



The Chartered Institute of
Public Finance & Accountancy

Financial Resilience

November 2019

Oxford

Joanne Pitt – CIPFA Local Government Policy Manager
joanne.pitt@cipfa.org

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.
- It matters because without it



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 ?



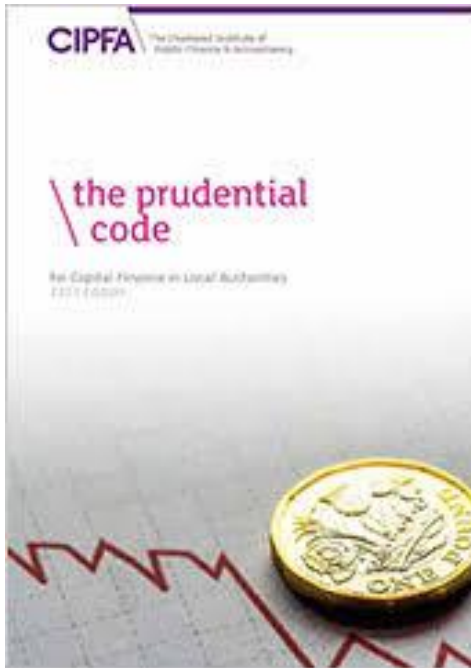
Financial stress warning signs

- Must recognise that all face individual challenge
 - Historical decisions
 - Ability to raise income
 - Exposure to grant funding

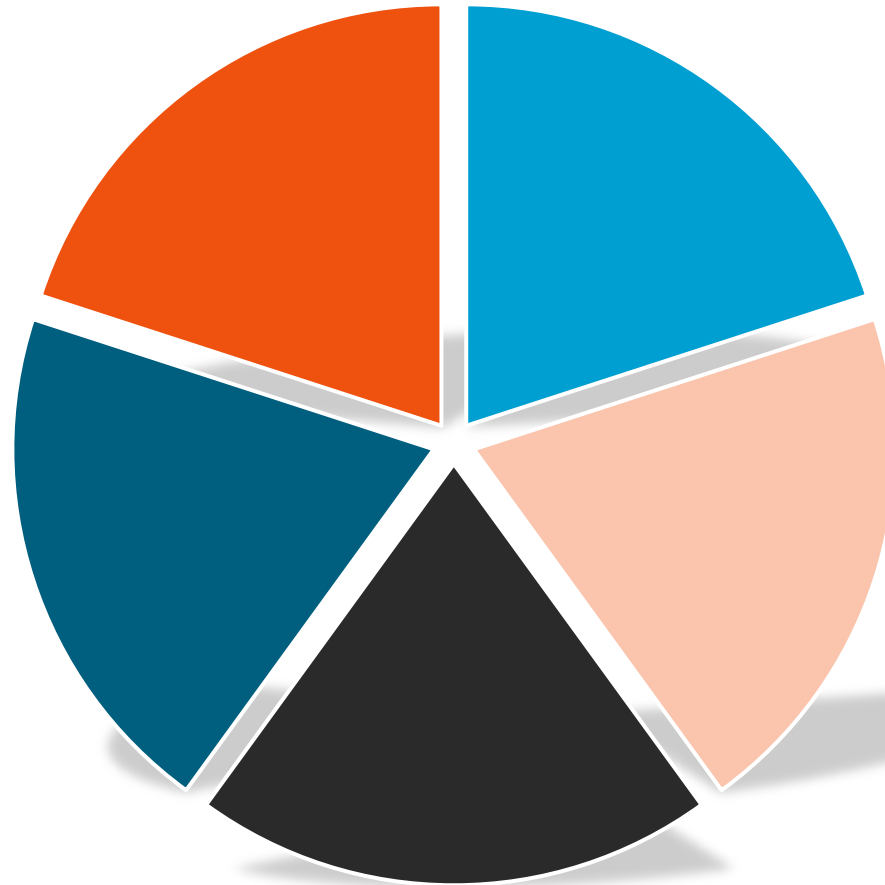
- 5 key symptoms of stress
 - Running down of reserves
 - Failure to plan and deliver savings
 - Shortening financial planning
 - Tendency to overspend
 - Lack of detail in business decisions – risk management

- 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

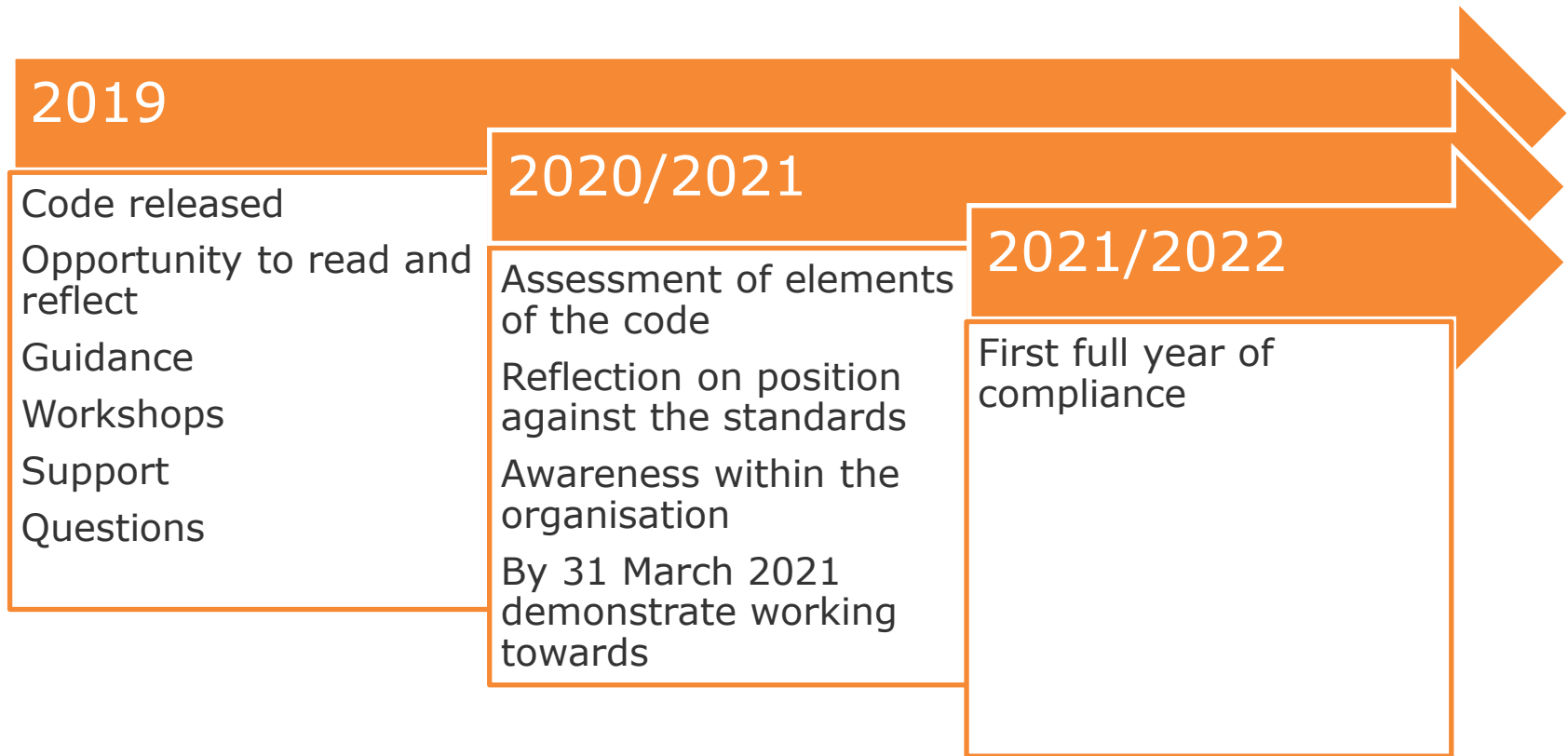


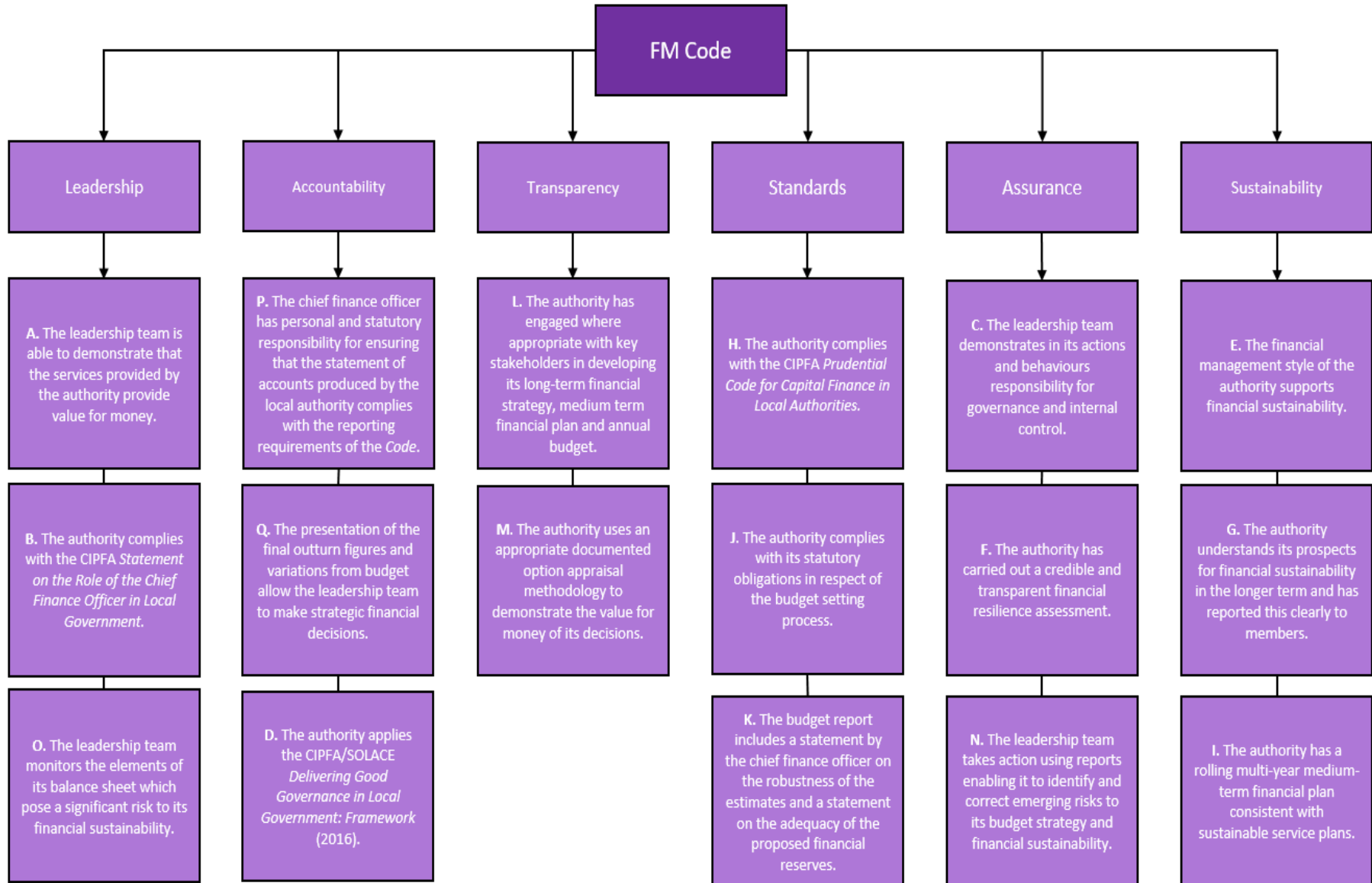
Specific



Sector

Preparation for implementation





Example of a Section and Standards

Governance and
financial management
style

```
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

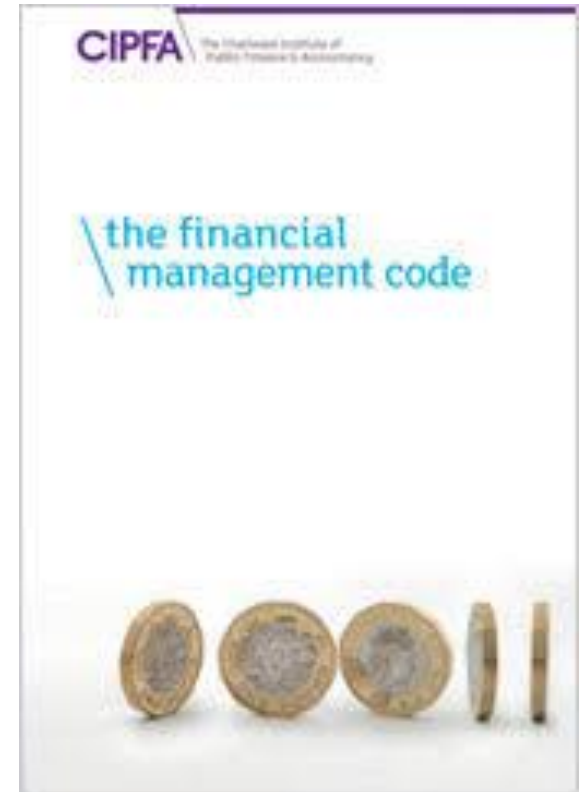
Reward good behaviours

Participation in quality development opportunities

Response to inspection / review

Going Forward

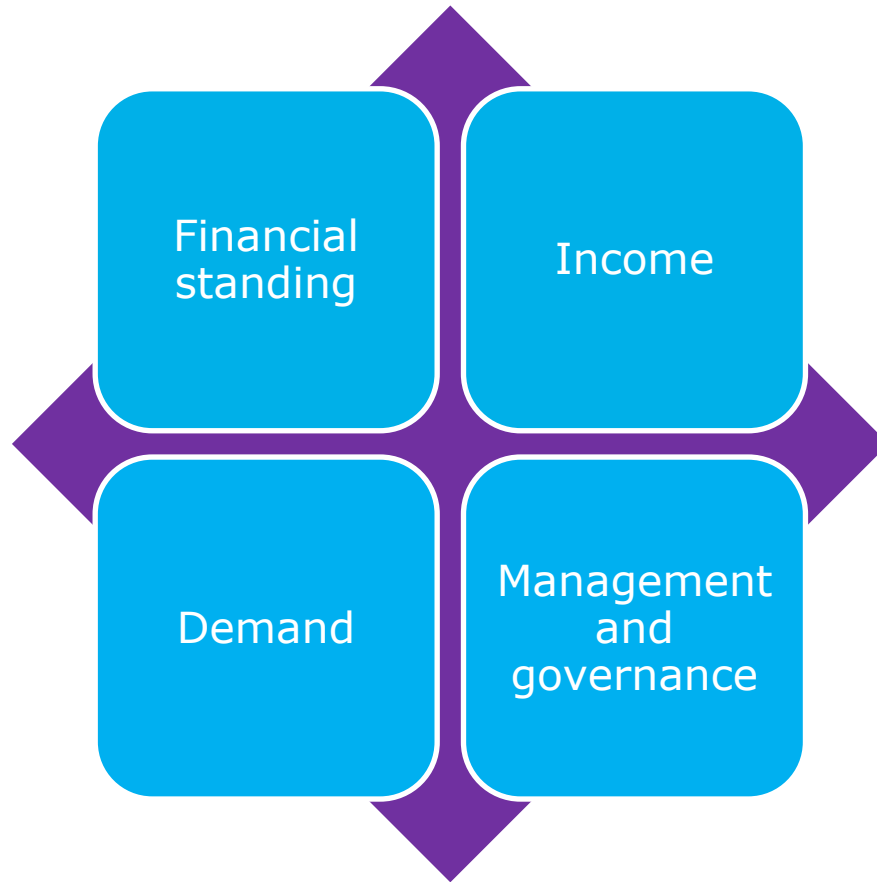
- Conference 29 November
 - Bespoke workshops
 - Webinars
 - Guidance (still in development)
-
- What else could we do to support you during the next 12 months - please let us know



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

Financial Resilience Beta.2.1 barchester [Read-Only] - Excel

FILE HOME INSERT PAGE LAYOUT FORMULAS DATA REVIEW VIEW

C42

CIPFA Financial Resilience Index

Tier Group: UPPER LOWER

Authority: Barchester Methodology: Raw

Comparator Group: Unitary Authorities Year: 2017-18

EXPORT

Results Breakdown

Indicators of Financial Stress

Indicator	Min	Barchester	Max
Reserves Sustainability Measure	2.15	33.18	100.00
Level of Reserves	9.8%	65.5%	145.0%
Change in Reserves	-58.2%	-8.3%	97.3%
Interest Payable / Net Revenue Expenditure	0.0%	4.8%	20.5%
Debt Cover Ratio	0.01	2.05	69.68
Council Budget Flexibility	11.5%	23.2%	33.6%
Fees & Charges to Service Expenditure Ratio	6.4%	8.0%	20.4%
Council Tax Requirement / Net Revenue Expenditure	31.4%	39.4%	89.8%
Retained Income from Rate Retention / Net Expenditure	12.8%	39.9%	55.4%

Requires Improvement

Individual Analysis: Change in Reserves

Comparator Group Analysis

Trend Analysis

Trend Analysis not available for the selected indicator

2014-15 2015-16 2016-17 2017-18

Guidance

- Select Tier**
Choose between upper and lower tiers. Toggling these options will populate the Authority and Comparator Group dropdown boxes with the relevant authorities/tiers. It will also show only the relevant indicators in the analysis below.
- Select Authority**
Select the authority from the dropdown list you wish to review.
- Comparator Group**
Select the group of authorities you wish to include in the analysis below.
- Choose Methodology**
If the ranked methodology is used the other authorities are spread evenly between highest and lowest result values, while if the raw methodology is used the actual value of the selected authorities result is plotted. The ranked methodology gives an even spread and is often easier to read. The position of a point is enough to tell the user where in the distribution an authority lies without having to consider the positioning of all the other points. The raw methodology provides more complex and detailed information, and often the authorities will cluster. This provides more information than the ranked methodology, but is highly sensitive to outliers.
- Select Year**
Select the year from the to include in the analysis. Changing this effects the results of the indicators that look at a single year of data, but not those indicators which are looking at a change in results across all of 2014-15 to 2017-18.
- Select Indicator**
Select the indicator from the list you would like to investigate further by clicking the button for that indicator. The analysis for this will then be shown in the individual analysis section below. Clicking on the button will show further information about that indicator including how the result has been derived, and how that should be interpreted. Click the X in the top right hand corner to hide this again.
- View Results**
View the results in the outputs. Under the *Indicators of Financial Stress* section the nearer the bar is to the red area of the chart the higher the risk of financial stress for the authority. Under the *Comparator Group Analysis* chart all the authorities in the selected comparator group are plotted on the chart. The black bar is the selected authority. The Trend analysis chart shows the change in result based on the 4 years of data included in the model for the selected comparator group.

READY | Data | Index | Secondary Reserves Indicators | Export | Indicators

12:35 02/09/2019

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

