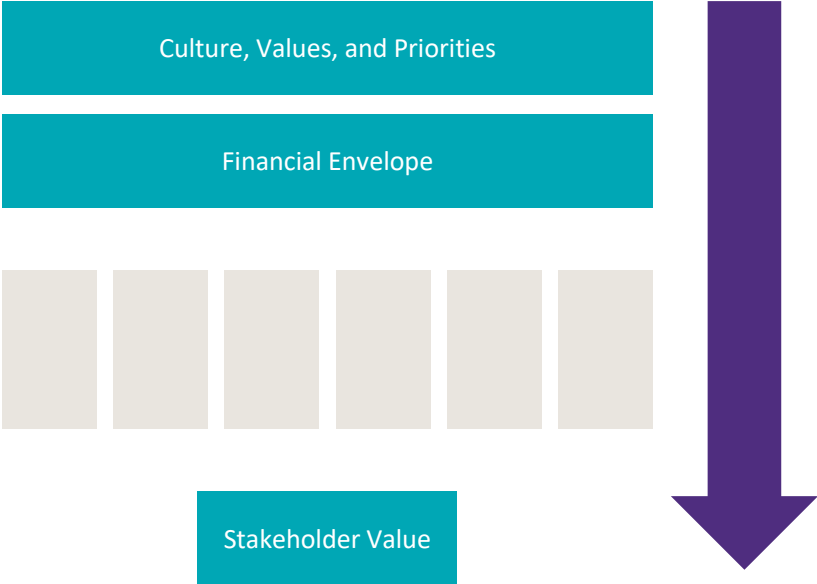
- i. **Optimise** - Augmenting essential activities/services and processes to create a new 'lean cost structure'
- ii. **Resize** - Adjusting the cost base based on affordability
- iii. **Stop** - Seizing non-essential/strategically important activities

# Medium-Risk Councils

## Potential failure within 12-24 Months

Workstreams:

- Unlocking proactive measures for financial stability
- Improving financial risk management framework
- Management capacity building
- Strategic resource allocation



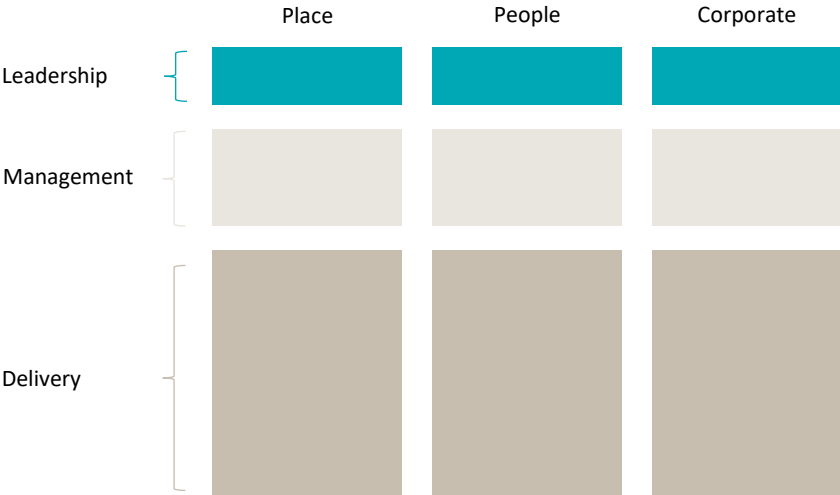
# Lower-Risk Councils

## Stable with potential risks beyond 24 months

Workstreams:

- Alignment of purpose, innovation, and evidence for change
- Future operating model design and prioritisation
- Business case development and implementation plan

### Traditional Municipal Hierarchy



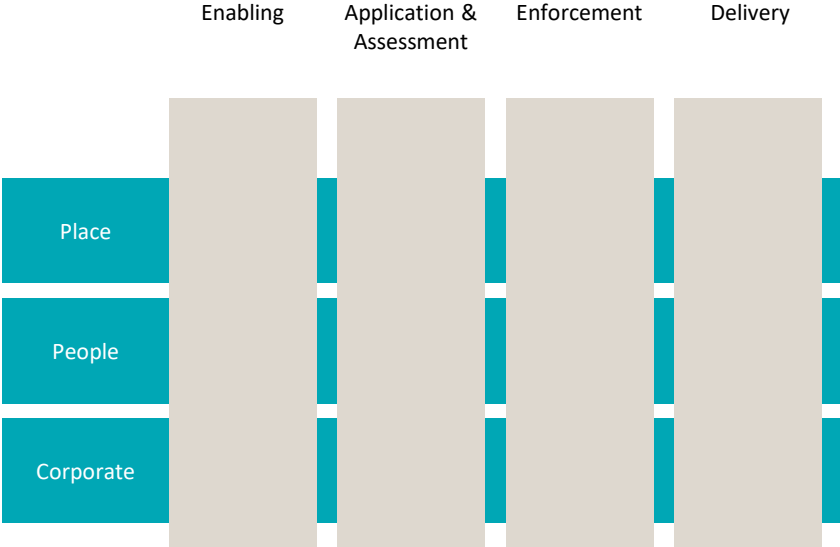
# Lower-Risk Councils

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Future operating model?



# Finance team capacity

# Finance team capacity – dealing with complexity

## Why is finance team capacity under pressure?

- Prolonged period of increased demands finance teams, through reduced funding and savings, regulatory change, Covid, economic uncertainty and financial statement delays.
- Increased complexity of financial reporting – e.g., Commercial Activity.
- New accounting implications – IFRS 16 (impacts of infrastructure accounting).
- Financial statement delays.

## Impacts of these external and internal factors on capacity

Insufficient capacity in finance teams and corporate services

Reduction in accounting technical capability within teams

Insufficient succession planning

Reduced efficiency of accounts production process and instability of team

Increased complexity and levels of challenge

Lack of commercial and technical support

Complex accounting treatments inappropriately scrutinised

Commercial transactions – not delivering/ increased risk

Reduced ability to deliver new accounting standards (IFRS 16) and BAU

Reduced effectiveness of systems and process

Accounts delays – complex transactions may go untested

Reduced ability to deliver new regulatory change



# Finance team capacity – dealing with complexity

## How we can help

- Through our work with the sector, we recognise the challenges that you face and are keen to support.
- We are building a team to provide direct support to finance teams in relation to:
- **Technical Accounting:** Commercial activity, complex transactions, adhoc advice or implementing a new standard (e.g. IFRS 16).
- **Financial reporting:** Accounts production support, audit readiness, improved efficiency of accounts production and capacity provision.
- **Finance Function:** e.g. Financial Governance, process and control effectiveness
- **Example benefits:** 1) Proactive understanding of accounting treatment before entering transactions; 2) Ability to sense check complex accounting or financial reporting in advance of audit; 3) Provide additional support with one off matters; 4) As auditors we understand what auditors will need.

***I would welcome the opportunity to meet with you, to understand your challenges.***

# Panel discussion / questions

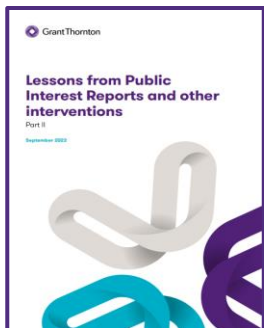


# Previous reports



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

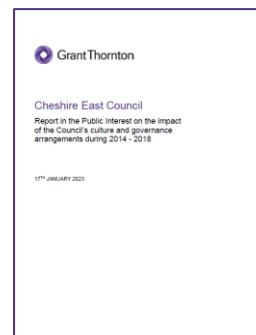


Both reports can be accessed here:  
<https://www.grantthornton.co.uk/insights/lessons-from-recent-public-interest-reports/>



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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