

Renew commitment to high ethical standards, report on local financial governance reform argues

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Press release

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Renew commitment to high ethical standards, report on local financial governance reform argues

English councils seeking to restore trust in how they spend council taxpayers' money should recommit to the Nolan principles underpinning high standards in public life, a report published today by the think-tank Localis has advised.

In a new report entitled "**Present Tense: renewing and reforming local financial governance towards long-term resilience and sustainability**", Localis acknowledges the severe challenges faced by councils since the abolition in 2010 of regulator the Audit Commission and straitened local finance settlements but argues improved governance will be essential to ensuring attempts by the new government to rebuild local public finances are effective.

Among principal recommendations aimed at councils, the report calls for a shift towards long-term financial planning in line with multi-year settlements anticipated in next spring's Comprehensive Review, and for local authorities to create organisational cultures that embrace challenge and criticism and hold town hall leaders accountable.

This process would be achieved, the paper suggests, by:

- formalising checks and balances;
- giving statutory monitoring officers more support and protection to perform their duties;
- reviewing whistleblowing policies; and
- strengthening internal audit functions to identify emerging financial threats.

In their recommendations to central government, the report authors call for a national body or set of local bodies to oversee the local audit system by setting standards, managing contracts, maintaining quality of audit as well as overseeing the strategic functions of local authorities.

A further key recommendation is for central government to provide a framework for local government that establishes a clear definition of good governance and outlines the different roles and responsibilities of local government – effectively moving away from the current centralised approach to council financing and empowering local authorities to manage their finances strategically.

Other recommendations in the study include a call to give councils more resources to clear the backlog of audits and also to recruit and retain experienced governance officers by working with professional organisations.

Localis chief executive, Jonathan Werran, said: "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.

"Many councils are already actively engaged in reform and organisational development to respond to the challenges we identified and many of the recommendations 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."

Localis senior researcher, Callin McLinden, said: "Local authorities continue to face unprecedented financial challenges, exacerbated by years of austerity and outdated funding models reliant on central government grants.

"Our report, *Present Tense*, reveals an alarming erosion of governance capacity, undermining councils' ability to manage finances, oversee contracts, and plan effectively.

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“It calls for urgent reform to create a more accountable, transparent, and sustainable system of local government finance that empowers councils to deliver for their communities.

“Collaboration between the government and local authorities will prove absolutely vital to rebuilding trust and ensuring resilient local finances in the long-term.”

Guy Clifton, Local Government Value for Money Director, Grant Thornton UK LLP, said: “As auditors of local government we recognise the diagnoses set out in this report.

“Whilst high profile governance failures at some councils should not reflect on the sector as a whole, these failures are a symptom of the need to renew the system of governance.

“All councils continue to operate in an environment of increasing complexity, uncertainty and volatility.

“The report provides an important contribution to the changes needed to improve decision making, scrutiny and the stewardship of public finances nationally.”

Simon Christian, Local Government Consulting Director, Grant Thornton UK LLP, said: “Now is a time for renewal in governance in the local government sector.

“The systems of oversight and scrutiny need to be improved both nationally and within local councils as, if the financial challenges ahead for the sector are to be met, robust and effective governance is essential.”

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Notes to Editors:

- **An advance copy of the report is available for download here:**

- **About Localis**

Localis is an independent think-tank dedicated to issues related to politics, public service reform and localism. We carry out innovative research, hold events and facilitate an ever-growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK.

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Key report recommendations

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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