

# Lessons from 2023/24 auditors' annual reports

2025



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# Key findings from 2023/24



This report is based on 100 auditors' annual reports (AARs) we produced for our local government audited bodies. These AARs covered the year 2023/24.

Our work included AARs for eight of the nine unitary councils which have been through local government reorganisation since 2019; and AARs for 92 other local authorities. In total, our work covered approximately one third of all local government bodies in England and therefore provides good insight into the state of the sector. One year ago (July 2024), we published a similar review of 92 AARs covering the year 2022/23, allowing us to highlight emerging sector trends.

[Lessons from recent auditors' annual reports](#)

For 2023/24, as for 2022/23, the AARs made a selection of statutory, key and improvement recommendations, around financial sustainability, governance and improving economy, efficiency and effectiveness.

## A note on recommendations

Statutory recommendations are recommendations about significant weaknesses in relation to Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. They require a published written response.

Key recommendations are recommendations made about significant weaknesses and identified under the National Audit Office (NAO) Code of audit practice. They set out actions the council should take but do not require a published written response.

Improvement recommendations are recommendations which, if implemented, should improve the arrangements in place at the council, but are not a result of identifying significant weaknesses in the council's arrangements. Unaddressed weaknesses may become significant if left unchecked over time.

### Financial sustainability

Arrangements for ensuring the council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (three-five years).

### Governance

Arrangements for ensuring that the council makes appropriate decisions in the right way. This includes arrangements for budget setting and budget management, risk management, and making decisions based on appropriate information.

### Improving economy, efficiency and effectiveness

Arrangements for improving the way the council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

For 2023/24, we found that statutory recommendations remain relatively rare. However, on average there were more statutory recommendations per AAR in 2023/24 than 2022/23:

#### Rate of statutory recommendations 2023/24 compared to 2022/23

	Statutory recommendations	
	2023/24	2022/23
Number of statutory recommendations in our sample	11	6
Number of AARs tested	100	92
Average % of AARs with statutory recommendation	11	6.5

On average, there were also more key and improvement recommendations per AAR in 2023/24 than 2022/23:

#### Rate of key recommendations 2023/24 compared to 2022/23

	Key recommendations	
	2023/24	2022/23
Number of key recommendations in our sample	190	118
Number of AARs tested	100	92
Average number of key recommendations per AAR	1.9	1.3

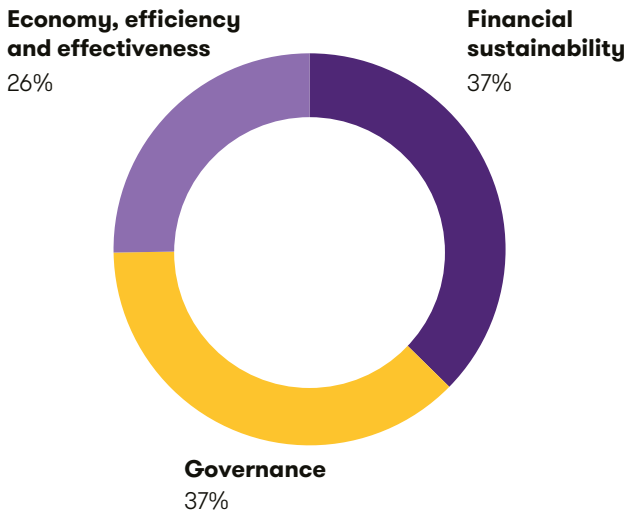
#### Rate of improvement recommendations 2023/24 compared to 2022/23

	Improvement recommendations	
	2023/24	2022/23
Number of improvement recommendations in our sample	747	600
Number of AARs tested	100	92
Average number of improvement recommendations per AAR	7.47	6.52

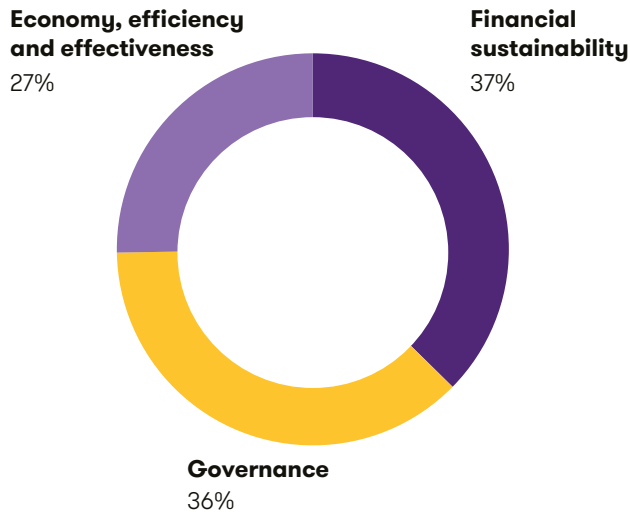
With demand for services rising year-on-year, the challenge is clear in some of the AARs for 2023/24. For one city council, we reported that the council would need a 70% uplift in grant funding or a 46% increase in council tax to carry on “as it is”. At a county council, we noted that savings-wise, there was almost nowhere left to turn: “The council has a limited savings programme due to having exhausted its options for service cuts in prior years”.

For all 100 of the 2023/24 AARs, around three quarters of all key recommendations related to financial sustainability and governance, with an even split between the two. This was also the case in 2022/23 – governance issues broadly featured just as highly as financial sustainability issues. Some 30 councils were recently given exceptional financial support (EFS). This is intended to be a form of temporary support from central government to help manage short-term budget pressure. However, the fact that there are roughly as many governance significant weaknesses as financial significant weaknesses suggests that a new cultural approach to local government is needed just as much as more money.

Key recommendations 2023/24



Key recommendations 2022/23:



Despite the fact that the number of all types of recommendations are increasing, we did see evidence of prior-year recommendations having been addressed during 2023/24 across all three of the criteria we looked at (financial sustainability; governance; and economy, efficiency and effectiveness). This highlights that many councils are responding positively to external auditor recommendations and the improvements these lead to.

This report draws out the key themes from 2023/24 recommendations that the local government sector needs to address. This report also highlights some examples of recommendations that have been successfully addressed.



# Financial sustainability



Financial sustainability remains the major challenge for the majority of councils. Poor governance has led to some councils depleting their reserves and others incurring excessive borrowing. Government policy has been to introduce the Exceptional Financial Support (EFS) system which includes permitting borrowing to fund revenue shortfalls. Coupled with the SEND deficits statutory override, this has the impact of pushing in-year revenue costs onto a future generation of taxpayers and in some cases loading yet more debt onto councils who are already highly leveraged.

### Examples of challenges documented in the AARs for 2023/24 included:

- One city council opened a Strategic Contingency Reserve of £19.9 million at the start of 2023/24 but had only £5.8 million left in it by the end of the year after using the reserve to fund budget gaps and overspends. The rate at which the reserve was used up prompted us to report that “there is a significant risk of dropping below its minimum level of reserves by 2025/26 and exhausting all of its available reserves by 2026/27”
- One unitary council had a general fund balance that stood at just £65,000 above its assessed minimum prudent amount, and no earmarked reserves, at the end of 2023/24. This council had debt of £100 million about to fall due for re-financing. The likely increases in interest rate costs hadn’t been reflected in the budget going forward
- For one borough council, we identified that reserves were projected to fall below their minimum level in 2024/25, while debt was projected at the same time to rise to 177% of budgeted net revenue expenditure.

One council recently estimated that its annual net cost of borrowing will increase from £81 million to £119 million between 2025/26 and 2028/29, as the value of capitalisation directions for this council is expected to increase from £136 million to £203 million over the same period. For the council in this example, forecast savings between 2025/26 and 2028/29 are valued at some £30 million – and are therefore on course to be wiped out by the cost of financing increased debt expected for the period. Diminishing reserves and unsustainable debt create an unsustainable position which we will explore further in our 24/25 audits.

Many councils are planning to rely on asset sales to reduce debt and to rely on transformation to reduce gaps and overspends needed from reserves. Key lessons from the 2023/24 AARs for people planning this approach are that:

- the asset management strategy should be kept up to date so that assets for sale can be identified
- a pipeline of assets sales needs to be identified, prioritised and monitored
- transformation plans need to be detailed. Specific and monitored skilled staff resources are needed in finance, estates and project teams.

“Using capital receipts has risks associated as it forces the council to be reliant on asset sales to fund transformation. The council has already shown that it struggled to sell the assets it needed to sell to meet the expenditure goals it has for 2023/24. While a legitimate means of funding transformation, dependence on asset sales to ultimately deliver savings is a strategy that is not without a high degree of risk.”

**A unitary council**

One city council planned to sell £500 million of assets in 2023/24 but didn't identify in advance which assets those would be. By June 2025, assets of just £68 million had been sold. One London borough planned to rely on capital receipts of £90 million to reduce its net borrowing. However, it hadn't conclusively established whether the assets it was hoping to sell were worth their book value.

We did see some examples of transformation being implemented effectively, for example councils building their own children's homes; changing their commissioning for front door services; establishing their own local lettings agencies; redesigning SEND transport routes; and introducing new fees and charges. Reduced costs and clearer financial planning formed part of the benefit, but some of our examples also pointed to better working with central government and better customer experience as a direct result of transformation as well.

Councils do need to be careful not to under-estimate the timescales needed to deliver significant transformation. One city council and one unitary council both had to wait years for children's home construction and Ofsted registration to complete. Similarly, the legal and regulatory cost of transformation, such as around employment and procurement, needs to be anticipated. One county council had to share a full 'lessons learnt' report with its audit committee after the re-procurement of school transport had resulted in a gap in service provision.

## CASE STUDY

### Good practice from one council in 2023/24

#### Issues from 2022/23

The council received a key recommendation in 2022/23 around control and oversight over the transformation plan.

#### Findings from 2023/24

The transformation investment programme was rebased to include only clearly identifiable savings. Quarterly budget monitoring reports to cabinet were enhanced to include a savings tracker. A specific pipeline of asset disposals was identified to provide a financial framework for the transformation programme.

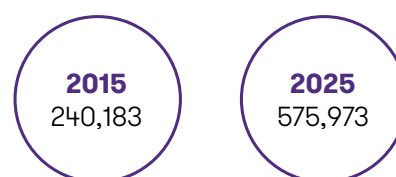
#### Impact going forward

This council still has significant weaknesses in its arrangements for financial sustainability, with reserves at their lowest level for six years. However, the transformation plans reflected in the medium-term financial strategy (MTFS) are realistic, making it easier to anticipate and prepare for when difficulties will strike.

## Dedicated schools grant (DSG)

2023/24 saw many councils continuing to manage their DSG deficits through the government's Delivering Better Value programme or through safety valve agreements. For some councils, the number of key and improvement recommendations did fall in 2023/24 compared to 2022/23 as a result. However, nationally the total value of deficits continued to rise, while at many councils we found the overall quality of service was declining at the same time. In many respects, this was linked to the continued growth in the number of young people on educational and health care plans (EHCPs):

### Nationally, the number of young people on EHCPs



Source: [County Councils Network](#)

Nationally, local government in England's cumulative high needs block deficit now stands at £3.15 billion. One fifth of children in England now require special needs assistance in schools, and over one twentieth have EHCPs.

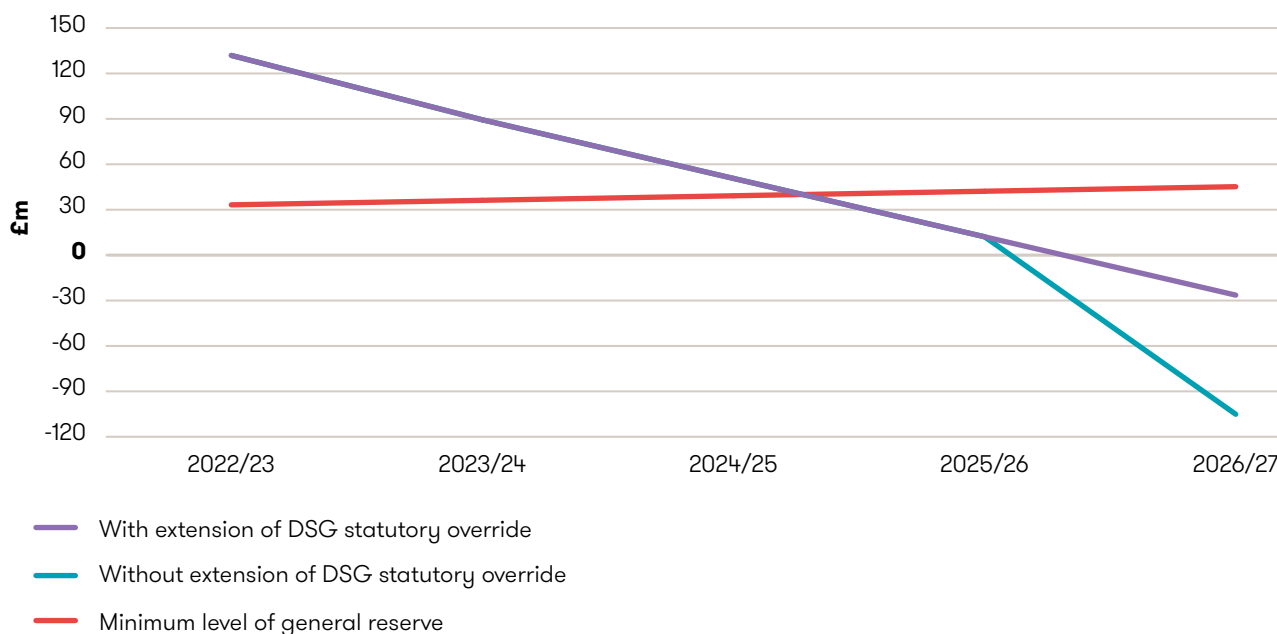
Source: UK Parliament, [The Funding and Sustainability of Local Government Finance 23 July 2025](#).

Outcomes do not necessarily improve for children. In 2021/22, 69% of those with SEN at key stage 4 were in sustained education, apprenticeship or employment after leaving 16 to 18 study, compared to 85% for those without.

Source: [The National Audit Office, Support for children and young people with special educational needs, 24 October 2024](#).



One AAR, for a city council, showed on a graph how reserves were already declining before changes in the DSG deficit were factored in, but declining even more sharply after the changes were factored in. The direction of travel could have applied to any one of a number of councils we covered.



We saw evidence that some councils are starting to consider asset sales to cover their DSG deficits. Councils will need to be mindful that they would need to go through the EFS process for this. The same rigour would need to be applied to disposals planning as is needed where EFS is intended to fund any other form of transformation – a pipeline of specific assets and specific timelines will need to be identified.

## CASE STUDY

### Investment in family hubs and preventative measures

#### Issues from 2022/23

The council received a key recommendation in 2022/23 around the way its DSG deficit was spiralling upwards while the quality of SEND services has been subject to an improvement notice.

#### Findings from 2023/24

Investment in family hubs and preventative measures. Spend on the high needs blocks continued to grow but at a lower rate than previous year (5% growth in 2023/24, compared to 13% in 2021/22). The SEND improvement notice was lifted in August 2024, after the council successfully implemented its improvement plan. This followed close working with partners to address required improvements.

#### Impact going forward

Prior-year key recommendations closed. Although the council still has a DSG deficit, it's meeting the terms of its safety valve agreement with the Department for Education and has included expected future contributions to the deficit in its medium-term financial plan. Children are now receiving the quality of service to support their needs.

# Governance



## Risk management and internal audit need to be strengthened.

Key recommendations from 2023/24 on governance highlighted that risk management and maintaining an effective internal audit service were the most significant areas of challenge for many councils.

For risk management, challenges tended to break down in three ways:



### **Good risk management arrangements at service level not filtered up to cabinet**

For example, we identified that one borough council that had very comprehensive arrangements for risk management at service level – including risk, assumptions, issues and dependencies (RAID) logs and a smartsheet online tool for logging strategic risks. However, although the strategic risks were shared with the executive senior leadership team, they weren't shared with Cabinet. This left members without a comprehensive view of what the council thought its strategic risks were; and left officers without the benefit of insight and oversight that members could have offered.



### **Incomplete capturing of risk on the strategic risk register shared with cabinet**

For example, one city council left a new airport project off its strategic risk register and another city council left uninsured buildings off its strategic risk register. Although in both cases members did receive and review the strategic risk register, their information was still not comprehensive; and there was no way of them telling how uniform the approach to managing strategic risks was across the organisation.



### **Good processes at member level, but little awareness of risk at service level**

For example, two district councils had strategic risk registers that were shared with members, but the departmental risk registers feeding into them weren't being kept up to date. One of the councils didn't have a lead officer in place responsible for managing risk.

We raised key recommendations in all these cases. Risk identification, mitigation and management must be embedded across all aspects of service delivery and oversight, from officers up to members and down again, so that potential issues can be proactively addressed before they escalate. Risk needs to be embedded into decision making and a culture of risk awareness needs to be fostered at every level.



The council needs to ensure that the new risk management arrangements are fully embedded through the different tiers of management within each service, with a particular focus on the early reporting of emerging risks. This may require spot checking, mandatory training, the appointment of risk champions and access to coaching.

An open and transparent culture should be developed where officers and members are encouraged to report 'bad' news and action is taken in response to the concerns raised.



### **Risk management - a city council**

For maintaining an effective internal audit service, challenges tended to relate to:

#### **Filling vacant posts**

For example, one internal audit team that served both a borough council and a neighbouring district council had a 50% vacancy rate and was only able to deliver one ninth of its planned programme for the borough council.

Another internal audit team that supported a large city council had an establishment figure of 11.05 FTE posts but had been functioning with just 6.29 full time equivalents since 2021. The 2023/24 programme of work wasn't completed until the end of October 2024 and by the end of December 2024, there was still no overall head of internal audit opinion for 2023/24.

#### **Finding the right commercial expertise**

For example, one borough council which has debt of £1.5 billion and relies on £10 million of commercial income from property per annum, questioned where it could find public sector internal audit resource with a sufficient understanding of commercial risk to give the council the assurance it needed.

#### **Support from management, for example by taking recommended actions seriously**

For example, at one unitary council, internal audit raised 149 recommendations in 2023/24, but only seven recommendations were completed within the target date. The average length of time a Priority 1 recommendation was overdue before completion at this council was 305 days. Limited assurance opinions had been provided by internal audit for 68% of the areas they looked at.

We've seen examples of conscious efforts to invest more in the internal audit function. For example, one unitary council brought in enough days from an external provider to cover 13 out of a planned 17 internal audit reviews because capacity was so stretched within their own team. This comes at a cost, but does mean that weaknesses have more chance of being identified and mitigated promptly, before they lead to serious issues and perhaps much bigger costs. Where internal audit service is being bought-in though, the importance of taking recommendations seriously and following up on them promptly is even more serious if value for money is to be obtained from the service.

#### **CASE STUDY**

### **Example of improved approach to internal audit**

#### **Issues from 2022/23**

Significant weakness in capacity of internal audit and rate of implementing internal audit recommendations.

#### **Findings from 2023/24**

More than half of the internal audit programme was covered by external provider so that the council could catch up. Open recommendations reduced from 42 to 29. Content and level of detail in internal audit reports improved.

#### **Impact going forward**

Potential for quicker and clearer risk identification and more prompt mitigation.

“Lack of internal audit capacity meant only two of the 18 audits for 2023/24 were delivered.”  
**Internal audit - a borough council**”



# Improving economy, efficiency and effectiveness



## Key recommendations from 2023/24 on arrangements for improving economy, efficiency and effectiveness highlighted issues around contract management and project management. There were, in addition, eighty separate improvement recommendations on arrangements for key performance indicator reporting (KPIs).

Weaknesses in contract management tended to relate to missed targets for service standards not being identified by the council promptly because contractors were certifying delivery themselves (rather than council staff checking); or because there were incomplete data sets to report against.

Two examples here highlight how contract management training and support for council staff might have helped secure a better service from contractors:

- One borough council contracted out the operation and services of a hostel it owned for homeless men. When service standards slipped, the council wasn't made aware because it was the contractor rather than the council that was completing contract KPI data returns; and the contractor was in some cases anyway using the wrong information. It was only through complaints from residents that the council became aware that service standards had slipped
- A district council contracted out grounds management covering a large geographic area. The council held regular meetings with the contractor but minutes from the meetings were taken by the contractor's staff rather than by the council's staff and didn't track agreed actions, levels of service delivery and service performance. Furthermore, the contractor didn't provide all the management and monitoring information required of them under the terms of the contract. Council review of contract performance ran so late that the council ended up having to extend the contract because there was insufficient time factored in to look for another supplier

Weaknesses in project management included: business cases for high profile projects not being shared with Cabinet; slippage in timelines not being anticipated and recorded; and increases in cost not being captured accurately in forecasting. In some cases, poor relationships between members also meant that decisions once made needed to be continually revisited, leaving staff unsure about what they were and weren't authorised to proceed with on projects.

For one district council, disagreements between members resulted in an externally funded new cinema project being abandoned after it had started, at a cost of £522,000. Some members had disagreed with the project and then used every means available to disrupt it. We saw similar behaviours at a borough council, where projects that had been started had their planning permission contested by members who disagreed with them.

“Financial loss and delayed project progress can result when decisions are undermined from outside the main constitutional process.”

“There have been weaknesses in the support for the cinema decision. At one stage, delegated authorities for the project have been removed, which made project progress difficult.”

**Project management -  
a district council**

## For key performance indicator reporting systems, the 80 improvement recommendations we made tended to surround the need for:

- stronger data-quality arrangements
- timelier gathering and reporting of data
- clearer targets to be shown in the data
- increased use of benchmarking against regional and national data for better understanding of how the council performs compared to others
- integrating financial performance data into performance reports, or including financial data alongside them.

The AARs highlighted some examples of councils where project management and key performance indicator reporting had improved during 2023/24. Furthermore, the AARs showed that a number of councils are moving away from using quarterly written reports to members and towards live dashboard systems that members, and in some cases the public, can access at any time. One council referred to this as “democratising and providing open data wherever possible”.

Where dashboards are being introduced, training on the new systems – for staff and members – will be important if councils are going to make full use of the timelier insights these systems can offer. It will also be important to remember that data quality will be just as essential for the new live systems as it was for the quarterly-reporting-based systems.

### **Six steps by one district council to improve project management**

- 1 Earmarked resources to bring expertise and capacity to the project management team
- 2 Appointed a project portfolio manager and dedicated project managers
- 3 Developed and rolled out a project management framework
- 4 Used a project app
- 5 Project delivery board set up
- 6 Project post implementation reporting framework adopted

### **Six steps by one unitary council to improve KPI reporting**

- 1 Removed from the reports those indicators that could not be measured
- 2 Formalised a data quality policy
- 3 Introduced eight new data quality principles underpinning the data feeding into indicator reporting systems
- 4 Added near neighbours and statistical neighbours benchmarking
- 5 Stratified the regularity of indicators shared with the Board – with some going monthly, others quarterly and some annually
- 6 Used the KPI data on workforce performance to feed into changes to the recruitment strategy



# Housing





## Around two thirds of all key recommendations for improving economy, efficiency and effectiveness in 2023/24 related to housing standards. For example, we identified:

- one borough council hadn't carried out a stock condition survey for 12 years. There were core compliance issues with gas, electricity, asbestos, and lifts; and follow-up actions on fire risk assessment not always having been followed up
- a city council had 1900 open case reviews for damp and mould; and more than 85% of the council's homes didn't meet the legal requirements for smoke detectors
- another city council had 3600 homes with no electrical condition report; 600 communal areas with no current electrical safety certificate; more than 600 properties in need of a water risk assessment; and over 1700 homes where medium and low-risk fire remedial actions were more than two years overdue
- one unitary council estimated that its recovery plan for bringing gas, fire, electrical and asbestos safety up to standard would cost more than £10 million.

The cost of backlog repairs and maintenance work needs to be factored into budget planning for every council affected by issues around stock condition. However, our key recommendations for 2023/24 show that there are often weaknesses in data, preventing the costs from being identified accurately. Data weaknesses we reported on included:

- out-of-date stock condition surveys
- out-of-date asset management strategies
- absence of a 30-year business plan
- different areas of housing being accounted for in separate housing revenue accounts, making it harder to assess the overall position
- poor maintenance of records around complaints.

The effect of data weaknesses is that councils aren't always correctly estimating the costs they will incur on repairs and maintenance. In the case of one London borough, we reported that unrealistically low estimates of the level of demand for repairs led to lower repairs targets being set as KPIs for measuring housing services contractor performance. Without stronger targets having been reflected in the contract, it then became very hard for the council to raise the volume of repairs and maintenance activity to the level that was actually needed.

At another council, actual spend on repairs and maintenance was much higher in 2024/25 than had been forecast from the data available in 2023/24, and the council had to formulate a new Housing Revenue Account (HRA) budget three months after the end of 2023/24. The council was trying to rebuild HRA reserves at the time. The HRA reserves instead fell to an all-time low.

There were many more housing related key recommendations in 2023/24 than there were in 2022/23. However, new regulatory requirements did come into effect on 1 April 2024, meaning that councils have been forced to be more transparent around the condition of their stock. Open and honest data about condition may be the first step towards fundamental improvement. Careful budgeting to reflect the quantum of work needed will be essential; as will good project management. In the long term, for some councils, the approach to debt may need to be re-considered.

# Workforce



Recommendations relating to staff wellbeing and the need to develop a workforce strategy featured heavily in the 2023/24 AARs for the eight unitary councils which have been through local government reorganisation since 2019. This is perhaps to be expected. Transferring staff from one organisation to another is a significant task, but it will be people that are critical to the success of the reorganisation.

Thinking of the other AARS, lack of a workforce strategy was one of the most common improvement recommendations made in 2022/23. However, adoption of workforce strategies was something that improved during 2023/24 (fewer recommendations made). Councils should continue to focus on the wellbeing of their staff and elected members. As we reported to one unitary council, although a four-year people plan was adopted in 2023/24, and although it focused on attraction and retention, “investment in employee engagement may... (still)... need to be added” for success. Budget-wise, we noted that the cost of effective staff engagement does need to be provided for.

Taking finance teams as an example, there have been various pressures on staff morale in 2023/24:

- Most finance teams have now caught up with their backlogs in accounts, but often ended up, after all the hard work, with disclaimed opinions by the deadline of 28 February 2025
- Many finance teams are working hard to set up effective project management and monitoring systems for transformation programmes and initiatives that will be overtaken by local government reorganisation before they reach fruition
- With local government reorganisation likely to impact many councils in England there will be recruitment and retention challenges

There was still a heavy dependency on agency staff and interims at a number of councils in 2023/24. This included at senior level such as interim Section 151 officers. At one city council, 2023/24 saw three interim Section 151 officers; a change of another senior finance team postholder; an interim head of internal audit; and an interim monitoring officer in one year.

There were also significant skills gaps in 2023/24, both within core finance teams and within business partnering functions. At one council, lack of knowledge about housing duties led to staff significantly over-contracting, and incurring significant overspends. At one London borough, lack of knowledge about DSG accounting led to a breakdown in the relationship between the finance team and the education service. The DSG deficit at this council rose in one year (2023/24) from £15.24 million to £17.89 million. While demand-led factors would have contributed to the increase, there were also technical disagreements about whether £3 million charged to the account was correct.

“ We have been informed by the council these inconsistencies have arisen both from recruitment challenges within the finance team leading to inconsistent support to the education service and due to inputting errors by the education service. We have established that the finance team responsible for supporting the people service area (Adult’s Social Care, Public Health, Children’s Social Care, Education and Schools) has been impacted by vacancies, absence, and workload backlogs during 2023/24.

**Technical disagreements - a London borough**

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For at least two councils who reported general fund revenue account overspends for 2023/24, poor forecasting carried out by staff with little experience of management accounting was blamed for the overspending being identified so late in the year. In both cases, the councils concluded that earlier identification might have helped with managing and mitigating the overspends.

Despite the pressure the labour market is under for local government finance roles, we've seen some examples of strong investment in getting the workforce balance right. One of the unitary councils had been heavily dependent on agency staff but filled 20 roles from internal promotions and new capacity in April 2024, with new members of the team joining substantively over the following months.

We've also seen examples of new permanent recruitment being very targeted at resolving specific problems within the council with, for example, specific housing, DSG or budgeting skills being brought in. In some cases we've been informed that full finance team restructuring will follow the targeted recruitment going on now. Where this is the case, alignment of terms and conditions is going to be important.

## CASE STUDY

### Rightsizing the workforce to target specific challenges

#### Issues from 2022/23

Vacancies in the finance team caused statutory accounts to be produced late. Frequent fluctuations in budget forecasts also made it difficult to plan.

#### Findings from 2023/24

Three new range 6 accountants and four new range 4 accountants were recruited and a £1 million initiative was introduced to rightsize the workforce across human resources, finance, and transformation. The new range 4 accountants were specifically directed to the budget process.

#### Impact going forward

The backlog in statutory accounts closed and new budget support was recruited and in place before the start of the 2025/26 budget-setting process.



# Local government reorganisation



The UK Government has set an ambition to create strategic authorities and unitary councils for all geographies in England by the end of this parliament. Geographies that don't currently have unitary local government have been invited to make local government reorganisation (LGR) proposals, including some smaller existing unitaries within or neighbouring these geographies. This brings uncertainty about the future and new, complex challenges for the sector to navigate.

In September 2024, we published a report on learning from eight new unitary councils that had been formed during or since 2019. The report highlighted how complex reorganisation can be.

The 2023/24 AARs written for the eight unitary councils covered in our September 2024 report continue to bear witness to how challenging reorganisation can be. Of the eight, only one AAR had no recommendations – and this was a unitary council formed in 2019, which had by then had five years to establish itself. For the other seven, there were three statutory recommendations in 2023/24; and multiple key and improvement recommendations.

Statutory recommendations surrounded the need to make savings plans; use transformation business cases; and strengthen finance team capacity. The rate of statutory recommendations for the new unitary councils (3/8) compared to the rest of our sample for 2023/24 (8/92) underlines the difficulties that reorganisation can bring.



## Statutory recommendations

	Number of councils sampled	% of our sample	Number of recommendations
New unitary councils formed during or since 2019	8	8	3
Other councils	92	92	8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>11</b>

### Key recommendations highlighted that the councils still need to:

- develop a new culture of collective financial management
- ensure adequate staff wellbeing mechanisms are in place before and after the move
- embed sound new systems for internal control and make managers responsible for them
- validate data input to new systems
- update the contracts register and identify significant contracts for the new entity
- embed new contract management frameworks to ensure consistency of approach across the new entity.

Improvement recommendations for the new unitary councils included the need to focus on workforce strategy; retain staff during transitional periods; and harmonise legacy systems.

LGR brings enormous opportunities with it, but also very high risk. It seems possible that the risk of weaknesses in arrangements across the sector will increase before it starts to decrease as reorganisation gets underway.



# Good practice questions and reminders





Although many councils in England currently face the prospect of reorganisation, the timelines for this reorganisation, and the shape that reorganisation will take, are still unclear. In the coming years, it will be important that councils impacted by LGR continue to provide value for money from their existing operations and activities, while at the same time preparing for change.

The key and improvement recommendations in AARS for 2023/24 show areas to focus on to maintain best value during this transitional period. Members can help by asking challenging questions.

## Questions to ask

1

### **Are we making realistic budget assumptions? Do our financial plans reflect:**

- The costs of capital for complex projects we're involved in
- Resources needed to deliver planned transformation
- Resources needed to maintain our assets, including for housing
- Realistic expectations about future commercial income streams

2

### **Are we managing risk effectively. How do we know that:**

- all our staff understand risk, not just those at the top
- there's proper communication upwards and downwards
- risk management coverage is equally comprehensive in all services
- we have a full understanding of strategic risk on complex projects we're involved with

3

### **Do we have appropriate assurance on internal control?**

- Who decided which areas internal audit would cover
- Does this include commercial projects
- How seriously do we take the internal audit function

4

### **Are we managing performance effectively, at every level of the business?**

- How uniform is the approach to performance management on contracts across the different service lines
- How often do we receive information on major contracts' performance
- How uniform is the approach to managing risk on major projects
- How regularly is performance on major projects shared with us

5

### **Are we receiving high quality data?**

- Is our performance data timely; verified; and benchmarked
- What's the quality of our data on assets, including those held for commercial purposes
- Are our commercial data and forecasts granular; up to date; and in line with market expectations

6

### **Are we keeping appropriate control over assets in the run-up to reorganisation?**

- Is our asset management strategy up to date
- If there are disposals planned, how are we prioritising

7

**Are we fostering a culture of ownership in the run-up to reorganisation? How do we:**

- keep control over DSG deficits
- keep control over legacy systems
- take ownership over internal controls

8

**Are we looking after our staff? How do we:**

- thank staff
- communicate and engage with staff
- keep training up to date and well-targeted
- budget for effective staff engagement

9

**How confident are we in our forecasts for the future? Have we got:**

- the right skills and resources in place to produce realistic forecasts through the year
- strong arrangements for adjusting forecasts as 2025/26 progresses
- up to date information now about best expectations for the end of 2025/26 and the start of 2026/27?

10

**If and when we reorganise, how will we get ready to:**

- develop a new culture of collective financial management?
- embed sound systems of internal control and make managers responsible for them?
- harmonise systems and validate data input to them?
- identify significant contracts and create a joined-up contracts register?
- ensure a consistent approach to partnerships, procurement and contract management across the newly-merged organisation?
- develop a targeted workforce strategy?
- ensure adequate staff wellbeing mechanisms are in place?
- align terms and conditions?
- retain the valuable skills of key people that we need?

## What good looks like

In 2023, Grant Thornton worked with Lawyers in Local Government, the Association of Local Authority Treasurers Societies, SOLACE and CIPFA to produce a paper on preventing failure in local government. The paper set out, for all the main officer and member roles in local government, the powers and duties and opportunities each has to prevent failure. While the paper focused on how the sector responded to reductions in funding, the principles of what good looks like for councils still apply as the sector now prepares for reorganisation.

There are key messages on what good looks like for financial sustainability, governance, and improving economy, efficiency and effectiveness in the report's analysis of structures, systems and behaviours. There are also key messages on what good looks like for councils as a whole in the list of opportunities councils have to prevent failure. As we move to reorganisation, members and officers alike can help by revisiting the key messages. What good looks like: structures, systems and behaviours:

### Financial sustainability

The Section 151 officer should be a member of the senior leadership team, and should have appropriate access to continuing professional development.

A strong treasury management function should be maintained.

Financial information should be presented in a comprehensible format, and members should be willing to ask critical questions.

### Governance

The monitoring officer should be a member of the senior leadership team, and should be supported by strong risk management and internal audit functions.

Relationships should be co-operative and professional; and decision making should not be behind closed doors.

Where there are commercial companies and joint ventures, robust arrangements for risk, transparency and conflicts of interest should be introduced.

### Improving economy, efficiency and effectiveness

Appropriate commercial expertise should be engaged.

Members and officers should be willing and able to seek external, independent advice and undertake appropriate due diligence.

Strong performance management arrangements should be maintained.

## Opportunities to prevent failure

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well.

- They should demonstrate courtesy and respect towards each other and officers
- Ensure all members are well informed and undertake all the necessary regular training and development
- Ensure auditors' annual reports are presented to full council
- Avoid making important key decisions as 'urgent'. Allow enough time for in-depth discussion and for members to understand complex information and consider all the possible consequences of their decisions, including the risk of unintended consequences.
- Ensure that commercial confidentiality does not prevent members being fully informed about financial decisions.

# Services and support





The local government sector faces a complex landscape. Rising demand, constrained budgets, digital disruption, and the urgent need to build resilient, future-ready services. At Grant Thornton, we understand these pressures and partner with you to deliver bold, practical solutions that drive meaningful change.

## Value for money and governance - the support we provide

### Governance

#### We can support:

##### financial management

- Revenue and capital financial management and governance reviews
- Alternative delivery models governance reviews

##### internal assurance

- Internal audit effectiveness reviews
- Audit committee / scrutiny effectiveness reviews
- Risk management effectiveness reviews
- Review of whistleblowing policy and procedures

### Infrastructure

#### We can support:

##### finance team capability

- Finance team skills and capacity reviews
- Finance team capacity building and support

##### enterprise resource planning review

- Ledger systems diagnostic and controls reviews
- ERP implementation support and reviews

##### partnerships and procurement

- Review of alternative delivery model effectiveness and key contract performance
- Procurement and contract management effectiveness reviews

### Planning

#### We can support:

- 'Financial Foresight' financial strategy challenge workshops
- MTFP robustness and financial sustainability review
- Savings/transformation plan reviews
- Savings and income identification, critical friend challenge, advice and support
- Savings implementation and validation reviews
- Programme and project management effectiveness reviews
- Service optimisation reviews

← We can offer a high-level diagnostic assessment across key aspects of financial governance ('5 Pillars', CIPFA Financial Management or shadow VfM reviews) →

### Information

#### We can support:

##### Financial monitoring

- Effectiveness of financial monitoring reports to members

##### Information for decision making

- Options appraisal and business case development
- Business case reviews
- Performance management framework effectiveness reviews

##### Benchmarking

- CFO Insights financial benchmarking and other analytical insights

### Culture

#### We can support:

##### Independent focused reviews

- Focused investigations into specific governance and compliance matters

##### Implementing finance culture

- Implementing a financed focused culture – workshops and strategy development
- Member training and development, leadership support
- Financial management and budget training for officers and budget holders

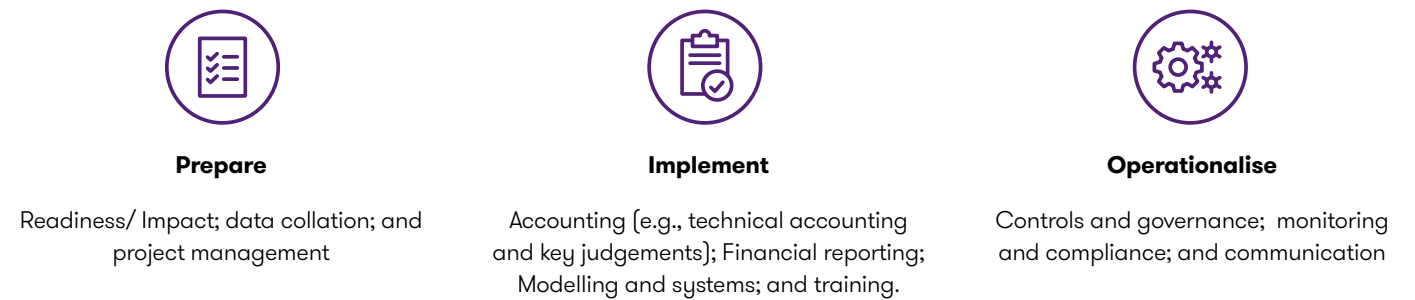
Our public sector financial reporting and accounting team

As the increasing demands and complexities have placed further demands on the capacity and technical knowledge of finance teams, our FRAS team is supporting local authorities in a range of areas:



Delivering a successful local authority IFRS 16 implementation

We have developed a service that we can tailor for your specific requirements, selecting the elements that you require across three key areas:



How we can help: [Implementing IFRS 16: local authorities | Grant Thornton](#)

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