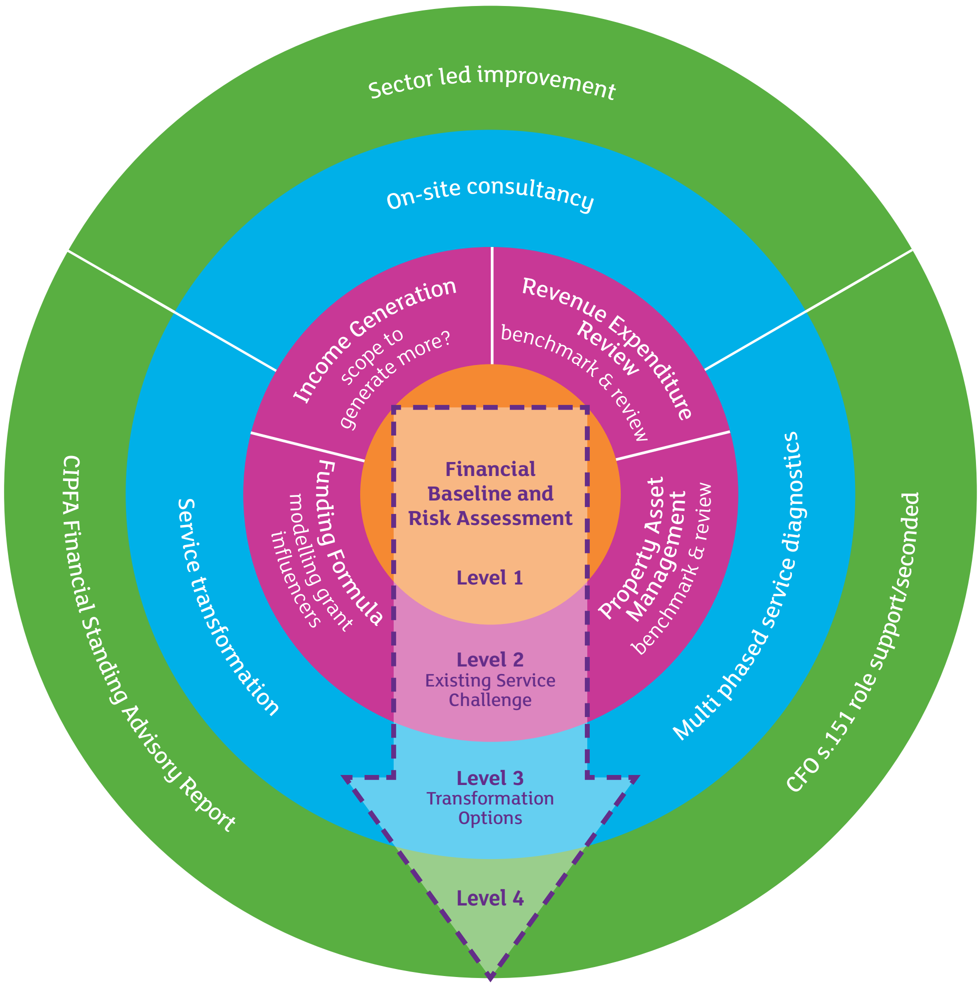
CIPFA The Chartered Institute of Public Finance & Accountancy

financial resilience advisory report

Giving an independent, informed and insightful opinion to councils on their Financial Resilience and advice on options to deliver a balanced budget.



executive summary

Our new approach developed with the sector, centres around a report typically commissioned by the Chief Financial Officer as a corporate initiative and includes:

1. A process and report heavily based on the professional insight, judgement and experience of expert CFO's, supported by CIPFA's unique range of networks and diagnostics
2. A tailored set of pre-report diagnostics including demographics, revenue and grant projections, outlier benchmarking, balance sheet opportunities and commercial income.
3. An on-site review team including two experienced peers, including at least one CFO. This can be complemented by a CEO or peer external to local government (eg NHS) as agreed to test financial projections, transformation plan delivery, as well as short and medium term prospects together with any proximity to s114
4. The report is an independent professional assessment on financial resilience with advice on next steps. CIPFA will not publish or share the report which is a client responsibility
5. The report is aimed as much at Council CFOs, who feel their Council is reasonably well set to face the future, as much as those Councils who fear their financial resilience is under threat in the short term. In both cases, the informed professional insight at the core of the Advisory report, will provide independent and informed opinion on the position and the way forward
6. We have discussed this approach with the LGA. It will not compete with their core Peer Review work with Councils. CIPFA hope that the LGA will look to commission's CIPFA's Financial Resilience Report when appropriate as part of its own sector-led improvement role.
7. We will obtain anonymous feedback on the process and added value will be considered by Association of Local Authority Treasurer Societies (ALATS).

introduction and policy context

The government's priorities are to reduce the current budget deficit and rebalance the economy. In the long term the government aims to achieve a budget surplus. It plans to do this by cutting spending and increasing tax revenues while reforming local government funding to devolve power and financial autonomy. While cuts, efficiencies and spending limits have long been part of the public sector the current cuts are adding to the pressures faced by local government. The fiscal challenge implicit in this agenda has now been greatly compounded by the recent EU referendum result.

In the current Comprehensive Spending Review, set pre the EU referendum result, by 2020 the government claims funding for local government services will actually be marginally higher in cash terms, mainly as a result of council tax growth and the retention of local business rate income by authorities. However, the promise of a rise in the local income profile overall, has seen the government reduce its Revenue Support Grant (RSG) to local authorities by £7.8bn or 78% over the next four years. This comes on top of the last five years of grant cuts since 2011.

In practice the nature and scale of all the financial risk facing local government will not be uniform and local history and local circumstances will mean some authorities have a relatively more or less challenging local context to deal with. Despite the differences it is safe to generalise that the best local budget plans are those owned and articulated by the whole council and its senior leadership, not simply the CFO. Those plans will include cost drivers and income sources, risks and how the authority will deliver a balanced budget and savings.

Delivering a robust budget is an organisational responsibility and failure to do so points to wider failures within the Council. If a council finds it necessary to impose a voluntary spending freeze, or indeed if the situation is so serious that the CFO issues a Section 114 report, this must be seen as taking the correct steps needed to maintain the financial control expected by statute. Unlike other parts of the public sector, councils cannot borrow to fund revenue spending and it is not permissible to run a deficit where spending exceeds the budget and resources.

Rob Whiteman
Chief Executive, CIPFA

CIPFA generally welcomes business rate retention as a long term opportunity but has consistently flagged that that there are significant short tern risks and challenges that have to be managed; not least the balance between needs and resources and the risk of volatility. In broader policy terms, we also welcome health and social care integration and devolution in the widest sense.

The financial context facing councils has seen several years of budget cuts since 2010 and the next five years will be increasingly tough, even more so following the EU referendum result.

In recent years, Councils will have exhausted all 'the low hanging fruit' of actions and even those have longer term unintended consequences. In addition, service demands and expectations continue to grow but with income sources not aligning automatically which is especially so in times of austerity.

As a result, there could be financial failure in some Councils. CIPFA see this new product as vital in helping avoid, if at all possible, but we expect most councils will wish to gain an expert opinion on their current financial resilience. CIPFA will use its members, assets and partners to do just that through its new product – The Financial Resilience Advisory Report. A report based on experienced professional insight, typically from experienced CFOs but coupled with CIPFA's unique range of diagnostic tools.

This is CIPFA and CFOs working together to help support individual CFOs and maintain the overall proud record of financial governance across the whole of local government.

\ the financial resilience advisory report

The report tests:

CIPFA's "6 tests" methodology seeks assurance that medium term financial planning is effective:

- Information – is it good quality, timely data, modelling and analysis
- Investment – are you utilising tangible and intangible assets to create investment, growth and the development and delivery of strategy and policy objectives
- Revenue – are you maximizing tax yield and income
- Pressures – are you mitigating pressures and future liabilities
- People & Governance – is there capable, focused, and effective leadership that makes the decisions needed for strong stewardship, performance and transformation
- Plan – is there a compelling and credible savings or transformation plan that balances the budget and aligns with MTFS?

A key part of the process involves on-site interviews with the key Council stakeholders alongside the CFO:

- These are conducted on site by the reviewers, usually over 3 days
- It tests the question: does there appear to be a credible plan and planning process that gives confidence that this Council can deliver a sustainable budget over the medium term?
- It includes a focus on the quality and credibility of the savings plan
- It tests issues raised by the background pre-report diagnostics and pre report review of key documents
- It can incorporate expert capabilities if needed to explore integration plans or for example, use of the Better Care Fund and the alignment of s25 or s75 agreements to medium term financial plans to ascertain any potential risks.

Key players interviewed during the site visit are:

- Leader and finance portfolio holder
- Minority party leaders
- Chief Executive
- Monitoring Officer
- The Chief Financial Officer
- Two service directors
- External auditor and chair of audit
- Group of senior/service accountants

In advance of the site visit, CIPFA will undertake a number of pre-visit diagnostics to inform the work on site and subsequent Resilience Report as follows:

Costs & funding diagnostic

Aim: to identify outlier benchmark data for both spend and statutory income sources.

This includes:

- Trends analysis and financial risk profile for the authority, based on current grant assumptions and projections
- Identification of outlier benchmark costs and VFM indicators.

Local income generation diagnostic

Aim: to ensure that you maximise your commercial income and trading opportunities.

This includes:

- Income generation per service benchmarked against best practice
- Scoping income opportunities if best in class
- Ranking system showing the highest potential income opportunities.

Balance sheet diagnostic

Aim: to understand the policy intentions of managing assets and liabilities and testing assumptions.

This includes:

- Benchmarking non-pensions liabilities
- Benchmarking debt level and reserve level sustainability
- Test balance sheet financial capacity compared to peers
- Examining the balance sheet contribution to growth and invest to save to support subsequent on-site discussions during the field work stage on balance sheet opportunities with partners and in support of regeneration and maximising investment income.

In support of the diagnostics but also to inform the fieldwork on site, there is a pre-report review of the Council's key documents including:

- Medium term Financial Plan including capital and revenue
- Medium term savings and growth plan
- Treasury management strategy
- Planned medium term use of usable reserves, split between earmarked and non-earmarked, and change over the preceding three years
- The most recent budget report and description of budget process
- Recent monitoring reports and recent out-turn reports and accounts
- Asset Management Plan
- Key Governance documents; Annual Governance Statement, risk register, etc.

\ supporting the client, the review team and producing the report

- A single point of contact from CIPFA ("spoc") will organise the tailored suite of pre-visit diagnostics and document review with the client and report issues through a detailed pre visit briefing to the senior reviewers and client for follow up during the interviews on site
- CIPFA will draft the report as guided by the reviewers and liaise with the client throughout
- Any follow-up work requested by the client for the senior reviewers/CIPFA will be identified
- Generally the senior CFO reviewer input is voluntary but paid-for associate arrangements can be applied.
- The Financial Resilience Advisory Report is not a peer review. It is a financial diagnostic report with a peer/associate element from CIPFA members and partners supporting the sector. Its aim is to complement the LGA's traditional peer review process.

The Report features:

- It is fast – an initial report will be produced within 10 days
- It is based on experience and insight including the evidence around the six-test methodology
- It is objective and frank, it is grounded in the difficult choices councils are having to undertake
- It will have recommendations to suggest key actions for the council, especially in relation to medium term opportunities and any short term areas of focus.

Guideline time demands for senior reviewers

Typically the process will take up to 15 days excluding any follow up work requested by the client. The aim as stated above is to produce an initial report within 10 days.

Learning from the reviews

- CIPFA will take a continuous improvement approach to this process which will include:
- Anonymous feedback on process and added value considered by Association of Local Authority Treasurer Societies
- A matrix of key findings and most helpful pointers maintained for subsequent reviews and feedback to the sector
- Research commissioned with an academic partner to test the ongoing resilience/confidence of the sector to balance its budgets.

To discuss participating please call Sean Nolan, on **020 7543 5600** or email **customerservices@cipfa.org**

CIPFA The Chartered Institute of Public Finance & Accountancy

Registered office:
77 Mansell Street, London E1 8AN
T: 020 7543 5600 F: 020 7543 5700
www.cipfa.org

CIPFA Business Limited, the trading arm of CIPFA that provides a range of services to public sector clients. Registered in England and Wales no. 2376684.

recycle

INVESTORS IN PEOPLE

2016/06