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

Cabinet Member for Finance and Commissioning

Date:	21 July 2022
Agenda Item:	5
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Key Decision?	**NO**
Local Ward Members	Full Council

Lichfield district council

Audit and Member Standards

1. Executive Summary

1.1. The latest CIPFA resilience Index for 2022 shows the Council's performance compared to a range of measures associated with financial risk.

1.2. The timing of the release of the index followed the release of Department for Levelling Up, Housing and Communities (DLUHC) statistics (i.e. Revenue Outturn 2020-21 on 27th January 2022).

1.3. The data compares the Council to nearest statistical neighbours and all District Councils.

2. Recommendations

2.1. The Committee note the results of the CIPFA Resilience Index for 2022.

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 provide 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. There are eight indicators of financial stress for District Councils and these are explained below (the Assistant Director - Finance and Commissioning's commentary on specific indicators is shown in red):

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	This measure shows the ratio of the current level of reserves and the average change in reserves in the past three years. 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

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 often reducing revenue budgets
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 through pricing policy
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	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). It 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. 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
Auditors VFM assessment	Auditors VFM assessment	In 2018/19 and 2019/20 the External Auditor provided a single VFM assessment. However from 2020/21, the VFM assessment forms part of the Annual Audit Report and is focussed on three areas: • Financial sustainability; • Governance and; • Improving Economy, Efficiency and Effectiveness.

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

South Staffordshire	Hinckley and Bosworth
Hambleton	Broadland
Maldon	Babergh
Melton	Stroud
South Ribble	Mendip
Staffordshire Moorlands	Stafford
Mid Devon	

3.6. The results of the last three 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	2020/21	2018/19	2019/20	2020/21
Reserves sustainability measure	Medium Risk	Medium Risk	Medium Risk	Lower Risk	Lower Risk	Medium Risk
Level of reserves	Lower Risk	Lower Risk	Lower Risk	Lower Risk	Lower Risk	Medium Risk
Change in reserves	Lower Risk	Lower Risk	Lower Risk	Lower Risk	Lower Risk	Lower Risk
Gross external debt	Lower Risk	Lower Risk	Medium Risk	Lower Risk	Lower Risk	Lower Risk
Fees and charges	Lower Risk	Lower Risk	Lower Risk	Lower Risk	Lower Risk	Medium Risk
Council tax	Lower Risk	Lower Risk	Lower Risk	Lower Risk	Lower Risk	Lower Risk
Business rates	Higher Risk	Higher Risk	Lower Risk	Higher Risk	Medium Risk	Medium Risk
Auditors VFM assessment	Unqualified	Unqualified	No risks or significant weaknesses identified in all three areas	Unqualified	Unqualified	No risks or significant weaknesses identified in all three areas

3.7. 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	Trend: • Nearest Neighbours = stable at medium risk. • District Councils = increase to medium risk in 2020/21. Reserves are an important element of financial resilience, however reserve figures for the 2022 Resilience Index cannot be taken at face value in the same way they might have been in the past due to COVID. This is especially true of this measure, where the use of reserves will have been dependent on the level of COVID impact on each individual Council's expenditure and income.
Level of reserves	Trend: • Nearest Neighbours = stable at lower risk. • District Councils = increase to medium risk in 2020/21. It is likely that the different levels of risk are because nearest statistical neighbours have relatively lower levels of reserves compared to the wider group of all District Councils.
Gross external debt	Trend: • Nearest Neighbours = increase to medium risk in 2020/21. • District Councils = stable at lower risk. This shows the level of debt (borrowing and finance leases) and given the Council is reducing its debt level, the move to medium risk is more likely to reflect nearest neighbours reducing their levels of debt at a faster pace.
Fees and charges	Trend: • Nearest Neighbours = stable at lower risk. • District Councils = increase to medium risk in 2020/21. The Councils ratio, of fees and charges to service expenditure, has reduced in 2020/21 due predominantly to reductions in car parking income. This will have had an impact on the Councils position relative to all District Councils where some will be less reliant on income from fees and charges.
Business rates	Trend: • Nearest Neighbours = reduction to lower risk in 2020/21. • District Councils = stable at medium risk. To manage inherent business rate related risks, the Medium Term Financial Strategy assumes only a proportion of business rate growth is retained by the Council.

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.

Approved by Section 151 Officer	Yes

Legal Implications	No specific legal implications.
Approved by Monitoring Officer	Yes

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.

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 & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (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.	Likelihood : Yellow Impact : Red Severity of Risk : Yellow	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. The Council has a strong, effective Leadership Team supported by experienced officers. 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).	Likelihood : Green Impact : Yellow Severity of Risk : Green

Background documents

The CIPFA Financial Management Code – Audit and Member Standards Committee 12 November 2020

CIPFA Resilience Index – Audit and Member Standards Committee 22 July 2021.

Relevant web links