

## **CIPFA's Financial Management Code and Resilience Index**

Key elements of the Institute's contribution to tackling the resilience challenge.

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# What is financial resilience and why does it matter ?

- Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

## Financial resilience concerns in England

- Financial resilience has become a significant issue in English local government since 2010
- Arising in the context of substantial reductions in grant funding for local authorities from the UK Government
- Discussions around resilience have included :
  - leadership and governance issues
  - financial planning and control
  - dealing with rising demand
  - effective audit

## Wide spread national awareness

- Funding debated in Parliament
- Scrutiny through Public Accounts Committee :  
“Government funding for local authorities has fallen by an estimated 49.1% in real terms from 2010-11 to 2017-18. This equates to a 28.6% real-terms reduction in ‘spending power’ ”
- National Audit Office publications emphasis demand growth
- National press raise public concerns for public services

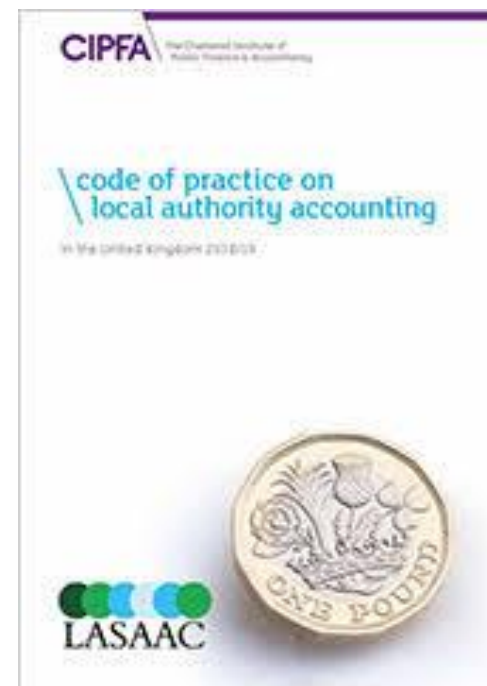
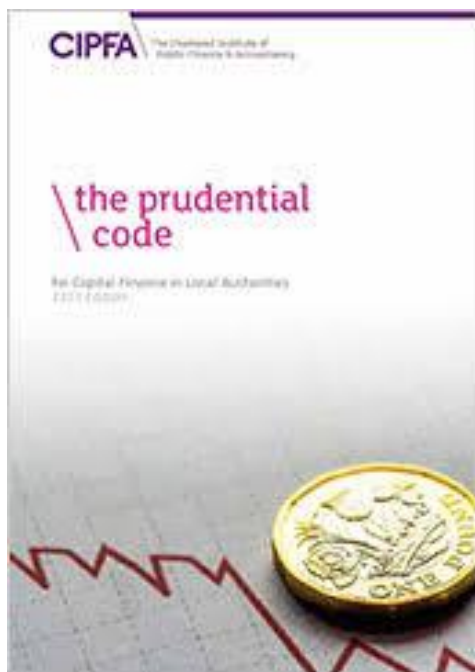
# How much funding do local authorities need to be financially resilient ?



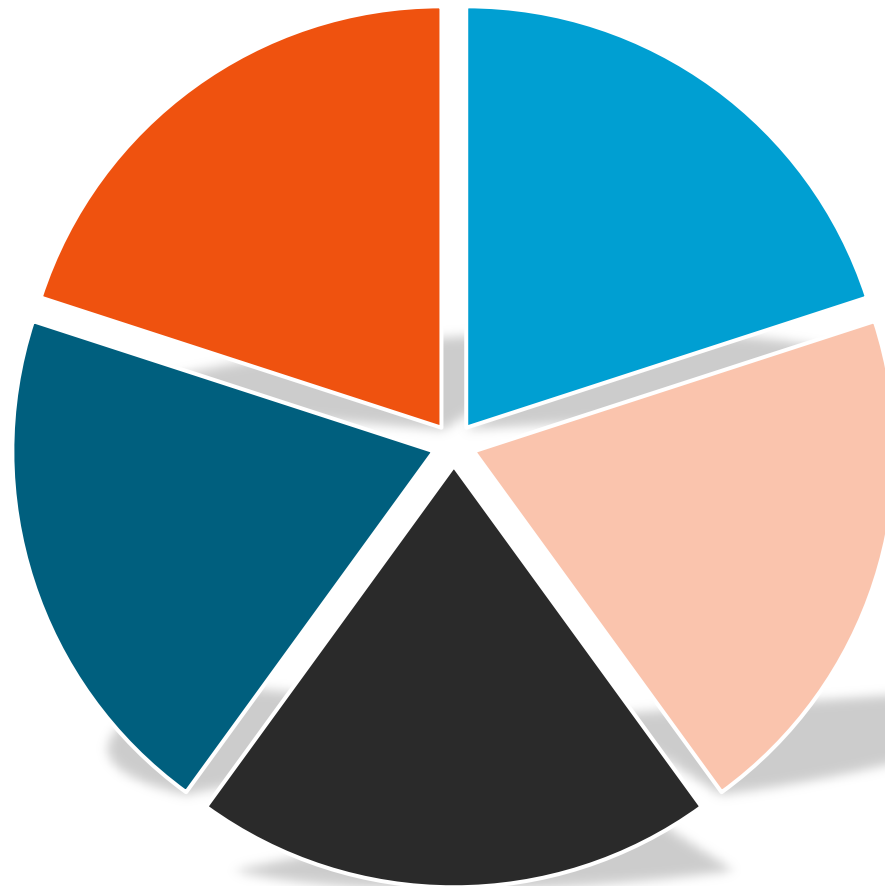
# Financial stress warning signs

- Must recognise that all face individual challenge
  - Historical decisions
  - Ability to raise income
  - Exposure to grant funding
- 5 key symptoms of stress
  - Running down of reserves
  - Failure to plan and deliver savings
  - Shortening financial planning
  - Tendency to overspend
  - Lack of detail in business decisions – risk management
- A symptom is a **possible** indicator

# Building on CIPFA legacy



# Aims of the FM Code



- Improving sector assurance
- Developing an organisational approach
- Ambitions for financial planning
- Strengthening support for 151
- Strengthening FM leadership message



# Working and engaging with the sector

- Stakeholder group
  - Scope
  - Drafts
- Sector input
  - Treasurers Societies
  - User testing
- Development and consultation
  - Good sector response
  - Redrafting
- Refinement
  - Stronger narrative around leadership
  - MTFP
  - Principle not detail

## Principles of the Code

“If any doubt arises as to whether or how the FM Code should be applied then reference should be made to these principles”

**leadership, accountability, transparency  
standards, assurance , sustainability**

“A practice that conflicts with these principles will not be acceptable practice”

## Applicability and Structure

- To promote the financial sustainability of local authorities
- Applies to all local authorities including police, fire combined and other authorities
- Recognition of the different structures and legislative framework
- Where compliance with the code is not possible adherence to the principles is appropriate
- User testers included
  - Police
  - Royal Parks
  - Scottish Authorities

# Supported by statutory requirement



# Building on the framework of professional Codes of practice and Guidance including :



Broad

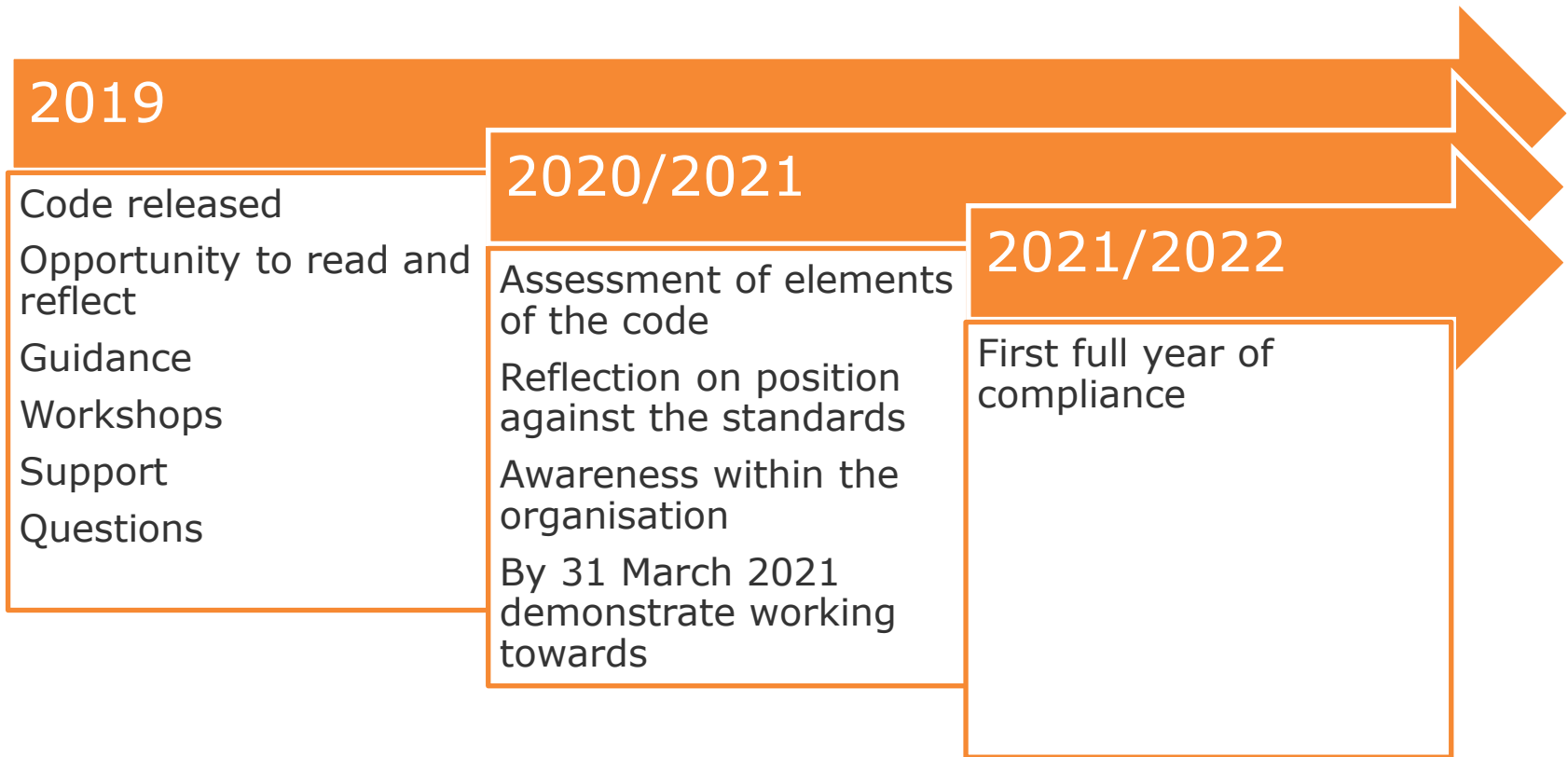


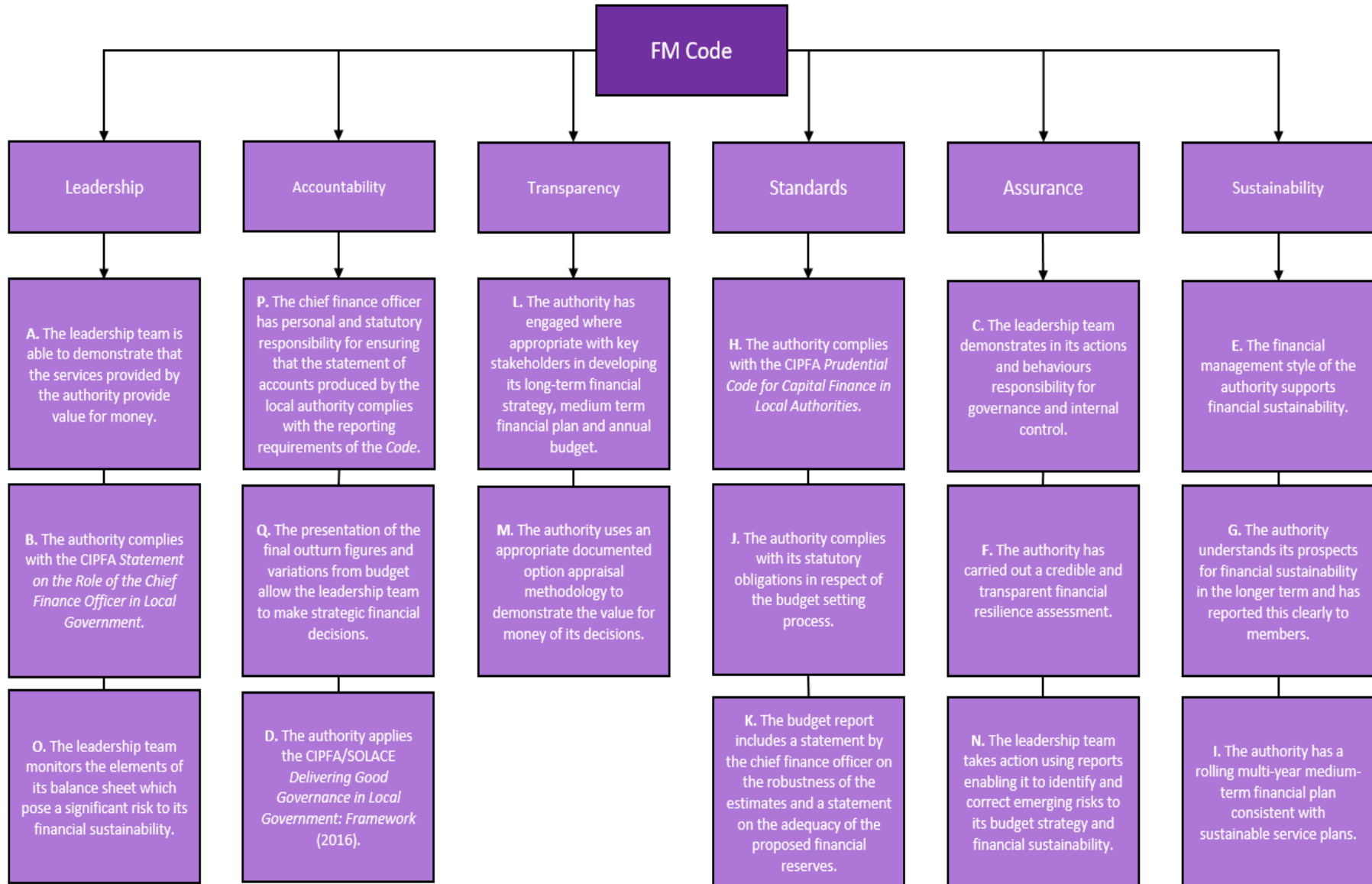
Specific



Sector

# Preparation for implementation





# Example of a Section and Standards

Governance and  
financial management  
style

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graph TD; A[Governance and financial management style] --> B[The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control]; A --> C[The authority applies the CIPFA/Solace Delivering Good governance in Local Government : Framework]; A --> D[The financial management style of the authority supports financial sustainability];
```

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

The authority applies the CIPFA/Solace Delivering Good governance in Local Government : Framework

The financial management style of the authority supports financial sustainability



# What might compliance look like ?

Establish a clear governance and FM framework across the authority

Constitution

Transparent governance structures

Terms of reference and meeting conduct

Clear delegation of decision making

Exhibit high standards in activities

Code of conduct

Compliance with Nolan principles

Register of interests

Constructive challenge

Balanced decision making

Organisational culture

Tone at the top

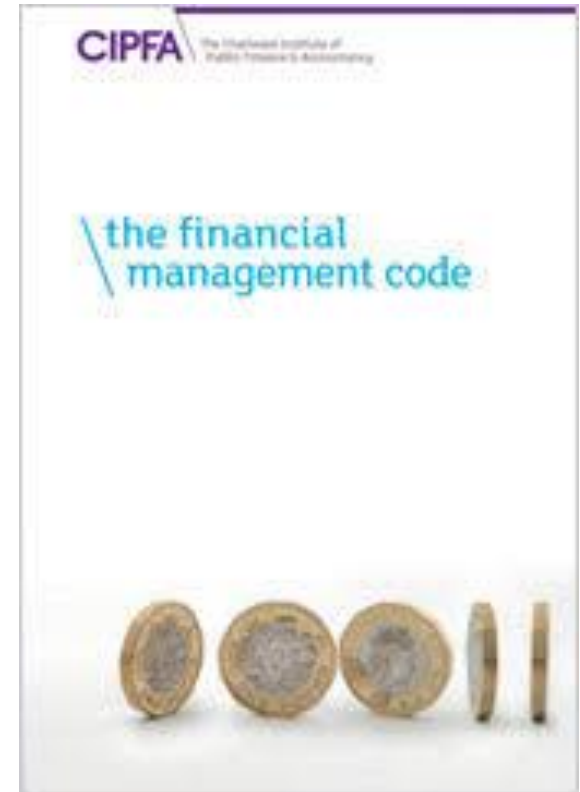
Reward good behaviours

Participation in quality development opportunities

Response to inspection / review

## Going Forward

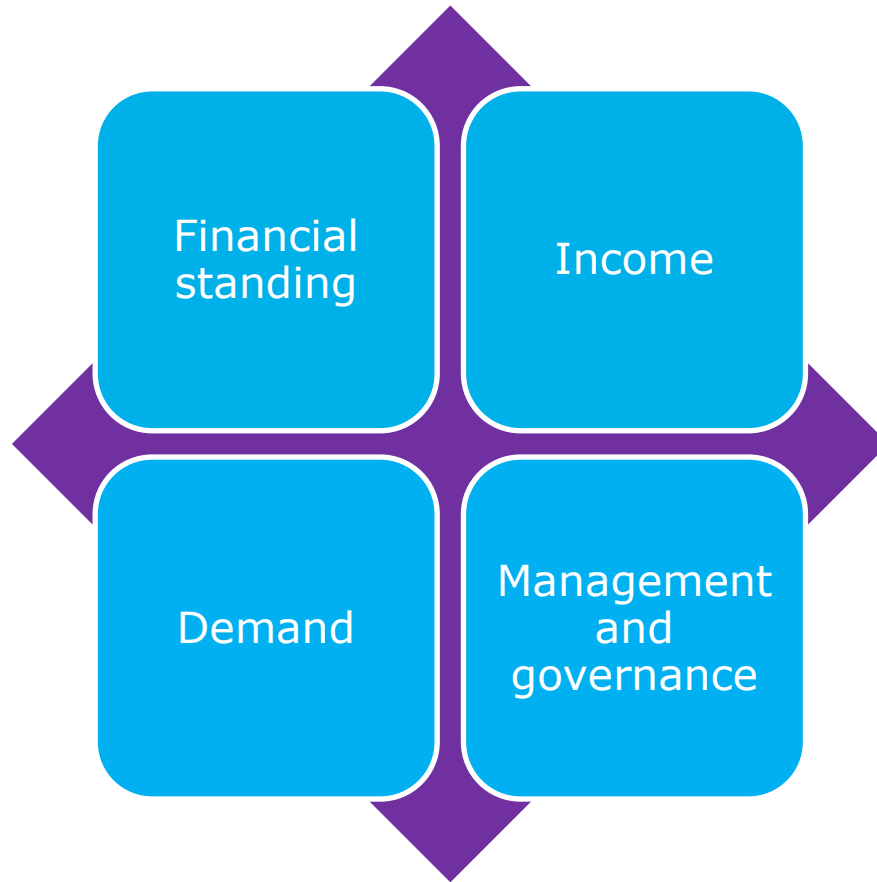
- Conference 29 November
  - Bespoke workshops
  - Webinars
  - Guidance ( still in development )
- 
- What else could we do to support you during the next 12 months - please let us know



# Resilience Index

- Background
  - NAO and PAC reports
  - Long term sustainability of public services
  - Flagging up possible area of stress
- Responses to the consultation
  - Choices of indicators, dashboard presentation and weighting
  - Recognised challenge around governance and forward views
  - Transparency - published response on the CIPFA web site
- Further engagement
  - Technical working group
  - Presentation at Treasury's Societies

# A way to think about the index



## What the index will look like

### CIPFA Financial Resilience Index

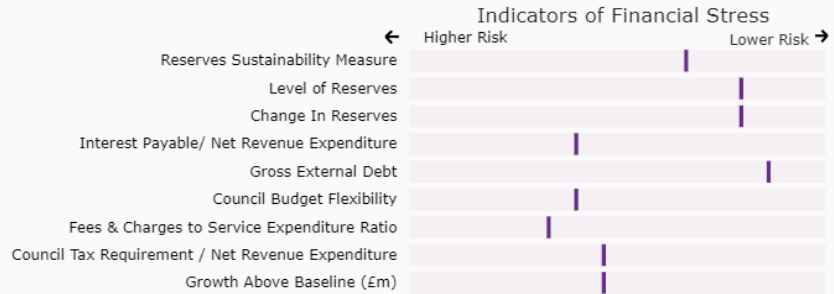
Tier  
Upper

Authority  
Gloucestershire

Comparator Group  
Nearest Neighbour

Year  
2017-18

#### Results Breakdown



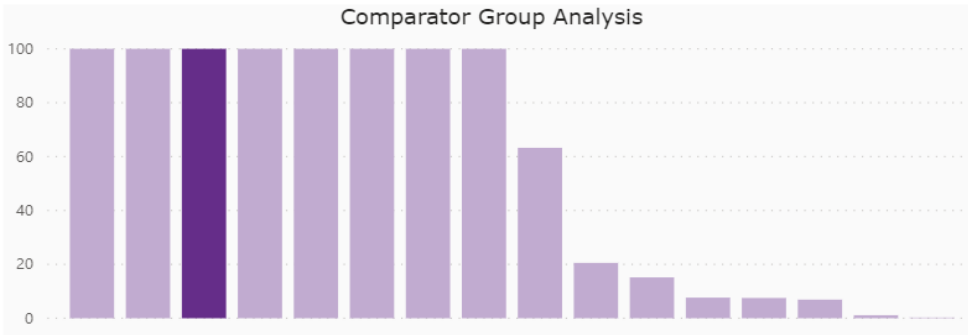
Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	0.29	100.00	100.00
Level of Reserves	1.23%	37.20%	51.80%
Change In Reserves	-91.32%	21.49%	141.25%
Interest Payable/ Net Revenue Expenditure	2.15%	4.55%	11.18%
Gross External Debt	£265,930	£305,338	£1,106,920
Council Budget Flexibility	22.60%	29.89%	33.95%
Fees & Charges to Service Expenditure Ratio	6.01%	7.39%	17.50%
Council Tax Requirement / Net Revenue Expenditure	58.48%	70.44%	79.29%
Growth Above Baseline (£m)	-1.00	1.89	11.80

Auditors VFM Assessment  
Unqualified

Children's Social Care Judgement  
Inadequate

#### Individual Analysis

#### Reserves Sustainability Measure



## Going Forward

- Release
- Important story to tell but complicated narrative
- Identifying possible symptom of stress
- Aware of a crowded market
- Consultation on forward looking indicators
- Awareness of other activities
  - Redmond Review
  - NAO consultation

# CIPFA's suite of support on Financial Sustainability Supporting the sector - visit [cipfa.org](http://cipfa.org)

