

Building Financial Resilience – CIPFA's approach

**CIPFA SOUTH EAST REGION
SPRING CONFERENCE & AGM
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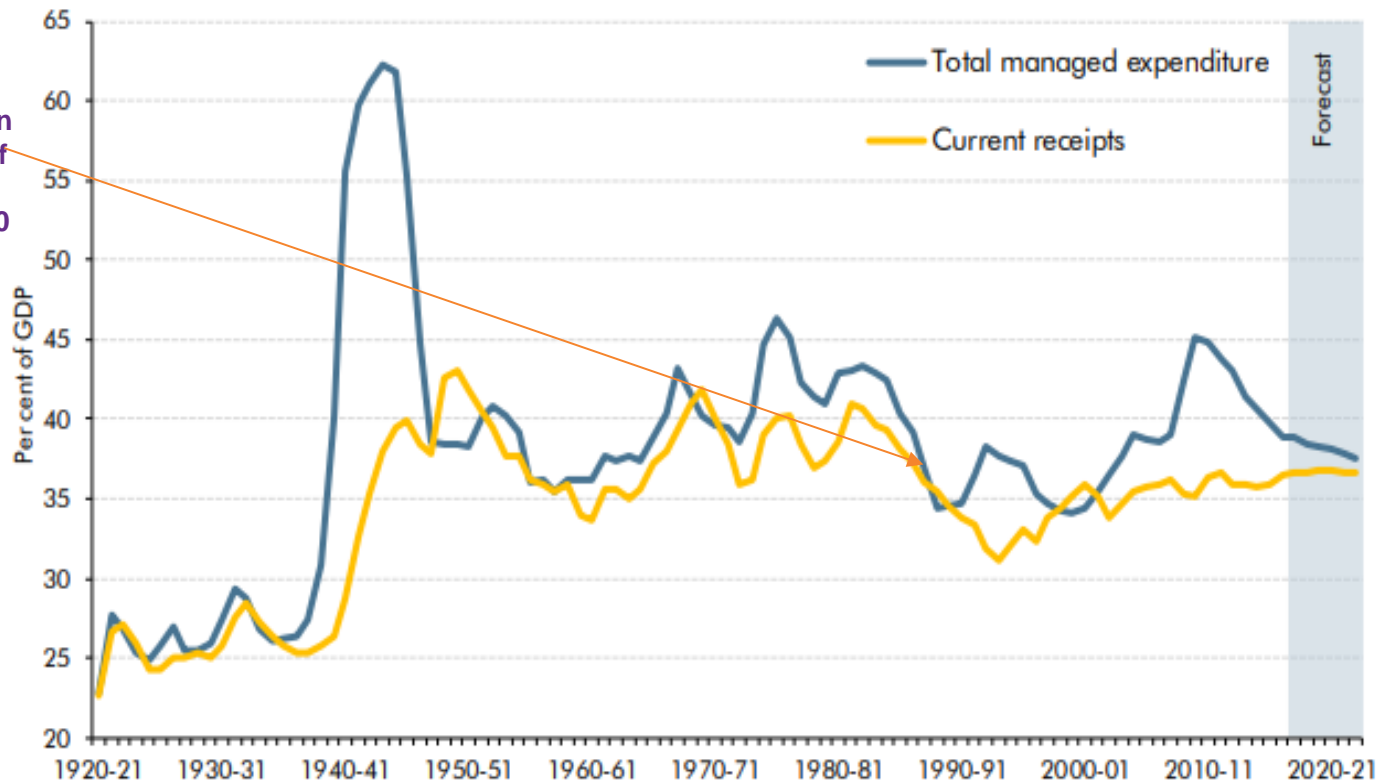
CIPFA Local Government Policy Manager

Balancing a national budget

- No government can maintain public services of the current scope and nature without tax rises.
- Receipts have not been above 37% of GDP since 1989/90
- July 2018 OBR predications - the next 50 years tells a difficult story
- Tax receipts will equal health, long term care, pensions and pensioner benefits.
- Different perspectives in the Chancellors view that austerity is over.

Successive governments have not been able to raise the taxation necessary to balance the budget

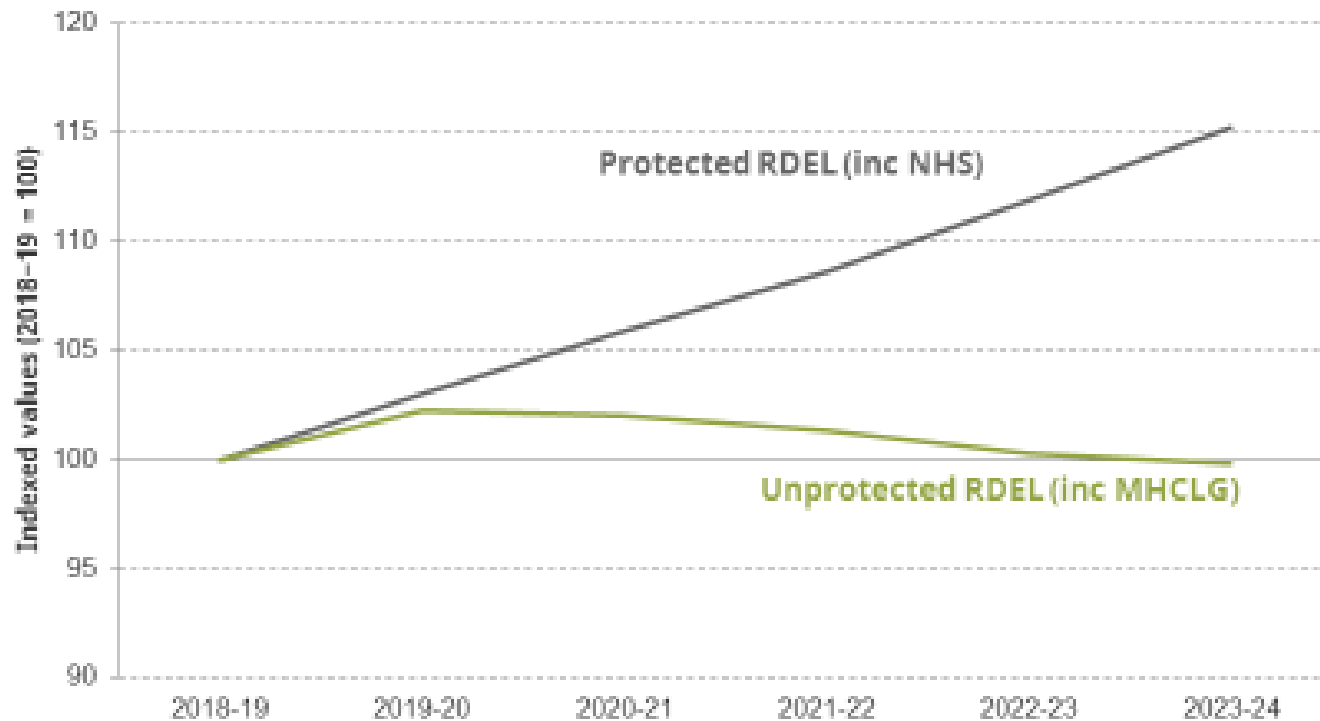
Chart 4.12: Total public sector spending and receipts



Current receipts have not been above 37% of GDP since 1989-90

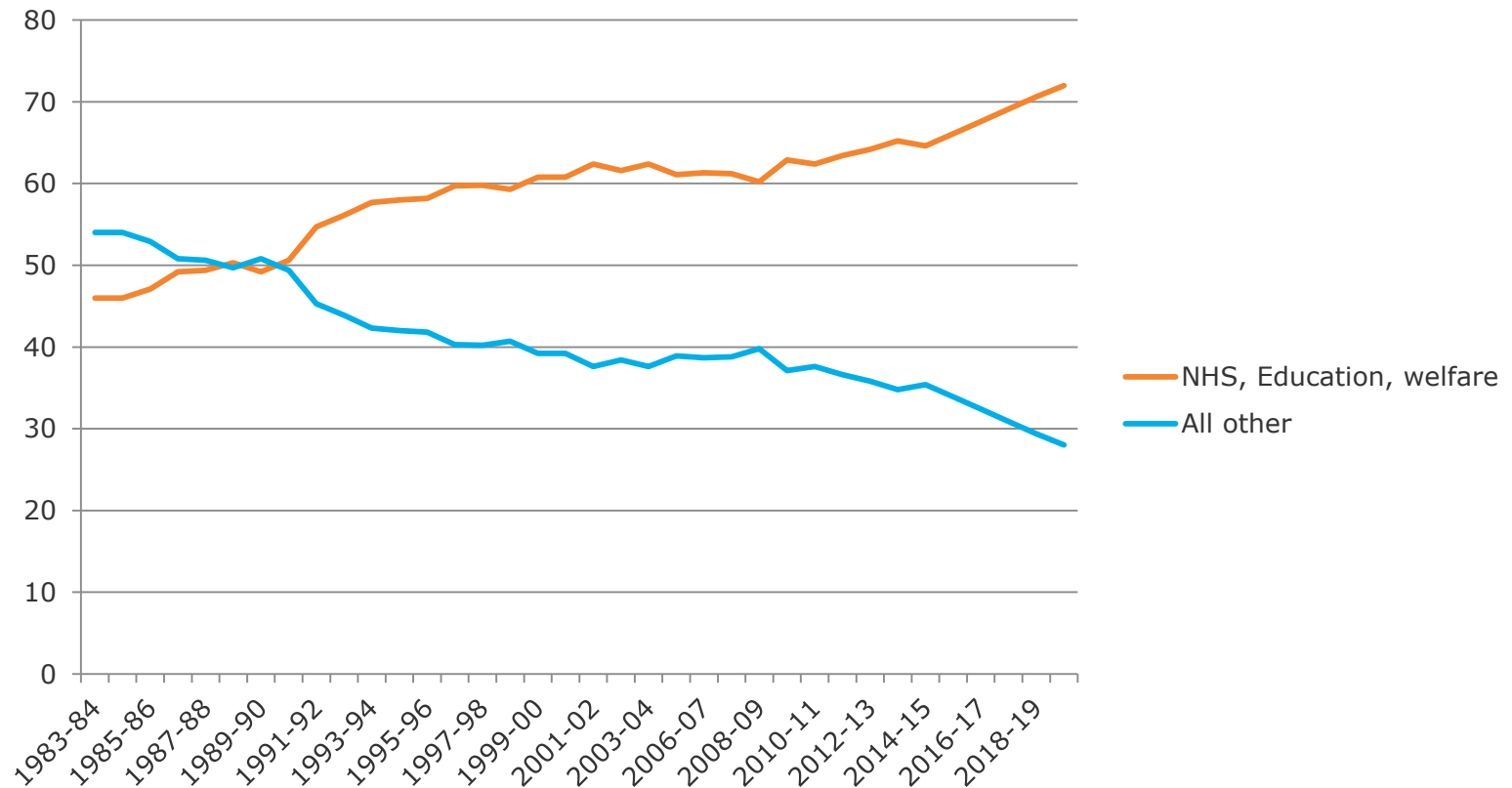
Public expenditure increased from the mid-1950s to the late 1970s from c36 per cent of GDP to 43-45 per cent

Still feeling like austerity for councils?



Note: RDEL refers to Public Sector Current Expenditure in Resource: Departmental Expenditure Limits (PSCE in RDEL).
Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018

A longer-term issue: 'social spending' spending vs the rest 1983-84 to 2018-19

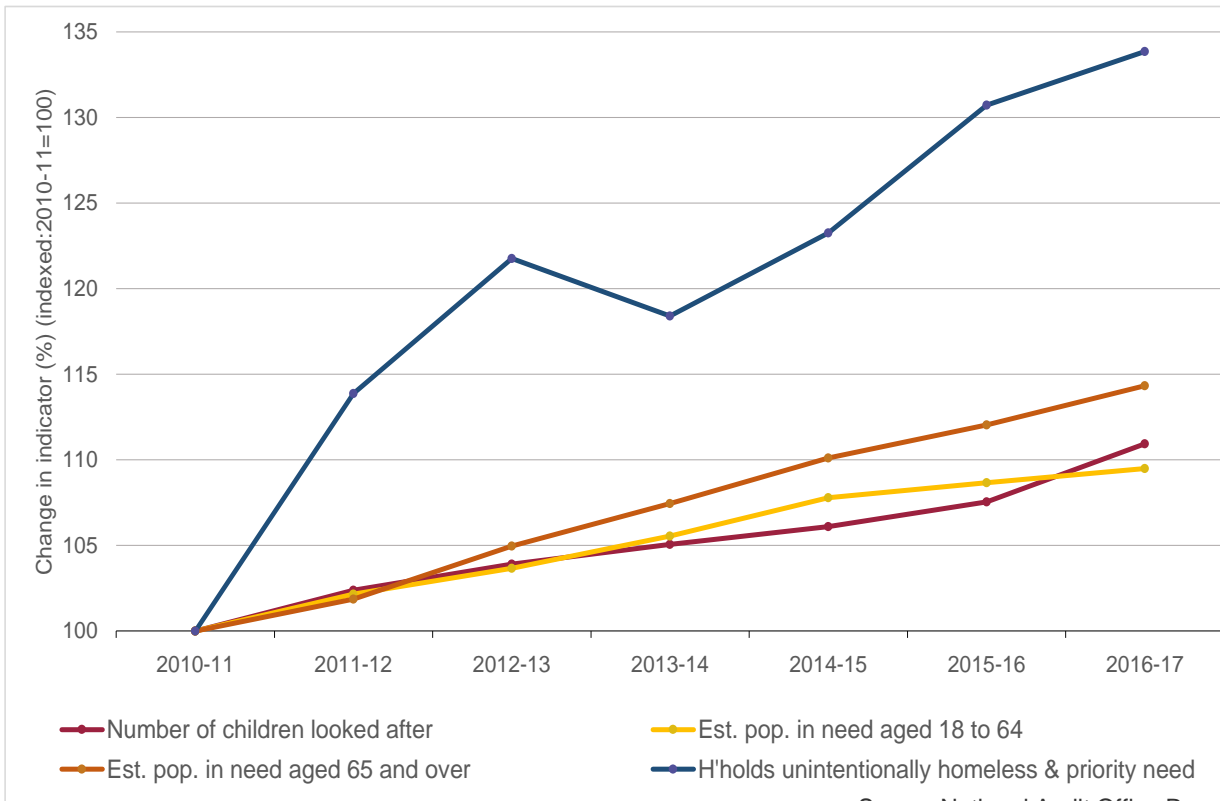


Derived from *Public Expenditure Statistical Analyses 2015*, H M Treasury, Table 4.2
Percentages derived from services' expenditure as proportion of all public expenditure

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.
- No debate about statutory service duties
- Performance tracker analysis identifies three stand out areas
 - Prisons
 - Adult Social Care
 - Neighbourhood Service

Local Government Growth in Demand



Source National Audit Office Report 2018

- **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

Increases in Council Tax

- CIPFA's council tax survey released March 5 2019
- English households set to face increase of average 4.5% (£75.00)
- Highest increase in Greater London
- Still substantial regional differences
 - £1884 North East
 - £1476 Greater London
- Debate on Council tax needed



What does all of this mean for Local Authority finance

- Under enormous strain to balance the books – having to make difficult decisions.
- There is a growing tendency towards ‘optimism’ bias.
- Pressure to generate income via more commercial activities
- Use of reserves to balance budget
- Difficulties in balancing the budget
 - Northamptonshire County Council

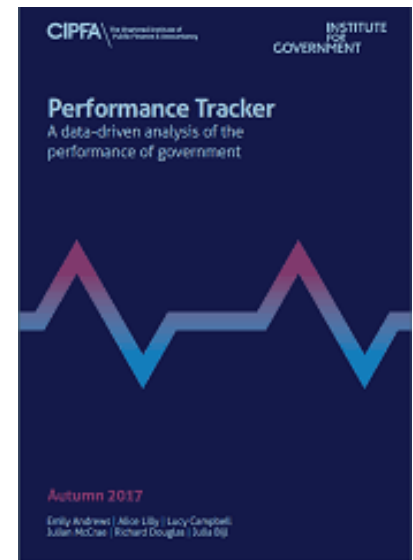


Symptoms of Financial Stress

- Rapid decline in reserves
- Failure to plan and deliver savings in service provision
- Shortening of medium term financial plans
- Firm objectives missing from savings plan
- Tendency for unplanned overspends

CIPFA's response to funding crisis

- Financial Management Code
- A resilience indices
- Code of Ethics
- Capital Strategy
- Funding Advisory Service (FAS).
- Resilience reviews
- Insights and thought leadership :
 - Performance Tracker
 - Building Financial Resilience



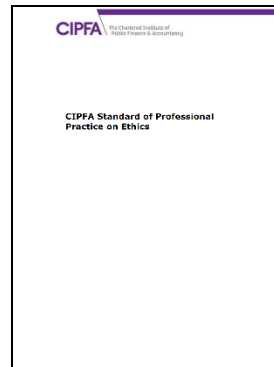
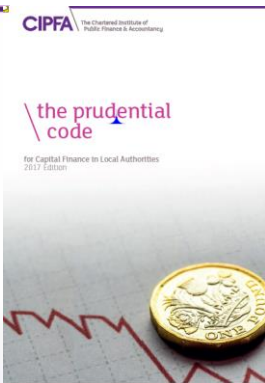
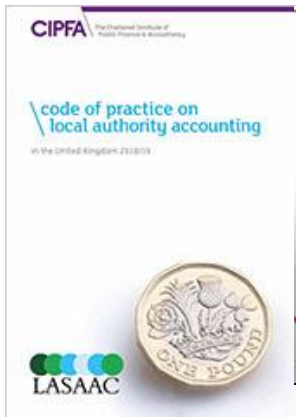
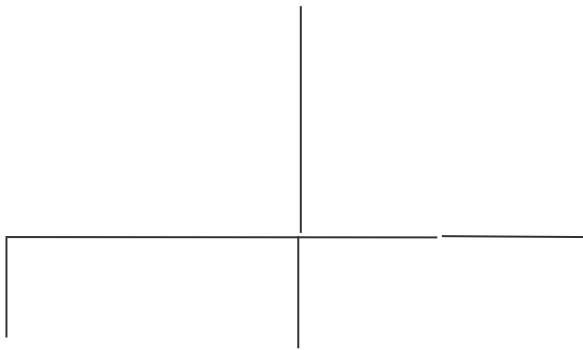
CIPFA's Professional Code Hierarchy & Index

Professional Proper Practice



Primary/Secondary Legislation

Good Practice



financial resilience index analysis



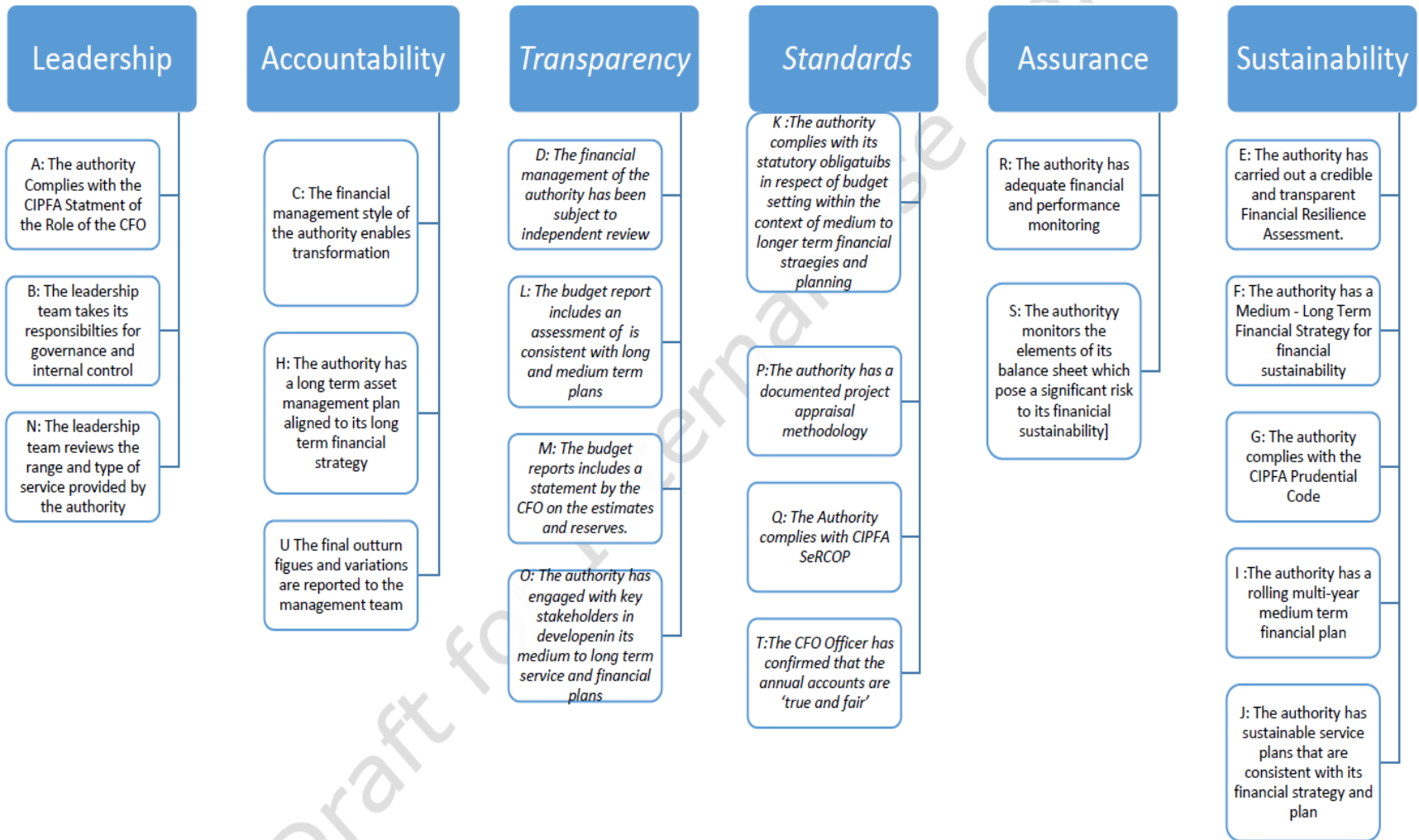
CIPFA Financial Management Code

- In order to ensure financial sustainability, going forward strong financial management is needed particularly in cases where budgets show evidence of a consistent use of unplanned reserves, a growth in over spending and a lack of medium and long term planning.
- The Financial Management Code is designed to codify areas of local government financial management.
- A series of principles will be supported by explicit standards.
- The code will apply to all local authorities in England Scotland Wales and Northern Ireland including police and fire authorities as well as combined authorities.
- While professional standards are being developed a series of finance based indicators are also being developed. The indicators, referred to as the Resilience Index, are by design a diagnostic tool to assist local authorities to understand their financial position.

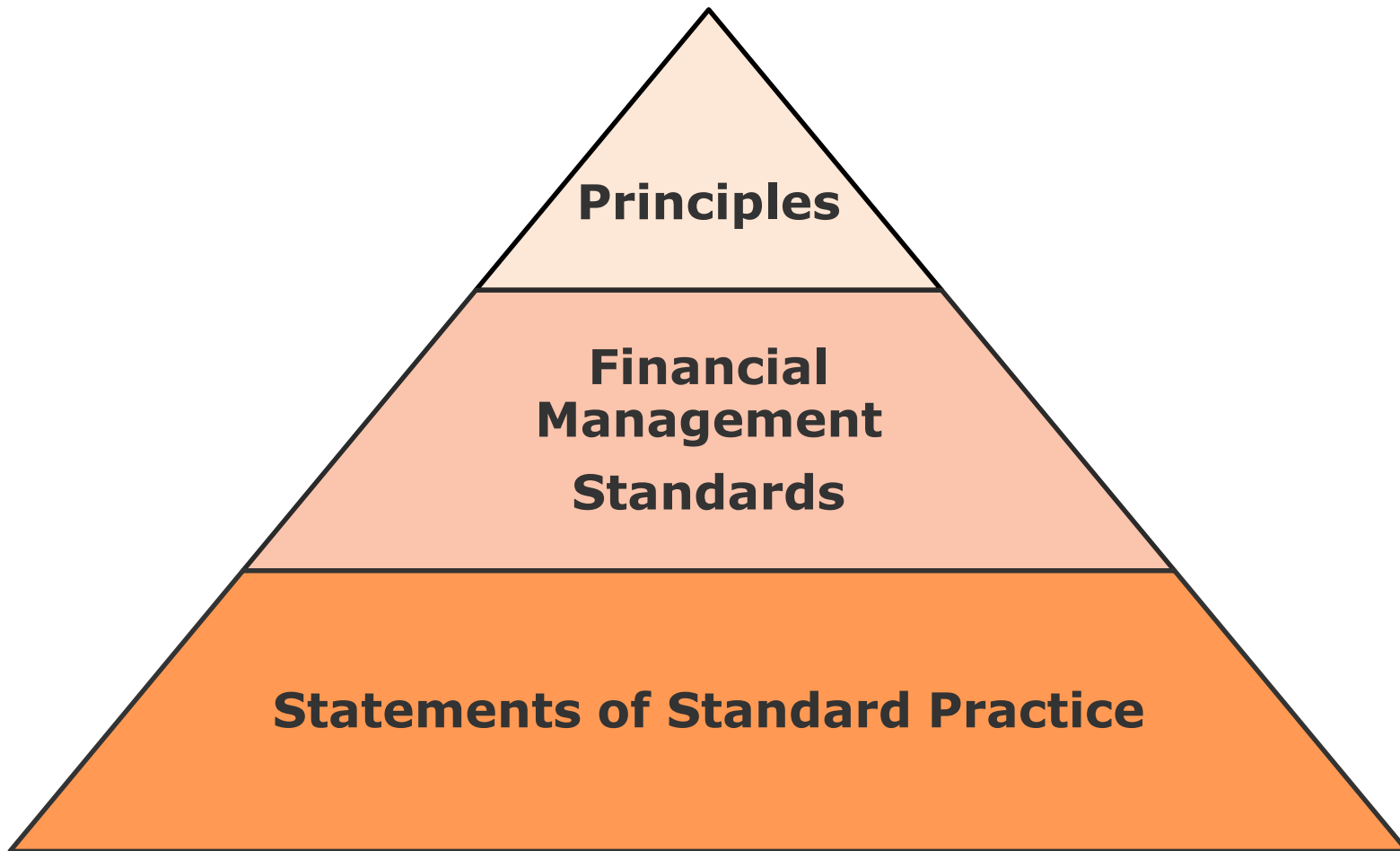
The CIPFA Principles of Good Financial Management

- **Organisational leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- **Accountability** - based on medium term financial planning which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making
- Adherence to professional **Standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised an effective tool mainstreamed into financial management and includes political scrutiny and the results of both external audit, internal audit and inspection.
- 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.

[Provisional] Mapping of CIPFA Financial Management Standards onto CIPFA Principles of Good Financial Management



The Code Hierarchy



Road Testers Findings

- High level observations included
 - Practicality
 - Duplications
 - Evidence
- Detailed observation included
 - Leadership
 - Monitoring performance
 - Reserves



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
Road tester's feedback	March 2019
Consultation on Draft Code	Spring 2019
Code 'Franked' by CIPFA	July 2019
Code Release	September 2019

Resilience Index

- Background
 - NAO and PAC reports
 - Long term sustainability of public services
- 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
- Role of the Section 151 Officer
 - Place at the top table
 - Strengthen the position and understanding

Indicators include

- Reserves depletion time
 - The ratio between the current level of reserves and the average change in reserves in each of the past three years
 - The indicator provides a measure of how long in years it will take for a council to completely run out
- Adult social care ratio
 - The ratio of spending on adult social care to net revenue expenditure
 - Allows a council to understand it's relative position

Financial Resilience Beta [Read-Only] - Excel

Pitt, Joanne

FILE HOME INSERT PAGE LAYOUT FORMULAS DATA REVIEW VIEW

Clipboard Font Alignment Number Styles Cells Editing

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CIPFA Financial Resilience Index

Tier Group
 UPPER LOWER

Authority Northamptonshire **Methodology** Ranked

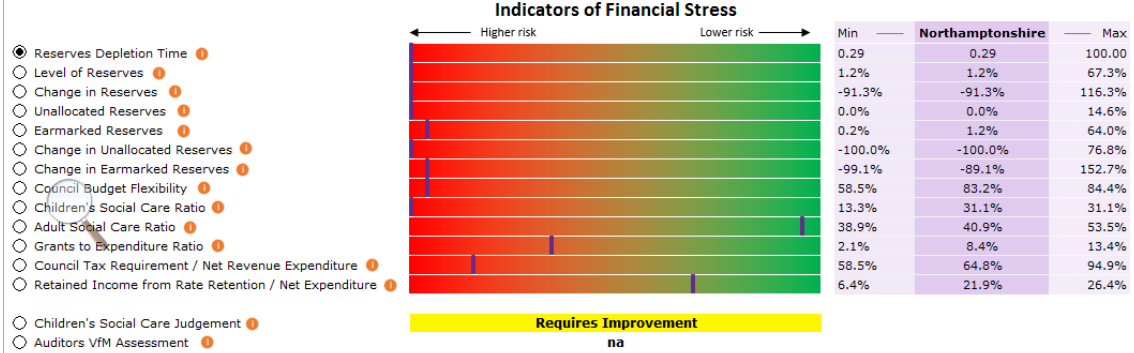
Comparator Group County Councils **Year** 2017-18

EXPORT

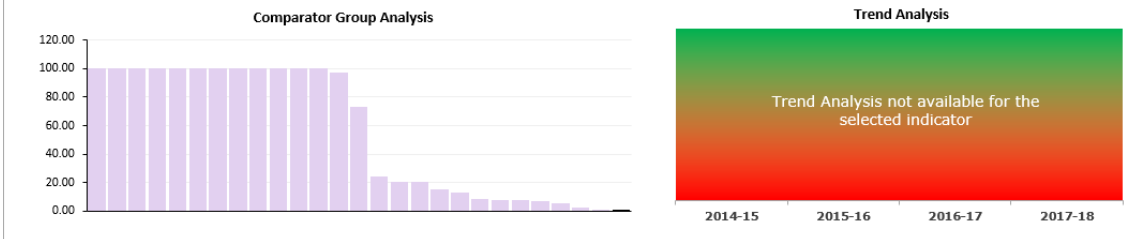
Guidance

- 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.

Results Breakdown



Individual Analysis: Reserves Depletion Time



Next Steps

- Committed to the provision of transparent publicly available information
- Engagement and consultation with the sector
- Beta version testing
- Distribution to D of F
- Feedback and engagement



Supporting the sector

