



Present Tense

RENEWING AND REFORMING LOCAL
FINANCIAL GOVERNANCE TOWARDS LONG-
TERM RESILIENCE AND SUSTAINABILITY

By Callin McLinden & Joe Fyans

About Localis

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We are a leading, independent think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

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- **Decentralising political economy.** Developing and differentiating regional economies and an accompanying devolution of democratic leadership.
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- **Extending local civil capacity.** The mission of the strategic authority as a convener of civil society; from private to charity sector, household to community.
- **Reforming public services.** Ideas to help save the public services and institutions upon which many in society depend.

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We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas. We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme. We also run a membership network of local authorities and corporate fellows.



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Dedication

This report is dedicated to the life and memory of past president of Lawyers in Local Government, Suki Binjal, who tragically died a few weeks after taking part in our final evidence session.

If life is indeed the greatest of all treasures, then Suki's working life in local government was that of a wish-granting jewel, one devoted to unstinting ethical service and upholding the highest standards in public life.

In the words of Rachel McKoy, Director of Law and Governance at the London Borough of Newham, Suki was a 'champion of all women, guardian, mentor and font of wise counsel'.

Acknowledgements

Present Tense is the culmination of high-level engagement and dialogue in recent years and the fruit of three focused roundtable research discussion meetings and interviews with key experts and stakeholders from across the spectrum of local governance stakeholders and interested parties

We are very grateful to all those who gave up their time to talk through the past, present and possible future of local governance reform, which has contributed to this report invaluable.

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Finally, we would like to thank our colleagues at Localis for their vital feedback support and to Jonathan Werran for initiating the project concept.

Any error or omissions remain our own.

Callin McLinden and Joe Fyans

Roundtable series and interviews

Localis held three research roundtables and separate interviews to support this research project. We would like to thank the participants, listed below, for their time and input.

- Evi Bell, Head of Governance Reform and Democracy Unit, MHCLG
- Suki Binjal, Past President, Lawyers in Local Government
- Cllr Abi Brown OBE, Chair, LGA Improvement and Development Agency Board
- Simon Christian, Director, Public Services Consulting, Grant Thornton UK LLP
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- Professor Colin Copus, Fellow, Localis
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- Paul Dossett, Partner, Audit, Grant Thornton UK LLP
- Emma Foy, Vice Chair, Society of District Council Treasurers
- Amardeep Gill, Head of Public Sector, Trowers and Hamlins
- Josh Goodman, CEO, Office for Local Government
- Cllr Roger Gough, Leader, Kent County Council
- Michael Hyatt, Professional Practice Lead, Local Government & Social Care Ombudsman
- Derek Jamieson, Head of Membership, Institute of Internal Auditors
- Abdool Kara, Executive Director, National Audit Office
- Owen Mapley, Chief Executive, CIPFA
- Tony McArdle, Commissioner
- Aneeka Muneer, President, Lawyers in Local Government
- Dr Barry Quirk, Independent Expert
- Mark Rogers, Chief Executive, Leadership Centre
- Mel Stevens, Chief Executive, Centre for Governance and Scrutiny
- Mark Towers, Deputy Chair, Association of Democratic Services Officers
- Heather Wills, Principal Adviser – Finance and Governance, Local Government Association

Executive summary

This pamphlet looks to assess the current state of local government financial governance and sustainability to ask what the case for reform might be. The scope includes a focus on examining systemic governance issues, understanding the implications of austerity, and exploring necessary reforms for both financial resilience and transparency. The overall narrative has been derived from a series of expert roundtables and research interviews conducted with leading stakeholders from across the world of local government, audit, and scrutiny. We conclude with a set of recommendations to central and local government for renewing and reforming local financial governance towards long-term resilience and sustainability.

There is an extensive body of literature detailing the impact of austerity policies on local governance, with budget and back-office cuts that have seriously strained financial resilience and capacity. As documented in the Redmond Review of 2020, local authorities struggle within a weakened governance framework, especially following the dismantling of oversight bodies like the Audit Commission. Many councils, while responsible for delivering statutory services, have increasingly relied on speculative commercial ventures to offset funding deficits. It is for these reasons that the new government came into power in July 2024 and soon announced an intention to shake-up local audit and rebuild local government finance 'from scratch'.

Primary challenges facing local government

The challenges facing the system which these reforms seek to overcome must be understood in their stark totality. The research for this pamphlet identified three primary challenges facing local government as they pertain to governance and oversight:

- **Erosion of governance structures and capacity:** Years of austerity have weakened governance structures and reduced the capacity of local authorities to manage finances, oversee contracts and ensure sound decision-making.
- **Inadequate and unsustainable funding models:** English local government is overly dependent on central government grants and has minimal local tax-raising powers. This undermines long-term strategic planning and forces local authorities into short-term budget cycles.

- **Lack of local accountability, transparency, and public engagement:** The complexity of local authority financial reports hinders public understanding and engagement, which undermines transparency and trust.

Addressing these interdependent challenges will require a deep understanding and a multifaceted approach that encompasses governance reform, sustainable funding models, and a renewed commitment to open, transparent governance and a reinvigorated public sector ethos.

Prerequisites for reforming governance

Any attempt to reform, renew or revitalise local government must begin from a standpoint of shared understanding between local councils and the central state. Key insights gathered from our evidence-taking process form the basis of the following prerequisites for reforming local governance:

- **Defining the purpose and expectations of local government:** There is a need for mutual agreement between central and local government on the purpose of local government and what it can realistically be expected to deliver. This includes recognising the dual mandate of local government as both a provider of core services and a steward of place.
- **Understanding what is wrong with the current system:** The research engagement for this project saw several key flaws in the current system repeatedly identified by stakeholders, including:
 - Governance erosion.
 - High-risk commercialisation.
 - A lack of transparency and public trust.
- **Recognising the changes in context:** When appraising the need for reform of local governance, it is important to take stock of how different today's world is from the one in which the system was designed. Two landscape-altering processes worthy of special consideration are the abolition of the Audit Commission and the rise of decentralisation with the combined authority model.

Principles for a renewed system of governance

The research discussions held for this report revealed a litany of areas where governance and scrutiny could be strengthened through focused and targeted reform. Based on the prerequisites for reform, the list below summarises some principles for a renewed system of governance:

- **Defining institutional roles and responsibilities:** Local authorities need clearly defined roles and responsibilities, both in relation to central government and to other local actors. This includes clarifying the role of statutory officers and ensuring they have the support and protection they need to effectively perform their duties.
- **Supporting strong leadership and professional development:** Strong leadership is essential for good governance. Research roundtables and interviews for this project repeatedly stressed the need to address poor leadership at both the central and local government levels. Connected to this is the importance of professional development for both elected members and officers.
- **Strengthening oversight and scrutiny:** With a sizeable 'audit gap' in local government and a proliferation of governance concerns, there is a clear need for a strengthening of both internal and external oversight mechanisms. Internally, this includes strengthening internal audit functions and whistleblower protections. Externally, it includes rebuilding independent oversight of local government through both investment in the audit sector and institutional reforms to remedy the governance erosion of the past decade.
- **Balancing the need for more funding and the need for better governance:** There is no denying the need for increased funding for local government. Central government will, at some point, have to reckon with the true cost of providing local services and the impact this has on the ability of councils to act as stewards of place. However, funding alone will not solve all of the challenges. Improved governance is also essential to ensure that funding is used wisely and effectively.

Moving forward

In renewing governance, the task for local authorities – to focus on meeting their statutory obligations and pursuing innovative governance strategies without compromising their core functions – is extremely challenging. Despite this, across the sector, many councils are already actively engaged in reform and organisational development to respond to the challenges identified. Many of the recommendations at the end of this pamphlet are drawn from this best practice. However, there is still work to be done in universalising a reformist mindset in the sector, and ensuring that an ethos of public service combined with long-term, strategic thinking guides local decision-making and service provision everywhere in England.

From a central government perspective, the road to reform begins with a shift from a centralised, adversarial approach to overseeing local government to a collaborative model, empowering local authorities to make financial decisions based on local needs and priorities. Furthermore, the government should actively support and respect local decision-making on certain matters as a principle of subsidiarity, recognising the expertise and great potential of local authorities to manage their finances and services.

Introduction

In English local government, the ‘golden triangle’ of chief executive, monitoring officer and chief finance officer – who exercise their leadership responsibilities to own and champion good governance and effective financial management in local government – is a well-established model. Beyond the functional corporate responsibilities, the culture for ensuring financial sustainability across local government requires the constant vigilance of strong governance and effective scrutiny.

The year 2024 marks the fortieth anniversary of the Rates Reform Act 1984, an effort by central government to restrict the tax and spend powers of the local state in the face of the rate-capping rebellions in Lambeth and Liverpool. Considering the many changes to the role and corporate running of a local government system that has undergone successive radical transformations, a political economy that has also moved on dramatically, and a technologically driven age far removed from the eight-bit ZX Spectrum era, there is a prima facie case for necessary reform and renewal.

This pamphlet looks to assess the current state of local government financial governance and sustainability. The scope includes a focus on examining systemic governance issues, understanding the implications of austerity, and exploring necessary reforms for both financial resilience and transparency. The bulk of the narrative and conclusions were drawn from a series of expert roundtable discussions and research interviews, involving leading stakeholders from across the world of local government, audit and scrutiny.

The case for reform and renewal

The local government financial landscape in the England of 2024 is vastly different to that of 1984, having been shaped largely by austerity measures and a political drive toward decentralisation without proportionate financial support. There is an extensive body of literature detailing the impact of austerity policies on local governance, with budget and back-office cuts that have seriously strained financial resilience and capacity. Additionally, the COVID-19 pandemic further exacerbated financial vulnerabilities, making the need for governance reform more urgent as councils face increasing demands with fewer resources.

As documented in the Redmond Review of 2020, local authorities struggle within a weakened governance framework, especially following the dismantling of oversight bodies like the Audit Commission. Many councils, while responsible for delivering

statutory services, have increasingly relied on speculative commercial ventures to offset funding deficits. However, these ventures have at times led to further financial instability, amidst a system of audit and oversight that has become severely downgraded. It is for these reasons that the new government came into power in July 2024 and soon announced an intention to shake-up local audit and rebuild local government finance 'from scratch'¹. The challenges facing the system which these reforms seek to overcome must be understood in their stark totality.

Primary challenges

Erosion of governance structures and capacity

Years of austerity have eroded governance structures across local government, particularly in back-office functions such as finance, legal, and administrative support. This has hindered authorities' ability to manage finances, oversee contracts, and ensure sound decision-making. The dismantling of bodies like the Audit Commission, along with a fragmented external audit market, has created an accountability gap, enabling poor financial practices and risky behaviours to go increasingly unchecked.

At the same time, local authorities are increasingly pursuing commercial ventures as a means of diversifying income, exposing them to financial risks that require robust governance. However, these changes have coincided with significant reductions in internal capacity and expertise on such matters. Councils have faced headcount reductions, long-standing unfilled managerial posts, and over-reliance on contractors, exacerbating concerns about internal control standards, IT security, and long-term financial risk management. The lack of commercial expertise among both members and officers, compounded by complex accounting frameworks and a stretched external audit system, raises serious concerns about the sustainability of the local governance finance system as it stands.

Inadequate and unsustainable funding models

English local government operates under an unsustainable and highly centralised funding model that leaves local authorities overly dependent on central government grants, with minimal local tax-raising powers. This financial dependency, exacerbated by the suspension of business rates retention reforms, undermines long-term strategic planning and investment, forcing local authorities into short-term budget

1 Local Government Chronicle (2024) – [McMahon promises to rebuild council finances 'from scratch'](#)

cycles and reactive decision-making. The obfuscated bureaucracy and competitive nature of funding allocations has further stifled local autonomy, as councils prioritise projects aligning with central government goals-of-the-day rather than long-standing local needs.

Although improved financial governance is desperately needed across local government, the system – characterised by central control over tax revenue and stringent limits on local council tax – fundamentally restricts local government’s capacity to respond effectively to financial challenges. The Autumn Budget 2024 provided some positive early steps towards addressing some of these challenges: by promising an end to competitive bidding rounds, a consolidation of grant funding, a reformulation of funding criteria and by recommitting to a multi-year settlement for local government, as promised in the Labour manifesto. Yet the government may need to consider more radical shake-ups, including examining property taxes, if their goal is genuine root-and-branch reform of local finance and its governance.

Lack of local accountability, transparency and public engagement

The 2020 Redmond Review highlighted that the complexity and inaccessibility of local authority financial reports hinder public understanding and engagement, undermining transparency and trust in a government – at both central and local level – management of public funds. Since publication and the failure by government to adopt the key recommendations, these issues have only persisted and deepened. Additionally, while public consultation mechanisms exist and trailblazers continue to do excellent work, there is a lack of meaningful co-production in local decision-making, leading to weakened accountability and a very limited role for residents as citizens. This, combined with financial pressures and governance failures, has eroded public trust, making it harder for local authorities to engage with communities, implement difficult decisions, and gain support for essential initiatives.

Moving forward

These three challenges are interconnected and mutually reinforcing. Weak governance structures coupled with inadequate funding make it difficult to address accountability issues, further eroding public trust. Addressing these interdependent challenges will require a deep understanding and a multifaceted approach that encompasses governance reform, sustainable funding models, and a renewed commitment to open, transparent governance and a reinvigorated public sector ethos.

This pamphlet presents the results of extensive engagement with leading experts, practitioners, sectoral bodies and other key stakeholders in the world of local financial governance, audit and scrutiny.

The two-part structure of the main argument begins with outlining some of the key prerequisites for reforming local governance, followed by laying out some principles which a reformed system of governance must adhere to. Finally, we conclude with a set of recommendations which represent steps towards a renewal of the structural relationships which undergird local financial governance.

CHAPTER ONE

Prerequisites for reforming governance

Any attempt to reform, renew or revitalise local government must begin from a standpoint of shared understanding between local councils and the central state. Insight must be gathered on how local government is envisioned to function, and what can prevent it from adequately fulfilling its role, as well as how different today's world is from the one in which the system was designed. This section sets out the basis for a shared understanding between central and local government, crucial to beginning the work of reform.

1.1 Defining the purpose and expectations of local government

Throughout the research roundtables and interviews which have informed this pamphlet, reference was repeatedly made to the purpose of local government. The crux of the issues identified is that residents' expectations of local government – and the role local government is often given in national policy agendas – do not line up with its statutory duties. Furthermore, central government's approach to finance and to financial failure often misalign with its broad policy goals at local level. The dual mandate of local government as a provider of core services and a steward of place must be grappled with in devising a programme of reform and renewal. Identifying the desired role of councils in the broad national missions present an opportunity to do so.

1.1.1 Dual mandate and funding disconnect

Local government currently operates under the tensive pressure of a dual mandate; on the one hand, they must meet statutory obligations, such as providing social care and maintaining other services, while on the other hand, they are expected to address community-specific issues, oversee place-based governance, and encourage local innovation. Austerity measures have significantly limited the resources available to local authorities to balance these competing expectations. Despite government policy agendas which centre the importance of place, from the now-abandoned Levelling Up agenda to the 'devolution revolution' of the current government, many councils have in reality been forced to prioritise statutory services over placemaking and other strategic matters, forcing them into a pattern of reactive decision-making and greatly diminishing prospects for innovation.

This situation has resulted in a disconnect between what residents expect and what councils are able to feasibly deliver. While national responses to the funding crisis in local government have focused on fiscal prudence and reducing public sector spending, local residents expect their councils to invest in community wellbeing, placemaking, and infrastructure development. This misalignment has created a gap between what local authorities are expected to deliver and what they can realistically achieve with their limited autonomy and budgets. The disconnect has widened over time, as local authorities face year-on-year increases in demand for services (such as social care and housing) but are given fewer relative resources.

While local authorities recognise the importance of broader placemaking, strategic efforts, and preventative services, their ability to invest time and resources in these areas has been severely hampered by the need to prioritise essential statutory services within a context of significantly reduced and bureaucratically inaccessible funding. Many local authorities have had to drastically reduce spending on non-

statutory services, often diverting resources towards legally mandated services – fundamentally straining their ability to provide non-statutory services, (such as libraries and youth centres) engage in placemaking activities or pursue strategic community development projects.

Various other strategies, such as reducing services, restructuring service delivery models, and seeking alternative revenue sources, have become more akin to coping mechanisms than financial innovation, and they suggest a prioritisation of maintaining financial stability at the expense of long-term strategic goals. The rising costs and demand across core services continue to place enormous pressure on local government finances, seriously limiting their capacity to deliver other valuable services to residents. Moreover, the pressure to generate income from commercial ventures has further distanced local governance from the community-focused role and unsullied public sector ethos many residents expect.

1.1.2 Local government and national missions

The five national missions outlined by the government, particularly driving economic growth, provide an opportunity to renew the purpose of local government. The missions focus on long-term, broad goals like growth, clean energy, and healthcare reform, but they lack specific detail on how local government will be engaged or empowered to contribute to achieving these objectives. Although the mission-driven approach highlights collaboration with businesses and civil society, the role of local authorities remains ambiguous, leaving unanswered questions about how they will coordinate or be held accountable for delivering these national outcomes, particularly given the dire state of local government finances and dearth of strategic capacity.

Local authorities must be empowered to achieve place-based growth through policy. This must start with a fundamental shift in the relationship between central and local government – the likes of which the national missions, the call for statutory local growth plans and rhetoric from key government ministers tentatively suggest is underway – although council finances remain a critical barrier². Beyond the promised multi-year settlements, overcoming this barrier will involve more flexibility around current revenue-raising powers and moving towards greater local fiscal autonomy and revisions to the way central government funding is allocated. There is also an opportunity for outcome-based funding, with a shift from a focus on inputs to a model where funding is linked to the achievement of agreed-upon outcomes related to national missions.

2 Civil Service World (2024) – [Minister admits council finances are a barrier to further devolution](#)

Such changes must be contextualised by the fostering of a more collaborative relationship between central and local government, one that is based on mutual respect and a shared understanding of a local authority's role in addressing the challenges and opportunities facing their local areas and residents. In devising a governance model to encourage such collaboration, there must be a move away from the current paternalistic dynamic to one of genuine partnership. Such a partnership would ideally be based on; formal codification, co-development of national missions in practice, and shared accountability frameworks.

With regard to enabling innovation and closing expectation gaps, our research emphasises the importance of long-term strategic planning as a key element of financial resilience and effective governance – both critical prerequisites to having the capacity to deliver strategic goals. Local authorities are also in desperate need of the capacity and skills to develop and implement innovative solutions. To do this both central government and local authorities should consider how they can support:

- Investing in staff training and development.
- Promoting knowledge sharing and inter-authority collaborations.
- Embracing digital transformation and advanced analytic tools.

The task for national legislation and local initiatives is to work towards these goals in a way which complements capacity development for delivering on national missions, whilst also fortifying the delivery of vital public services. This task is complicated by several flaws which continue to undermine the performance of, and trust in, the system as it currently operates.

1.2 Understanding what is wrong with the current system

The outcomes of systemic failures in the governance and oversight of local authorities are well known and well publicised. Although relatively few local authorities have issued section 114 notices or been issued with best value notices by the government, it is agreed across the sector that the current state of financing will, with rising service pressures, likely push more councils into the red. While not all failures are down to systemic factors, it is important for an agenda of renewal and reform to understand the key flaws in the system as it currently operates. Our research has revealed that increasingly too often local authorities remain compliant with current regulatory frameworks but still continue to experience financial insecurity in practice, suggesting a strong systemic influence over the financial sustainability of councils that cannot be ignored.

1.2.1 Governance erosion

Research discussions for this pamphlet repeatedly highlighted systemic governance erosion as a key recurring theme for local financial governance and sustainability, driven largely by austerity and the dismantling of prior institutions and governance structures. Traditional governance structures, such as statutory officer roles and external audits, have either been weakened or removed, leading to a lack of meaningful checks and balances.

The increasing reliance on interim statutory officers has undermined effective leadership and management, resulting in gaps in corporate memory and a lack of understanding of the complex history of a local authority's decision-making. Interim officers also find it difficult to challenge decisions due to a lack of close senior working relationships or perceived organisational gravitas³. Statutory roles have also been weakened by instances where S151 officers and monitoring officers, considered key agents of the 'golden triangle' model, are increasingly often excluded from senior management teams, limiting their capacity to track financial decision-making or intervene effectively.

External audits, traditionally a cornerstone of financial accountability, have also been weakened, contributing to a lack of meaningful checks and balances⁴. As the Redmond Review identified, the dismantling of the Audit Commission in 2014 and the subsequent fragmentation of responsibilities across various bodies have engendered a lack of coherence and consistency in the local audit system. This fragmentation has led to concerns now manifest about the quality and timeliness of audits, with a significant number now consistently failing to meet deadlines – with many roundtable participants telling us of council leaders and chief executives, 3-5 years into their jobs still having never experienced an external audit. Furthermore, the current fee structure for external audits has been criticised for not enabling auditors to adequately fulfil their role, contributing to a decline in the number of qualified auditors and further weakening of the audit market relative to the demands of public sector bodies across the country.

The inconsistent application of governance standards across councils has been exacerbated by the weakening of internal controls and oversight functions. Local government has experienced a decline in robust internal accountability due to cuts in

3 Grant Thornton (2024) – [Lessons from recent auditor's annual reports](#)

4 Redmond (2020) – [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#)

back-office functions like finance and legal services, which serve as a crucial safety net for governance. This inconsistency allows for governance failures or high-risk decision-making to go unchecked, as many councils lack either the capacity or the will to apply governance processes uniformly, resulting in systemic governance issues that remain unresolved.

The current standards regime lacks a statutory basis, making enforcement particularly challenging. Though, for example, the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Financial Management Code has the prestige of being a "gold standard", adherence to it is, for the most part, voluntary. There is also a lack of clarity and understanding as to the scope and responsibilities of different actors within the standards regime, leading to confusion and a subsequent further lack of accountability. Existing frameworks and codes of practice can be seen by less-inclined or lower capacity authorities as too complex and detailed, and therefore inaccessible, making them difficult to implement and audit effectively. Ultimately, this produces a pervasive focus on compliance over substance, and therefore a failure to address underlying governance issues⁵.

1.2.2 High risk commercialisation

Our research highlighted the uptick in local authorities engaging in high-risk commercial ventures as a means of generating revenue in response to central government funding cuts. Many councils have lacked the necessary expertise or governance structures to manage these ventures, leading to significant financial losses and breakdowns of governance. A shift in attitudes, from the professional need to maintain rigorous governance processes in favour of more entrepreneurial approaches, has further undermined accountability, creating an environment where poor financial decisions have not been adequately disincentivised or scrutinised.

The internal systems designed to oversee these ventures are often weak, too private sector-orientated, and without robust external audit functionality, therefore leaving councils dismissive of or struggling in efforts aimed at ensuring accountability and transparency. At the same time, with the Audit Commission abolished and its functions not adequately replaced, local authorities have been subject to fewer rigorous checks at a time when local authority financial structures have also become increasingly complex due to engagement with commercial activity and partnerships to compensate for central government funding cuts.

5 Ibid.

External auditors, unfamiliar with these new financial models, struggle to provide adequate oversight, and may do so even when the backlog of delays eventually come to an end. This is attributed to various factors, including funding cuts that have led to reduced audit fees and a consequent inability to attract and retain qualified staff⁶. A lack of familiarity and understanding of local authority funding models and comparatively complex accounting practices have made it challenging for auditors to effectively identify and assess risks, leading to inadequate oversight becoming increasingly common, even if audits are ultimately completed.

The Redmond Review noted the adoption of International Financial Reporting Standards as driving the growing complexity of local authority financial models and their inaccessibility to external auditors. Finally, the review, backed up by participants at our research roundtables, notes the tendency of external auditors to prioritise technical compliance with accounting standards over a deeper understanding of the substance of local authority finances and their public sector responsibilities. The focus on technicalities can result in auditors overlooking important financial resilience or value-for-money risks, particularly those associated with new public sector financial models and commercial activity.

1.2.3 Transparency and public trust

The fragmentation of the local audit system has caused significant delays and poor-quality reporting, with the Redmond Review highlighting that 40 percent of audits failed to meet deadlines, fundamentally compromising local authority financial transparency and leaving governance issues undiscovered until after failures occur. Despite the rights provided under the Local Audit and Accountability Act, residents often struggle to hold councils accountable themselves. The influence of private auditors and a fragmented oversight system has only served to further disempower residents as citizens, with few high court referrals or public interest reports being issued, despite rising public concerns.

Without effective systems to involve the public on governance processes, such as local public accounts committees, local authorities have faced increasing difficulties in fostering transparency and mutual trust. Public engagement mechanisms have also deteriorated across the sector, with the exception of particularly well-managed trailblazers, leading to a growing disconnect between local authorities and residents.

6 [Redmond \(2020\) – Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#)

Our research roundtables underscored that public mistrust is deepening as local authorities fail to communicate financial health or governance decisions in an accessible manner, making meaningful civic participation or scrutiny borderline infeasible.

1.3 Recognising the changes in context

The section 151 officer was enshrined in statute via the Local Government Act 1972, in the last years of the post-war Keynesian consensus, when councils were still part of a 'command and control' state apparatus. Central control over local government taxation came in via the Rates Act 1984, in the context of a prolonged stand-off between the government and councils over the setting of rates, a system which traced its origins back to the Elizabethan Poor Law. In 2024, much has changed in the form, function and operating environment of councils. Local authorities today are more focused on managing financial survival due to rising inflation, lasting pandemic recovery, cost-of-living pressures and increasing service demands. Two key contextual factors of recent decades that must be taken into account alongside this broader contextual shift are the abolition of the Audit Commission and the ongoing process of decentralisation.

1.3.1 The impact of abolishing the Audit Commission

Whilst the reasons behind austerity from the 2010 Spending Review have had all sorts of justifications over the years, the prior decision to abolish the Audit Commission and the subsequent erosion of governance frameworks must be seen as an unjustifiable failure in retrospect. Centralised oversight via the Audit Commission ensured relatively consistent, independent, and thorough audits, providing strong external accountability and preventing risky financial behaviour from going unnoticed. This local-level auditing function served as a vital, but by no means perfect, incentive for sound financial management across local authorities.

Comprehensive and well-resourced audits allowed for detailed scrutiny of council finances, with a focus on long-term financial stability rather than short-term fixes or cost-driven assessments, the likes of which have only caused dither, delay, and, in some cases, outright financial failures since. The less fragmented accountability system that the Audit Commission represented meant that local authorities operated under a reasonably robust, uniform framework, reducing regional disparities in oversight and ensuring a higher overall standard of financial governance.

However, it is the absence of the Audit Commission's broader oversight function in setting standards, overseeing the audit market, managing contracts, and ensuring the quality and consistency of local authority audits across England that has spawned a

proliferation of serious systemic accountability gaps. The absence of a central body to oversee the audit market has produced a fragmented system with an unsustainable variance in levels of audit quality and consistency. This inconsistency makes it difficult to ensure that all local authorities are subject to rigorous and effective enough scrutiny, allowing financial mismanagement and poor governance to go increasingly unnoticed.

The pool of auditors with specialist knowledge and understanding of local government finance and accounting practices has declined considerably, a situation partly attributable to the exodus of experienced auditors from the former District Audit Service and the reduced attractiveness of local authority audits due to lower fees and increased workloads – although the new fees regime implemented for the four years beginning in 2023/24 has gone some way to redress this issue. Without a central body to promote training and development in such a specialist area, and to ensure audit teams possess the necessary skills, it has become increasingly challenging to effectively scrutinise local authority finances and identify risks preventatively.

The effectiveness of value-for-money audits, which assess whether councils are delivering services efficiently and effectively, have also been compromised too often⁷. The removal of the Audit Commission's expertise and guidance in this area, combined with pressure on audit firms to minimise costs, has raised concerns about the depth and scope of VfM assessments – a crucial mechanism for ensuring that public funds are being used wisely and delivering value for the lack taxpayer. The new Code of Practice, brought in by the National Audit Office in 2020/21⁸, redressed this issue to some extent, however the growing audit gap has limited its effectiveness in practice.

Moreover, there is a notable gap between stakeholder expectations and what auditors are currently required to do in assessing the financial resilience of local authorities. While auditors are expected to consider financial sustainability risks, there is no explicit requirement upon them to provide an opinion on a council's long-term financial viability⁹. There has also been a significant reduction in audit fees, driven by the focus on cost-cutting and a competitive tendering process that has prioritised price over quality, with firms struggling to resource audits adequately.

7 National Audit Office (2021) – [Timeliness of local auditor reporting on local government in England, 2020](#)

8 National Audit Office – [Code of Audit Practice](#)

9 Redmond (2020) – [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#)

1.3.2 Decentralisation and its implications

One significant change in the landscape that has occurred over the past decade is the rise of the combined authority model and the decentralisation that it represents. The new model, combined with a wave of other reforms including the Localism Act 2011, led to a wave of decentralisation throughout the 2010s as central government offloaded responsibilities to local government without providing corresponding financial resources or support. This decentralisation, alongside austerity, has created a system where councils have been handed greater responsibilities but lack the corresponding capacity or financial tools to undertake them.

In 2024, decentralisation remains a challenge and is still too-often described as devolution in political rhetoric. However, local authorities are pushing for meaningful fiscal devolution to align resources with responsibilities and strategic goals. Calls for increased financial autonomy, such as greater control over setting local taxes (namely council tax and business rates), have grown in strident advocacy, driven by the need for local authorities to generate sustainable revenue sources that are not at the capricious behest of central government funding formulas and political will.

The new political cycle has brought a renewed focus on 'completing the map' of English devolution. This intention was made clear in the Autumn Budget 2024, particularly in the further progression of single funding settlements for the combined authorities in Greater Manchester and the West Midlands. There is a need, however, for local governance reform to take this shift into account. Since 2017, a whole new tier of democratic governance has emerged, with a raft of responsibilities, some drawn from and some separated from local authorities. Particularly in light of the single settlements, understanding how funding – and, subsequently, audit requirements – have changed to meet the requirements of the new system is a prerequisite of reforming governance. The reference in the Autumn Budget 2024 to further unitarisation of local authorities and accelerated expansion of combined authorities heightens this imperative.¹⁰

10 HM Treasury (2024) – [Autumn Budget](#)

CHAPTER TWO

Principles for a renewed system of governance

The research discussions held for this report revealed a litany of areas where governance and scrutiny could be strengthened through focused and targeted reform. This section looks at what a new vision of governance should be organised around, what the institutional roles might be, how they might be staffed and what mechanisms could be embedded to ensure a reinvigorated public service ethos is upheld.

2.1 Institutional roles and responsibilities

Clarity of form and function must be the central guiding principle in the reform and renewal of local governance and audit. This applies to councils themselves, as they relate to central government and the wider public sector, and also to individual roles within organisations, which must themselves be reinvigorated as part of a new system. Furthermore, the developing restructuring of the local government system itself, as devolution and decentralisation continue, must be integrated with governance reforms, particularly where combined authorities are concerned.

2.1.1 Defining roles relative to central government

Local authorities must have better-defined roles relative to central government, external bodies, and other sectors. This requires a distinction between their function as direct service providers and their potential role as facilitators or municipal entrepreneurs engaging in public-private partnerships. Establishing clear boundaries prevents conflicts of interest and can ensure that councils are able to maintain their statutory obligations while pursuing innovative governance strategies and delivering on resident expectations.

Our research revealed consistent calls for a statutory framework of central-local relations to define financial roles, moving away from the centralised approach still currently in place, towards one that empowers local authorities to better manage their finances and think strategically. This argument falls into the broad category of calls for a constitutional role for local government, an idea which was explored by the Political and Constitutional Reform Committee in the coalition years¹¹ and has recently been advanced by the Constitution Reform Group¹² as a potential foundation for devolution.

Government must begin anew in providing clearer guidance, improving communication channels, and overseeing the reinstatement of more robust oversight mechanisms, such as new independent auditing bodies and a strengthening of regulations to ensure councils are managing risks more responsibly. Whether delivered through new primary legislation or as part of the wider reforms to be brought forward in the English Devolution Bill, this would entail providing a framework setting out local government's various roles and establishing a clear definition of what good governance is at place level.

11 Political and Constitutional Reform Committee (2011) – [Written evidence submitted by Professor Colin Copus, De Montfort University](#)

12 Denham and Liddington (2024) – [The Local Governance of England](#)

Within such a framework, local autonomy could be delivered as part of a ‘devolution revolution’ with strong fiscal governance written into the system. Clearly defining roles and expectations would also allow governance reforms to be paired with incentives that encouraged improved decision-making and operational financial practices. This could include financial incentives for good governance, or improvement programmes that recognise and highlight councils maintaining high ethical standards and proliferate their teachings across the system.

2.1.2 Reinvigorating officer roles and organisational culture

Statutory officers, including the chief executive officer, chief finance officer (section 151 officer), and monitoring officer, are still vital as a ‘golden triangle’ for upholding good governance and financial management with councils. These officers, alongside other senior leaders, require an increasingly thorough understanding of local government finance, legal frameworks, and good, ethical governance principles. Despite this, these roles have experienced a decline in relative expertise and effectiveness over the past decade. To bolster their efficacy once again, these officers require sufficient support and protections.

These officers, particular monitoring officers, too often face pressure to endorse potentially risky decisions. Restoring legal protections would empower them to speak truth to power and challenge such decisions without fear of repercussions. For instance, the Ministry of Housing, Communities and Local Government (MHCLG) could reinstate previously eroded legal protections for statutory officers when exercising their powers and fulfilling duties to safeguard their council’s financial interests¹³. Concurrently, a reinforced set of golden triangle responsibilities – with assurances of competence, professionalism, and integral membership of local authority senior management teams – can enable these officers to offer timely advice, challenge proposals, and ensure financial and legal considerations are embedded in wider council decision-making.

Council leaders, both political and executive, must lead by example, demonstrating a commitment to ethical behaviour, transparency, and accountability. It is worth taking stock of this commitment as we mark next year the thirtieth anniversary of the Committee on Standards in Public Life’s first report in which Lord Nolan promulgated ‘The Seven Principles of Public Life’¹⁴. The Nolan Principles – embracing selflessness;

13 Grant Thornton (2023) – [Preventing failure in local government](#)

14 Committee on Standards in Public Life (1995) – [The Seven Principles of Public Life](#)

integrity; objectivity; accountability; openness; honesty; leadership – were in their time in 1995 following the ‘cash for questions’ scandal in the House of Commons a ‘restatement of the general principles of conduct which underpin public life’ and were intended ‘for the benefit of all who serve the public in any way. The current legislative framework for local authorities to uphold the principles comes via Section 28 of the Localism Act, requiring them to instate and uphold a code of conduct to this end. This system replaced the previous national monitoring of local standards via Standards for England, which was in place from 2000 to 2012.¹⁵

A recommitment to the Nolan principles in this context would signify a positive ‘tone from the top’ in setting the foundation for a healthy management culture that encourages constructive criticism, dissenting voices, and formalised checks and balances. A broader organisational culture that embraces challenge and criticism, values diverse perspectives, holds leaders accountable, and is proliferated organisation-wide is of critical importance to sound financial governance – and has unfortunately become increasingly scarce. Establishing channels for open communication and feedback allows officers to voice concerns without fear of reprisal; an open culture promotes dialogue, fosters trust, and facilitates more accountable and informed decision-making. Councils should consider creating mechanisms to learn from past mistakes, both their own and those of other authorities.

Part of this reinvigoration of the accountable public service ethos must also entail making better use of resources which currently exist. Reviewing public interest reports and auditor annual reports can provide valuable insights into common pitfalls and best practices. Implementing recommendations from such reports and conducting post-implementation reviews can help embed lessons learned into decision-making processes, ensuring such lessons become a part of an organisation-wide proliferation of institutional knowledge. Devising policy mechanisms to ensure that the learnings of audit and scrutiny are properly absorbed is challenging, but efforts to reform and renew local governance must acknowledge the importance of external challenge and recommendations to effective oversight.

2.1.3 Balancing institutional reform with system redesign

With regard to devolution, the government is actively pursuing a strategy of expanding the coverage of combined authorities (CAs) across England, with the goal of achieving complete coverage. This has significant implications for both the

15 Sandford (2019) – [Local government standards in England](#)

institutional reform and system redesign of audit and governance¹⁶. Currently, each CA operates under a bespoke devolution deal, leading to a fragmented landscape with varying levels of autonomy and accountability. This will prove challenging in establishing a standardised approach to audit and to ensuring consistency in financial governance across CAs. As they gain more power and control over substantial funding streams, robust audit and governance mechanisms become even more critical to ensure transparency, prevent corruption, and maintain public trust in CAs.

Pre-existing networks of accountability and mutual trust have facilitated the formation of the CA model. For instance, the strong working relationships between local authorities in Greater Manchester, stemming from the abolition of the Greater Manchester County Council in 1986, laid the groundwork for the successful establishment of the GMCA. However, caution must be exercised against assuming the existence of such networks in every region and sub-region. The disparity in pre-existing relationships suggests that a one-size-fits-all approach to CA accountability and governance will prove ineffective.

Areas where strong inter-authority collaboration is lacking may require additional support and capacity-building to foster trust and establish effective governance structures before or alongside the introduction of a CA. With regard to what robust accountability for CAs and their mayors should look like, strengthened scrutiny committees, the engagement of both local MPs and the public, transparency and openness (through open meetings, accessible information, and clear communication), and performance measurement and evaluation frameworks with clear metrics and the use of data to inform decision-making are among a swathe of suggestions that must become embedded into ongoing and upcoming devolution deals.

2.2 Leadership and professional development

In every research roundtable and interview held as part of this research, the importance of encouraging sound leadership as a guiding principle for good governance was emphasised. This must be conceived of both in the negative sense, where good governance is the effective recognition and redress of poor leadership at both central and local government levels; and in the positive sense, where strong governance involves developing leadership skills and fostering a public service ethos across the culture of councils.

2.2.1 Addressing poor leadership

Poor leadership is having detrimental consequences across the system of governance, with bad practice becoming worryingly commonplace. Addressing such issues requires a multifaceted approach that involves strengthening accountability mechanisms as described previously, improving inter and intra-organisational communication and collaboration, targeting investments in skills and capacity-building and the promotion of a culture of transparency, challenge, and learning.

At the central government level, poor leadership has manifested as:

- **Inconsistent and short-term policymaking:** A pattern of frequent policy changes and short-term funding settlements have caused uncertainty and instability for local authorities. This has indicated a lack of strategic vision, coordination, and consistency in policy direction from central government, undermining effective governance across the public sector.
- **Inadequate funding and unrealistic expectations:** Funding cuts have placed immense pressure on local authorities, while simultaneously increasing demands for service delivery. This has created a 'devolution-austerity paradox' whereby local authorities are granted greater responsibilities without the necessary resources to fulfil them, nor powers to apply them strategically¹⁷. This highlights central government's tendency towards unrealistic planning and neglect of the true cost of services. An inability to anticipate or address the challenges of local government finance has led to unbalanced budgets across many councils and a worrying culture of blame in Whitehall.
- **A lack of clarity and effective communication:** For over a decade, central government has provided unclear guidance and has failed to communicate its priorities effectively to local authorities. This has led to confusion, misinterpretation, and outright failure when implementing new policy practically. Providing clear direction, prioritising effectively, and having the ability to communicate these effectively are all key leadership responsibilities – the absence of such has contributed to a breakdown in guidance and oversight.

17 [Arnold & McKenna \(2024\) – The 'Great Survivor' lives on? Resilience, austerity and devolution in English local government](#)

- **Weak oversight and accountability:** The abolition of the Audit Commission, coupled with limitations in the existing regulatory framework including the removal of a nationwide standards regime, are ultimately political choices made by government that have led to the inadequate monitoring of financial resilience and increased the potential for unchecked risk-taking by local authorities. This has created a risk of “moral hazard”, where councils feel less inclined to manage their finances prudently if they believe central government will intervene to bail them out¹⁸.

At the local government level, poor leadership has further contributed to financial distress and governance failures through:

- **A lack of strategic vision and long-term planning:** Some local authorities have too often pursued short-term financial gains or politically motivated projects without adequately considering long-term implications or aligning them with strategic priorities¹⁹. This has, in some cases, led to unsustainable investments, depletion of reserves, and a failure to address underlying structural issues. Effective leaders instead prioritise long-term strategic goals, ensuring decisions, however under duress they may be made, align with reasonable and sustainable outcomes. A focus on short-term gains instead suggests a reactive approach with unnecessary long-term risks.
- **Weak financial management and perceived risk aversion:** Inadequate risk assessments, optimistic budget forecasts, and an overreliance on short-term fixes to balance budgets have created a vicious cycle of recurring overspends, depletion of reserves, and an overreliance on risky investments to generate across too many local authorities²⁰. Good leadership is characterised by well-adjusted risk anticipation and the responsible, relatively stable management of resources, but here a cycle of financial mismanagement is perpetuated, producing ineffective governance and a lack of accountability overall.

18 Sandford (2024) – [Local authority financial resilience](#)

19 Grant Thornton (2021) – [Lessons from recent Public Interest Reports](#)

20 Grant Thornton (2023) – [Preventing failure in local government](#)

Central government must now implement more long-term, stable policies for councils to go alongside the promised multi-year funding settlements. The establishment of a clearer strategic vision and coordination between departments to ensure a consistent policy direction at the level of place must become paramount. As part of the funding review, revenue support must become more aligned with the responsibilities being delegated to local authorities as part of the new wave of devolution, ensuring resources match service demands.

2.2.2 Supporting professional development

As well as being an important component of leadership, continuous professional development is crucial for both elected members and officers. Leaders should have access to regular training that enhances their understanding of governance, finance, and operational skills – all geared towards improving financial savviness and anticipatory capacities. Reforms should also include provisions for regular capacity-building and training for both officers and elected members to stay informed about best practices and upcoming reforms, particularly in any transitional period.

Regular training – especially in areas like risk management, options appraisal, and managing conflicts of interest – is crucial. Professional organisations like CIPFA and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) can contribute to this by offering accredited training programmes and continuous professional development opportunities. In devising a programme of reform and renewal, it will be important for government to work with such organisations to develop methods for scaling-up their programmes and increasing provision;

Councils now increasingly struggle with attracting and retaining experienced officers, leading to further entrenched capacity gaps in leadership and relative accountability. Investing in recruitment strategies that emphasise integrity, technical competence, and cultural fit is critical to ensuring the improved sustainability of local authority finances and beyond. In November 2024, the Local Government Association (LGA) launched a new campaign and jobs portal, “Make a Difference”, designed to boost recruitment. If governance is to be effectively renewed, both central and local government will have to support such efforts with greater investments of time and money.

2.3 Oversight and scrutiny

In the current system, local authorities face fewer consequences than in the past for financial mismanagement, poor decision-making, and weak governance arrangements. This is primarily due to inadequate external oversight and long delays in audit reporting. The absence of timely audits and reports encourages a sense of ‘moral hazard’, where authorities feel less pressure to maintain financial discipline – and the eventual consequences doing little to disincentivise such practices regardless. Indeed, many of those responsible for particularly poor financial management continue to work in the sector without any meaningful professional sanction.

2.3.1 Strengthening internal audit and whistleblowing procedure

Strengthening internal audit, risk management and the ability to make informed, independent decisions are essential. Internal audit plays a crucial role in providing independent assurance and identifying areas for improvement. Internal audit functions need sufficient resources and skilled professionals with a deep understanding of local authority operations and risks. Councils should prioritise remodelling internal audit and invest in capacity where possible, to ensure that staff have relevant expertise and experience.

Internal audit should prioritise assessing and mitigating the council’s most critical risks, including those related to financial sustainability, major projects, and ethical decision-making. This requires a proactive approach to risk management, moving beyond compliance-focused audits to identify and address emerging risks that could threaten a council’s objectives. Internal audit must have sufficient independence and authority to challenge senior management and the executive; their recommendations should be taken seriously, and a council should establish a clear process for following up on findings and implementing necessary changes.

There is also scope to improve the process of individuals raising concerns about governance and financial management from within councils. While local government and wider public sector whistleblower protections exist, but there have been calls to strengthen the process and incentives for whistleblowing for some time²¹. Potential whistleblowers may fear retaliation or face intimidation due to weak enforcement of these protections, thus reducing the likelihood of internal disclosures that could prevent malpractice. Attempts at systemic reform must therefore examine the process

21 Kinglsey Napley (2024) – Whistleblower protection and proposals for reform

of whistleblowing, including the protection of individuals over the long-term and, on the other side of the coin, the consequences for individuals found to be involved in bad practice.

2.3.2 Rebuilding independent oversight

The implementation of governance best practices, such as those emphasised in public interest reports and various reviews post-Redmond, can also work towards safeguarding councils against financial and operational failures. The government has confirmed reforms are underway to improve audit timelines and rebuild capacity within the auditing sector. Proposals include setting statutory deadlines for completing audits, but delays are expected to continue, with modified or disclaimed opinions being issued for some years²². There are concerns about the shortage of qualified auditors for local government, with fewer than 100 key audit partners available²³. Addressing this shortage in the short-term is critical to restoring timely audits and improving the resilience of the system and should therefore be a key priority for the Ministry of Housing, Communities, Local Government (MHCLG) and Labour.

An obvious point, based on the problems with the current system, is the option of trying to reinstate some of the role previously filled by the Audit Commission. A new institutional remit could potentially focus on the strategic impact of public spending without duplicating existing governance, targeting combined and upper-tier authorities in particular as a means of scrutinising them and their constituent authorities. This could potentially be achieved by greatly expanding the remit and capacity of an existing body, such as the Office for Local Government. Another potential manifestation of a renewed public sector audit mechanism can be found in the argument for Regional or Local Public Accounts Committees (RPACs/LPACs)^{24, 25} – proposed independent bodies designed to provide oversight and scrutiny of local spending, ensuring accountability and transparency across the public sector within a locality.

Regardless of the specifics of institutional form and geographic scale, a strategic audit body with ‘teeth’ would have to be equipped with inspection rights, document access, and the authority to summon witnesses. Auditors would require robust data to analyse spending patterns and provide effective oversight. This would require

22 MHCLG (2024) – [Significant measures to tackle worsening backlog in local audit](#)

23 Public Accounts Committee (2023) – [Unacceptably high backlog in local government audit system may get worse before improving](#)

24 Centre for Governance and Scrutiny (2013) – [Regional Public Accounts Committees](#)

25 Centre for Governance and Scrutiny (2023) – [Local Public Accounts Committees: What are they?](#)

investment from government, either to scale up central institutions or to establish and staff new ones at the regional or local level. Combined with efforts to restore capacity to the local audit sector, however, the addition of a further, strategically-focused layer of oversight could bolster attempts to renew local governance whilst also strengthening the role of local government in delivering.

2.4 Balancing the need for more funding and the need for better governance

While there was a general consensus for increasing local government funding from all stakeholders we spoke to as part of this research, it was also acknowledged that extra funding alone will not solve all challenges facing the sector. Instead, it was suggested that the call for increased funding often intersects and sometimes conflicts with the need for improved governance practices.

Improved funding can enable local authorities to offer more competitive salaries again, invest in tailored training and development programmes for both officers and elected members, and cultivate a more professional resilient workforce. On other hand, funding increases without governance reform and the improvement of policy and practice does risk exacerbating current issues. Simply increasing funding without addressing underlying governance weaknesses, cultural issues, or skills gaps may not yield the desired improvements on its own.

Our roundtable participants were particularly wary of the possibility that poorly governed local authorities would misallocate additional funds, fail to address organisational inefficiencies, or continue to engage in risky financial behaviours unless governance reform and changes in policy and practice were enacted. Moreover, increased funding, particularly if not tied to clear outcomes or performance indicators, could lessen the pressure on poorly performing local authorities to improve their governance practices.

Funding should be linked to demonstrable progress in areas including financial management, transparency, and the delivery of the national missions, creating an incentive for continuous improvement. While increased funding can alleviate immediate pressures, the likes of which is desperately needed across the sector, it does not address the need for the fundamental reform of the relationship between central and local government, and more specifically the role that local government is set to play under Starmer's Labour government. Thus, there is a need for a balanced approach that combines increased funding with a commitment to strengthening governance practices.

CHAPTER THREE

Recommendations

This section outlines some recommendations to central and local government alike for renewing and reforming local financial governance towards long-term resilience and sustainability, based on the prerequisites for reforming governance and principles for a renewed system of governance outlined in this pamphlet.

Recommendations to local government

In renewing governance, the task for local authorities – to focus on meeting their statutory obligations and pursuing innovative governance strategies without compromising their core functions – is extremely challenging. It must be acknowledged that the stripping out of funding has played a major role in the baleful proliferation of governance issues, and that ultimately local government must reckon with the cost of providing vital local services whilst also engaging in placemaking. However, increased funding alone will not solve all of the challenges facing local government. Improved governance is essential to ensuring that additional funds are used wisely and effectively.

Across the sector, many councils are already actively engaged in reform and organisational development to respond to the many challenges identified in this report. Many of the recommendations below are drawn from this best practice. However, there is still work to be done in universalising a reformist mindset across the sector, and ensuring that the ethos of public service combined with long-term, strategic thinking guides local decision-making and service provision everywhere in England.

Some specific recommendations for local government are listed below:

- Councils should seek to **reinforce ethical leadership and transparency by embedding the Nolan principles of standards in public life as a matter of organisational code**, seeking to proliferate accountability and integrity as a matter of day-to-day practice.
- Taking advantage of the multi-year settlement, councils should begin to **adopt a paradigm shift towards long-term financial planning**, including replenishing and maintaining adequate reserves for protection against economic shocks and investing in sustainable, resilience-focused projects.
- Councils should **create an organisational culture that embraces challenge and criticism, valuing diverse perspectives and holding leaders accountable**. This could be achieved by formalising checks and balances, establishing channels for open communication, and encouraging a culture of learning from past mistakes.
 - As part of this, across the sector, **statutory monitoring officers need to be given more support and protection to effectively perform their duties**. These officers must be given the necessary resources and authority to challenge potentially risky financial decisions without fearing repercussions.
 - Authorities should **review whistleblowing policies** to ensure that they reinforce a culture that welcomes challenge and accountability, ensuring governance structures remain transparent and robust.

- **Internal audit functions should be strengthened.** Local authorities need to provide internal audit departments with sufficient resources and skilled professionals who can assess and mitigate critical financial risks. Internal audit teams should proactively identify emerging threats and have the authority to challenge senior management and executives.
 - To further strengthen internal reflection processes, **councils should review public interest reports and auditor annual reports to identify common pitfalls and best practices.** They should also implement recommendations from these reports and conduct post-implementation reviews to ensure that lessons learned are embedded into decision-making processes.
- **Cross-sectoral efforts should be made to attract and retain experienced officers.** Local authorities are facing difficulties in attracting and retaining qualified staff, which further undermines their ability to ensure good governance. Pooling funds for investment in recruitment strategies that prioritise integrity, competence, and cultural fit is crucial.
- **Councils must work to improve transparency and public engagement.** Residents need to be able to understand and participate in decision-making processes. Local authorities can foster transparency by making financial information easily accessible and communicating clearly with the public.
 - Local authorities must take it upon themselves to **further develop accessible financial reporting systems with plain language summaries, visual aids, and digital platforms** to enhance public understanding and engagement with financial decision-making
 - Councils and relevant partnerships should consider **developing digital and public-friendly communication and information tools** to simplify reporting on budgets, planning, and service delivery, further encouraging public participation and understanding

Recommendations to central government

The government should look to shift from a centralised, adversarial approach to overseeing local government to a collaborative model, empowering local authorities to make financial decisions based on local needs and priorities. Furthermore, central government should actively support and respect local decision-making on certain matters as a principle of subsidiarity, recognising the expertise and great potential of local authorities to manage their finances and services.

It is also important that government implements more stable and long-term policies at the level of place. The provision of multi-year funding settlements is a positive start in this direction but the real test will be in the formulation and application of the forthcoming reforms to devolution and economic strategy. Central government also needs to improve communication with local authorities and work with sector-led, intermediary professional and stakeholder bodies to provide clearer guidance on its priorities. Some specific policy recommendations for central government are listed below:

- The government should **provide a framework for local government that establishes a clear definition of good governance and outlines the different roles and responsibilities of local government**. The framework should move away from the current centralized approach to local government financing and empower local authorities to manage their finances and think strategically.
- The new multi-year settlement and accompanying review of the funding formula provide an opportunity for government to **better align revenue support with the statutory duties of local authorities**. The new funding formula should be based on demographic factors directly linked to service demand and geared towards funding preventative measures and long-term resilience projects.
- To ensure robust government, government should **reinstate previously eroded legal protections for statutory officers** so that they can challenge potentially risky financial decisions without fear of repercussions.
- To help bolster the governance and scrutiny workforce across councils, government should **support recruitment efforts to attract and retain experienced officers**. This could involve providing funding or working with professional organisations to develop new, or scale up existing, programmes.
- Policies like statutory deadlines for audit must be matched with **investment in the audit sector**, to help clear the backlog of audits and improve their quality.
- The government should commit to **reviewing and renewing the standards regime** for local authorities, potentially reinstating a national code as was in operation from 2000 to 2012.
- As a way of combatting governance erosion, government should **consider either empowering an existing or establishing a new national body, or a set of local bodies, to oversee the local government audit system**. This body could be responsible for setting standards, managing contracts, and ensuring the quality of audit, as well as overseeing the strategic functions of the local state.



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