



Letter sent by email to:
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23 August 2018

Dear Rob,

We are writing to respond to the consultation on CIPFA's proposed *Local authority financial resilience index*. Our respective memberships would no doubt agree that financial sustainability is the most pressing issue facing local government at the moment. Given that local government as a whole operates in an environment where there is no meaningful and transparent link between funding and spending pressures, it is not surprising that individual councils are now increasingly exposed to the risk of financial failure.

While we are sympathetic to the intent behind CIPFA's proposals, we have serious misgivings about whether a simple set of scoring metrics can produce a meaningful assessment of an authority's financial health. We see a real challenge in being able to set out a clear and unambiguous picture which at the same time captures local context and circumstances. In our experience, context is everything.

Moreover, there is a risk that single-issue based assessment distorts council governance. Part of the chief executive role is to ensure that risk is balanced across multiple domains, including finance, legal, service quality and public impact. Looking at council performance through a single lens, be it finance or children's services, does not necessarily make balanced decision making easier. Over-emphasis on financial considerations is as big a risk to corporate governance as any other imbalance. It would be better if any resilience tool helped challenge and support a balanced view within the council across multiple domains and all statutory duties.

That being said, we also believe that both the proposed indicators and the method of presentation need further work and consideration. We understand the appeal of using a simple set of indicators, but an issue that is so complex needs a more sophisticated approach. Councils have lobbied regulatory bodies like Ofsted for years to provide a more nuanced picture of local performance that draws on a richer pool of data and intelligence. It would be a shame if a tool the sector developed for itself reverted to the cruder approach that we have warned others against.

We have three specific concerns about the proposed indicators being consulted on:

- We would be looking for a more forward-looking tool that helps us assess our organisation's ability to withstand future pressures and shocks. Apart from the marker about the Ofsted inspection score which can create a specific external pressure to maintain or increase spending, there do not appear to be any indicators to measure foreseeable future spending pressures, e.g. trends in demand for adult social care, numbers of looked-after children or households presenting as homeless.
- The use of reserves certainly needs to be in the mix of indicators, but we have concerns that the way it is captured in the proposals could result in a misleading picture of overall resilience.

We know that many authorities are having to confront the bleak choice of drawing on reserves in order to continue to provide minimum statutory provision or shore up reserves and make deeper cuts to services. In the current proposals, an authority could come out as looking relatively resilient partly on the basis of the level of reserves it holds, but incur other legal risks that would threaten the ultimate sustainability of its financial strategy.

- We were surprised that there was no reference to borrowing in the indicators. Since debt repayment can function as a fixed cost within council budgets (albeit with some scope for renegotiation), it can be one of the factors that limits councils' flexibility to adjust future spending.

Finally, on presentation of the data, we have a couple of specific concerns:

- First, on the basis of the proposals, there is no way to distinguish if an authority is in the red zone primarily because of the decisions it has taken or because of factors outside of its control. This is important not because we want to classify performance as "good" or "bad", but because it would provide vital intelligence about how much scope still lies within the authority's hands to improve its own resilience.
- Second, we are concerned about the knock-on effects on talent retention and recruitment that a council in the red zone might experience, as past experience from adverse Ofsted judgements has shown.

We are very supportive of the principle of transparency broadly, if the indicators and presentation can be made fit-for-purpose. Indeed, we are of the view that it may be time to re-open a dialogue with the LGA about making peer reviews both mandatory and transparent, as they were originally intended to be. Combined with information from external audits, it should be possible to pull together a more sophisticated and useful analysis of corporate governance as well as areas for improvement.

We do want to caution that any tool to measure resilience will inevitably have a limited shelf life if local government funding and pressures continue on their current trajectory. Frankly, if the status quo holds in the next Spending Review, as officers we will be talking to elected members about when we will run out of road, not if. We say this to dispel any notion that external observers may have that by enabling councils to measure their financial positions against each other that we will somehow conjure up scope to absorb further cuts to local government funding.

Finally, we want to thank you and your colleagues for taking the initiative in opening up a discussion that our sector definitely needs to have. Please let us know if it would be helpful to discuss our feedback in more detail.

Yours sincerely,



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Chief Executive, Doncaster Council



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