



CIPFA's Financial Resilience Initiatives - Presentation for CIPFA South East (North Anglia) Conference – 14 October 2022

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The Chartered Institute of
Public Finance & Accountancy

Outline of Today's Session

- Background context
- Financial resilience initiatives and support
- Lessons learned from recent work
- Technical update
- Questions

Background Context



A Few Recent Headlines...

Public Finance

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News | [Financial management, Local government](#)

Nearly 60 councils at risk of 'running out of money' next year

By: [Oliver Rudge](#) | 6 Oct 22

The soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts, experts have warned.

Public Finance

[Home](#) [Local Government](#) [Central Government](#) [Pay & Pensions](#) [Health](#)

News | [Financial management, Local government](#)

Clarke threatens 'consequences' for struggling councils

By: [Oliver Rudge](#) | 6 Oct 22

Levelling up secretary Simon Clarke has fired a warning signal to councils that there will be "consequences" for perceived mismanagement following a series of high-profile government interventions.

A Few Recent Headlines...



Here's what you could have won – an alternative 'mini' Budget

SARAH CALKIN, EDITOR

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FINANCE

Further inflationary pressures threaten to 'wipe £1bn off budgets'

04 OCTOBER 2022 | BY KIRSTY WEAKLEY

FINANCE

Government delays fair funding review

05 OCTOBER 2022 | BY MEGAN KENYON AND JESSICA HILL

There will be no fair funding review during this spending review period, the local government minister has said.

CIPFA's Inflation Outlook (July 2022)

- 'considerable concern over the risk that inflation poses to the financial stability of local authorities - Inflation is impacting both short and medium-term financial planning and organisations are having to review and revisit decisions through the lens of rising cost'
- 'Maintaining the delivery of key public sector services will remain the focus of local authorities. However, no one is in any doubt that doing this within the current economic context will require compromise, collaboration and career-defining leadership' – Jeff Matsu, CIPFA Chief Economist
- 'In such volatile conditions, it can be hard to see a path forwards. But as always, good financial management and a collaborative approach are the best bets in mitigating the effects of soaring inflation' - Rob Whiteman CBE, CIPFA CEO (Forbes, July 2022)

CIPFA's Inflation Outlook (July 2022)

- Some recommendations ...
 - Political and executive leadership should develop internal culture that welcomes strong financial management and good governance
 - Monitoring and reporting strengthened in areas with greatest risk
 - Robust challenge for all financial decisions
 - Inflation risks identified as part of risk register and addressed at all relevant meetings
 - Engaging early with suppliers in negotiations and encouraging new ideas
 - Sharing best practice to understand options to reduce impact of inflation
 - Authorities working together and promote their cause within central government
- <https://www.cipfa.org/cipfa-thinks/insight/cipfa-inflation-outlook>

Financial Resilience Initiatives and Support

- Financial Resilience Index
- IFS / CIPFA Local Government Finance Model
- GO Lab / CIPFA Value for Money (VfM) Toolkit
- Financial Management Code
- Other related guidance

CIPFA Financial Resilience Index 2022 (1)

- Analyses a range of data to highlight areas of financial resilience risk
- Updated in 2022 for the latest financial information publicly available
- Intended to encourage discussion and greater understanding around financial decision making and assist CFOs fulfil their fiduciary duty to taxpayers
- Can support s151 officers in making 'section 25' statements to council on robustness of the budget and adequacy of reserves and balances

CIPFA Financial Resilience Index 2022 (2)

- Key indicators of poor financial resilience:
 - **Reserves** - A rapid decline in reserves
 - **Savings** - A failure to plan and deliver savings and not live within resources
 - **Unplanned overspending** – and carrying forward undelivered savings into the following year
 - **Financial planning** - Shortening of medium-term financial planning
- Important to consider the data over a range of years

CIPFA Financial Resilience Index 2022 (3)

- What are the pillars that support the development of strong financial resilience?
 - Strong governance
 - A robust medium-term financial plan (MTFP)
 - Integrated and aligned strategies and plans
 - Effective performance monitoring and reporting
 - Effective ownership and accountability

CIPFA Financial Resilience Index 2022 (4)

- A set of indicators comparing similar authorities across a range of factors
- Highlights areas where additional scrutiny should take place
- Accompanied by a narrative to place the indicator into context
- Any upper or lower tier authority in England can be selected
- Guidance video on CIPFA's YouTube channel

<https://www.youtube.com/watch?v=YEOpVW2XqV0>

- Financial Resilience Index is free to use

<https://www.cipfa.org/services/financial-resilience-index-2022/resilience-index-2022>

IFS / CIPFA Local Government Finance Model

- Interactive web-based tool
- Allows councils in England to consider a range of scenarios for future revenues, spending needs and funding
- Aids medium to longer-term planning and engagement with funding system reform

<https://www.cipfa.org/services/local-government-finance-model>

[Walk-through webinar \(July 2022\)](#)

GO Lab / CIPFA Value for Money (VfM) Toolkit

- Many public bodies are considering outcome-based contracts and impact bonds to demonstrate value of expenditure
- CIPFA has partnered with University of Oxford's Government Outcomes Lab (GO Lab) to develop a toolkit to assess VFM of such programmes, using the National Audit Office definition of VFM
- Toolkit, guidance document, and example case study are available to download for free

<https://www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit>

The CIPFA Financial Management Code

- Designed to support good practice in financial management and assist local authorities in demonstrating their financial sustainability
- Introduced because the exceptional financial circumstances faced by local authorities has revealed fundamental weaknesses in the financial management of a few organisations
- Applies a principles-based approach – translated into Financial Management standards
- Consistent with other successful CIPFA codes and statements
- Authorities must demonstrate the requirements of the Code are being satisfied
- Sets out six key principles of good financial management

Other Related Guidance and Support

CIPFA BRIEFING

March 2016

\ balancing local authority budgets

and section 114 notices

Due in large part to the impact of the spending reviews and funding cuts, chief finance officers (CFO) have found it increasingly difficult to balance the budget. CIPFA's local authority CFO confidence monitor for 2016-17 showed more than 56% of finance leaders are less confident that they will reach a balanced budget and be able to continue to deliver services for the next financial year.

Concern about the rising cost of social care in upper tier councils and uncertainty over future funding streams are challenging robust financial planning. Many types of council are finding that the amounts generated through business rates, the New Homes Bonus and fees and charges can fluctuate dramatically and sometimes be difficult to estimate. This puts the council's budget at greater risk. This is in addition to the unexpected changes in funding linked to Central Government policy announcements.

This briefing looks at what it means to have a balanced budget and who is responsible for achieving this equilibrium. It also considers what factors have a negative impact on the budget and result in a local authority facing a spending crisis. To avoid a financial crisis the council will implement a spending freeze and so the briefing covers the implementation of this approach. However, the briefing also considers what will happen if the spending freeze fails and the CFO must implement the gravest financial sanction – the Section 114 notice.

\ the role of the chief financial officer

in Local Government

Audit committees:

practical guidance for local authorities and police

2022 edition

cipfa.org/

A desk lamp with a curved neck and a conical shade is positioned on a desk. The lamp is turned on, casting a warm, yellowish glow on the desk surface and creating a soft shadow. The background is dark, making the illuminated area stand out.

Lessons Learned from Recent Work

Learning Lessons Insights – Common Symptoms

- Over-ambitious savings targets
- Lack of a medium-term financial plan
- Inconsistent leadership
- Inadequate governance
- Weak financial management
- Lack of reserves

<https://www.cipfa.org/cipfa-thinks/insight/learning-lessons-what-section-114-can-teach-us>

Learning Lessons Insights – Supplementary Report

- Savings process should be effective and engaging - budget holders actively involved
- Risks around commercial activities must be clearly understood
- Elected members must receive training on financial matters
- Governance arrangements should be strengthened
- Internal audit should review effectiveness of financial rules and processes
- Quality of financial management should be assessed
- Independent assurance on annual governance statement can ensure it is effective
- Consider a financial resilience review

Technical Update

- Consultation on 2023/24 Code – Closes tonight!
- Infrastructure assets – Latest update
- School assets under IFRS 16
- Local audit procurement – joint CIPFA/ICAEW statement

Upcoming FAN / CIPFA Workshops

- Introduction to Local Authority Capital Accounting – [18 October](#)
- Introduction to Accounting for Groups and Collaborative Arrangements – [8/9 November](#)
- Introduction to Local Authority Financial Statements and Closedown – [8 November](#)
- Introduction to Collection Fund Accounting – [10 November](#)
- Local Authority Accounting Conference - Latest Developments in Local Authority Financial Reporting and Finance – [29 November](#)
- Introduction to Local Government Reporting Principles and Practices – [30 November](#)
- Introduction to Local Government Finance – November (TBC)
- Introduction to Financial Planning – December (TBC)
- 2022/23 Accounts Closedown and Financial Reporting Series – January / February 2023 (TBC)

The background of the slide is dark with a pattern of question marks in various shades of gray and brown, some appearing as if they are floating or layered. The text 'Any Questions?' is centered in the upper left quadrant in a white, serif font.

Any Questions?

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