

AUDIT AND GOVERNANCE COMMITTEE

13 MARCH 2020

FINANCIAL RESILIENCE INDEX

Recommendation

- 1. The Chief Finance Officer recommends that the Financial Resilience Index report be noted.**

Executive Summary

2. The Council reviews a range of indicators and data in assessing its own financial resilience. One of those data sets is the CIPFA Financial Resilience Indicators. The latest data set which looks backward at 2018/19 is in line with the Council's financial strategy and plan. It identifies that our reserves remain low compared to some authorities, and the change in those reserves in previous years was greater than others. However, this needs to be considered in context of the cause and where the Council is today. Looking back there was a draw on reserves due to the holding of reserves in directorates that was recognised in 2018/19 and action taken. The draw on reserves has thus been significantly reduced. At the same time during 2019 a Financial Risk reserve was approved by Council funded from the accounting gain of the change in our Minimum Revenue Provision (MRP). This reserve was set aside to corporately manage cross Council risks and provide greater stability to enable good financial planning. This has proven sound financial management in recent weeks with allocations for the potential risk that materialised in relation to the floods and services coming in line with budgets. Going forward it is thus expected that the resilience will improve and whilst reserves will remain low it instils and drives a culture of robust financial decision making. This will continue to be monitored and reported to this Committee and Council.

Background

3. Committee members will recognise that each year the Chief Finance Officer reports as part of his statutory obligations that the budget estimates and reserves are robust. A risk assessment on reserves is included each year in the budget report to January/February Cabinet meetings.
4. This assessment is been made based on professional advice and judgement, taking account of known plans and risks looking forward.
5. The purpose of this report is to provide committee members with an overview of CIPFA's recently published Financial Resilience Index.
6. In recognition of increasing financial pressures arising across the local government sector, the financial resilience of individual local authorities has been the subject of increased oversight and scrutiny over recent years and to support transparency around

these issues CIPFA have produced a financial Resilience Index to help all stakeholders consider an organisation's financial strength.

7. It is important to recognise that the index alone and comparisons with nearest statistical neighbours does not provide the full picture for financial stability, each authority will have local priorities and circumstances and different policies for the future.

8. First developed in July 2018, CIPFA's proposed index saw considerable professional debate before finally being released on 16 December 2019.

9. The Index is a free service and has been made publicly available by CIPFA to support and improve discussions on local authority financial resilience. It is intended to provide a platform for constructive debate based on consistent information whilst being a diagnostic tool for recognising potential signs of financial risk.

10. The [Index](#) is based on data collected from RO forms submitted by Local Authorities covering the last four financial years up to and including the 2018/19 Financial Year.

11. The Index analyses council finances using a suite of **nine primary measures** and **six secondary measures** including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments. A description of these measures can be found in Appendix 1.

12. It will sit alongside CIPFA's planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances. CIPFA released the following statement to accompany the launch:

"We understand that local authorities are feeling the financial pressure as the demand for services is becoming greater, with higher costs and delivery charges impacting on budgets. Local authorities are also facing higher levels of scrutiny over their decision-making amid an increasingly complex delivery landscape. At the heart of this decision making has to be a clear understanding of possible areas of financial risk".

13. The most recent dataset used by the Index is for financial year 2018/19. For each indicator the Index shows the indicator value along with a minimum and a maximum range value based on nearest neighbours (those councils deemed comparable by CIPFA due to scale, demographic and other factors – set out in Appendix 2) results. The Index also provides the following graphical analysis:

- Indicators of Financial Stress – an indication of whether a Council's indicator value is "higher risk" or "lower risk".
- Comparator Group Analysis – an illustration of a Council's indicator value compared to other local authorities. The most appropriate comparator is "Nearest Neighbour", a list of the top fifteen of these can be found at Appendix 2.
- Trend Analysis – a display of an indicator value for each of the four financial years to 2018/19.

CIPFA commented that *"the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability".*

Initial Results

14. The tables below summarise the measures that are available on CIPFA's website.

Table 1 : Primary Measures - Indicators of Financial Stress – 2018/19

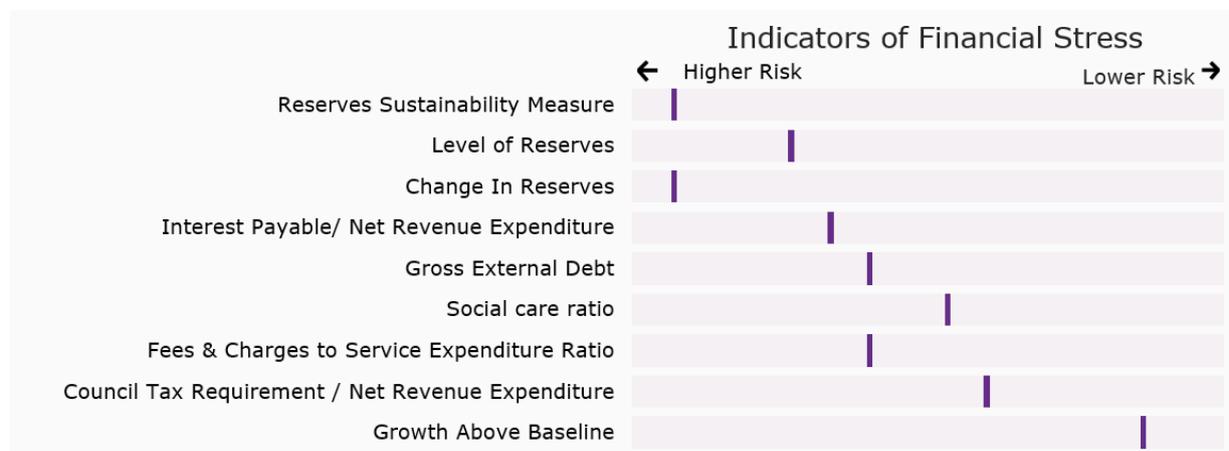
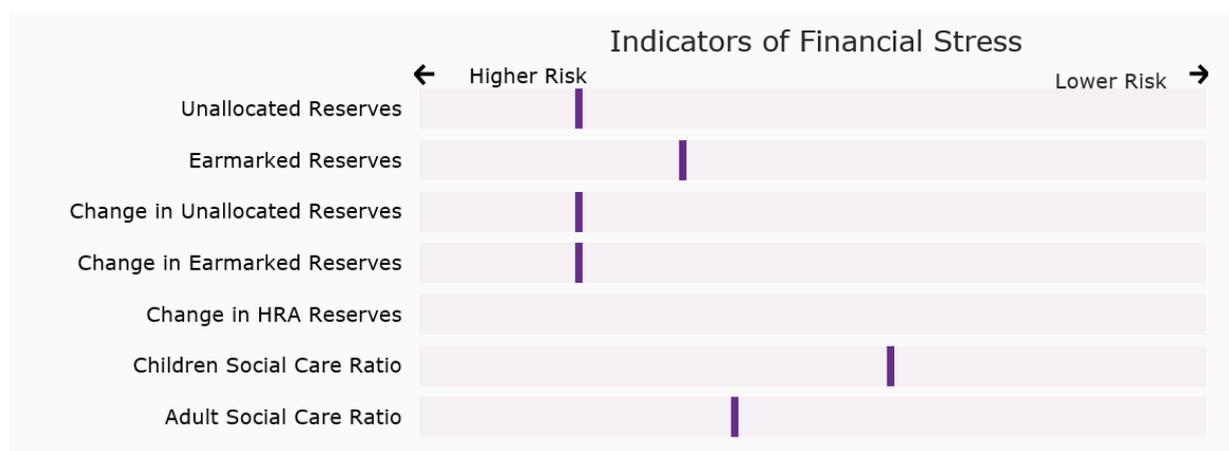


Table 2 : Secondary Measures - Indicators of Financial Stress – 2018/19



15. More detail is attached at Appendix 3, with description of each measure set out at Appendix 1.

16. Purely looking at these indicators they show what we expect.

17. We have over recent years reduced our reserves quicker than the average comparator authorities and have invested in children's social care more than the average as we have responded to the Ofsted judgement and worked to set up Worcestershire Children First.

18. Our income base is relatively stronger, recognising our ability to raise council tax income in our area, although our level of council tax charge is below others.

19. The analysis does suggest areas for the Council to continue to focus including the scope for review and increase of fees and charges income. Our debt levels, discussed

elsewhere on the agenda for this report are low in comparison which is encouraging in one sense but could be linked to the level of fees and charges.

20. Whilst the level of reserves is low and can be seen as a risk, this is also a reflection of the effective use of resources as to have built up and hold significant reserves could be seen as an overcharge of council tax. Low levels of reserve also focus budget setting and the importance of sound and effective budget monitoring. As such there is a need to review our reserves in tandem with the overall financial control environment.

21. The Council also took action in the year this data set applies to (2018/19) when directorate reserves were utilised by services and a report to Cabinet in September 2018 identified the need to address and take action. This included centralising and controls over reserves plus the creation of a new Financial Risk reserve that is assessed twice a year to cover risks, such as flooding (something that will be necessary in 2019/20). This shows that ahead of the data the Council was self-aware and continually improving its financial management and stewardship. Thus hopefully in coming years the performance will reflect this in the index.

22. During the consultation period respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.

23. Upon its launch the consensus amongst local authorities appears to indicate that whilst they hoped that the release of the Index will support their long-term resilience assessments it forms only one part of that judgement. **Local context must also be considered** when forming an overall picture of resilience.

Looking Forward

24. At a press briefing on the release of the Index Andrew Burns, CIPFA associate director, said that the institute was open to adding more indicators further down the line following feedback from the sector incorporating indicators around governance. He also said CIPFA would aim to improve data in this area as *“most failures are governance failures rather than financial management failures”*.

25. In response to increasing complexity, financial pressures and mindful of the upcoming Fair Funding Review outcomes, under the existing Finance Improvement Programme the Council has seen an increase in skilled and experienced senior finance staff which will strengthen financial planning.

26. We have analysed and corroborated the Index and will be extending the reach of resilience indicators integrating them with our existing Medium-Term Financial Plan forecasting work. In addition to this we have improved our internal reporting processes by inclusion of a rolling assessment of resilience and financial risk, all of which is part of the annual formal S.151 Officer statutory responsibilities.

27. An example summary of the Index outputs for financial years 2015/16 to 2018/19 for Worcestershire County Council together with some contextual commentary can be found at Appendix 3.

Supporting Information

Appendix 1 – CIPFA’s Financial Resilience measures
Appendix 2 – CIPFA Nearest Neighbours – Top 15
Appendix 3 - Extract from Primary Measures

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.