



# NORWICH City Council

**Committee name:** Audit

**Committee date:** 21/11/2023

**Report title:** Learning lessons from failings in other authorities

**Portfolio:** Councillor Kendrick, Cabinet member for resources

**Report from:** Head of legal and procurement

**Wards:** All wards

## **OPEN PUBLIC ITEM**

### **Purpose**

At its meeting in July, the Audit Committee requested a report outlining how the Council was learning lessons from failures in other local authorities.

### **Recommendation:**

It is recommended that the Audit Committee review the report and note any comments arising.

### **Policy framework**

The council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the Norwich City Council is in good shape to serve the city priority.

## Background

1. In the recent past, the government has found it necessary to intervene in a number of local authorities due to potential failings in the way that they are performing. These take a number of different forms – appointment of independent commissioners, instructions under a best value notice or by authorities themselves issuing S114 notices and triggering intervention.
2. The first few interventions – most notably Doncaster, Rotherham and Tower Hamlets, were due to broader governance concerns within those local authorities. However, more recent interventions (starting with Northamptonshire and continuing in areas such as Slough, Liverpool, Sandwell, Thurrock and most recently Woking) have been more focused on the financial management of the authorities.
3. The issue of a best value notice to South Cambridgeshire in connection with their trial of a 4 day working week demonstrates another form of intervention available to the government.
4. There are concerns that more authorities may face intervention in the near future due to the challenging circumstances they face such as the long-term reduction in government funding of local government, increases in demand for statutory services, the impact of inflation and inability to deliver savings. We have recently seen Birmingham issue a report under s.114 of the Local Government Finance Act 1988, based on the fact that the Council's level of expenditure exceeds its available resources.
5. At least 6 other authorities have formally issued warnings they may be required to do so this year, and national research has indicated up to 10% of authorities could be at risk of also doing so. Where this occurs, significant limitations are placed on the type and nature of expenditure the Council can make – it restricts expenditure to essential/ statutory items only – and means the Council is effectively 'bankrupt'.
6. It is worth noting that bankruptcy is a concept that applies to companies; public authorities, because of their tax raising powers, access to emergency government funds or capitalisation directions, cannot cease to trade in quite the same way but the enhanced government oversight, constraints and interventions that are associated with a S114 have the impact of it being a measure of last resort for most.
7. In addition to those authorities which have been subject to intervention, there have been a number of authorities that have experienced high profile issues but have worked to address these without formal government intervention; this includes cases such as Nottingham, which has experienced significant issues with the financing of its companies (see below, Bristol who have experienced similar issues with its companies but also its [wider financial governance](#); Northumberland which has had challenges in its member and officer working, or the case of Redcar and Cleveland, which [suffered as a result of a major cyber attack](#)
8. The Redcar and Cleveland example indicates that failure can come from a broad range of factors. Research undertaken by the [Institute for Government](#) in 2016 highlighted that to add to financial pressures, increasing complexity,

growing service demand and innovation all heightens risks authorities have to manage.

9. Considering this backdrop, in July 2023, the Audit Committee asked officers to prepare a report outlining how the Council learns from the experiences of others, and particularly what can be learnt to avoid the failings of other Councils.
10. This report is not intended to give a comprehensive examination of each and every statutory intervention, but instead give a flavour of ways in which the Council learns from the experiences of others and what processes the Council has in place to mitigate the risk of similar issues arising. In each case highlighted, external links to relevant reports have been provided for members who wish to delve deeper into the specific case and its causes.

### **Existing channels for learning**

11. Across the local government sector, there are established channels through which organisations learn from challenges they have faced. Bodies such as the Local Government Association (LGA) and District Councils Network share information on good practice. The Council has a corporate subscription to the Municipal Journal, as well as officers having access to professional networks and attending seminars and learning events. The Monitoring Officer circulates a monthly legal and governance update on key issues to senior officers.
12. As an example, following the Redcar and Cleveland cyber attack in 2020, DLUHC and LGA organised webinars to share learning emerging from Redcar and Cleveland that practitioners across the public sector could attend.
13. In addition, the Council can look to a range of sources of assurance which often take into account learning from other experiences, including:
  - a) The [LGA corporate peer review undertaken](#) in January. The LGA take into account challenges faced by other authorities in how they approach their peer reviews
  - b) Service peer reviews, which are undertaken periodically within service areas to share learning with other authorities
  - c) The Council's external auditors, who undertake a value for money assessment on the Council's activities
  - d) The Council's internal auditors, who will review systems of internal control within individual service areas and provide assurance
  - e) Quarterly reporting on the Council's financial, non financial and risk performance
  - f) The role of the council's statutory officers, namely the Head of Paid Service, s.151 Officer and Monitoring Officer, and the assurances they provide

## **Government review of statutory interventions**

14. In June 2020, the government published its own review of lessons learned from statutory interventions: [“Addressing cultural and governance failings in local authorities: lessons in recent interventions”](#)
15. The report provided learning from experiences of working with Doncaster, Tower Hamlets, Northamptonshire and Rotherham, as well as non-statutory interventions in Kensington and Chelsea and Birmingham.
16. Appendix 1 identifies the Council’s position against the key areas identified in the government’s report.

## **Findings from other reviews and what the Council has in place to mitigate risk**

17. Government interventions in other authorities are generally still in progress and therefore the causes of the issues in more recently cases are yet to be fully understood.
18. Some of the key aspects emerging from such interventions and reports emerging from authorities include:

## ***Governance and decision making related to companies***

19. There have been a number of failings in local authority companies. This in its own right should not be entirely surprising; after all, analysis of companies house statistics have indicated that approximately 1/3 of businesses are dissolved within the first 3 years of establishment. There are no formal statistics collated on the number of local authority companies that have failed, nor on the specific sectors that they operated in.
20. The challenge in local government is that we are stewards of public funding. A local authority company failure can result in losses to the Council, imperilling the ability to deliver key services, as well as implications for stakeholders such as the company’s staff, suppliers and customers. A perception can then arise that the overriding need is to keep the company going, to try to recoup losses and avoid impacts on stakeholders, even though the potential damage of failure only escalate.
21. This is expressly highlighted by [Grant Thornton’s Public Interest Report](#) on the collapse of Robin Hood Energy: *“Overall, the governance arrangements were overshadowed by the Council’s determination that the Company had to be a success, and this led to institutional blindness in the Council as a whole to the escalating risks involved and to very significant risks to Nottingham taxpayers’ money”* Grant Thornton focused on 3 core reasons why Nottingham City Council ended up in a difficult position; the complexity of the energy business, the lack of effective governance and institutional blindness to the escalating risk.
22. Councillors will be mindful that Norwich City Council has two key subsidiary companies; Lion Homes (Norwich) Ltd (formerly Norwich Regeneration Limited) and Norwich City Services. Following the LGA peer review, the Council has commissioned Local Partnerships to undertake a review of the governance of the Council’s companies. This is focusing initially on Norwich

City Services. The outcome of this report has been recently communicated to the shareholder panel, which is reviewing the next steps and considering reporting of the outcomes.

### ***Member and Officer relations***

23. Models of governance highlight of the importance of effective leadership; in local government, this must inevitably entail effective working relationships between members, and between members and officers.
24. In 2022, Northumberland commissioned SOLACE (Society for Local Authority Chief Executives) to undertake an independent governance review, the outcomes of which are available [here](#)
25. The review focused heavily on relationships and the culture within the organisation. The Norwich City Council peer review specifically reviewed this area, and members will be familiar with the report's generally positive conclusions. The Council has also been undertaking work to review its internal culture, including the undertaking of an Organisational Culture Inventory and ongoing work with the Senior Leadership Team to review how to progress the organisational culture.
26. The Northumberland review also highlighted significant issues in the handling of member complaints. This resulted in a further report by Wilkin Chapman LLP, the conclusions of which have been reviewed by the Monitoring Officer and reported to the Standards Committee as part of a Committee briefing session in July 2023.

### ***Financial Governance***

27. There have been a wide range of financial governance statutory and non-statutory interventions undertaken, such as the [Best Value Inspection](#) undertaken in relation to the failings in Thurrock. Findings have highlighted matters such as:
  - a) Capability and stability of local government finance teams: the Council's finance team was restructured in early 2021. Whilst there has been change in terms of the leadership of financial matters at the Council, the Council has worked hard to ensure that there are staff with appropriate skills, experience and qualifications. However, the Council has been reliant on agency staff to achieve this. The Council has recently recruited a new permanent Director of Finance (S151 Officer) and is recruiting to the Head of Finance role. The new S151 Officer will examine how the resourcing and skills requirements of the function compare in relation to the council's ambitious agenda given their responsibility for ensuring for the proper administration of its financial affairs.
  - b) Lack of effective financial planning to meet financial challenges: the Council's approach to financial planning and delivery of savings and income targets was revised to reduce reliance on reserves to balance its budget. The approach was commended by the LGA during their peer review. Moreover, the council is moving towards outcome based budgeting, while retaining the strong corporate grip that has seen it deliver on £5.2m of £5.7m savings in 2023/24. NCC intends to deliver

on not only new savings to meet the £3m gap that were identified through the move to a 5 year Medium Term Financial Plan on top of inflationary pressures, but the existing approved savings for future years.

- c) Failure to take heed of warning signs: There is evidence that in the most significant failings in local government, internal and external warning signs were missed, most notably in relation to treasury management. The Council has established a treasury management committee which has access to the Council's independent advisors. The Audit Committee receives reports from Internal and External Auditors and is robust in holding officers to account in their delivery.
- d) Lack of effective challenge and scrutiny: It is important that Councils are receptive to challenge, recognising its importance to support sound decision making. The Council has supported the development and strengthening of the audit committee through training and the appointment of an independent member and is reviewing the development of its scrutiny committee. The Council has transferred its internal audit service to a consortia that will support greater resilience and shared learning.
- e) Failure to understand risk in decision making: the council has developed its programme management approach where significant change and transformation is involved. Proposals are subject to mandates, outline and final business cases which are reviewed by a "design authority" of specialists from across the Council before being subject to approval by senior officers.

### **The landscape moving forwards**

28. As highlighted, there is significant concern that more local authorities could be experiencing significant issues moving forward as financial pressures continue to bear heavy on many authorities. This will include other authorities previously considered to be well resourced and managed. In addition, there is concern as to how problems can be identified and avoided:

- a) It is widely acknowledged that the current system of external audit for local government is not working effectively. External audit serves as an important check and balance, providing independent assurance and with the power to issue a public interest report where they are concerned about the actions being taken by local authorities. The government commissioned the [Redmond Review](#) to examine the causes and potential solutions to this challenge, and is working with the sector to identify ways forward.
- b) Following the removal of assessment tools such as Use of Resources and Comprehensive Area Assessments, it was expected that the local government sector would instead work on a system of learning from each other through peer reviews. Whilst peer reviews are a useful tool, they are reliant on the individual authority being welcoming to challenge and putting the learning into practice. Peer reviews have also sometimes failed to identify the real underlying issues that have led to local authority failures.

29. With this in mind, the government has recently launched the Office for Local Government (OfLOG), whose objectives will include highlighting good performance in local government and shared learning, as well as identifying local authorities at risk of failure and helping arrange support for them.

30. Alongside this, the government has recently undertaken a consultation on criteria for future best value reviews and when intervention took place. Within that, the government include a set of governance based criteria along with what “good” and “bad” performance was seen to be. This is clearly still an emerging picture that the Council will continue to monitor.

### **Concluding notes**

31. No local authority is immune from the pressures that the sector faces, and Norwich is no different in that. The recent LGA peer review highlighted that the Council is on a positive journey of change, which is positive and must be sustained.

32. This report highlights the ways in which the Council can learn from failings, and what measures it has in place to mitigate failings seen at other authorities. It is important that good governance remains prominent in the Council’s activities; managing risk, evaluating financial impacts, learning from the work of peer reviews, internal audit and external audit, and the challenge that effective scrutiny can provide.

### **Consultation**

33. There has been no specific consultation on this report.

### **Implications**

#### **Financial and resources**

34. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council’s stated priorities, as set out in its Corporate Plan 2022-26 and budget.

35. There are no financial implications arising from this report.

### **Legal**

36. As this report highlights, the Council is under a duty to secure best value in the provision of its services as well as the duty to make arrangements for the proper administration of its financial affairs. Reviewing lessons learned from those who have, or perceived to have failed to meet these requirements is a useful means of understanding how the Council is fulfilling its own duties.

## Statutory considerations

Consideration	Details of any implications and proposed measures to address:
Equality and diversity	None
Health, social and economic impact	None
Crime and disorder	None
Children and adults safeguarding	None
Environmental impact	None

## Risk management

Risk	Consequence	Controls required
Ineffective governance within the Council leads to service or financial failure	Poor or ineffective service provision	Implementation of effective governance systems within the Council

## Other options considered

37. None

## Reasons for the decision/recommendation

38. No specific decision is required from this report. Members of the Audit Committee may wish to comment on specific points raised within the report.


## Appendices:

Appendix A: Benchmarking lessons learned from government interventions.

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## Appendix 1: Benchmarking government intervention lessons learned

Issue raised in government lessons learned	Council response
<p>Lack of effective political and/or corporate leadership, including an overreliance on interim statutory officers</p> <p>A lack of corporate capacity, resulting in a lack of strategic vision and direction, and inadequate internal processes</p>	<p>Norwich City Council has recently experienced a number of changes in its officer and political leadership. This was recognized as an emerging issue in the corporate peer review undertaken by the LGA.</p> <p>Throughout this period, the Council has sought to maintain capacity at an officer level through the use of highly experienced interims which have brought significant value to the organisation. However, it was recognized that in the long term, the Council needs to look to increase its permanent staffing capacity which has resulted in a recent recruitment exercise for senior staffing posts.</p> <p>From a leadership perspective, the Council's new cabinet was confirmed after the May elections. The Council has been working with the LGA to assess development requirements at a senior membership level.</p>
<p>Poor and inappropriate councillor conduct</p>	<p>The Standards Committee monitors the effectiveness of the Council's code of conduct. In September 2022, a new Code of Conduct was adopted by the Council in line with the LGA model. The Standards Committee receives an annual report on councillor conduct. In July 2023, the report again highlighted that the Council receives a very low number of complaints against members and a good record in resolving issues where these occur.</p>

<b>Issue raised in government lessons learned</b>	<b>Council response</b>
Conflict and distrust among and between councillors and senior officers	This was explored by the LGA peer review which highlighted that there is positive relationships between councillors and senior officers, as well as effective relationships between political groups
The absence of effective scrutiny, transparency and public consultation, including inadequate protections for whistle-blowers	<p>The scrutiny committee has been evaluating its own effectiveness, which will be reported back to the scrutiny committee to review in due course.</p> <p>The LGA peer review explored the Council's approach to public consultation and engagement, which identified the need for the Council to assess its approach. This has led to the Council looking at its approach and the way that it can use platforms such as Get Talking Norwich through which to engage.</p> <p>Statutory Officers are not aware of any concerns relating to transparency or whistle-blower protection. The Council will be reviewing its whistleblowing policy during the current financial year</p>
A lack of awareness and acceptance of the need for improvement; and insufficient capacity to achieve the change required	The peer review recognized that the Council was on an improvement journey. The council has taken significant steps to review its capacity, most notably through its Future Shape Norwich transformation programme.