**Society of District Council Treasurers**

**Response to CIPFA consultation on Local Authority Financial Resilience Index**

Please find attached a response from the Society of District Council Treasurers (SDCT). In addition, SDCT have made a joint response with the District Council Network (DCN).

The Society for District Council Treasurers (SDCT) acknowledge the need for improved oversight of financial resilience as a result of increasing demand for services, reduced public sector funding as a result of austerity and high-profile cases of Council Finances not being planned on a sustainable basis. There is a need to rebuild public trust in Councils financial planning backed by a series of principles (and potential indicators) under pinned by our professional accounting standards. However, SDCT consider that the current proposals focus almost exclusively on top tier Councils and would as presented not present a transparent and fair view of over 200 District Councils who have a tack record of maintaining and developing services within the affordability envelope of the MHCLG but more importantly have secured significant growth in core spending power through generating locally generated funds in the key areas of economic and housing growth. Whilst, there is an inevitability of demand led pressures across all sectors of Local Government there is the need for financial resilience to be longer term stability in the financial framework for Local Government Finances alongside multi-year allocations. All these need to be in place if Councillors and the public are to accept the service need for reprioritisation facilitated by available resources rather than a ‘fire sale’ approach that is being reported in the media linked to service reductions.

The SDCT consider that in developing financial resilience reporting that there should be:

1. Only one index methodology that is used by all Councils, funders and regulators.
2. A professional code that support the consistent reporting and planning of Council Finances.
3. The need for any resilience index top includes a trend of past and planned financial plans rather than focus on a single year outturn as this can be significantly distorted by planned changes in spending intentions, for example slippage and funding of a Capital Programme or a planned transfer to reserves to improve MTFS resilience in the medium term.
4. The need for information to be based on verifiable returns by the S151 Officer of a Council rather than national returns (not designed for this purpose) where research has shown concerns over the accuracy and consistency of RO and RA forms.

The SDCT note the intention of CIPFA to develop an index that can be reported in a league table – the methodology of ranking one Council’s score against another supports this intent. Producing a score without context is a retrograde step in our profession for transparency. The recent introduction of the Narrative Statement (produced by the S151 Officer) within the Statement of Accounts would be the logical place for reporting of financial resilience where if necessary a score can be calculated but also a direction of travel and management of risks and opportunities can be explained. If CIPFA continues with its proposals for a score then SDCT strongly recommend that it should be based on a data request direct to S151 Officers which would obtain wider financial information to allow a more balanced and nuanced index score to be created.

Against the context setting above SDCT respond to the detailed consultation questions as follows:

1. **Are the Proposed indicators the right one – are there any other measures that should be included or ones omitted?**

Financial indictors should be at the core of any index as they are verifiable and auditable. At the very least the following readily available indicators and movement thereon should be used from the MIRS within the Statement of Accounts.

1. General Fund Balance
2. Earmarked Reserves
3. Capital Reserves

Since the introduction of Business Rate Retention, District Councils especially have experienced major movements on the face of the accounts from the accounting entries required as part of NNDR returns and the provision for appeals which has had a material impact on the year end position. SDCT would recommend a subset of indicators to extract the impact of ‘accounting distortions’ linked to Business Rate timing issues in order that the focus is on usable revenue and capital reserves linked to the planning intentions of Councils rather than technical accounting timing issues.

SDCT would also support the inclusion of an indicator linked to the Capital Financing Requirement (CFR). This can provide two insights. Firstly, whether a Council is under-borrowed linked to using internal investments with potential ‘hidden’ revenue impacts on the Council Tax payer in the future and secondly where the CFR relative to the Net Revenue Budget is significantly high relative to others as this could indicate an exposure to commercial investments that could impact in the future, for example, commercial property investments that without the proposed ‘statutory override’ movements could impact on the financial resilience of individual Councils.

SDCT consider the inclusion of an indicator of Government Grants as a proportion of net revenue expenditure to be crude as this will be distorted by many different factors for example whether a Council is a historically high or low council tax authority. With the removal of RSG for most District Councils and the national setting of BFL for Business Rates, Councils can not influence the level of Direct Government Grant. A more valuable indicator is the proportion of locally generated funds (New Homes Bonus and Business Rates) as a percentage of Net Revenue Expenditure. This would indicate (subject to no changes in the funding framework) the ability of a Council to ‘determine’ its own financial future through planning for growth and providing local services.

Most of the indicators could be collected at two points in the financial year, at budget setting and secondly at production of statement of accounts. For the majority of indicators, it would be possible for the Section 151 Officer to detail the % difference the outturn was from the planned position within a Council’s MTFS. It may be possible for any indicators where the variance is over 10% to be quantified and reported as this may indicate a Council where financial management controls are not robust or where Council’s are not willing/able to make in-year decisions to manage the budget.

SDCT strongly support the inclusion of the Auditor’s VFM judgement as recent press coverage of Northamptonshire has demonstrated the risk of ‘ignoring’ and not acting upon external review. The weighting of this indicator should be more than 10%. There is a case for an ‘adverse’ judgement to have a significant weighting to differentiate those Councils who in the view of the Auditor not to have robust arrangements for VFM against those who may be utilising reserves in a planned manner as part of a longer term MTFS.

In addition, the recent collapse of Carillion and potentially other outsourcing providers (for example Capita, Residential Home providers) would support an additional indicator to show the proportion of services provided by third party ‘private’ providers as resilience should measure the ability of an organisation to respond to market shifts. This indicator could be extended to other bodies that deliver public services (say more than 30% of turnover) as part of contractual terms. It would also start to allow comparison between public and private delivery of services. Alternatively, it could be a required disclosure for those Councils with say more than 30% of services provided by private sector providers so there is a measure of ‘exposure’ to external changes in service provision. Within Local Government there is such a mixed economy of provision it is probably sensible not to include this as a weighted indicator in a combined score but rather a supplementary (but mandatory) disclosure.

**Is the method for combining the indicators to provide a composite indicator appropriate? Are the weights, particularly the greater weighting on reserves reasonable?**

SDCT do not believe that one index score can be applied to all Councils. There should be a separate index for top tier and lower tier Councils – SDCT are happy to work with CIPFA on the development of an index.

The reporting of financial resilience must be reported across a number of strands:

1. Financial indicators and ‘difference’ to plan as evidenced in the MTFS – suggest 40%
2. Increase in locally generated funds to reduce reliance on public sector funding – suggest 30%
3. External Regulator Opinion on ‘robustness’ of the governance arrangements for VFM – suggest 30%

Appling some form of colour ranking for each strand rather than a composite score would provide a more intelligent insight into the balance that Council’s constantly have to demonstrate between current financial performance and pressures and the arrangements in place to shape the Council within available resources in the future – it is the second aspect where there is the need to regain the trust of the public.

SDCT would support work by CIPFA to look at the role and remit of public sector audit where over recent years there is a perception that the reduction in fee levels have reduced the capacity (and maybe ability) of Auditors to have an insightful oversight into the governance arrangements to deliver VFM.

**Is the proposed presentation, including both the summary and the individual Council dashboard the right way to present the data?**

This is an essential part of the reporting of financial resilience. The example of Barchester attached to the consultation is in the view of SDCT far too complex which will mean that there will be a focus on the ‘crude’ composite index. SDCT would recommend that CIPFA simplify the reporting into the three strands detailed above, colour coded from the source data to provide a visual and comparable high-level comparison.

SDCT is unclear how the trend line analysis would be interpreted and how this would distinguish between planned and unplanned financial decisions. Alternatively, it could show a direction of travel on the three strands detailed above. For example, a movement in Auditor VFM judgement from unqualified to ‘adverse’ should be visible encouraging the public to seek further information/explanation.

**Do you have any comments on CIPFA’s view that to aid transparency the full analysis should be freely available on CIPFA’s website?**

SDCT strongly support the need for any information presented on a third-party website to be verified by the S151 Officer of each Council before publication. Only summary information should be reported centrally on the CIPFA website. There should then be hyperlinks to individual Council’s websites Narrative Statement within the Statement of Accounts and MTFS for contextual information and explanation of risks and opportunities. The emerging CIPFA financial resilience code can place obligations on Councils and their S151 Officers in respect of disclosure.

SDCT feel that the inevitable consequence of CIPFA’s financial resilience index is to create a league table and could have significant impacts on the financial integrity of the profession as different Councils with different but equally robust and sensible financial plans are ranked against each other.

SDCT are also concerned that the CIPFA publication of the index will lead to a demand for intervention at those Councils who score low on the index – will this be mandatory? Within the CIPFA ‘Role of the Chief Financial Officer’ there are clear expectations on the roles and duties of a CFO. A S151 Officer is required to set out the robustness of estimates at budget time in accordance of Section 25 of the Local Government Act. Would a low index score be used by Councils to criticise a S151 officer when advice may be being ignored or not acknowledged by the Council – what support would CIPFA provide to S151 Officers in this situation?

SDCT have some concerns on the statistical validity of the index as there is no research or correlation analysis of what factors drive improved or reduced financial viability and therefore whether the weightings are proportionate and statistically valid to the impact. The index appears to be primarily descriptive with little predictive or theoretical validity. If this is the case more emphasis should be placed on the VFM opinion which if resourced will cover this in a more nuanced and organisation specific way.

**Available data tends by its nature to be retrospective, what forward looking indicators would you also see as useful to include to support the index?**

Councils are already required to produce forward looking MTFS and Capital Strategies – these are an integral part of the current auditor’s judgement on a Council’s arrangements for VFM. Council’s will have a reserve strategy setting out in the view of the S151 Officer the level of reserves that they would recommend a Council retaining cognisant of the risks in delivery of a Councils priorities and associated finances. A simple indicator should be whether based on the current plans the Council’s S151 Officer is confident that the MTFS will retain reserves in excess of the stated reserve policy for each of the next three or 5 years.

Council’s forward projections are so inextricably linked to the national funding framework that has the potential for major change in 2020 that any forward indicators as not sufficiently within the control of local Councils making their application at this stage of limited value.

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