The Chartered Institute of
Public Finance & Accountancy

CIPFA

The importance of financial resilience

This briefing accompanies the CIPFA Financial Resilience Index. It looks at what is meant by financial resilience and explores the main indicators of poor financial resilience. At CIPFA, we are very proud of the work we have done with organisations to support them in improving their resilience, and we continue to develop our approach and understanding. We recognise that developing resilience is not an easy or quick journey. It requires organisations to ask themselves difficult questions, challenge pre-existing decisions and develop new solutions.

If you would like to talk to one of the team about how we can help you with your approach, please email **customerservices@cipfa.org**.

How can the Resilience Index help an organisation?

The Resilience Index is used as part of our reviews and support for organisations in assessing their financial position. It provides an indicator of areas to review when compared to other organisations, or indeed local policy.

We also see that organisations want to work with us to develop use of the indicator as part of their overall performance management arrangements. This means developing an approach to financial management that helps with scenario planning and decisions.

Adding value to discussions:

- The Resilience Index brings together publicly available information in one place to give a rounded picture of an authority's financial standing and its resilience to financial shocks, supporting openness and transparency.
- Used alongside the principles in CIPFA's **Financial Management Code**, it encourages discussion and greater understanding around financial decision making.
- The Resilience Index helps section 151 officers fulfil their fiduciary duty to local citizens and taxpayers, as they are uniquely accountable to the public they serve, not just the local authority they work for.
- The Resilience Index can support the section 151 officer in making their 'section 25' statements to council on the robustness of the annual budget regarding the estimates in the medium-term financial strategy, and the adequacy of reserves and balances.

What do we mean by financial resilience?

In simple terms, this is the ability, from a financial perspective, to respond to changes in delivery or demand without placing the organisation at risk of financial failure. This means having the agility and flexibility to forecast and manage both expenditure and income to meet requirements as they change while delivering a balanced budget.

What are the key indicators of poor financial resilience?

In recent years, CIPFA has worked with a number of organisations with varying degrees of financial stability and financial sustainability. This work has identified the following key indicators of poor financial resilience, which in turn present a risk to the viability of an organisation. It is worthwhile considering each of these from your own organisation's perspective:

When assessing an organisation's financial resilience, we will always consider these areas as a key line of enquiry. It is important to consider each of these over a range of years, which will give a good indication of the impact on corporate financial management and financial governance and therefore financial resilience.

What are the pillars that support the development of strong financial resilience?

Outlined below are the key things an organisation must have in place to support organisational financial resilience. When assessing an organisation, we often find that some of these are in place (and in some cases all), but they are often not sufficiently mature, lacking in effectiveness, discrete and therefore treated in isolation.

Reserves
A rapid decline in reserves – using reserves to avoid cuts or for short-term benefit will only provide temporary relief.

Savings
A failure to plan and deliver savings in service provision and not living within resources: objectives and planned delivery are missing from savings plans, eg, plans state 'still to be found' or include optimism bias in timing and scale of savings.

Unplanned overspending
The tendency for unplanned overspends – carrying forward undelivered savings into the following year only creates the need for greater cuts in subsequent years.

Financial planning
Shortening of medium-term financial planning – a failure to plan ahead could indicate a lack of strategic thinking and an unwillingness to confront tough decisions.

Strong governance

The processes in place to support decisions that have a financial impact now or in the future must be robust and rigorous from both an officer and member perspective. In reality, this means ensuring that decisions have a sound evidence base, concise and understandable information is presented, time is allowed for adequate scrutiny, and advice or guidance is sought from subject matter experts and put into practice. Strong governance through oversight is also crucial post making a decision to ensure effective performance management from a corporate, service and detailed operational perspective.

A robust medium-term financial plan (MTFP)

A key element of financial sustainability is the development, monitoring and delivery of the medium-term financial plan. This should be a live and constantly reviewed plan. The plan should have a three-to-five-year horizon. It is acknowledged that there are always uncertainties, but following a rigorous process to develop and manage the plan, it will help to mitigate this risk and present tested alternative scenarios.

The MTFP will support delivery of the organisation's corporate strategy, helping to develop priorities and supporting resource allocation decisions within the financial environment presented in the MTFP.

Integrated and aligned strategies and plans

Financial resilience and sustainability are reliant on a series of plans and strategies developed and delivered by the organisation. We often see that poor-performing organisations do not have these integrated, and they lack recognition of the impact of actions or decisions on one or more of these strategies.

The key strategies that need to be integrated include (but are not limited to) the corporate plan, the MTFP, the savings plan, service delivery plans, reserves strategy, the commercial strategy, capital and the investment strategy. A decision on one of these will have an impact on the others.

The delivery, oversight and challenge around each of these individually and collectively will support improved knowledge and decision making to consequently place the organisation in a better position to respond and adapt to changes in demand and external factors.

Effective performance monitoring and reporting

The ability to respond and adapt to financial challenges should be underpinned by effective monitoring and reporting against the annual budget, capital programme and the savings targets, while in turn recognising any impact on the MTFP.

It is important to recognise risks to delivery of the planned budget as early as possible. This requires not only robust reporting and review but a culture of being open about performance and delivery from a financial and service outcome perspective. The earlier these messages are delivered, the greater chance there is of mitigating or responding.

High-performing organisations will ensure that the culture encourages challenge, that the data and information is appropriate in detail and presentation, and that a programme of review, whether by officers or members, is frequent and timely.

Unfortunately, what we do see is that risks around delivering the budget materialise late in the financial year. This may be as a consequence of poor planning, optimistic budgets and savings plans, combined with a reluctance to recognise and report early enough to put mitigating measures in place.

Effective ownership and accountability

The CIPFA **Financial Management Code** published in the autumn of 2019 re-enforces that ownership and accountability for an organisation's financial performance is collective. It is the responsibility of officers and members to deliver a balanced budget.

Many of the reviews we undertake highlight, as part of the improvement journey, the need to ensure the concept of ownership, whether at a corporate level or budget holder level for expenditure and income, is effective. We often see that if it has a £ sign, it is seen as a finance issue or problem. Developing a culture of ownership and accountability (in the right place) will support the development of an approach to financial resilience that has an impact.

More information

If you would like to find out more about our work on financial resilience, please visit **www.cipfa.org** or contact **customerservices@cipfa.org** and we will be happy to provide additional support.

About the Resilience Index

CIPFA's Financial Resilience Index is a comparative analytical tool that supports good financial management and provides a high-level common understanding within a council of their financial position based on a range of measures associated with financial risk.

The indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the Index instead highlights areas where additional scrutiny should take place to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into a local context.

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