Local Government Association

Response to CIPFA Consultation on a Local Authority Financial Resilience Index

August 2018

Local Government Association

Submission

About the Local Government Association

The Local Government Association (LGA) is the national voice of local government. We work with councils to support, promote and improve local government.

We are a politically-led, cross party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. We aim to influence and set the political agenda on the issues that matter to councils so they are able to deliver local solutions to national problems. The LGA covers every part of England and Wales, supporting local government as the most efficient and accountable part of the public sector.

This response has been approved by the LGA's Resources Board lead members.

General points

We completely understand the context in which CIPFA's proposal for a local authority financial resilience index is taking place. Local Government will have faced cuts in core government funding of £16 billion by 2019/20. The sector has coped well so far but it is facing a £7.8 billion funding gap by 2025 as well as a £1.3 billion pressure to stabilise the adult social care provider market today. CIPFA's proposal to develop and publish a local authority financial resilience index is intended to provide reassurance and challenge. However, we are concerned that despite its intention there are fundamental difficulties in creating such an index.

Overall, the LGA does not believe that financial health of large and complex organisations such as local authorities can be adequately summarised and forecast by a handful of indicators. In addition, the selection of individual indicators, the application of weightings and the combination of the indicators into a single score will add a strong layer of subjectivity and any slight changes to the way this is done can lead to differences in the overall scores and position of authorities relative to one another.

CIPFA acknowledge some of the difficulties associated with creating such an index. For example, there are a number of indicators that may be associated with financial stress "and not all of these factors can easily be measured and certainly not in objective way".

Although not CIPFA's intention, we believe that it is inevitable that the index will be seen by some as a performance table. This is particularly likely given that the index will be published by a respected institute such as CIPFA as it will give the index a perceived credibility. This use, in a way not originally intended or envisaged, may have a negative impact on councils affected. For example it may affect the ability of lower ranked councils to borrow or invest or affect the decisions of potential partners or contractors. As a result, there is danger that

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behavioural consequences arising from the publication of low scores could be unintentionally self-fulfilling by further weakening councils that might already be in need of help.

There is clearly value in councils having access to comparative data so they can form judgements based on their own circumstances. There is also great value in transparency and openness and councils already publish a great deal of financial data. However, as outlined in this response, we have serious concerns about the ability to accurately assess financial health through a weighted and collated index. Therefore we would suggest that publishing data would be more helpful and we would be happy to discuss this with CIPFA.

Answers to individual questions

Question 1: Are the proposed indicators the right ones – are there other measures that should be included or ones omitted?

Overall, the LGA does not believe that financial health of large and complex organisations such as local authorities can be accurately summarised and forecast by a handful of indicators.

Indeed, this is acknowledged by CIPFA in paragraph 2.1 of the consultation document which highlights five factors CIPFA suggest are associated with financial stress. Only the first of these suggested factors ("running down reserves) has a direct link to any of the proposed indicators. Having said that "running down reserves" is not necessarily the same as "planned use of reserves" and the data behind the calculated indicator will not distinguish between the two. Use of reserves and levels of reserves may be part of a local authorities' financial strategy rather than a cause for concern.

CIPFA also consulted with senior practitioners and sector experts for other factors that may be associated with financial stress. Of the 11 factors suggested by CIPFA and others, 5 are directly covered by proposed indicators. Three of the factors cannot be considered to be assessed by the indicators at all due to an absence of data.

The majority of the data used in the index is based on Revenue Outturn returns. We accept that there is no consistently available source of this data but it needs to be acknowledged that there are some weaknesses in this data and therefore any index based on this data will be affected by this. For example, Newton Europe[1] found variations in reported figures for children's services spend of plus or minus 12% based solely on reporting and interpretation.

Consideration needs to be given to where data is incomplete. For example, according to PSAA published data there are a number of councils without a formal auditor VFM opinion in some years. In these cases it may not always be appropriate to assume that "no opinion" is the same as an "adverse opinion".

[1] Newton Europe: Making Sense: Understanding the drivers of variation in spend on Children's services , June 2018; https://www.newtoneurope.com/content/spend_on_services.pdf

Question 2: Is the method for combining the indicators to produce a composite indicator appropriate? Are the weights, particularly the greater weighting on reserves, reasonable?

The combination of indicators to produce a composite indicator and the application of any weightings are subjective. Our initial analysis suggests, on the basis of the proposals in the consultation paper, that small changes in the weightings given to individual indicators can lead to large differences in the relative position of most individual councils.

Given the above, it is clear that the proposals, or any attempt to produce such an index can never be 100% accurate nor accurately predict the future. It will inevitably lead to cases of false negatives and also false positives. That is authorities that appear to be a cause for concern but are managing well and authorities that according to the index seem to be resilient but are facing circumstances that they are finding challenging to deal with. Both of these situations could have consequences for an authority.

Question 3: Is the proposed presentation, including both the summary and the individual council dashboard, the right way to present the data?

We have fundamental concerns about CIPFA's proposal and would wish to discuss this with CIPFA in more detail in order to produce something that will be helpful to councils.

Question 4: Do you have any comments on CIPFA's view that to aid transparency the full analysis should be freely available on CIPFA's website?

We fully support transparency, and all the underlying data is already available in the public domain. We would suggest that the data for each indicator is published and we would be happy to discuss with CIPFA proposals for how this can be achieved.

Question 5: Available data tends by its nature to be retrospective, what forward looking indicators would you also see as useful to include to support the index?

We agree (see above) that the backward looking nature of the data and indicators is a weakness of the proposed index, however, forward looking indicators may be even more subjective than retrospective ones. For example, we would be concerned about the use of RA data as an alternative which also has its limitations.

Question 6: Do you have further comments on CIPFA's plans?

We would welcome the opportunity to discuss with CIPFA a proposal that would be more helpful.