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Financial Resilience in Local Government

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The Chartered Institute of
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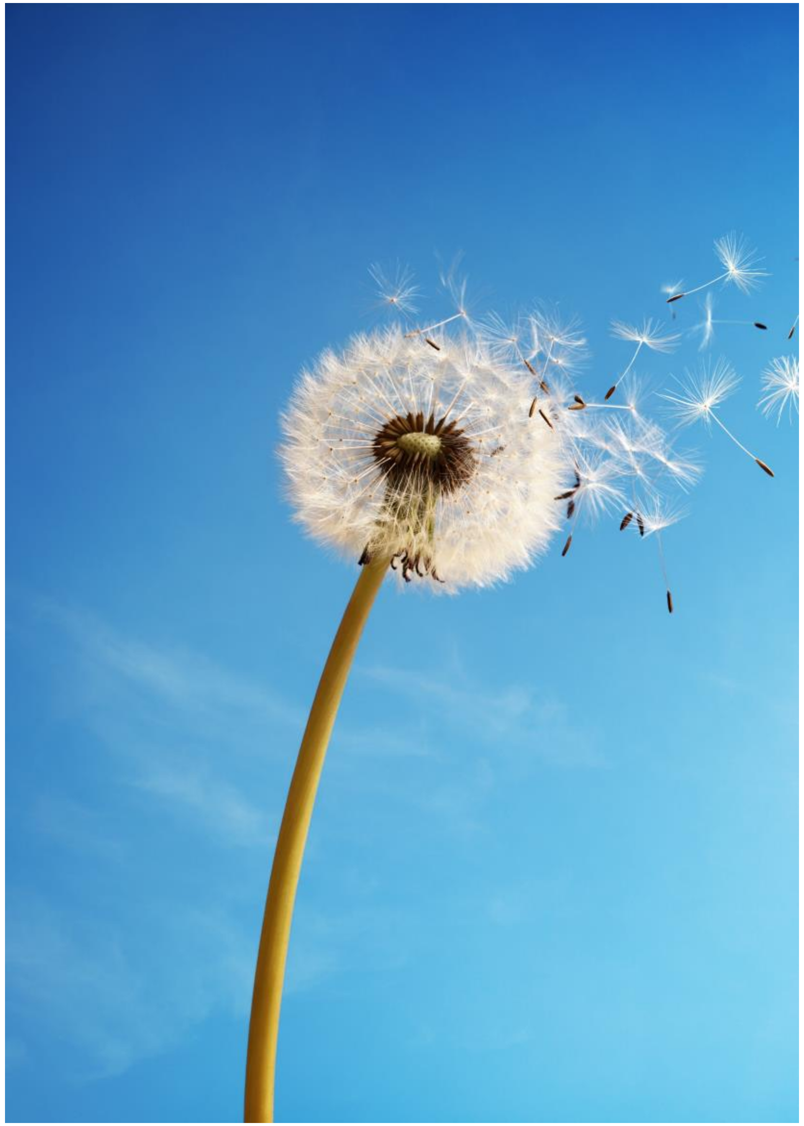
Financial Resilience: The fundamentals

Financial Resilience

Financial resilience is about a local authority remaining viable, stable and effective.

Accepting the new realist – growing demand, tightening funding and constant change

- Identified risks
- Planned responses
- New ways of working
- Income streams
- Be proactive, be positive
- Training (apprenticeship levy)
- Medium to long term planning



Pillars of Resilience

- Strong Governance
- Robust Medium Term Financial Plan
- Integrated and Aligned Strategies and Plans
- Effective Performance Monitoring and Reporting
- Effective Ownership and Accountability

Risk and Warning Signs

The finance stress warning signs

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
- For example plans state ‘still to be found’ or include optimism bias in timing and scale of savings

Unplanned Overspending

- Tendency for unplanned overspends
- Carrying forward undelivered savings into the following year only creates 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

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Financial Stability and Resilience – the Warning Signs

Reserves Down

Capacity and capability Challenges

Savings Unplanned / Not Delivered Up

Debt growing

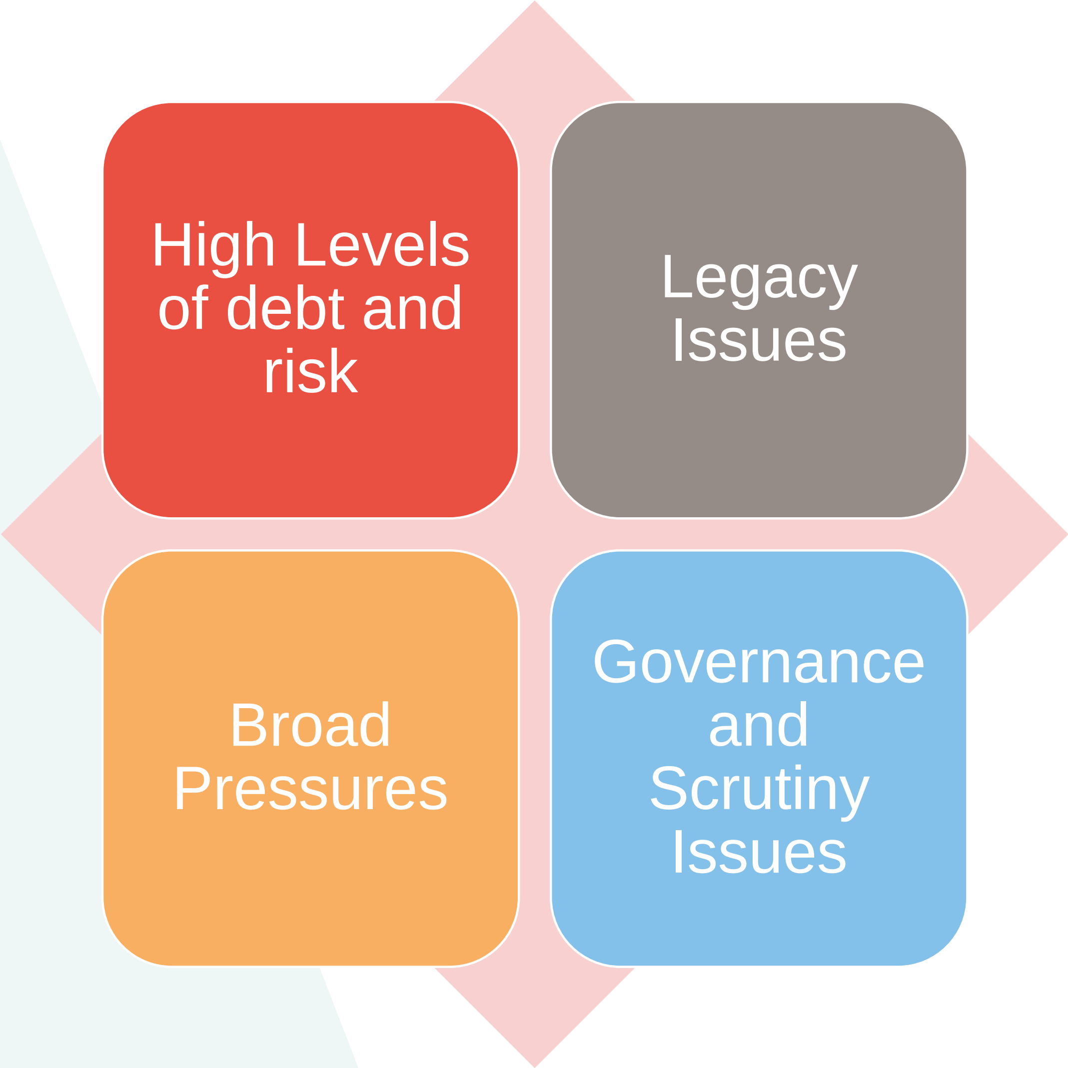
Budget Gaps Up

Risks increasing and appetite unchallenged

Unplanned Overspends Up

Short Planning Horizons Up

financial instability: common themes



Best Practice and the Way Forward

Financial Resilience – What can be done?

- No funding gaps
    - Always have identified savings plan
- Robust scrutiny of savings plans
- Investment in upskilling staff
- Full engagement at all levels in the budget monitoring process
    - Especially budget holders
- Maximise current income sources
    - Regular review of sales, fees and charges
- Identify new/alternative income streams
- Flexible use of capital receipts (until 24/25)

Best Practice

Savings	Savings need to be identified by budget holders who can commit to delivering them
Risks	Ensure risks are understood and there is effective oversight
Elected Members	Ensure members understand enough about financial matters to realise the seriousness and implications of the decisions they are making
Governance Arrangements	Governance arrangements should be strengthened and include the ability to speak truth to power
Financial Regulations	Internal audit should review effectiveness of financial rules and processes
Annual Governance Statement	Challenge the robustness of the AGS and the Section 25 report
Financial Resilience	Be very honest with the figures in your financial management review

Best Practice: Reserves Decision Making

Use of reserves to balance the budget

- The use of reserves is a one-off solution and only postpones the need to make cuts rather than preventing them being needed
- Cumulative need to make cuts will escalate each year whilst the growing funding gap is masked by use of reserves
- By the time reserves is no longer an option, the gap becomes too large to close
- Reserves shouldn't be used to pay for day-to-day expenditure
- When used for short term need reserves should be replenished

- Annual reviews of ongoing need for individual reserves
- Earmarking only where there is clear rationale
- Ensuring risk-based actions are not duplicated by budgeted contingencies
- Identifying multi-year trends in reserve positions and using tailored benchmarking
- Understanding and making clear the net effect of all reserve decisions on council tax
- Including reserve forecasts in regular budget monitoring
- Ensuring unplanned reserve movements are subject to same degree of scrutiny as planned movements

CIPFA FM Code - Building on good practice

The CIPFA FM Code identifies the risks to financial sustainability and introduces an overarching framework of assurance which builds on existing financial management good practice.
For the first time it sets out explicit standards of financial management

- It applies a principles-based approach, it is not prescriptive, these principals are translated into FM standards
- The Code is consistent with other successful CIPFA codes and statements
- Each LA (and those bodies designated to apply the Code) must demonstrate that the requirements of the Code are being satisfied

Six key principles of good FM (from the CIPFA FM Code)

1. Organisational **leadership** –clear strategic direction, FM is embedded into organisational culture.
2. **Accountability** – based on MTFP which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
3. **Transparency in** FM, using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
4. Adherence to professional **standards** is promoted by the leadership team and is evidenced.
5. Sources of **assurance** recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of external audit, internal audit and inspection.
6. The long term **sustainability** of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.

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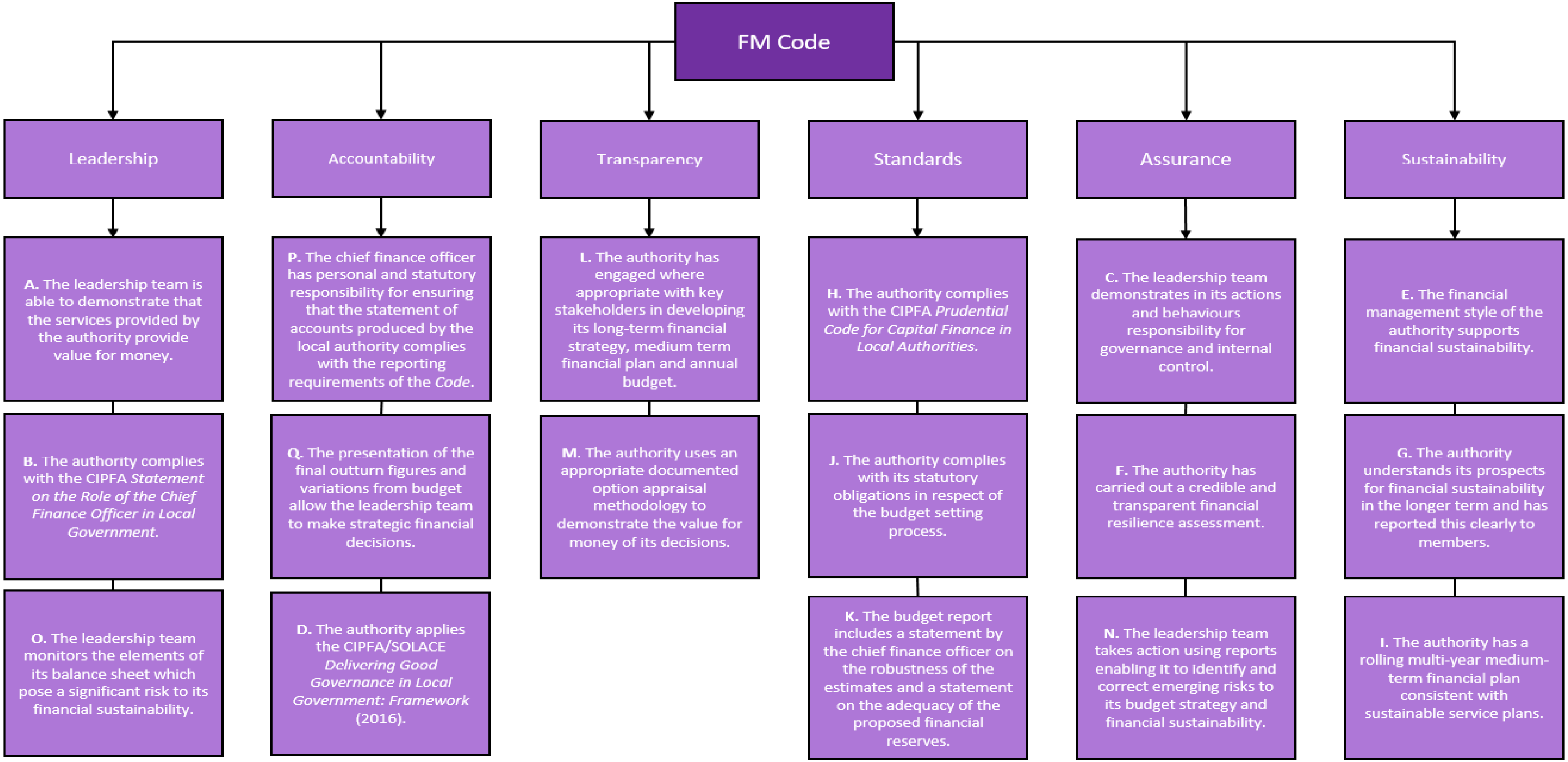
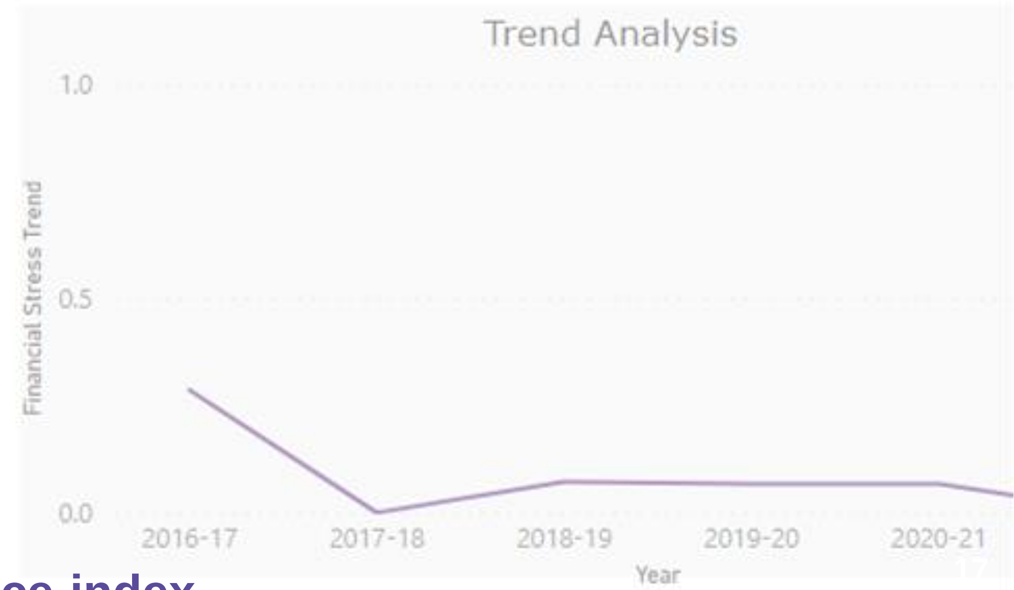

FM Code
Leadership
Accountability
Transparency
Standards
Assurance
Sustainability
A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B. The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
O. The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.
P. The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code*.
Q. The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.
D. The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.
M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
H. The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*
J. The authority complies with its statutory obligations in respect of the budget setting process.
K. The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
F. The authority has carried out a credible and transparent financial resilience assessment.
N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
E. The financial management style of the authority supports financial sustainability.
G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

Resources

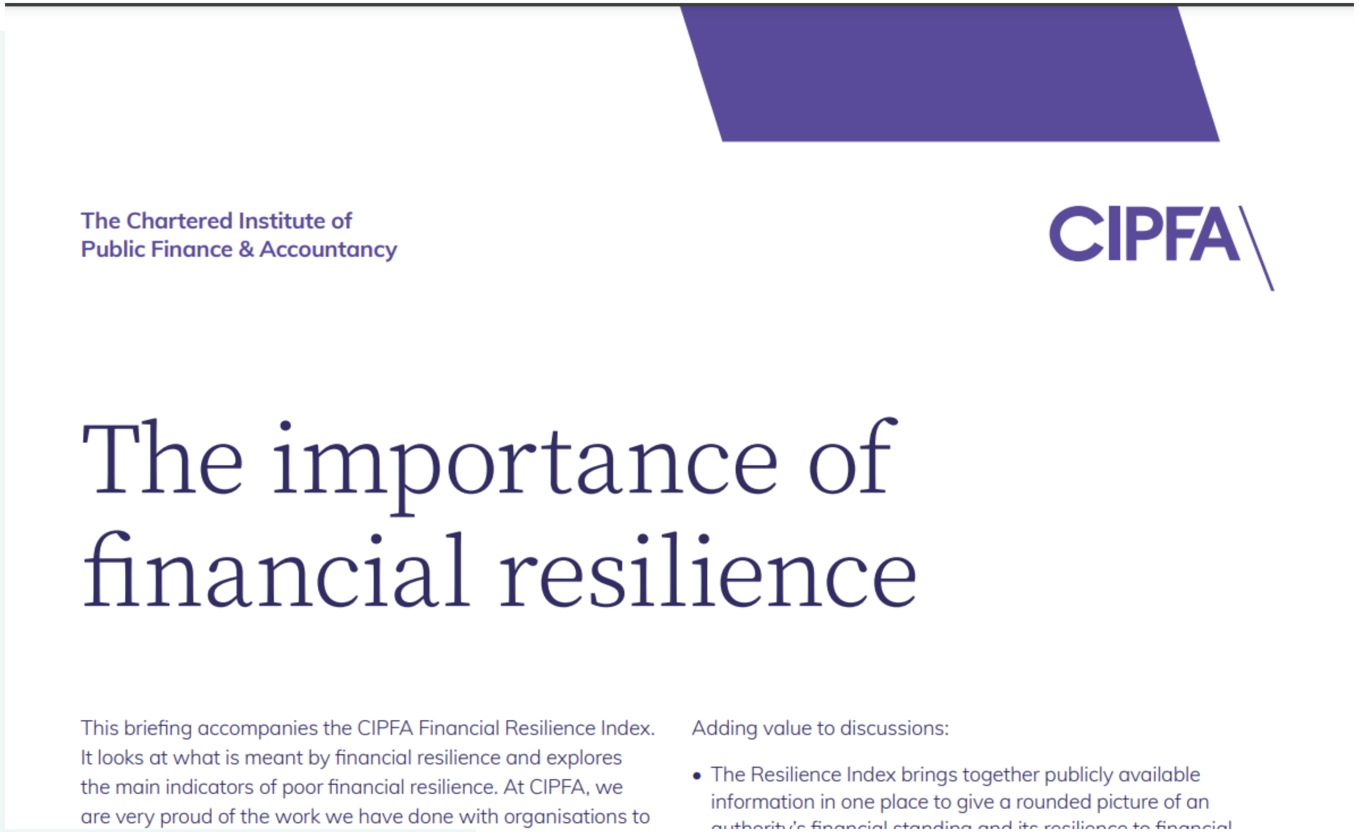
CIPFA Resilience Index

- CIPFA's Financial Resilience Index is a comparative analytical tool that is intended to be used by Chief Financial Officers to support good financial management.
- The index shows a council's position on a range of measures associated with financial risk highlighting where additional scrutiny may be required.
- Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy, in particular in preparing their statements of the robustness of the budget and the adequacy of reserves.
- The index is made up of a set of indicators which take publicly available data and compares 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 in order to provide additional assurance.
- This additional scrutiny is accompanied by a narrative to place the indicator into context. This narrative is important and is essential to support a clear understanding of local context.



https://www.cipfa.org/services/financial-resilience-index/resilience-index

The importance of financial resilience



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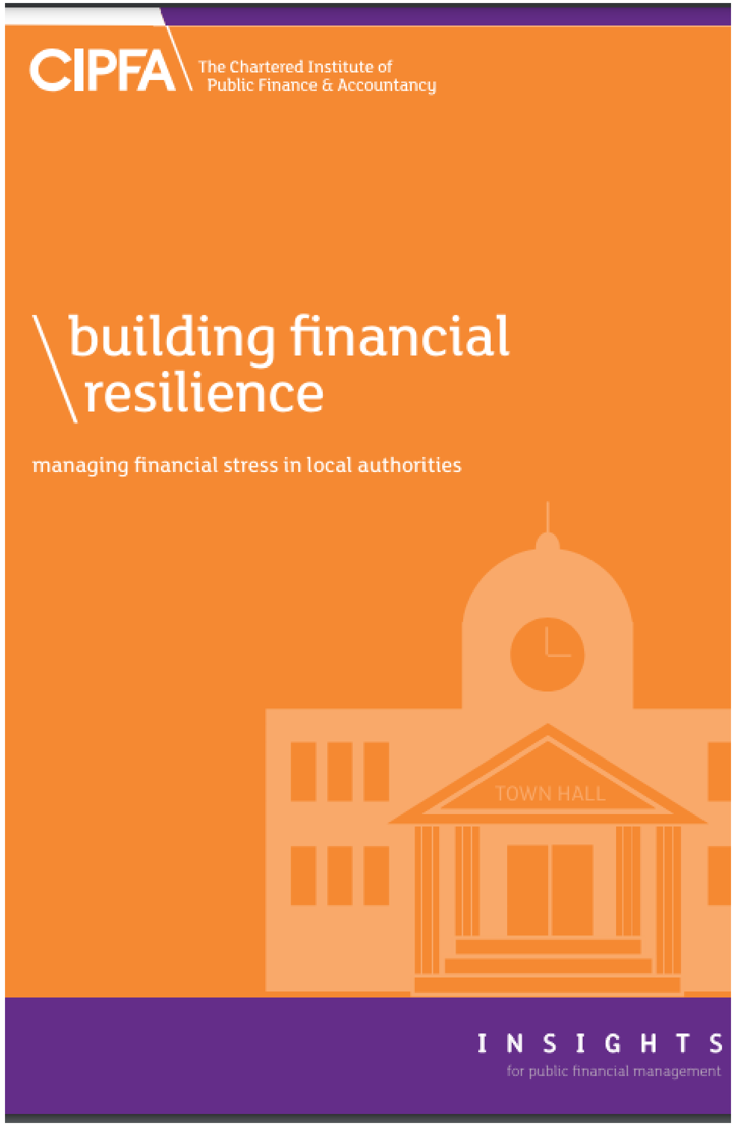
The importance of financial resilience

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

Adding value to discussions:

- The Resilience Index brings together publicly available information in one place to give a rounded picture of an

CIPFA Insights: Building Financial Resilience



Questions?

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