



Failing Councils What can we learn?

Corporate Policy and Scrutiny Committee

14 December 2023

Local Government is big news



'Bankrupt' Birmingham City Council braced for government intervention

Man bought private jet and Bugatti supercar after council gave him £655m of taxpayers' money

At least 26 English councils 'at risk of bankruptcy in next two years'

Research from body representing 47 authorities says many could follow Slough, Croydon, Thurrock and Woking into collapse

The 2019 warnings about Woking's Singapore dreams: 'I asked officials how they slept at night over debt'

Bankrupt Woking Borough Council was warned four years ago by an independent group of councillors and council officials about its level of debt and lack of transparency - now it's off the scale

Local Government failure - what can we learn?

Recap on what's going on in sector

Common features of failure

What's being done to help avoid in future

Some examples...



Long term deterioration in financial resilience and low levels of reserves; plus serious concerns around optimism bias and non delivery in its **housing company** – no proper decision making. Formal intervention announced on 20 July 2023, moving previous panel to statutory. Directions on individual priority areas of finance and housing.



Concerns about planning, highways, regeneration and property management at Liverpool City Council. Merseyside Police investigation into fraud, bribery, corruption and misconduct in public office, which involves a significant connection to Liverpool City Council. Intervention 10 May 2021. Significant governance failures – legal kept out of reports.

Northamptonshire



County Council

Following the Ofsted inspection report published in August 2013 which resulted in an 'inadequate' judgment and the subsequent Statutory Direction, NCC lost budgetary control and appeared to abandon strong and effective budget setting scrutiny. The organisation was split up into many small companies. Led to replacement of NCC and the six districts with two unitary authorities.



The Council has failed to act on the warnings, clearly stated by their Section 151 Officer, to manage their budgets. Many risks have materialised, most notably the failure of Robin Hood Energy. Statutory intervention on 22 June 2022

Further examples ...



Statutory intervention started in September 2022. Borrowing strategy failed when other LAs were advised not to lend to it. This created a sudden urgent need to secure government funding. As a result of this the nature and scope of the investments became clear. The increase in interest rates exacerbated the situation. Best Value Inspection report published 15 June 2023 identified serious and systemic failures across political and corporate leadership, poor decision making, inadequate scrutiny and culture of secrecy. £1.2bn debt, annual spend of £135m



Slough made many property investments in the Borough which proved unsustainable and a restructure put people in jobs which didn't match their professional experience or knowledge. Professional experience was lost. The Council has worked hard to sell off assets and rebuild the corporate centre but two years later there is still much to do.



Government announced intervention due to serious financial and governance issues 19 September 2023: Max Caller appointed commissioner. Birmingham City Council's s151 issued a s114 report caused by backdated equal pay liability (est £760 million), large in-year budget deficit and failure to implement a new finance IT system. There are grave financial concerns.



Commissioners appointed in May 2023. The Council has 15 wholly owned companies and eight joint ventures ranging from property developments to investments designed to increase the number of guest houses in the Borough. Debts of £1.2bn, annual budget of £16m.

The Week in Housing: do council housing companies ever work?

INSIGHT 02.12.22 3.00 PM BY JACK SIMPSON



Property companies

- Many authorities have invested in property
- Many authorities have experienced serious difficulties with their companies/property investment:
 - Croydon
 - Cambridgeshire
 - Woking
 - Spelthorne
 - Thurrock
 - Lambeth
 - Liverpool

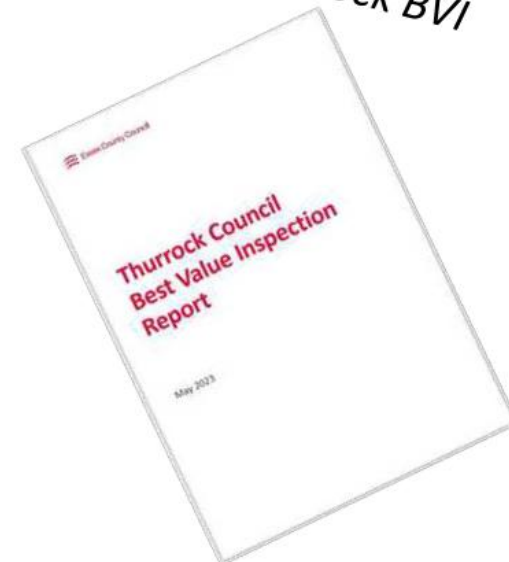
The common organisational problems

- Poor leadership culture
- Dereliction of political leadership
- Excessive self-confidence
- ‘Exotic solutions’ to avoid transformation
- Failure of governance, scrutiny and ‘checks and balances’
- Incomplete or inaccurate information given to members
- Systemic weakness - not individual actions
- Weakened corporate centre –inadequate financial management and internal controls
- Often poor change and project management

“Biggest lesson to emerge for other councils was the importance of being ‘self aware’

Tony McArdle (BVI Nottingham)

The Council’s lack of openness and transparency has given rise to a culture of **insularity and complacency**. Internal challenge has been discouraged, undermined the Council’s ability to learn .. (sic) putting Thurrock in a state of ‘unconscious incompetence’ *Thurrock BVI*



Common facts

- Failed major projects – failing to deliver or overspent
- Unusual financial engineering/investments/acquisition of debt
- Poor governance – number of monitoring officers is one metric
- Poor situational awareness
- Not having proper controls or paying lip service to them.
- New offices/vanity projects



The common financial problems



Erosion of reserves

Unbalanced budgets
'mañana' approach

Under
capacity/capability of
key corporate
resources

Optimism bias on
commercial outcomes

Over exposure

Lack of political and
corporate
engagement on core
financial management

Significant technical
failures (notably in
capital accounting and
MRP 'debt paydown')

Transformation often
in name only – no
accountability for
delivery

Short termism

What is a commissioner and what has it meant for us?

- The Local Government Act 1999 – gives secretary of state power to send in commissioners to take over functions – rare to exercise powers, but they are there as a last resort.
- Variety of commissioners
- Appointment process by DLUHC
- For ECC officers it has meant
 - Opportunity to make a difference
 - New perspectives
 - New connection to Whitehall
 - Learning
 - Humility



What is being done to try to stop this happening?

- LGA Improvement and Assurance Framework – mapping and analysis of what should be in place
- Code of conduct for statutory officers being developed jointly CIPFA SOLACE LLG
- Best value guidance – DLUHC
- CIPFA resilience index
- Rule of Law and Ethics for in house lawyers being developed by Law Society
- Review of role of monitoring officer being undertaken to try and define.
- OfLoG creation by DLUHC
- DLUHC capital risk matrices



Reasons to be cheerful?



- There's no room for complacency. We can't assume that it couldn't happen here.
- We have strong internal controls and good decision making
- We have a culture of internal challenge, scrutiny
- We have good member/officer relationships
- Our politicians understand the challenges
- Creation of Financial Oversight Board
- Our size gives us resilience, but can magnify risks.

