

# building financial resilience

managing financial stress in local authorities



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This insight is drawn from detailed discussions with Sean Nolan, Director of Local Government and Policing at CIPFA who leads CIPFA's financial resilience work and with Peter Robinson who has involved in individual reviews.

# \ foreword

In the aftermath of the 2008 financial crisis, public services knew they faced several years of efficiencies and cuts as the government tried to fulfil its commitment to eliminate the budget deficit. Nearly a decade later, it is now clear that public sector austerity is likely to continue until at least the middle of the next decade and, given the impact of Brexit, quite possibly beyond.

Effective financial management in the public sector has always been built on planning for the long-term, but the necessity now is to ensure organisations have the resilience to deliver annual savings and manage significant financial shocks while still pursuing ambitious goals for their local communities.

These pressures bring into sharp relief the requirement for local authorities to balance their budgets. While this is a demanding discipline, it is also a central pillar of local government autonomy. It means the tough decisions are made locally.

This CIPFA Insight is intended to help chief financial officers and their authorities build financial resilience into all aspects of their planning and operations. It identifies the warning signs of financial stress, and explains the pillars on which financial resilience depends.

Much of this report is based on CIPFA's work with local authorities to review their financial resilience. Rightly we maintain confidences and anonymity but we are grateful for the candour and insights from local authority officers who commissioned these reviews; they have been invaluable in helping us provide this report.

Although this report is focussed on local government, I hope many of its messages will resonate with finance colleagues across the public sector.



**Rob Whiteman**  
Chief Executive, CIPFA

# \ introduction

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.

There are four key drivers of local authority behaviour in the current climate:

- 1) The impact of austerity – notwithstanding the very real challenge, most authorities managed to cope reasonably well with the spending cuts announced in the government’s 2010 spending review. But by the 2015 review most of the relatively more straightforward savings had already been made. Following the Brexit vote, the abandonment of the plan to reach a balanced budget by 2020 means local government faces the prospect of austerity in public spending stretching into the middle of the next decade, coupled with the economic uncertainty which Brexit brings.
- 2) The move towards self-sufficiency – since 2010, a succession of policies under the banner of devolution – such as the retention of business rates and the New Homes Bonus – have attempted to reduce local authorities’ dependence on government funding and promote financial self-sufficiency. The government has encouraged the idea that local authorities can control their own financial destiny through measures such as promoting housebuilding and growing the local economy. But there are sharp contrasts in councils’ inherent ability to take advantage of this approach.
- 3) Local leadership – in response to austerity and devolution, local political leaders have been taking more calculated risks to enhance the prospects of their communities in the tough economic climate through initiatives such as regeneration. But with sustained reductions in both capital and revenue spending the risks associated with ambitious local projects have been growing.
- 4) Demand and cost pressures – the growing demand for social care is a major threat to financial resilience. As well as the needs of older people, councils also need to meet the needs of children and adults with learning difficulties – many of whom are now able to enjoy much longer lives than in previous generations – and the demands for children’s services such as child protection. The £2bn of additional social care funding announced in the 2017 Budget has provided some temporary respite but is not a sustainable solution. The focus and heat of the debate on this matter alone during the 2017 election campaign illustrated this only too well.

The impact of these factors varies markedly across the country. For example, many districts, in the arguably better-off parts of England have benefited from housing and business rate growth and other factors such as the greater ability to raise money through car parking fees. Equally, more deprived areas, with a relatively low tax base, higher social care need and greater historic dependence on government grant have felt a much greater impact. However, it is not a simple geographical split.

# financial stress warning signs

In this climate, achieving financial resilience is a challenge for all but with some areas arguably enjoying greater capacity to find alternative income and being less dependent historically on government funding. Clearly the reverse is true but generally authorities at risk of ‘falling over’, so to speak, have not felt able to take the same tough decisions as their peers, sometimes claiming there are statutory reasons why they cannot implement the level of cuts required. Conversely, the extent of the challenge has not always been even – with those most dependent on grants in the past being most exposed when those are cut or withdrawn.

Symptoms of stress exhibited by authorities include:

- Running down reserves – a rapid decline in reserves. By definition, using up reserves to avoid cuts can only provide temporary relief.
- A failure to plan and deliver savings in service provision to ensure the council lives within its resources.
- Shortening medium-term financial planning horizons – perhaps from three or four years to two or even one. A failure to plan ahead could indicate a lack of strategic thinking and an unwillingness to confront tough decisions.
- Greater ‘still to be found’ gaps in saving plans – in the early days of austerity, a council might have agreed a four-year financial strategy, with reasonably robust plans for how the first three years of savings would be achieved. Now, not only are planning horizons shortening, but authorities have only specified how savings will be achieved for the next financial year and even then there may be some with targets rather than firm plans.
- A growing tendency for departments to have unplanned overspends and/or carrying forward undelivered saving into the following year – as well as creating a need for greater cuts in subsequent years, unplanned overspends are a sign that an authority is struggling to translate its policy decisions into actions.



**Finance staff need to provide challenge to reduce costs, but not to the extent that delivery is unrealistic.**



## The four pillars of resilience

CIPFA has identified four key areas where chief financial officers and their team need to focus their attention:

### 1 Getting routine financial management right

The first step is simply to ensure the basic financial management systems are working effectively. This means the chief financial officer (Section 151 officer), political leadership and senior management team all have a clear understanding of the authority's financial position and how that compares with similar authorities. Everyone understands the long-term financial strategy, what needs to be done to deliver it, and their personal responsibility for doing so.

### 2 Benchmarking

One of the simplest and most effective financial management tools is making good use of benchmarking data (from CIPFA and other organisations) which compare costs, income and activity levels with similar authorities.

Use of benchmarking data should be routine. Every council should have a firm understanding of how each of its cost and income lines and reserves position compare with national benchmarks. Significant overspends or underspends need to be analysed and understood to see if money is being wasted or more investment is needed.

Social care authorities should understand details such as the number and unit costs. For example, residential placement costs for a single child can run into millions over their life in the care system. Investment in early intervention can mean a lower overall cost with much improved outcomes for the child. For a finance team, not just focusing on costs but also on alternative outcomes could gain the respect of service managers as well as a possible win-win position with regard to costs.

Councils need to share information with their neighbours to identify basic facts such as whether one provider is charging different authorities different prices. Having a shared approach to issues such as managing the social care market may well have benefits.

Benchmarking income generation is just as important as comparing costs. Councils have numerous income streams, from culture and sport to libraries, transport, waste management and parking. These depend on political choices. Members of the council need clear information on the income options and likely impact.

### 3 Clear plans for delivering savings

Each authority needs a single, consolidated, living document which tracks its savings plans – what has been agreed and how much progress has been made in implementation and links to both its budget and medium-term financial plan.

It needs to distinguish between the different types of savings in play. Those which:

- have been agreed and for which there is a clear delivery plan
- have been agreed in principle but do not yet have a clear strategy for implementation
- have been proposed but not yet agreed
- are simply ideas.

It is important not to blur the distinction between these different numbers, to avoid giving a false impression of how much progress has been made.

Timescales and investment for change need to be realistic. A reduction in services requires consultation and compromise which can reduce or delay savings. Changing social care practice can take years, particularly in high cost but poor performing services with competing demands. Finance staff need to be suitably challenging in terms of reducing costs but not to an extent that delivery is unrealistic. Managers can move on, and just because one manager signs up to a reduction doesn't mean another will deliver.

#### 4 Managing reserves

As always some use of reserves to manage and cushion a clear and transparent savings programme over the medium term can be very sensible. However, the one-off use of reserves to avoid another cut in service level may be a tempting political expedient but it is unlikely to be good policy. It does nothing to enhance financial resilience, and will make the following year even tougher in terms of the scale of cuts that have to be made. Finance staff need to be aware of the electoral cycle and the difficulty of delivering a tough budget at the end as opposed to the beginning of an electoral term.

One-off use of reserves is a likely outcome of savings plans which include large but unspecified cuts in coming years. Some councils whose reserves position appears superficially buoyant risk rapid depletion over the next three to four years as the lack of substance in their savings plans becomes apparent.

### Mind the gap

In the relentless hunt for savings it is easy to focus on the "gap" still to be found after a round of cuts has been agreed. The danger is that the authority then obsesses about closing the gap while failing to take the actions necessary to ensure all the agreed savings have been delivered.

### Linking capital and revenue

Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.



**The one-off use of reserves does nothing to enhance financial resilience.**



# challenging the robustness of financial plans

The Section 151 officer is legally responsible for signing off a deliverable budget and simply setting targets doesn't meet that test. A culture of constructive challenge in each part of the organisation is essential. Departmental managers and the political leadership need to question constantly not just what is being proposed but how it will be delivered.

Savings should be planned over at least three years to allow for any policy changes to be agreed and delivered. This approach is far more likely to hit the financial objectives than trying to plan and implement savings in a single year.

While long-term savings plans will inevitably include more detail in the first two or three years, authorities need a good understanding of where it will find the savings in later years. Simply quoting a future savings target which is not based in the realities of the authority's operations is storing up serious risk.

Well-managed councils will be implementing high quality execution plans. Plans need enough detail to be credible. There is a tendency to provide plenty of detail for small savings while discussing the big ones in broad terms which lack precision about what exactly needs to be done. Relentless focus on the detail of execution is essential to turning policy goals into savings.

Authorities need to look out for warning signs that a savings plans may not be deliverable, such as a department with a history of in-year overspends. If it has missed its savings target one year, it is highly unlikely to deliver a more ambitious savings plan the following year without significant changes to its management, operations and culture.

A repeated failure to deliver financial plans may be a sign that an optimism bias is creeping into the calculations, such as making unrealistic assumptions about the size and speed of savings. This builds up problems for future years. A culture of constructive challenge excludes an optimism bias in favour of a realism bias, built on rigorous examination of goals, underlying assumptions and implementation plans.

For the chief finance officer (CFO), the quality of financial challenge in departmental forecasts regarding any pressures and likely savings is crucial. The wider finance team also need to adopt the responsibility of constructive challenge on the part of the CFO and a key warning sign that plans could fail is a lack of process and feedback to the CFO on the findings from such challenges.

## Keeping a firm grip on commercial ventures

Financial pressures are driving a new level of interest around commercial deals. In times of relative plenty, commercial ventures were primarily seen as levers for change, such as regenerating a town centre. Now they are often seen as a way to balance the books, which brings both new and often large risks.

Many councils have extensive commercial interests. That is not a new phenomenon but there is a new intensity across all councils in securing commercial assets which can generate a return and help the councils become self-sufficient. For example, for many district councils the combination of local taxes and local income, partly in the form of yield from commercial assets, is now at the heart of their financial sustainability over the medium term in the absence

of government grant. By degree this will be true for most councils. These represent new and significant risks and require rigorous testing, with a clear understanding of the risks and downsides. Being more commercial is good, but it needs to happen in step with robust due diligence, being “savvy” about the pitfalls and risks, having effective governance, managing it tightly and acting proportionately. All this needs to be understood by elected Members.

When considering a commercial scheme it is crucial to have balanced assumptions about the likelihood of success, how much income will be generated and how quickly it will flow.

Inevitably councils will have regard to the likelihood of additional income from business rates retention but they need to be prudent rather than optimistic in the anticipation of additional income from the retention of business rates over the medium term. The Government is yet to announce how it will balance out potential inequalities in funding between authorities who gain from business rate retention and those who have fewer opportunities and higher needs. Even if significant growth is forecast for some areas, the need to address inequalities may result in any gains being modest and short term. More fundamentally, the ‘Fair Funding Review’ which, if it goes ahead, is planned to coincide with the launch of the 100% scheme may dramatically worsen (or improve) an individual council’s opening position.

## Making the business case

There must be a clear business case. High-level vision documents do not do this job. Briefings to Members in advance of formal decision making need to provide a detailed analysis of the financial context and risks, and the implications for the authority’s long-term financial position.

Take the example of a housing scheme. An authority might see an opportunity to cut its homelessness costs, make a financial return and meet the policy objective of encouraging affordable housing by setting up a housing development company.

To do this the authority would need a detailed understanding of the local housing market, what gap in supply it is proposing to fill and how fluctuations in house prices would expose them to risk. It would need a detailed breakdown of the setup and running costs of the company, and a realistic view of the upfront investment required and the timescale in which any return would be provided.

The business case needs to provide a clear explanation of the authority’s different roles – such as landowner, investor, developer, town centre manager and partner for local businesses. There must be clarity about capital and revenue spending and the use of capital and revenue receipts.

It should never be assumed that all the prospective income will be available for use. Some should be set aside for potential future liabilities such as maintenance or periods where properties are empty.



**Being more commercial is good, but it needs to happen in step with robust due diligence.**



Appropriate due diligence requires specialist legal, financial and market knowledge which is unlikely to be found in-house. Outside experts should be used to build and evaluate plans – with a clear separation between the two roles. So even exploring such an idea requires considerable investment.

Outstanding leaders know where their strengths lie and have the courage to bring in others with additional skills when needed. CFOs do not have to pretend they are commercial gurus – if it is not an area of expertise, hire help.

Most authorities will not have the specialist skills to establish and manage property companies. This is an important consideration in deciding how a venture would be run.

## Governance and management

Governance is critical to any commercial venture. For example, there must be senior officers with sufficient detachment from the scheme to provide rigorous challenge and objective assessment.

Due diligence before approval must be searching and objective, and led by people with the right skills and experience. There should be formal performance management arrangements to monitor and manage the scheme.

Many finance teams, particularly in smaller councils, have been pared back to almost a skeleton staff. CFOs need to ensure that their limited management resources are focused on the core business of the authority such as keeping budgets on track, implementing cost reduction plans and managing risk. The excitement, scale and potential of commercial deals must not be allowed to distract from core financial management functions.

Making a manifesto commitment to a commercial venture is not a licence to invest without appropriate due diligence. Chief financial officers should not suspend their critical judgment of a specific programme simply because it was included in the ruling group's manifesto. Such a scheme should be subjected to the same rigorous analysis as any other.

## Speaking truth to power

A core skill for chief financial officers is the ability to talk to the political leadership and senior service colleagues about what is and is not possible.

Members need openness, honesty and clarity. Hyperbole about difficulties and crises does not help them make decisions and what politicians actually need is hard-edged analysis, options and advice, supported by evidence.

Financial reports to Members should be models of clarity, and contain sufficient detail for robust discussion and challenge. Significant items should be separated out rather than lumped together, and context needs to be provided for estimates and projections.

Clear reports with the appropriate level of detail will help the whole council develop a shared understanding of the current position, options and risks.

Chief financial officers need to be wary of being boxed in by unrealistic political instructions, such as being told to make cuts without affecting services. A failure to open up a discussion about why that is not possible would start to embed a creeping optimism bias in the council's savings plans, with potentially serious consequences.

Communicating effectively is not about driving a message home without consideration. On the contrary, when discussion slides into confrontation there has to be a loser, which may well do irreparable damage to the Member/officer relationship. Sometimes softening the language and approach achieves more than hardening it.

Tough decisions about services use up political capital with the public, so chief financial officers should help their leaders ensure the political cost is worth it – in other words, don't trigger a big row over a small saving, as it will make it more difficult when you need to go back for more.

## The chief financial officer's armoury

The chief financial officer has a number of statutory duties and powers intended to ensure that Members are acting on sound information, and are fulfilling their obligations to balance the budget and make decisions which support the long-term interests of the authority and its local community. Some of these powers are routine, others are only used in extreme circumstances.

## Role of the Section 151 officer

Section 151 of the Local Government Act 1972 requires each local authority to appoint an officer to oversee the proper administration of its financial affairs (the S151 officer). Usually the CFO takes on this role.

To fulfil this role effectively, the CFO needs to sit in the senior management team. This is essential to ensure the officer has the breadth of view, experience and seniority to advise colleagues and Members with confidence and authority.

It remains a concern that an increasing number of CFOs are not automatically on the top team. Reducing the status of the Section 151 role in this way makes it more difficult for the official to advise and challenge the leader and chief executive effectively at the early stage of policy formulation with significant financial impacts. Indeed, the CFO is placed in the position of trying to be effective in spite of the structure rather than being helped by it.

However, the effectiveness of S151 officers is not about role and status. Fundamentally, success flows from the individual having the technical background, the confidence and the leadership skills to contribute to the effective corporate running of the council.



**Don't trigger a big row over a small saving.**



# reporting structures and statements

## Annual budget report

The annual report to the council setting out the proposed budget for the coming year and the medium-term financial strategy is a key document for the authority, which needs to demonstrate all the features of a financially resilient organisation – openness, clarity, robust and constructive challenge, long-term planning, a clear analysis of risks, and realistic savings plans built on a sound strategy for implementation.

The report should include a comparison with the previous year's performance. This will help Members and service directors to evaluate the realism of the coming year's plans. For example, if a department failed to meet its savings targets last year, there must be doubt that it would achieve a tougher target in the coming year. The reasons for any overspend need to be explained. This is not about allocating blame, but understanding causes.

## Section 25 statements

Section 25 statements are important tools, primarily as a means to ensure that estimates are robust and reserves are adequate. Approaches to the statements vary enormously; some run to many pages, others are just three or four sentences.

Under Section 25 of the Local Government Act 2003 the S151 officer is required to state in the budget report their view on the robustness of estimates for the coming year, the medium-term financial strategy, and the adequacy of proposed reserves and balances. The council is required to take this into account when making its budget and taxation decisions.

The Section 25 statements are important. They give the chief financial officer the opportunity to articulate their professional judgment of the authority's financial plans and direction and the risks it faces.

In commenting on the sufficiency of reserves a realistic assessment of those available needs to be set out, projected over the medium term, with a historic profile of the last three years; and if they have dropped, the reasons why.

On commenting on the robustness of estimates, past performance should be set out and should exclude the use of one-off reserves. If there have been large unplanned overspends, the report should state how the proposed, presumably tougher budget, will address these. Equally, if the current year is showing an overspend that the proposed budget has been re-based to take account of these and additional, robust savings identified to address them.

For councils in, or facing, increasing difficulties this is the moment for the CFO to be absolutely clear of the position and what needs to happen to avoid a major failure. Experience has shown the CFOs in councils with financial resilience challenges are not always utilising this power to focus the mind of the organisation.

## Section 114 powers – the last resort

Under Section 114 of the Local Government Finance Act 1988 the chief financial officer has the power to issue a Section 114 notice (S114) if they judge that the council is unable to set or achieve a balanced budget. Such a report is only issued in the gravest of circumstances and is the most serious possible action open to the CFO.<sup>1</sup>

Once issued the council has 21 days to respond and during that time spending and other financial activity is suspended. It does not solve the problem. Instead it serves as the ‘ultimate’ jolt to the council to focus on solving an imminent financial gap that cannot be filled from other sources including reserves. If it comes to that point it normally means relationships are failing plus the parlous state of the council’s finances has been played out publically and in the press.

It should be used as a last resort, and every effort made to avoid it. But if it is really needed, it has to be invoked. A chief financial officer should issue a notice if all other options have been exhausted, but in full knowledge of the consequences. However, the consequences of failing to invoke it when it should have been are worse.

## The risks of big, bold solutions

As the financial position gets increasingly difficult, with the easier savings gone and councillors facing ever more unpalatable choices, there is a temptation to entertain visions of a big, bold gambit which will slash costs while maintaining or even drastically improving services.

Bold steps have their place, but there are no simple solutions to the difficult choices facing every local authority.

Crucially, senior management teams must be honest about the capacity and capabilities of their organisation and its potential for delivering a massively disruptive change programme with a transformative result. Even if structural change can be delivered, the cultural change that has to underpin new ways of working takes months and years.

## Sharing services or merging

Councils need to consider whatever it takes to maintain balance, which may include a partial or full merger with a neighbouring authority. Districts in particular have been merging back-office systems and management teams.

If merging is a potential part of the solution, then the costs, risks and benefits need to be factored in over several years as part of the authority’s medium-term planning.



**Bold steps have their place, but there are not simple solutions to the difficult choices facing every local authority.**



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<sup>1</sup> More information on issuing Section 114 can be found in CIPFA’s insight *Balancing Local Authority Budgets*, [www.cipfa.org/insights](http://www.cipfa.org/insights)

The impact of merging management and delivery teams needs to be understood. There will be savings in salaries and overheads, but there will also be risks if small teams are trying to run operations across more than one council.

Any authority pursuing a merger needs to understand that some fail and many of them take much longer than planned to deliver. Reasons for failure or delay vary from changes of political control to personality clashes. Simply planning for a merger and assuming the projected savings are a done deal without an allowance for risk is a mistake.

Merging or sharing services will require investment at least in the early months. Savings will not always drop out easily, especially with the additional complexities of negotiating across two or three political and management structures. Making the relationships effective takes time and a great deal of management focus – which can be a distraction from routine business such as financial control.

Not all shared services are aimed primarily at cutting costs; they may be established to improve service resilience. Councils need to be clear which journey they are on and the implications for implementation.

Management and back office support costs should be around 10% of total costs, so the overall impact of any paring back is likely to be modest. This needs to be balanced against the opportunity cost of pursuing a sharing arrangement. Districts have been great at merging teams and that has been a key part of their strategy.

Shared services require open book accounting and a clear understanding of how risks and efficiencies will be distributed.<sup>2</sup>

### **Pooling funds with the NHS**

Increasing numbers of councils are pooling money and people with the NHS, in a bid to integrate the health and care systems. Organisations such as Accountable Care Systems and Integrated Care Pioneers provide a variety of collaboration mechanisms.

This ‘whole system’ approach to health and social care offers many potential benefits for local people, but introduces another layer of risks for local authorities. It can expose councils to the financial pressures of the NHS with a little or no ability to influence them. It might feel like the behaviour of a ‘good partner’ but taking on financial risk without effective influence or control over that risk is a bad deal.

With social care budgets often being the largest area of spending, knock-on effects from NHS deficits can be severe. Councils still have a duty to their own council tax payers as well to their clients and need to ensure that their council tax payers are not, in effect, being asked to underwrite a portion of NHS costs.

Although it is not the current orthodoxy, integrating health and care services does not necessarily save money. The National Audit Office report on health and social care integration, published in February 2017, concluded: “There is no compelling evidence to show that integration in England leads to sustainable financial savings or reduced hospital activity.”<sup>3</sup>

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**2** For more information see Open Book Accounting: how to deliver and demonstrate value for money in the public sector, CIPFA 2013, [www.cipfa.org](http://www.cipfa.org)

**3** Health and Social Care Integration, NAO, February 2017 [www.nao.org.uk/report/health-and-social-care-integration](http://www.nao.org.uk/report/health-and-social-care-integration)

Local sustainability and transformation plans aim to support local people to live independently at home for longer. This has important implications for the scale and type of community-based care that will be required. Councils need transparency on the demand and cost implications for all the associated health and care services.

### **Setting up a company**

There is nothing inherently efficient or transformative about establishing a company to run part of an authority's operations. The only guarantee is that it will cost money to set it up.

The business case for any company has to spell out what the council is trying to achieve and why a company is necessary to achieve it. In a number of councils, companies have been set up that remain dormant.

Transferring council staff to a company does not make them commercially aware. Developing commercial skills requires intensive training and development – all of which costs money.

The long-term consequences of moving staff to a company need to be understood, such as salary levels, reward schemes, pension costs and career development. It is easy to ramp up salaries and bonuses without any guarantee of a financial return in the hope of attracting commercial talent.

Leadership is crucial in setting up a commercial venture. Simply transferring across a local authority manager who does not have commercial experience is risky.

### **Outsourcing services**

Outsourcing services to private providers has been routine in the past but a pattern of 'in-sourcing' is now beginning to emerge. The perceived attractions of out-sourcing include the potential for lower unit costs, and the ability to specify service quality. But risk sharing between the parties can be complicated, maintaining service quality in the face of tight margins can be challenging, and varying the terms in later years can be costly.

There are numerous examples of successful outsourcing but equally there also examples of costly mistakes by councils, particularly in outsourcing IT and not maintaining in-house, client expertise. All outsourced services need to be effectively managed by professionally trained, senior contract managers. This can be seen to add to costs, exiting poor contracts, even at the end of the contract term can be costly if these are not clearly thought through at the start. Again there are numerous examples of costly exits, absorbing legal expenses, compensation and important management focus.

### **Increasing council tax above the referendum limit**

CFOs need to be certain that savings can be delivered in the medium term before agreeing to sign-off budget reports that propose lower than the maximum council tax increase. They need to be clear about the risks when they make their recommendations. If low increases are a political priority these may need to be balanced against explicit service reductions.

Councils have the option of trying to secure public support through a referendum for a significant increase in council tax. However, the rules governing referenda are weighted against councils increasing council tax above the capping limit. Once a referendum has been triggered the council cannot promote a 'yes' result – it can only provide neutral explanatory information. There are no restrictions on government ministers or anyone else campaigning for a 'no' vote.

While councillors can exercise their right to hold a referendum, a council should not plan on the assumption that it will win. Indeed it should plan on it being highly likely it will lose.

## Transformation savings

'Transformation' can be a dangerous term. Its use all but guarantees an optimism bias, creating the impression that the same level of service can be provided for drastically less cost.

Doing a bit more for a bit less money is not transformation – it is just being more efficient. Transformation should only be used to describe a new solution, such as ending virtually all public contact with staff for a particular service, shutting local offices and imposing 'channel shift' to get everything online.

This may well be the right approach, but big visions require an immense amount of detail to deliver them. High-level aspiration is meaningless without robust delivery planning.

Any savings programme built on technology requires substantial investment in management time as well as new systems, honesty and rigour about the risks, and realism about how much it will save and when.

The term 'transformation' can be a barrier to communicating honestly with local people about the nature of the changes that are taking place and what it will mean for them. If the service offer is being changed or reduced, the public has a right to know; what matters to them is their experience of the service, not the efficiency of the delivery system.

## Finance is everyone's business

Delivering savings and implementing new ways of working is about far more than sound financial management. It is ultimately delivered by leadership and cultural change. The chief financial officer needs to work closely with the chief executive and leader to ensure everyone owns the plan and is contributing to its delivery.

For example, managing more customer relationships online and cutting the number of public counters will only work if the communications and marketing teams make sure both staff and public understand the changes, and IT have delivered the systems. It is not the finance department's job to manage everybody else, but it needs to get the right messages across to senior managers in other departments and take a view of the risks and likelihood of success.

The authority must be realistic about its project management capacity as it requires dedicated resource and skills.

Financial planning should be central to the work of project boards, with clear lines of accountability to wider financial planning and executive management.

## CIPFA's resilience reviews

CIPFA's resilience reviews are designed to support local authorities in financial planning.<sup>4</sup>

They are tailored reviews undertaken by a team of experienced directors of finance, working closely with an authority's chief financial officer (S151 Officer) and the senior management team.

The reviews include extensive cost and income benchmarking, analysis of the budget position, an assessment of savings plans over the short and medium term, a discussion of the reserves strategy, a specific focus on commercial transactions and their risks, and an identification of potential difficulties in achieving medium-term balance.

Many chief financial officers have found it useful to have an independent third-party perspective on the authority's finances to present to Members.

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<sup>4</sup> For more information about CIPFA's resilience reviews go to [www.cipfa.org/services/advisory-and-consultancy/financial-resilience-advisory-report](http://www.cipfa.org/services/advisory-and-consultancy/financial-resilience-advisory-report)

# \ conclusion

Financial resilience is the biggest challenge facing chief financial officers and their authorities, and needs to be at the heart of medium-term planning.

Building and maintaining resilience tests every skill the chief financial officer has to offer, including technical excellence, strategic thinking, political judgment, communications and leadership. It also requires the confidence to recognise the limits of their abilities, and when they need help.

The margin for error is small. The financial pressures are intense and unrelenting, so a misjudgement or oversight in one year can magnify difficulties in the years following. This highlights the critical importance of getting basic financial management right. It is the foundation on which resilience is built.



**Doing a bit more for a bit less money is not transformation – it's just being efficient.**









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