

Local authority owned companies



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Since 2010, local authority spending has fallen by 25% per person, according to the Institute of Fiscal Studies.

With continuing funding pressures, local authorities' have been forced to look for income in other places. This has included setting up companies in order to reduce overheads and raise revenue. Other drivers behind the decision to set up companies include delivering key services to fill gaps in the market, opening up capacity elsewhere and to create a culture change.

This is nothing new. Local authority companies already exist which are operating effectively and are aligned with the authorities purpose and objectives. These companies are delivering real social value and contributing to the finances of the local authority. But not all local authority owned companies are as successful.

Some companies fail, get wound up as services get brought back in-house and some get associated with bad financial management which leads to their collapse. The reasons for these failures are diverse and wide-ranging – such as inappropriate governance and assurance and failure to properly understand the market.

Companies which lack robust assurance represent a high risk to local authorities. Several public interest reports issued in 2020 and 2021 have criticised local authority governance and their commercial scrutiny. These reports have highlighted local authorities' pursuit of political objectives with little or no scrutiny and challenge.

This approach has led to a failure to understand the inherent risks of investing in particular markets and to understand the crucial need for financial stability of existing services before embarking on major new projects.

It's essential that a local authority has in place effective decision making processes when they look at how establishing a company may help it to achieve its objectives. Any company should be established in accordance with the principles of good governance, effective financial management and complies with legislation.

If a local authority's company runs into financial difficulties, the legal processes and responsibilities of the company and its directors are very different to those of the local authority. This guide is intended to assist chief finance officers, authority members and other interested parties in respect of their own role in relation to local authority companies.



The guide looks at these key areas:



Context

Examining the authority's intended outcomes and priorities and the key drivers that may lead to establishing a company.



The decision-making process

Ensuring there is clear rationale for setting up a new company



Establishment of the company

Ensuring good practice in terms of governance, process and financial management.



Business as usual

Ensuring the success of the company and maintaining good operations at the local authority.

This guide intends to promote best practice when considering the need for establishing a local authority company. It's not intended to be prescriptive or a substitute for sound legal advice, but rather it offers principle-based advice. These principles are drawn from other CIPFA publications including The Financial Management Code and The Role of The Chief Financial Officer.

The guide covers essential areas such as the role and responsibilities of local authorities, operational considerations, assurance and reporting and reviewing and monitoring the company.

It is an essential guide for any local authority who is about to embark upon the journey of setting up a trading company. As always, good public financial management should underpin all decisions. This will ensure the decisions taken are the right ones for the tax payer.

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