

Financial Resilience in Local Government

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Financial Resilience

- Financial resilience is about a Local Authority remaining viable, stable and effective.
- Accepting the new reality – growing demand, tightening funding and constant change.
- Presentation will cover :
 - State of funding
 - Demand
 - Consequences
 - Response
 - Support



The state of public finances

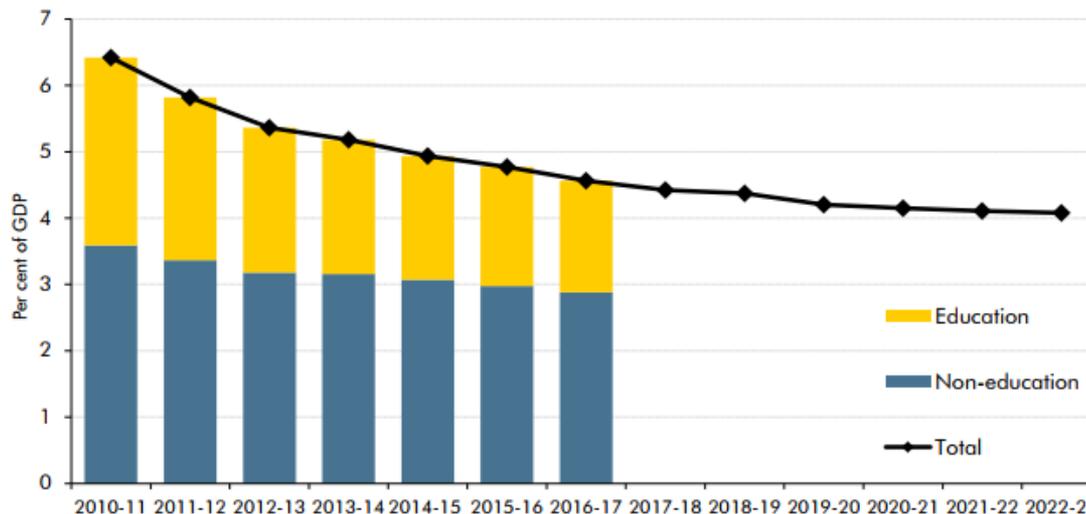
- Spending on public services and benefits payments – which make up around 85% of government spending – has fallen by about 1% since 2010.
- Some services more than others which have seen large spending cuts – for example prisons down 22% since 2009/10, local government nearly 50%. Meanwhile social care now accounts for 54.4% of local authorities' total service spend, up from 45.3% in 2010-11.
- CIPFA and the Institute for Government's (IFG) Performance Tracker shows public services have become "more efficient" since the introduction of austerity measures – that is, services are managing to deliver services at a lower cost than they did eight years ago.
- However the Performance Tracker also shows that adult social care cannot continue to operate at their current level of efficiency, and that local authorities risk a serious deterioration of quality.

Local government funding squeeze

- Sustained real-term falls in government funding – 56.3% reduction by 2019/20.
- Spending on local services - waste collection, road maintenance, food safety, trading standards, libraries – has fallen sharply in the last seven years. Squeezed inexorably by growing demands for social care.
- No debate about statutory service duties

Local government expenditure as % of GDP

- 7+ years of reductions as % of GDP

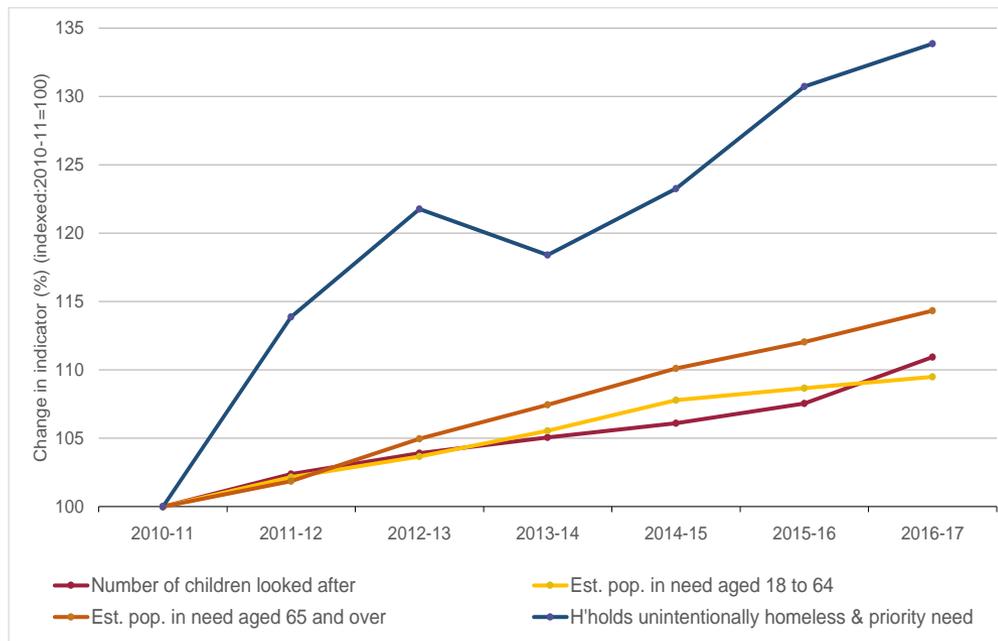


Note: Responsibility for spending on public health was transferred to local authorities from 2013-14, so numbers in previous years are not directly comparable. Figures exclude housing benefit, as the rollout of universal credit creates a discontinuity in the series.

Source: DCLG, OBR

Source: OBR

Local Government Growth in Demand



- **10.9%** increase in children looked after 2010-11 to 2016-17
- **9.5%** increase in the estimated population in need aged 18-64
- **14.3%** increase in the population in need aged 65 and over
- **33.9%** increase in households accepted as unintentionally homeless and in priority need

Source National Audit Office Report 2018

Social care

- Spending has fallen by 5% since 2009.
- Although day-to-day spending on adult social care fell by nearly 10% in real terms between 2009/10 and 2014/15, levels since then have grown.
- The recent increase in funding has been supported by the 2015/16 Better Care Fund and the commitment in the 2017 March Budget of an additional £2bn in funding. However, financial pressures persist.
- Introduction of a Council Tax Adult social care precept
- The Government has again promised to release a Green Paper

The future of local government funding

- Government's Fair Funding Review and Business Rates Retention – will they bring about sustainable reform?
- Northamptonshire County Council crisis has put local government funding pressures under the spotlight.

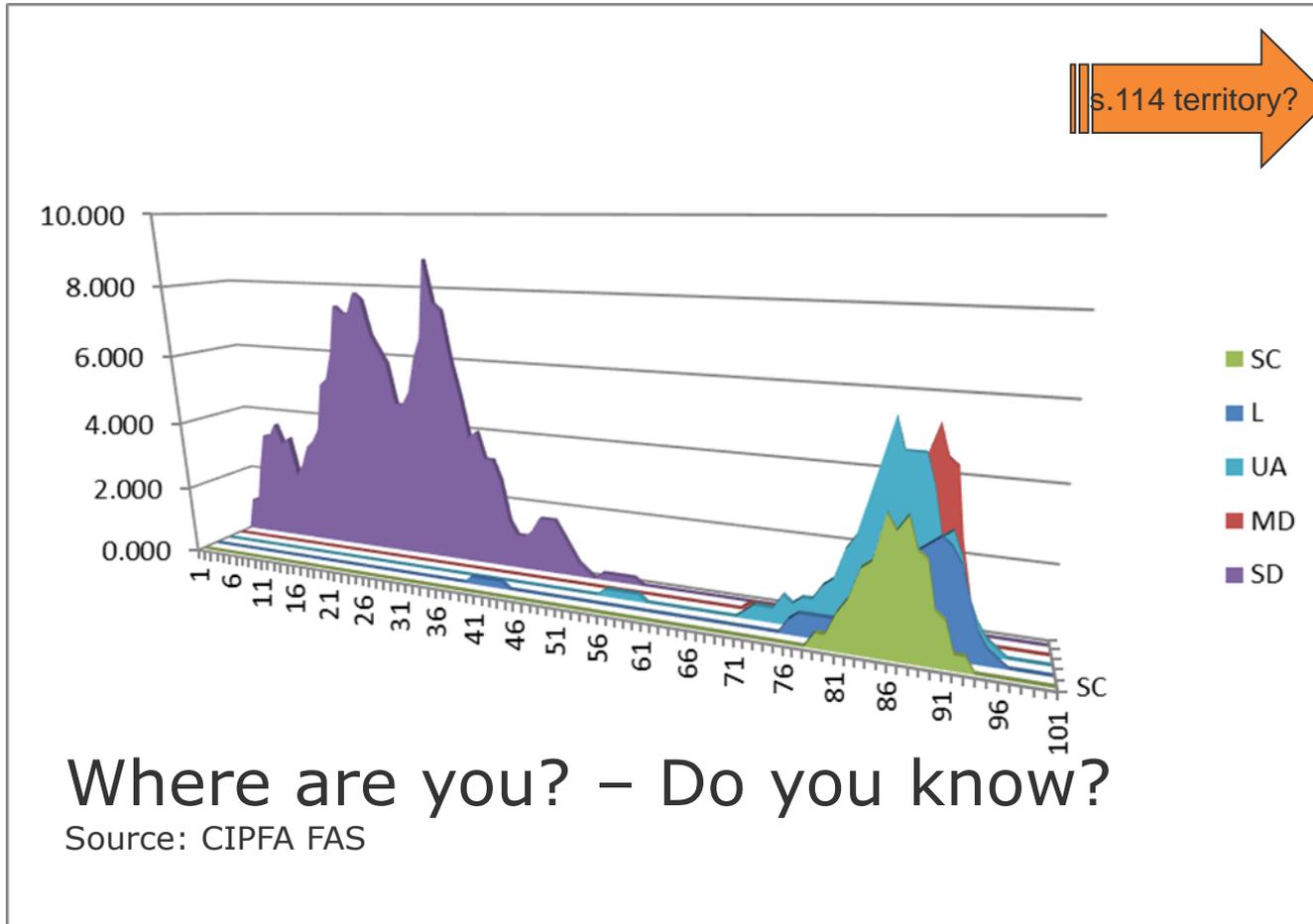


Northamptonshire is first to admit financial disaster for two decades in £10m shortfall

The common problems for local government to overcome

- The prospect of austerity in public spending stretching into the middle of the next decade, coupled with economic uncertainty that Brexit brings.
- Stark contrasts in different councils' inherent ability to take advantage of financial sustainability. Geographical and historical determinants dictate likelihood of achieving a sustainable financial position post BRR and Fair funding.
- Risks associated with regeneration projects and 'commercialism' have been growing.
- Growing service demand.
- Impact of above varies markedly across the country and across communities.

Impact on authority groups different



The Northamptonshire County Council Diagnostic

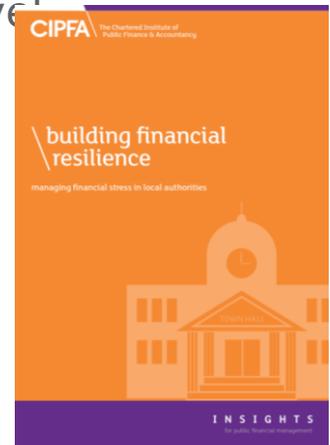
- Financial rigour
- Financial sustainability
- Demand management
- Innovation & Transformation
- KPMG conclusions

The financial stress warning signs – learning from CIPFA’s resilience reviews

- **A rapid decline in reserves** – using reserves to avoid cuts will only provide temporary relief
- **A failure to plan and deliver savings in service provision**, so that councils are not living within their resources
- **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
- **Firm objectives missing from savings plan**, such as a saving plan with ‘still to be found’ gaps or consisting of targets rather than robust plans; this may also include a tendency for over optimism in timing and scale of savings
- **Tendency for unplanned overspends** – carrying forward undelivered savings into the following year only creates the need for greater cuts in subsequent years.

Four pillars of resilience

1. Getting routine financial management right – ensure basic financial management systems are working effectively.
2. Benchmarking – making good use of benchmarking data.
3. Clear plans for delivering savings – each authority needs a single, consolidated, living document that tracks its savings plans.
4. Reserves - to manage a clear and transparent savings programme over the medium term - not to avoid another cut in service level



Road to recovery

- Getting routine financial management right
 - Clear understanding of current position
 - Compare with others
 - Understanding of long term financial strategy
 - Monitoring
- Cost and service comparisons
 - Should be routine
 - Clear understanding
 - Involve members



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



Recovery

- Clear plans for delivering savings
- Single consolidated living document
- Linked with budget and medium term financial plan
- Distinguish between the different types of savings
 - Clear delivery
 - In principle
 - Proposed
 - Thoughts
- Managing reserves
 - Use wisely

Confidence in the numbers

- Making a sound business case
 - Detail not high level
- Monitoring commercial ventures
 - Prudence and understanding
- Strong governance and management
 - Due diligence
- Role of the 151 Officer
 - Top table
- Honesty about the position
 - Culture

Reporting Structures

- Annual budget report
 - Yearly budget
 - Medium term financial strategy
 - Include comparisons with previous years performance
- Section 25 statements
 - Estimates are robust
 - Professional judgement
- Section 114
 - Last resort
 - Unbalanced budget

Not just about the money

- Other issues can contribute and build up over many years
- A result of decisions taken in the past
- A result of decisions not taken
- Projecting financials – grants, growth,
- Projecting demand – data analytics, demographic change / trend
- Project management – a robust and deliverable business case?
- Leadership, culture, governance, communication, staff

Good Governance

- Behave with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Ensure openness and comprehensive stakeholder engagement
- Determine the interventions necessary to optimise the achievement of the intended outcomes
- Develop the entity's capacity, including the capability of its leadership and the individuals within it
- Manage risks and performance through robust internal control and strong public financial management
- Implement good practices in transparency, reporting, and audit to deliver effective accountability

CIPFA's response to funding crisis

- A financial resilience index.
- Professional codification of budget setting and financial management.
- Code of Ethics
- Capital Strategy
- Funding Advisory Service (FAS).
- Resilience reviews
- Insights and thought leadership such as Building Financial Resilience
 - <https://www.cipfa.org/policy-and-guidance/reports/building-financial-resilience-managing-financial-stress-in-local-authorities>

Resilience Index

- Current concerns
 - NAO report
 - PAC recommendations
 - Continued budgetary pressures.
- Unhelpful speculation rife – limited and not-transparent evidence
- Develop a transparent and independent analysis based on a sound evidence base
- Provide an early warning and allow action to be taken.
- Consultation – substantial debate
- Response early October

CIPFA's FM Code – A Principled Approach

The Code will be principles based but discussions with stakeholders have identified key areas:

- **Leadership**
 - Vision culture, strategic direction.
- **Stewardship**
 - Budgets, MTFP, risk data quality, life time costs.
- **Transparency**
 - Monitoring, reporting, data consistency.
- **Standards**
 - Accounting, legislation, code of conduct, statutory sign off.
- **Assurance**
 - Sources of assurance, scrutiny, external and internal audit.
- **Sustainability**
 - Financial (reserves) people (capacity and skills)
organisational (development, transformation)

The Code: An Outline Timeline

Stake holder group to agree content and terms of reference	July 2018
Research, recommendations on chapters content initial draft	October 2018
Stake holder 'road' test	December 2018
Consultation on Draft Code	Early 2019
Code 'Franked' by CIPFA	July 2019
Code Release	September 2019

Supporting the sector



Northern Ireland's public finances have been the subject of recent public concern and scrutiny. The wider background to the underlying problem of the NI deficit is the economic challenges that the Northern Ireland authorities face for many years to come.

The public sector in Northern Ireland has long enjoyed a reputation for good financial management. It is what is the financial position of the Northern Ireland public sector in Northern Ireland that is the challenge. It is necessary to ensure that public services can continue to be provided.

A balance sheet is a financial management tool to assess the long-term financial position of an organisation.

CIPFA commissioned the second Review of the Public Sector in Northern Ireland. The Review was chaired by Sir John Giddens, a former member of the Northern Ireland Executive and a former member of the Northern Ireland Audit Commission. The Review was published in July 2012.

The Review identified a number of key challenges for the Northern Ireland public sector. It also identified a number of key opportunities for the Northern Ireland public sector.

Consequently, it is necessary to ensure that public services can continue to be provided in the future. It is necessary to ensure that public services can continue to be provided in the future.

Any Questions?



Supporting and developing public finance professionals across the world

The CIPFA PQ

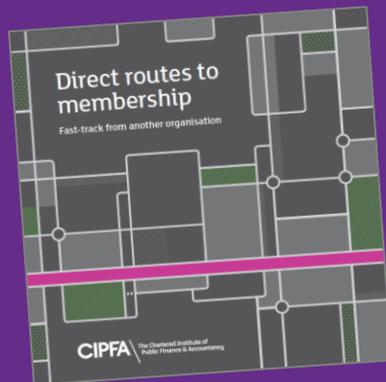
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