

Chartered Institute of Public Finance and Accountancy (CIPFA) Resilience Index

Cabinet Member for Finance, Procurement and Revenues & Benefits

Date: 22 July 2021

Agenda Item:

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Key Decision? **NO**

Local Ward Full Council

Members

Lichfield
district council

**Audit and
Member
Standards**

1. Executive Summary

- 1.1. The latest CIPFA resilience Index for 2021 was published in February 2021 and this reports shows the Council's performance compared to a range of measures associated with financial risk.
- 1.2. The timing of the index follows the release of Ministry of Housing, Communities and Local Government (MHCLG) statistics (i.e., Revenue Outturn 2019-20 on 21st January 2021). These statistics were originally expected in November 2020.
- 1.3. The data compares the Council to nearest statistical neighbours and all District Councils and will also provide a pre-COVID baseline showing the resilience of authorities as they entered the pandemic.

2. Recommendations

- 2.1. The Committee note the results of the CIPFA Resilience Index for 2021.

3. Background

- 3.1. CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management and providing a common understanding within a Council of their financial position.
- 3.2. The Index shows a Council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over a number of years, public consultation and technical stakeholder engagement.
- 3.3. The index is designed to support and improve discussions surrounding local authority financial resilience by showing a Council's performance against a range of measures associated with financial risk.
- 3.4. While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of Councils as they entered the pandemic.

3.5. There are eight indicators of financial stress for District Councils and these are explained in the table below (the Head of Finance and Procurement’s commentary on specific indicators is shown in red text):

| Indicators of Financial Stress | Explanation of the Indicator | What does each Indicator show |
|---------------------------------|--|---|
| Reserves sustainability measure | How long an authority’s reserves will last if they continue drawing them down at the same rate | The longer an authority’s reserves will last, the less risk – reductions may also be due to planned reductions such as use to fund capital expenditure |
| Level of reserves | Earmarked + unallocated general reserves | Lower levels of reserves imply higher risk |
| Change in reserves | Percentage change in reserves over the past three years | Negative changes imply higher risk – reductions may also be due to planned reductions such as use to fund capital expenditure |

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|---------------------|------------------------------|--|
| Gross external debt | Level of gross external debt | The higher the gross debt level, the higher the risk – high debt results in higher fixed debt costs that will need to be serviced from reducing revenue budgets |
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|------------------|---|---|
| Fees and charges | Total fees and charges as a proportion of service expenditure | The higher the ratio the lower the risk (income) - the Council has in theory a greater influence over the level of income (Pre COVID-19) through pricing |
| Council tax | Council tax requirement/net revenue expenditure | Higher the ratio the lower the risk (income) - the Council has a greater influence over the level of income through housing growth in the Local Plan and setting the Council Tax |
| Business rates | Percentage growth in business rates above the baseline | The higher the ratio the higher the risk - the greater the risk exposure if there is a Business Rate Reset or decline in the local economy |

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|-------------------------|-------------------------|---------------------------------------|
| Auditors VFM assessment | Auditors VFM assessment | Lower assessment, the higher the risk |
|-------------------------|-------------------------|---------------------------------------|

3.6. The CIPFA Resilience Index provides comparisons against both nearest statistical neighbours and all District Councils. The nearest statistical neighbours identified are:

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|-------------------------|-----------------------|
| South Staffordshire | Hinckley and Bosworth |
| Bromsgrove | East Northamptonshire |
| Blaby | Tewksbury |
| High Peak | Babergh |
| South Ribble | Stroud |
| Staffordshire Moorlands | Mendip |
| Mid Devon | Stafford |
| Newark and Sherwood | |

3.7. The results of the last two CIPFA Resilience Index statistical releases are shown in the table below compared to nearest statistical neighbours and all District Councils:

| Indicators of Financial Stress | Nearest Neighbours | | District Councils | |
|---------------------------------|--------------------|-------------|-------------------|-------------|
| | 2018/19 | 2019/20 | 2018/19 | 2019/20 |
| Reserves sustainability measure | Medium Risk | Medium Risk | Lower Risk | Lower Risk |
| Level of reserves | Lower Risk | Lower Risk | Lower Risk | Lower Risk |
| Change in reserves | Lower Risk | Lower Risk | Lower Risk | Lower Risk |
| Gross external debt | Lower Risk | Lower Risk | Lower Risk | Lower Risk |
| Fees and charges | Lower Risk | Lower Risk | Lower Risk | Lower Risk |
| Council tax | Lower Risk | Lower Risk | Lower Risk | Lower Risk |
| Business rates | Higher Risk | Higher Risk | Higher Risk | Medium Risk |
| Auditors VFM assessment | Unqualified | Unqualified | Unqualified | Unqualified |

3.8. There is further commentary and explanation provided for those indicators where the Council is shown as medium or higher risk:

| Indicators of Financial Stress | Commentary |
|---------------------------------|--|
| Reserves sustainability measure | <p>The Council is medium risk when compared to nearest statistical neighbours and lower risk when compared to all District Councils.</p> <p>It is likely that the different levels of risk are because the subset of nearest statistical neighbours have higher levels of reserves relative to the wider group of all District Councils.</p> <p>In terms of reserves, the Council was in a much stronger position than many other District Councils and therefore better able to manage the financial impact of COVID-19.</p> |
| Business rates | <p>The Council is shown as higher risk when compared to nearest statistical neighbours and higher/medium risk when compared to all District Councils.</p> <p>This indicator is based on the level of business income growth the Council has achieved compared to the Government Set Baseline from 2013/14 (uprated annually by inflation). Higher levels of growth show the Council has been successful from an Economic Growth perspective in growing business rate income in the District.</p> <p>However, the indicator assesses the level of risk exposure to for instance a Business Rate reset as part of Local Government Finance reform or decline in the local economy. A Business Rate reset would redistribute growth in the wider Local Government Sector primarily to Upper Tier Authorities based predominantly on Adult Social Care and Children’s Services assessed need.</p> <p>To manage this risk in terms of the Medium Term Financial Strategy, from 2022/23 it is assumed that only a proportion of business rate growth is retained by the Council as part of a Business Rate reset.</p> |

3.9. The next release of the CIPFA Resilience Index 2022 will cover the period impacted significantly by COVID-19 and therefore there are likely to be a number of significant changes compared to previous years.

3.10. It is likely to show adverse impacts on income from fees and charges, Council Tax and Business Rates. In addition there will likely be an impact on the level of reserves including a significant increase in earmarked reserves due to the receipt of Section 31 grants for Business Rates Reliefs in 2020/21 that will be applied to offset Collection Fund deficits in 2021/22, 2022/23 and 2023/24.

3.11. The COVID-19 impact will also show significant movements compared to previous years making trend analysis difficult. However it will be possible to see how the Council has been financially impacted by COVID-19 relative to both nearest statistical neighbours and all District Councils.

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| Alternative Options | No alternative options. |
| Consultation | The Chief Financial Officer is provided with a pre-release version to check the information is correct prior to publication. |
| Financial Implications | The CIPFA Resilience Index is part of the CIPFA Financial Management Code and informs the Chief Financial Officer’s Section 25 Report on the level of reserves as part of the Medium Term Financial Strategy. |
| Contribution to the Delivery of the Strategic Plan | The MTFS underpins the delivery of the Strategic Plan. |
| Equality, Diversity and Human Rights Implications | There are no additional Equality, Diversity or Human Rights implications. |

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| Crime & Safety Issues | There are no additional Crime and Safety Issues. |
| Environmental Impact | There are no additional environmental impacts. |
| GDPR/Privacy Impact Assessment | There are no additional GDPR/Privacy Impact Assessment impacts. |

| | Risk Description | How We Manage It | Severity of Risk (RYG) |
|---|--|---|--|
| A | If compliance with the CIPFA Financial Management Code is not demonstrated, the Council's financial sustainability could be brought into question which in turn could result in a negative impact on its reputation with stakeholders. | <p>The Finance Team contains experienced qualified Accountants and Accounting Technicians who are required to undertake regular Continuing Professional Development in line with the requirements of their qualifications.</p> <p>The Council has a strong, effective Leadership Team supported by experienced officers.</p> <p>There is also the role played by both Internal and External Audit both of which offer challenge and ensure compliance with laws and regulations (the challenges presented by COVID-19 on capacity and priorities are also having to be considered).</p> | <p>Likelihood : Green Impact : Yellow Severity of Risk : Green</p> |

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| <p>Background documents The CIPFA Financial Management Code – Audit and Member Standards Committee 12 November 2020</p> |
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| <p>Relevant web links</p> |
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