



**TOO MANY COUNCILS GO BUST:  
WE SHOULD DO BETTER**

Lord Sandhurst KC and Shannon Hale

## **About the authors**

**Lord Sandhurst KC** is the current Chair of Research of the Society of Conservative Lawyers. He practised from One Crown Office Row under his family name as Guy Mansfield KC and was Chair of the Bar Council in 2005. He retired from practice on 31 March 2019. He now sits as an excepted hereditary peer on the Conservative Benches.

**Shannon Hale** is a former Harold G. Fox Scholar at Middle Temple. She has advised judges on the Supreme Court of Canada and the Court of Appeal for Ontario, as well as Canadian Cabinet ministers in the government led by former Prime Minister, Stephen Harper. Shannon was awarded the Society of Conservative Lawyers 2024 Lyell Scholarship and this paper formed part of the work undertaken in that capacity.

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The views expressed in this paper are those of the authors alone, who take sole responsibility for all errors and omissions.

## FOREWORD

A paper on municipal finance may not sound a compelling piece of literature, but Guy Sandhurst and Shannon Hale reveal the shaky foundation on which key services depend – social care and housing, for example – and spell out the risks of continuing neglect of our town halls by central government.

Better still, they outline a way forward to prevent more and larger authorities going the way of the eight local authorities that have already declared bankruptcy since 2021.

The theme of the paper is that prevention is better than cure; the accounts are published long after the warning signs first appeared – too late often to take remedial action. In Birmingham, the warning signs were flashing in 2017, but it didn't go bust until 2023. And the audit system is opaque and lacks consistency and public scrutiny.

Central government squeezed local authorities hard, as part of its mission to get public expenditure under control after 2010. And, initially, they responded by becoming more efficient – more so, dare I say, than central government itself. But as the pressure was maintained, many resorted to innovative property deals, financed by cheap public money, which got them into trouble as the investments turned sour.

The paper and its recommendations are particularly apt; whoever wins the next election, there is unlikely to be any new money for local government. The spending envelope for unprotected departments – including DLUHC – imply further reductions of around 6%. The measures to promote sound financial management, if implemented, will reduce the risk of further failure, and the disruption of important public services.

Teams writing manifestos should read this – as should anyone concerned with a vibrant local democracy.

*George Young  
Lord Young of Cookham CH*

## INTRODUCTION: THE NEED OF LOCAL AUTHORITY RESILIENCE<sup>1</sup>

With increasing frequency, the broadsheets feature stories of local councils that have declared or are on the verge of declaring bankruptcy. The present situation has been described as “an ‘out-of-control’ financial crisis”.<sup>2</sup> Put simply, “Dozens of English local authorities have declared effective bankruptcy in recent months, incapacitated by inflation, an explosion in demand for social services and what some say is a broken financial model.”<sup>3</sup>

Birmingham City Council has effectively declared bankruptcy and, as a consequence, has had to raise council tax by 21%, sell £750 million of assets, and reduce spending on public services by £300 million to try to balance the books this year.<sup>4</sup> Woking Borough Council similarly has amassed a £1.2 billion deficit and has raised council tax by 10% in an effort to place the local council on stable financial footing.<sup>5</sup> Its deficit is so significant it “could have an impact on national finances.”<sup>6</sup>

These councils are not alone. Since 2021, six local authorities have declared bankruptcy. This figure

represents nearly half the number of councils that have effectively declared bankruptcy since the Local Government Finance Act 1988 became law over thirty years ago.<sup>7</sup> One in five council leaders anticipates being unable to balance the books in the next year.<sup>8</sup> Financial instability is a growing problem.

But what is the source of the “Road to ruin”<sup>9</sup> afflicting so many local councils?

In part, some of these challenges may be attributed to funding shortfalls and public services increasingly under financial strain as local authorities try to provide more services with fewer resources. Social care, in particular, is a major problem that requires a resolution, especially as the central government devolves more responsibility for service delivery onto local authorities.<sup>10</sup> So too local government corruption has contributed to financial mismanagement.<sup>11</sup>

These issues are important and must be addressed, but questions of central government

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1 This paper focuses on the financial resilience of local authorities in England.

2 “English councils are facing an ‘out-of-control’ financial crisis”, The New Statesman (1 February 2024) [www.newstatesman.com/spotlight/economic-growth/regional-development/devolution/2024/02/bankrupt-councils-financial-crisis-england-local-government-housing-communities](https://www.newstatesman.com/spotlight/economic-growth/regional-development/devolution/2024/02/bankrupt-councils-financial-crisis-england-local-government-housing-communities)

3 “How Birmingham went bust”, The Times (24 February 2024) [www.thetimes.co.uk/article/how-the-city-of-birmingham-went-bust-prpvfdwc6](https://www.thetimes.co.uk/article/how-the-city-of-birmingham-went-bust-prpvfdwc6)

4 “Bankrupt Birmingham council takes drastic steps to balance the books”, Financial Times (19 February 2024) [www.ft.com/content/3ec920d6-d4eb-42fe-8cd4-61ec8a17244a](https://www.ft.com/content/3ec920d6-d4eb-42fe-8cd4-61ec8a17244a)

5 “The bankrupt council asking angry locals to fund its white elephants”, The Telegraph (5 March 2024) [www.telegraph.co.uk/money/consumer-affairs/bankrupt-council-woking-council-debt-investments/](https://www.telegraph.co.uk/money/consumer-affairs/bankrupt-council-woking-council-debt-investments/)

6 “Woking council declares bankruptcy with £1.2bn deficit”, The Guardian (7 June 2023) [www.theguardian.com/politics/2023/jun/07/woking-council-declares-bankruptcy-with-12bn-deficit](https://www.theguardian.com/politics/2023/jun/07/woking-council-declares-bankruptcy-with-12bn-deficit)

7 “Local government section 114 (bankruptcy) notices”, Institute For Government (29 October 2023) [www.instituteforgovernment.org.uk/explainer/local-authority-section-114-notices#:~:text=How%20common%20is%20it%20for,Finance%20Act%201988%20became%20law.](https://www.instituteforgovernment.org.uk/explainer/local-authority-section-114-notices#:~:text=How%20common%20is%20it%20for,Finance%20Act%201988%20became%20law.)

8 “Council bankruptcy tracker: authorities under increasing financial strain”, The New Statesman (24 November 2023) [www.newstatesman.com/spotlight/economic-growth/regional-development/2024/01/council-bankruptcy-tracker-local-government-authorities-finances](https://www.newstatesman.com/spotlight/economic-growth/regional-development/2024/01/council-bankruptcy-tracker-local-government-authorities-finances)

9 “How Birmingham went bust”, The Times (24 February 2024) [www.thetimes.co.uk/article/how-the-city-of-birmingham-went-bust-prpvfdwc6](https://www.thetimes.co.uk/article/how-the-city-of-birmingham-went-bust-prpvfdwc6)

10 “English councils are facing an ‘out-of-control’ financial crisis”, The New Statesman (1 February 2024) [www.newstatesman.com/spotlight/economic-growth/regional-development/devolution/2024/02/bankrupt-councils-financial-crisis-england-local-government-housing-communities](https://www.newstatesman.com/spotlight/economic-growth/regional-development/devolution/2024/02/bankrupt-councils-financial-crisis-england-local-government-housing-communities)

11 “Lawyers raise alarm at struggle to tackle UK local government corruption”, The Guardian (2 February 2024) <https://amp.theguardian.com/uk-news/2024/feb/02/lawyers-raise-alarm-at-struggle-to-tackle-uk-local-government-corruption>

budgeting and whether local councils are overburdened and underfunded fall outside the scope of this paper.

This paper is concerned with issues that make it difficult, if not impossible, for local councils to set balanced budgets and take informed financial decisions. A pattern has emerged where local authorities are financially stretched and declare bankruptcy when it is too late to take meaningful action.

A crucial problem is that most local authorities do not file unaudited accounts on time or only file after prolonged delays. Ten years ago, 97% of local authorities filed their audited accounts on time, but this number has dropped to only 1% of local authorities filing on time in 2022/23. This makes it practically difficult for local councils to set a balanced budget for the year and have an accurate assessment of their financial position. These delays also impede the timely publication of audited accounts, leading to audit backlogs. This in turn frustrates public scrutiny of the accounts as a way to hold local councils accountable for their financial decisions.<sup>12</sup>

Much is made of the lack of central government funding to local councils, but a major problem is that local authorities are not managing the money they have sufficiently tightly. Unless meaningful steps are taken to improve financial oversight, issues of financial mismanagement will persist and reach fever pitch as central government throws more and more money at the problem to make it go away.

Consider the £64.7 billion funding settlement for

2024/25, recently announced by the central government for local authorities in England.<sup>13</sup> This support is intended to inject greater spending power into local councils and avoid the need for eye-watering council tax increases. But without proper auditing and accountability, there is a real risk that the cycle of financial mismanagement, papered over by more central government funding, will continue. This will lead to ever more bankrupt local councils, higher rates of council tax, and lower value for money for taxpayers.

Parliament is alive to the urgency of improving financial oversight of local government. Late last year, the House of Commons Levelling Up, Housing and Communities Committee produced a report titled “Financial Reporting and Audit in Local Authorities” (hereinafter referred to as “the House of Commons Committee Report”), which made several recommendations to improve auditing, monitoring, overview, and scrutiny of local authorities’ finances.<sup>14</sup> This paper considers those recommendations and makes several of its own points. Those who are interested in this issue should read the report and the Government Response.<sup>15</sup>

We have been struck that there are several problems with local authority finances and the Government should start by addressing the audit backlog, the content and clarity of local authority accounts and audits, timelines for publishing unaudited accounts, public oversight, and auditors’ powers to identify possible issues at an earlier stage in the audit process.<sup>16</sup> Our solutions are as follows:

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12 “Local audit and accountability in England”, House of Commons Library, Research Briefing (20 February 2024) at pp 17, 22–23 <https://researchbriefings.files.parliament.uk/documents/CBP-7240/CBP-7240.pdf>

13 “Government confirms over £64 billion funding package for councils”, Department for Levelling Up, Housing and Communities, Press release (5 February 2024) [www.gov.uk/government/news/council-funding-package-confirmed](http://www.gov.uk/government/news/council-funding-package-confirmed)

14 “Financial Reporting and Audit in Local Authorities”, House of Commons, Levelling Up, Housing and Communities Committee, First Report of Session 2023–24 (24 November 2023) <https://publications.parliament.uk/pa/cm5804/cmselect/cmcomloc/59/report.html>

15 “Financial Reporting and Audit in Local Authorities: Government Response to the Committee’s First Report”, House of Commons, Levelling Up, Housing and Communities Committee, First Special Report of Session 2023–24 (5 February 2024) <https://committees.parliament.uk/publications/43180/documents/214886/default> [House of Commons Committee Report]

16 “Financial Reporting and Audit in Local Authorities: Government Response to the Committee’s First Report”, House of Commons, Levelling Up, Housing and Communities Committee, First Special Report of Session 2023–24 (5 February 2024) see Recommendations 1–14 <https://committees.parliament.uk/publications/43180/documents/214886/default/>

#### ■ Recommendation 1

Clarify the purposes of local audits.

#### ■ Recommendation 2

Simplify local authorities' accounts.

#### ■ Recommendation 3

Create the Audit, Reporting and Governance Authority, "ARGA", recommended by Sir Tony Redmond's review<sup>17</sup>, as the local audit system leader.

#### ■ Recommendation 4

Encourage the consistent use of auditors' existing powers as an early warning system.

#### ■ Recommendation 5

Tighten the audit timelines.

#### ■ Recommendation 6

Enable proper public consultation.

#### ■ Recommendation 7

Obtain auditors' opinion on the achievement of value for money.

## FRAMEWORK

The legislative framework governing local authorities is complex and, in its entirety, is beyond the scope of this paper. We are primarily concerned with local authorities' financial management. Our focus is on the most relevant aspects of financial control and how these must be improved.

**Balanced budgets.** First, local authorities are required to set balanced budgets each financial year and ensure value for money in the services provided. Local authorities must follow a legislative procedure in how they create their annual budgets, including setting a budget by 11th March each year before the new financial year begins on 1st April.<sup>18</sup> Local councils are responsible for managing their own finances. While the Department for Levelling Up, Housing and Communities has oversight of the local government finance system, there is no requirement for central government to

approve local authorities' budgets.<sup>19</sup> Where a local authority breaches its duty to provide best value for money, the Secretary of State can intervene and take any action necessary to ensure compliance with this duty.<sup>20</sup>

Sixteen statutory interventions have occurred as of October 2023. Statutory interventions commonly occur "when there are significant and extensive indications of failure and authorities are not delivering to the high standards which their local communities have a right to expect."<sup>21</sup> We are not asking for central government to interfere more often. Rather, circumstances that might trigger intervention occur too late for central government to take effective preventative action.

As such, this fallback power is relatively ineffective – and is not an effective spur to financial control – as evidenced by current failures on the part of local

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17 "Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting", Sir Tony Redmond (September 2020)  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/916217/Redmond\\_Review.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf)

18 Local Government Finance Act 1992, s 31A [balanced budgets]. Local Government Act 1999, s 3(1) [best value regime]

19 House of Commons Committee Report, at pp 8, 11

20 Local Government Act 1999, s 15

21 "Local audit and accountability in England" at pp 35–36

authorities. Recent Government guidance appears to recognise this problem as it has stated that “the Government plans to engage at an early stage with authorities ‘showing signs of not complying with the Best Value Duty.’”<sup>22</sup> But this may not be an adequate remedy. There is no legal requirement for the Secretary of State to intervene following a best value inspection.<sup>23</sup>

**Audit obligations.** Secondly, local authorities achieve financial resilience primarily through proper planning, strong financial control, and a combination of internal and external audits.<sup>24</sup> Timely audits are important. Local authorities undertake internal and external audits each year as part of the financial control to ensure public funds are being managed properly.

**Internal audits** are one aspect of internal control. Section 5 of the Accounts and Audit Regulations 2015 requires local authorities to conduct an internal audit “to evaluate the effectiveness of [their] risk management, control, and governance processes, taking into account public sector internal auditing standards or guidance.”<sup>25</sup> As this audit is risk-based, it is important for the leadership to have sight across all areas of the council lest any areas of non-risk become at risk. The internal audit covers local authorities’ core financial systems, providing assurance to a local authority’s chief finance officer (section 151 officers)<sup>26</sup> of their financial resilience. These reports are shared with the council’s audit committee, not the general public.<sup>27</sup>

**External audits.** Local authorities are also subject to an annual external audit, which is shared with the public. The Local Audit and Accountability Act 2014 created a new local audit regime that governs this process. A research briefing prepared by the House of Commons Library<sup>28</sup> explains the key features of this regime as follows:

“The authority’s auditor must provide an opinion on a local authority’s accounts, and also a conclusion on value for money. To this end, the auditor has various powers to ensure appropriate financial management. They may investigate items in the authority’s account at the request of an elector; they may apply to the court to have an item of expenditure declared unlawful; they may make a statutory recommendation which is copied to the Secretary of State; and they may make a ‘public interest report’ on matters of concern within a council’s accounts.”<sup>29</sup>

**Advisory notices.** A local authority auditor may also issue an advisory notice to prevent a local authority from taking a decision to spend money if of the view that such a decision would result in the unlawful expenditure of funds.<sup>30</sup>

**Statutory timelines: too long.** The publication of accounts is subject to statutory timelines identified in regulations.<sup>31</sup> Unaudited accounts must be published by 31st May following the end of the financial year. Previously, 31st July had been the statutory deadline for audited accounts since 2017/18, although it had been extended to 30th September and 30th November in certain years

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22 “Local audit and accountability in England” at p 36

23 “Local audit and accountability in England” at p36. Local Government Act 1999, ss 10–13

24 House of Commons Committee Report, at p 16

25 The Accounts and Audit Regulations 2015 (SI No. 234), Part 2 (Internal Control), s 5

26 Local Government Act 1972, s 151

27 “Must Know Guide – Working with Auditors”, Local Government Association (28 February 2023), see “INTERNAL AUDIT” [www.local.gov.uk/publications/must-know-guide-working-auditors](http://www.local.gov.uk/publications/must-know-guide-working-auditors)

28 “Local authority financial resilience”, House of Commons Library, Research Briefing (7 February 2024)

29 At p 12 <https://researchbriefings.files.parliament.uk/documents/CBP-8520/CBP-8520.pdf>. See also The Local Audit and Accountability Act 2014, ss 25 [inspection of statements of accounts], 27 [electors’ objections], 28 [advisory notice] and Schedule 7 [public interest report]

30 The Local Audit and Accountability Act 2014, Schedule 8, s 1(1). See also “Local audit and accountability in England” at p 17

31 See, for example, The Accounts and Audit Regulations 2015 and The Accounts and Audit (Amendment) Regulations 2022

during the Covid-19 pandemic.<sup>32</sup> The deadline has now been extended to 30th September until, and including, the 2027/28 financial year.<sup>33</sup>

So the audited accounts may not be published up to 18 months after the end of the relevant year. That is a long time before those who are not at the centre (and privy to the picture) can get sight of potential matters for concern. It risks and has likely given rise in the examples we cite, to significant delay before alarm bells may be rung for or by councillors and electors. We address audit deadlines in the next section below.

**Chief Financial Officers.** A third mechanism of financial control concerns the role and powers of the local authority's chief finance officer. These responsibilities include: a duty "to report on the robustness of the council's budget estimates and the adequacy of its reserves" and "a statutory duty to issue a formal report if s/he believes that the council is unable to set or maintain a balanced budget" (i.e., a "section 114 notice").<sup>34</sup>

## CURRENT ISSUES

In principle, these controls should encourage sound financial management. In the majority of cases, they do. Yet, an increasing minority of cases shows the stress points which, if left unchecked, could tip more local councils into financial distress at a moment when local government finances are under strain.

There are myriad concerns with the audit framework, but we say the principal concerns are these.

**Section 114 notices.** Section 114 notices are made when it is likely expenditure will exceed available resources. Once issued, they freeze all non-statutory spending and the local council must meet within 21 days to consider the report and agree on a course of action, if any.<sup>35</sup> There is no legal requirement on the type of action a local authority must adopt in response to a section 114 notice.<sup>36</sup> Though a suite of options to balance the budget is available to local councils, including non-statutory spending cuts, reallocating budgets to cover day-to-day expenditure, increasing council tax, bailouts, or intervention from the central government.<sup>37</sup>

**Local electors.** Finally, local electors and press should (but in practice do not, as we explain) serve an important challenge function. They are able to inspect a local authority's accounts for a 30-day period during the audit process, and can request the auditor to investigate any expenditure to which they object.<sup>38</sup> The public's right to object promotes transparency and accountability on the part of the local authority.

### **Audit Deadlines: 2022/23 only one percent of local authority audits filed on time**

Many local authorities do not file audited accounts on time, or only file after prolonged delays, if at all. The number of local councils who file their audited accounts on time has declined sharply from 2014 to 2023. In 2014/15, 97% of local authorities filed their audited accounts on time. But this number fell sharply in 2018/19 and 2019/20 to 57% and 45% respectively, falling further still to 9% in 2020/21 and down to 1% in 2022/23.<sup>39</sup>

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<sup>32</sup> The Accounts and Audit Regulations 2015, s 10(1)

<sup>33</sup> The Accounts and Audit (Amendment) Regulations 2022, s 2(2)(d)

<sup>34</sup> "Local authority financial resilience" at p 13. Local Government Act 2003, s 25. Local Government Finance Act 1988, s 114

<sup>35</sup> Local Government Finance Act 1988, s 115

<sup>36</sup> "Local authority financial resilience" at p 13

<sup>37</sup> "Local government section 114 (bankruptcy) notices", Institute for Government (9 October 2023) [www.instituteforgovernment.org.uk/explainer/local-authority-section-114-notices](https://www.instituteforgovernment.org.uk/explainer/local-authority-section-114-notices)

<sup>38</sup> The Accounts and Audits Regulations 2015, s 14. Local Audit and Accountability Act 2014, s 27

<sup>39</sup> "Local audit and accountability in England" at p 22



**Delayed audit opinions.** There were 918 delayed audit opinions in the audit backlog as of October 2023. This backlog is a problem. It makes it hard for local authorities to set their budgets for the following year on a sound basis. Without access to accurate and reliable financial information, it is challenging for local councils to understand their true financial position, make sustainable financial plans, and provide value for money to taxpayers.<sup>40</sup>

Northamptonshire illustrates this point. Following a section 114 notice and a Best Value inspection commissioned by the Government, the inspection concluded that “Northamptonshire had failed to exercise proper budgetary control since 2013–14” and that “[t]he council had ‘repeatedly under-assessed the level of spending pressures it will experience across the years within its medium-term financial plan’” [Our emphasis added].<sup>41</sup>

A smaller point is that even if an auditor issues a qualified opinion raising concerns at the end of an audit that a local authority has not “made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”, that qualified opinion does not automatically initiate a process to resolve those concerns.<sup>42</sup>

### **Section 114 Notices: weaknesses and perverse incentives**

Local authorities are financially stretched and section 114 notices are made when it is too late to take meaningful action. The prospect of more section 114 notices being issued in the coming years raises the question whether this reactive approach could perversely incentivise local councils to opt for a government bailout rather than take difficult decisions to reduce spending.

A particular challenge with section 114 notices is that they often arise when senior leadership has “failed to heed or act effectively on the warnings of the CFO about the seriousness of the budgetary position.” There is no legal requirement that

specifies the type of action the council must take in response.<sup>43</sup>

#### **No obligation to respond or rectify – Birmingham.**

Birmingham City Council illustrates this problem. Faced with a budget deficit of £165 million over two years and a liability of £750 million to settle equal pay claims, the Council has requested a loan from the Government worth £1.25 billion.

The warning signs have been flashing since 2017 when the then council leader struck a deal to resolve a two-month bin strike, despite warnings from the council’s acting chief executive that the “deal was potentially illegal and ‘endanger[ed] the council’s equal pay strategy and the council’s budget” and could give rise to equal pay claims.

While the council leader was forced to resign over leaked emails that showed he had ignored legal advice to force through his deal, the new council leader put forward a similar deal. That year, despite warnings that it could bankrupt the city, Birmingham also won replacement host status for the 2022 Commonwealth Games, which cost £184 million. Savings were used to mask unstable finances, the higher costs incurred during the Covid-19 pandemic, plus a failed IT project worth £20 million that overran to more than £100 million. These combined to contribute to the Council’s fragile financial position.

The final nail in the coffin occurred in February 2023 when the Council breached its duty to set a balanced budget – the majority of councillors thought “there was zero risk of discrimination payouts” despite senior leadership being aware that “the council was liable for further equal-pay claims of between £300 million and £800 million.” The Government has since “installed a team of commissioners to oversee brutal spending cuts and ordered a judge-led inquiry into equal pay” – but it comes at too high a cost and too late in the day.<sup>44</sup>

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40 “Local audit and accountability in England” at p 23

41 “Local authority financial resilience” at p 26

42 Local Audits and Accountability Act, s 20(1)(c)

43 “Local authority financial resilience” at p 13

44 “How Birmingham went bust”

**Inappropriate drawing on capital/reserves.** A frequent trend is that section 114 notices are issued to local councils that use capital receipts or reserves to compensate for overspending, but often without a plan in place to identify or repay this use of funds. Nottingham City Council and London Borough of Croydon are two examples.<sup>45</sup> Inadequate provisions to repay borrowing costs have contributed to other local councils' financial difficulties, including Slough Borough Council and Woking Borough Council.<sup>46</sup> These examples illustrate that section 114 notices can be effective once made but they are often made too late and after several red flags already have been raised.

More section 114 notices are anticipated in coming years. In a recent House of Lords debate, Baroness Bennett of Manor Castle underscored this dire situation: "I suspect that, if one were to search this debate, "one in five" would be the phrase that comes up most often. I make no apologies for repeating the phrase, because one in five councils is at risk of going broke. That is 20% of councils in the country."<sup>47</sup>

**Double moral hazard:** unintended consequences. With so many local authorities on the brink of bankruptcy, reliance on section 114 notices presents other unintended consequences. As Rob Whiteman, chief executive of the Chartered Institute of Public Finance and Accountancy (CIPFA) recently cautioned:

"There is a risk, of course, that many more s114 notices may normalise financial management failure. I think there is scope for a double moral hazard developing. The Government worried if it 'bails out' councils that can't manage their budgets or debt repayments then it creates an incentive to borrow and take imprudent risk. Meanwhile, rather than make cuts or reprioritise reserves to cover

overspending, might some councils deem a s114 notice as a less unattractive option if others are doing the same?"<sup>48</sup>

The Government has announced £64.7 billion in emergency funding for local authorities in England. In a recent House of Lords debate, the Parliamentary Under-Secretary of State for the Department of Levelling-Up, Housing and Communities affirmed that it "stand[s] ready to speak to any council that has concerns about its ability to manage its finances or faces pressures it has not planned for."<sup>49</sup> Extra emergency funding will not alleviate these problems in every case. While more money may provide a temporary fix, it will not be a tenable long-term solution without strengthened financial controls.

### **Electoral accountability: public and press need timely and intelligible information**

A third point is that public scrutiny provides an effective check on local councils' financial decisions. At present, the public cannot exercise this right in any meaningful sense. Audited accounts are complex and difficult to understand. Proposals to simplify the financial accounting requirements have been unsuccessful due to opposition from auditors and regulatory bodies.<sup>50</sup> Because of the complexities of the accounts, local taxpayers who wish to make use of audited accounts cannot find the information they need or it is difficult to obtain.

We would add that the disappearance and falling circulations of so many local newspapers in recent years have surely exacerbated this problem. In years past an unhappy local councillor would have tipped off his local newspaper which would then have started to raise questions. The public would then come on board.

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45 "Local authority financial resilience" at pp 27, 28

46 "Local authority financial resilience" at pp 32, 34

47 "Local Government Finances", Hansard, Volume 837 (21 March 2024) <https://hansard.parliament.uk/lords/2024-03-21/debates/24561296-D4C3-4157-BD4C-3E2CF87DB8A3/LocalGovernmentFinances>

48 "Local authority financial resilience" at p 14

49 "Local Government Finances", Hansard, Volume 837 (21 March 2024) <https://hansard.parliament.uk/lords/2024-03-21/debates/24561296-D4C3-4157-BD4C-3E2CF87DB8A3/LocalGovernmentFinances>

50 "Local authority financial resilience" at p 43

The Accounts and Audit Regulations 2015 set out when the 30-day public comment period begins for audited accounts. Members of the public have the right to inspect the documents and the right to make objections to any item in the audited accounts.<sup>51</sup> The auditor must investigate any objection lodged, unless it would be repetitive, frivolous, or impose a disproportionate cost. Despite this clear process, local councils often refuse to respond to objections, supply redacted information, or refuse to supply information.<sup>52</sup>

**Woking.** For example, Woking Borough Council ignored concerns raised by a member of the public who objected to arrangements surrounding Public Works Loan Board (PWL) loan funding in 2021 – about two years before the local council issued a section 114 notice.<sup>53</sup> Even if the public can scrutinise the accounts and raise concerns, this challenge function is meaningless if the local council does not act on those concerns.

### **Best value duty: not enough – sanctions/enforcement too little too late**

Furthermore, despite the statutory duty to provide best value for money, local authorities are not subject to regular assessments or performance metrics to assess whether they meet this duty. The Secretary of State may appoint inspectors to determine whether local authorities comply with this duty, and the Secretary of State may direct or intervene in the running of a local authority if the inspector's report concludes that the local authority has failed to meet the best value duty.<sup>54</sup>

Section 78 of the Levelling-up and Regeneration Act 2023 amended the Local Government Act 2003 to add a new section on risk mitigation directions, which the Secretary of State can issue

when local authorities are in financial difficulty. The directions can either set borrowing limits or require the local authority to take a specific course of action, including the divestment of a specified asset. These directions can be made only after a “trigger event” has occurred, such as a section 114 notice being issued or a local authority's risk threshold being breached.<sup>55</sup>

These powers and remedies apply only after a local authority is in financial distress. If proper auditing and accountability mechanisms were in place—and working—then these retrospective powers would be of no concern. As of October 2023, 16 interventions have occurred under section 15 of the Local Government Act 1999, which requires “‘Commissioners’ to take over certain functions of the councils in question.”<sup>56</sup>

The first half of these interventions occurred over seventeen years between 2001 and 2018. The second half occurred in just two years between 2021 and 2023 for the following local councils:

Liverpool City Council,  
Slough Borough Council,  
Sandwell Borough Council,  
Nottingham City Council,  
Thurrock Council,  
London Borough of Croydon,  
Woking Borough Council, and  
Birmingham City Council.<sup>57</sup>

It is arguable that the trigger event occurs too late in the day. It is becoming increasingly common for “too many councils [to] borrow multiple times their annual budget at huge risk and real cost to local council taxpayers”, a trend that may continue especially as local councils come under increasing financial strain.<sup>58</sup>

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<sup>51</sup> The Accounts and Audit Regulations 2015, ss 14, 15, 26, 27

<sup>52</sup> “Local audit and accountability in England” at p 16

<sup>53</sup> “Woking ‘armchair auditor’ had concerns ignored”, Local Government Chronicle (21 June 2023) [www.lgcplus.com/finance/woking-armchair-auditor-had-concerns-ignored-21-06-2023](http://www.lgcplus.com/finance/woking-armchair-auditor-had-concerns-ignored-21-06-2023)

<sup>54</sup> Local Government Act 1999, ss 3, 10–13, 15

<sup>55</sup> Levelling-up and Regeneration Act 2023, s 78 (see Local Government Act 2003, s 12A(1)–(5))

<sup>56</sup> “Local audit and accountability in England” at p 34

<sup>57</sup> “Local audit and accountability in England” at p 35

<sup>58</sup> “Woking council declares bankruptcy with £1.2bn deficit”

That these interventions are increasing in recent years is a serious concern. Having stronger financial controls in place before local authorities encounter a “trigger event” would create financial resilience and avoid situations where getting local councils back on track occurs too late and at considerable taxpayer expense.

### **Audit oversight**

A final issue is the need for a centralised body to oversee local government auditing. The Redmond Review<sup>59</sup> recommended the creation of a new body that could “manage, oversee, and regulate local audit” and serve as the “primary point of contact” for local auditors to “escalate matters of

concern.” This body requires primary legislation, and while the Government has announced plans to establish the Audit, Reporting and Governance Authority (ARGA).

As of the time of writing, this legislation has not been introduced, despite the Government publishing proposals to strengthen local authority audits through the creation of ARGA almost two years ago.<sup>60</sup>

The FRC’s 3-Year Plan (2023/26) anticipated the ARGA being created in 2024, one year later than planned.<sup>61</sup> While the Government has confirmed its intention to create the ARGA, it has not made space in the Parliamentary timetable to introduce legislation.<sup>62</sup>

## **PATH FORWARD**

We must change the way in which we manage this process to place local government on stable footing. Had proper auditing and accountability mechanisms been in place, the risk and likelihood of local authorities declaring bankruptcy would have been much reduced. It is clear from the examples above that while the challenges are caused by both local authorities venturing into risky and imprudent ventures and/or a failure to audit and manage their finances after the event. It is to be expected that councillors, being human, will sometimes make bad decisions.

**Clear the audit backlog.** First, we must clear the audit backlog and take steps to ensure that similar backlogs never arise in future and that the audit system works properly going forward.

**Timely accurate and clear information.** There are many solutions to the audit problem, but we say the

most important ones are these:

- the public need to be able to ask questions about the accounts,
- auditors need to spot what is happening before imprudent spending decisions are taken that create insurmountable deficits, and
- councillors need to be able to understand their financial position and act on that information when they take decisions regarding the allocation of public spending.

These functions are vital to democratic accountability. We must prevent repetitions of Birmingham and the other examples we cite.

Our specific recommendations, informed by the House of Commons Committee Report, are as follows:

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<sup>59</sup> “Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting”, Sir Tony Redmond (September 2020)

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/916217/Redmond\\_Review.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf)

<sup>60</sup> “Financial Reporting and Audit in Local Authorities” at paras 81-92. See also, “UK corporate governance reform is delayed again – what does this mean for Heads of Internal Audit” BDO United Kingdom (13 December 2023) [www.bdo.co.uk/en-gb/insights/advisory/heads-of-internal-audit-newsletter/uk-corporate-governance-reform-is-delayed-again-what-does-this-mean-for-heads-of-internal-audit](http://www.bdo.co.uk/en-gb/insights/advisory/heads-of-internal-audit-newsletter/uk-corporate-governance-reform-is-delayed-again-what-does-this-mean-for-heads-of-internal-audit)

<sup>61</sup> “Financial Reporting Council: 3-Year Plan (2023-26)” FRC (March 2023) at p 2 <https://media.frc.org.uk/documents/Financial%20Reporting%20Council%3A%203%20Year%20Plan%202023%2026.pdf>

<sup>62</sup> “Financial Reporting and Audit in Local Authorities: Government Response to the Committee’s First Report” at p 5

### ■ Recommendation 1 – Clarify the purposes of local audits

The report produced by the House of Commons Levelling Up, Housing and Communities Committee (the “House of Commons Committee”) identifies five functions of local authority accounts (with which we agree):

- be a credible public record;
- allow funders to hold authorities to account for use of funds;
- allow stakeholders to make conclusions on authorities’ value for money;
- allow officers and councillors to make informed decisions; and
- allow stakeholders outside the authorities to make informed decisions.<sup>63</sup>

The House of Commons Committee recommended that the Government set out these purposes in government policy before the next accounts production cycle for the fiscal year ending 31 March 2024.<sup>64</sup>

The Government Response explains that CIPFA and the Financial Reporting Council (FRC) would need to amend the Code of Practice on Local Authority Accounting (Accounting Code) to set out these purposes, but that these amendments could not be made until the 2025/26 financial year as any changes need to be considered one year in advance.

In the meantime, the Government agreed that the Department could make a policy statement setting out these purposes<sup>65</sup>: We urge CIPFA and the FRC to make these changes as soon as possible now that the consultation process has closed.<sup>66</sup>

The Department for Levelling Up, Housing & Communities and the CIPFA have consulted on proposals to clear the audit backlog and improve timely audits. The consultations focus on three phases: (i) reset – clear “the backlog of historical audit opinions up to and including the financial year 2022/23 by 30 September 2024”; (ii) recovery – complete the “reset” phase “in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles”; and (iii) reform – address “systemic challenges in the local audit system and embed timely financial reporting and audit”.<sup>67</sup>

Until these changes are introduced, the Department should issue guidance clarifying the five-fold purposes of the audited accounts to ensure these principles animate the audit process and provide decisionmakers and the electorate with the information required to hold local authorities accountable to sound fiscal management.

### ■ Recommendation 2 – Simplify local authorities’ accounts

To date these proposals have been met with resistance. It is essential for the accounts to be clear and easy to understand so that councillors can make appropriate financial decisions and the electorate can hold the local council accountable. After all, most councillors have no particular financial expertise, let alone audit background.

The House of Commons Committee has explained the current problems with the accounts. First, “*Local authority accounts are overly complicated [our emphasis] to the point of being impenetrable*

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63 “Financial Reporting and Audit in Local Authorities” at p 3, paras 28–45

64 “Financial Reporting and Audit in Local Authorities” at para 47

65 “Financial Reporting and Audit in Local Authorities: Government Response to the Committee’s First Report” at p 2

66 “Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit: Closed consultation”, Department for Levelling Up, Housing & Communities (8 February 2024) [www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation/local-audit-delays-joint-statement-on-update-to-proposals-to-clear-the-backlog-and-embed-timely-audit](https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation/local-audit-delays-joint-statement-on-update-to-proposals-to-clear-the-backlog-and-embed-timely-audit). See “Consultation on the Code of Practice on Local Authority Financial Reporting in the United Kingdom short term England-only measures to aid the recovery of local authority reporting and audit”, CIPFA (29 February 2024) [www.cipfa.org/policy-and-guidance/consultations/consultation-on-short-term-england-only-measures-in-the-code](https://www.cipfa.org/policy-and-guidance/consultations/consultation-on-short-term-england-only-measures-in-the-code)

67 “Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit: Closed consultation”, Department for Levelling Up, Housing & Communities (8 February 2024)

to most readers of the accounts. Moreover, such accounts do not always contain all the information that users want and need to hold local authorities to account.”<sup>68</sup> We agree with its recommendation that the Government must reform “local government legislation [that] overrides the ordinary accounting practice for local authority accounts”, as such overrides “add unnecessary requirements to local authority accounts.”<sup>69</sup>

**The Accounting Code.** In addition, all local authorities must have access to the Accounting Code. The Accounting Code provides guidance on how to prepare and interpret local authority accounts. At present, it costs £365 for a hard copy and £750 for a digital version. The House of Commons Committee recommends that the Department for Levelling Up, Housing and Communities and CIPFA provide the Accounting Code free of charge in time for the next accounts cycle ending 31 March 2024.<sup>70</sup> The Government Response agrees that local authorities should adhere to the Accounting Code but it did not accept the proposal to provide it to local authorities free of charge.<sup>71</sup> This must be resolved.

We agree that the Department and CIPFA should clarify the Accounting Code and reduce the complexity of the accounts by ensuring it does not go further than existing legislation in the requirements it places on local authorities. Local authorities could report on a funding basis, as opposed to both a funding and accounting basis, to simplify the accounts further.<sup>72</sup>

**Equally important priorities.** It is encouraging that the Government has agreed to “undertake to review the existing overrides to ensure that their value is not outweighed by the additional complexity they place on local authority accounts.”<sup>73</sup> But we

disagree with Government that clearing the backlog takes precedence over the work to simplify the “content and format” of the accounts.<sup>74</sup> Both are important priorities.

While the backlog must be cleared in the short term, the accounts must be simplified now and for good to avoid future situations of financial mismanagement and concealment.

### ■ Recommendation 3 – Create ARGA as the local audit system leader

The Government is in the process of transforming the Financial Reporting Council (FRC) into the Audit Reporting and Governance Authority (ARGA), which will become the local audit system leader. The Government has promised primary legislation to create ARGA for the last few years, but at the time of writing primary legislation continues to be delayed and the Government has not committed to introduce the legislation by a specific deadline. We agree with the House of Commons Committee that as a matter of urgency the Government must introduce primary legislation to create ARGA, or abandon the plans to transform the FRC into ARGA and establish a new body “to manage, oversee and regulate local audit” in accordance with previous recommendations.<sup>75</sup>

It is disappointing that the Government has not accepted the House of Commons Committee’s recommendation that the new system leader should be “responsible for collecting and considering audit findings across the sector to identify and coordinate responses to systemic or widespread issues that the auditors have found.”<sup>76</sup> While the existing reporting mechanisms to the Department are useful, the current approach does not provide the necessary oversight and

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68 “Financial Reporting and Audit in Local Authorities” at p 3

69 “Financial Reporting and Audit in Local Authorities” at p 4

70 “Financial Reporting and Audit in Local Authorities” at paras 52, 56–57

71 “Financial Reporting and Audit in Local Authorities: Government Response to the Committee’s First Report” at p 3

72 “Financial Reporting and Audit in Local Authorities” at paras 103, 109–111

73 “Financial Reporting and Audit in Local Authorities: Government Response to the Committee’s First Report” at p 5

74 “Financial Reporting and Audit in Local Authorities: Government Response to the Committee’s First Report” at p 6

75 “Financial Reporting and Audit in Local Authorities” at paras 90–92

76 “Financial Reporting and Audit in Local Authorities: Government Response to the Committee’s First Report” at p 5

coordination that the new system leader, as an arm's length body, could. Structural reform is essential.

We therefore urge the Government to reconsider its approach and ensure the new system leader is created as a matter of urgency with the necessary powers to coordinate and respond to audit issues in a meaningful way.

**■ Recommendation 4 – Encourage the consistent use of auditors' existing powers as an early warning system**

At present, auditors can raise concerns before they become significant financial issues in two ways. First, they can issue a public interest report when a matter of concern arises during an audit.<sup>77</sup> Secondly, they can raise concerns through dialogue with a local authority's management.

We agree with the House of Commons Committee that the Department for Levelling Up, Housing and Communities should work with the relevant organisations to “introduce new guidance for the auditors of local authorities in order to encourage them to make more proactive use of their existing powers to flag potential issues earlier in the audit process.”<sup>78</sup> The proactive use of these powers coupled with the mandate of the new system leader would further strengthen accountability in financial management.<sup>79</sup>

**■ Recommendation 5 – Tighten the audit timelines.**

Audits must be filed on time. Delayed audits are of little use to anyone. Weighty decisions are taken without the benefit of this information.<sup>80</sup>

Additionally, auditors are unable to devote time to current audits because they need to prioritise clearing the audit backlog. This limits their ability to

spot current issues with financial decision-making in time for local authorities to address those concerns.<sup>81</sup>

**Mandatory backstop dates.** We agree with the House of Commons Committee that the Department should “introduce backstop dates for publishing audited local authority accounts on an annual basis going forwards.”<sup>82</sup> The Government has consulted on a proposal to introduce backstop dates for outstanding audit years and also for the next five years. It is also considering making backstop dates “a permanent feature of the local audit process” on an ongoing basis.<sup>83</sup> These changes should be introduced as soon as possible. That being said, changes to the backstop dates alone will not sufficiently address the systemic challenges concerning timely, transparent audits.

We also agree with the House of Commons Committee that there need to be stronger consequences for failure to publish audited accounts by the statutory deadline. At present, if the deadline will not be met, a local authority must publish a notice stating that this is the case and provide reasons for the delay.<sup>84</sup> But nothing more is required. Mere shame (which we doubt is felt) is not having an impact. More robust accountability is required.

We agree with the recommendation that Section 151 Officers should be able to write to the Secretary of State and other relevant parties when an audit deadline has not been met and take any remedial action as necessary. These measures could improve compliance, avoid a future audit backlog, and ensure decisionmakers have the information they need to take informed financial decisions.

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77 Local Audit and Accountability Act 2014, Schedule 7 at s 1(1)

78 “Financial Reporting and Audit in Local Authorities” at paras 134–135

79 “Financial Reporting and Audit in Local Authorities: Government Response to the Committee's First Report” at p 3

80 “Financial Reporting and Audit in Local Authorities” at para 65

81 “Financial Reporting and Audit in Local Authorities” at para 66

82 “Financial Reporting and Audit in Local Authorities” at paras 79–80

83 “Financial Reporting and Audit in Local Authorities: Government Response to the Committee's First Report” at p 4. See also, “Code of Audit Practice Consultation”, National Audit Office [www.nao.org.uk/code-of-audit-practice-consultation](http://www.nao.org.uk/code-of-audit-practice-consultation)

84 “Financial Reporting and Audit in Local Authorities” at para 75

The Government is of the view that Section 151 Officers already have this power. If so, the Government should issue guidance so that officers are pressed to use these powers proactively to address any issues in the audit process.<sup>85</sup>

#### ■ Recommendation 6 – Enable proper public consultation

The electorate need an idea of where money is being spent in order to hold local authorities democratically accountable. Linked to recommendation 2, it is vital for local authorities to produce annual reports in a form people can understand and allow a meaningful period of time for the public to express objections. Local authorities should not resist or complicate disclosure.

Councils should advertise the publication of audited accounts through the post, newspapers, and email so that the electorate are aware of the information and have an opportunity to challenge it.

We agree that the Government should also amend the relevant legislation so that taxpayers can challenge decision-making throughout the financial year, and prior to the auditing process.<sup>86</sup>

#### ■ Recommendation 7 – Obtain auditors' opinion on the achievement of value for money

We recommend that auditors provide an opinion

on whether value for money has been achieved, in line with the House of Commons Committee's recommendation.<sup>87</sup> The Government does not agree with this recommendation and suggests that this obligation should be constrained to advising on whether arrangements are in place to achieve this objective. The Government also points to pressures from the audit backlog as a reason to avoid placing this duty on auditors.<sup>88</sup>

Clearing the audit backlog is an urgent and important priority. But it must not overshadow other systemic issues in the audit process that contribute to financial mismanagement. Auditors are well placed to understand how local authorities are allocating funds and to identify major areas of concern.

It therefore makes sense for auditors to provide an opinion on value for money as a metric to help guide local authorities in their financial decision-making process and to signal to the electorate where potential problems may arise. While the new Office for Local Government (Oflog) will play an important role in providing information on local authorities' performance, as the Government suggests, it can only perform this function well with access to accurate information, which would be provided through the auditors' opinion.

## CONCLUSION: SOUND FINANCIAL MANAGEMENT IS KEY

Taken together, these recommendations serve as a first step to resolve several pressing and ongoing challenges with local authority audits.

These changes could serve as a standard for local authorities outside England. This situation is not unique to England. Wales, for example, is also in trouble. Pembrokeshire County Council agreed to raise council tax for 2024/25 by 12.5%, the

highest increase in the UK.<sup>89</sup>

Over the next few years, the fundamental question of what is the role of local government will need honest answers, particularly as local authorities face increasing financial strain. Whether we are asking local councils to do too much with too little is not for this paper. What we do believe is that sound financial management is key. Without it, we

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85 "Financial Reporting and Audit in Local Authorities: Government Response to the Committee's First Report" at p 4

86 "Restoring Trust in Audit and Corporate Governance: A commentary on The Department of Business, Energy & Industry's White Paper", Simon Randall CBE, Society of Conservative Lawyers (September 2021) at p 8 [www.conservativelawyers.com/\\_files/ugd/e1a359\\_07cf56434ac34b4795c1c58bf41446e4.pdf](http://www.conservativelawyers.com/_files/ugd/e1a359_07cf56434ac34b4795c1c58bf41446e4.pdf)

87 "Financial Reporting and Audit in Local Authorities" at para 129

88 "Financial Reporting and Audit in Local Authorities: Government Response to the Committee's First Report" at p 8

89 "Pembrokeshire: Council's 12.5% tax rate rise UK's highest", BBC (7 March 2024) [www.bbc.co.uk/news/uk-wales-68492895#:~:text=Pembrokeshire%20council%20has%20increased%20council,percentage%20rise%20in%20the%20UK.](http://www.bbc.co.uk/news/uk-wales-68492895#:~:text=Pembrokeshire%20council%20has%20increased%20council,percentage%20rise%20in%20the%20UK.)



will not have local councils on a sound financial footing, nor ensure that sound use of taxpayer money is maximised for the electorate.

We are convinced that the latter matter holds the key to the solution. More money is not likely to be forthcoming. National finances are constrained. Financial disasters such as Birmingham and Woking (and many lesser ones) mean that everyone loses. There is less and less money to spend and central government is more and more sceptical of the wisdom of largesse.

Placing local government finances on stable, sustainable financial footing is of the utmost urgency and importance. These reforms to the local audit process are a first step towards this goal.

Finally, the chief executives of local authorities are well paid by any standard. Salaries for the vast majority are over £100,000, with several on salaries in excess of £150,000.<sup>90</sup> We must ask whether we are getting value for money, and if not whether this lies at the door of the chief executives or is indicative of deeper structural failings. We think, at the very least, there are structural failings.

It may be that the chief executives cannot exercise leverage. But if that is the case, then it makes an even stronger case for urgent reform.

The Government should introduce primary legislation as a matter of urgency. Even if the proposed reset and recovery phases clear the audit backlog, there are storm clouds on the horizon which could precipitate the urgent need for wholesale reforms. Local authorities across the country are in an incredibly precarious position. Recent data from the National Institute of Economic and Social Research shows that rising interest rates and debt burdens coupled with falling funding levels could see even more local authorities declaring bankruptcy in the near future. The research shows that between 2010 and 2023 the overall debt burden for local authorities grew from £52 billion to £119 billion – or by 78 percent. Local authorities now spend a total of £3.2 billion (or 15 percent of finances) on servicing their debt, compared to spending only 9 percent in 2015/16.<sup>91</sup>

It is time to take urgent action to bring local authorities' finances under control.

**Guy Sandhurst and Shannon Hale**  
**London, July 2024**

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<sup>90</sup> "Town Hall Rich List 2024", Taxpayers' Alliance (9 April 2024) "See the Full Dataset"  
[www.taxpayersalliance.com/town\\_hall\\_rich\\_list\\_2024](http://www.taxpayersalliance.com/town_hall_rich_list_2024)

<sup>91</sup> "Warning of more council bankruptcies as debt doubles", The Times (1 May 2024)  
[www.thetimes.co.uk/article/3d0925d8-3b34-47e3-9f3f-51a18b476482?shareToken=e65223b5b57234c5c928f84f73ba904e](http://www.thetimes.co.uk/article/3d0925d8-3b34-47e3-9f3f-51a18b476482?shareToken=e65223b5b57234c5c928f84f73ba904e)



For further information on the Society of Conservative Lawyers contact:  
The Administrative Secretary, Shutlers, Saltgrass Lane, Keyhaven, Lymington,  
Hampshire SO41 0TQ

[administrator@conservativelawyers.com](mailto:administrator@conservativelawyers.com)

[www.conservativelawyers.com](http://www.conservativelawyers.com)

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