

## APPENDIX L

# Financial Management Code: Financial Resilience Assessment

### **Purpose**

Financial management is at the heart of ensuring an organisation's financial sustainability and the continued provision of public services. Financial resilience is a key component of CIPFA's Financial Management (FM) Model and provides an assessment of the financial sustainability of a council and its ability to withstand financial shocks. CIPFA's Financial Management (FM) Code recommends that local authorities undertake a financial resilience assessment (FRA) each year. The FRA builds on the one-year assessments required under section 25 of the Local Government Act 2003 of the robustness of the estimates used in the budget calculations and the adequacy of the proposed levels of financial reserves.

### **Factors for assessing financial resilience**

#### **Routine**

#### *Getting routine financial management right*

The first step is simply to ensure that the authority's basic financial management systems are working effectively, and that the authority's financial performance and position is reported regularly and effectively to the CFO and to the leadership team.

#### **Capital**

#### *Planning and managing capital resources well*

The authority's ability to maintain these assets so as to ensure and to enhance their role in the delivery of services is crucial to its financial resilience. If housing, libraries or leisure centres fall into disrepair, for example, such that they are no longer able to fulfil their primary purpose, then the authority's ability to deliver the associated services is impaired and it has resources tied up in assets that it cannot use.

Consequently, planning and managing the use of the authority's capital resources – particularly its infrastructure assets – is vital. This includes understanding the role that these assets play in the delivery of services and ensuring that the authority's asset base remains fit for purpose.

#### **Performance**

#### *Using performance information effectively*

In order to assess the authority's ability to withstand financial pressures, it is important to understand how well it is performing currently and how any financial challenges are likely to impact on this performance.

Authorities have a broad range of internal performance information available to them, from income and expenditure data to information on activity levels and service user satisfaction. This information can be collated to understand critical factors such as the unit cost of services, trends in service user satisfaction, and many more.

Another practical way to assess the authority's financial and operational performance is to compare the authority's costs, income, activities and performance with those of similar authorities or organisations. This is especially useful for factors such as the unit costs of services, which are more readily comparable than absolute costs or activity levels.

#### **Savings**

#### *Having clear plans for delivering savings*

The authority needs a single, consolidated and regularly updated mechanism that tracks its savings plans. This should include the savings that have been agreed,

how they will be monitored and the extent to which they have been achieved. These savings should also be built into the authority's annual budget and its medium-term financial plan.

## Reserves *Managing reserves well.*

The aim of the authority's financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges. Consequently, limited use of reserves to support the delivery of a clear and transparent savings programme is perfectly acceptable.

## Financial Resilience Assessment for the London Borough of Brent 2023/24

The results of the Financial Resilience Assessment are summarised in the table below:

Factor	Rating	Assessment	Improvements
<ul style="list-style-type: none"> <li>The funding gap as a percentage of net revenue expenditure (NRE) over the period of the Medium Term Financial Strategy (MTFS)</li> </ul>	Good	<p>The Council regularly reviews its MTFS assumptions and undertakes financial modelling, including sensitivity analysis and scenario planning to identify any funding gap.</p> <p>This information is regularly reported to chief officers and members.</p>	<p>Closer alignment of savings proposals and the broader financial context with policy objectives both when formulating proposals and when articulating the financial constraints to members and chief officers</p>
<ul style="list-style-type: none"> <li>Savings delivered as a percentage of planned savings</li> </ul>	Good	<p>Past performance on savings delivery is good, with a blip during the COVID-19 pandemic which was quickly rectified.</p> <p>Savings are occasionally deferred to a future year when they are then delivered.</p>	<p>Improvement can be made to the definition of savings both by categorising savings into clear types and aligning savings to policy direction set out in the Borough Plan.</p>
<ul style="list-style-type: none"> <li>Over/underspend relative to net expenditure</li> </ul>	Good	<p>Overall, the Council consistently breaks even through the planned use of budgeted contingency set aside to smooth variances in the budget. This gives a strong indication of the Council's ability to forecast and deliver a balanced budget.</p>	<p>This is a particularly strong area. The only improvement would be to take a cautious and prudent approach to monitoring expenditure given the present uncertain and challenging economic environment.</p>
<ul style="list-style-type: none"> <li>Useable reserves as a percentage of net revenue budget</li> </ul>	Good	<p>The Council has a Reserves Strategy which defines the type and usage of its reserves and sets the minimum level of general fund balance that must be maintained.</p> <p>The use of reserves is planned and reserves are reviewed to ensure their adequacy.</p>	<p>This is a strong area. The only improvement would be to focus on ensuring that when the adequacy of the reserve balances is reviewed, due weight and consideration is given to the financial challenges presented by the current economic environment.</p>

Factor	Rating	Assessment	Improvements
<ul style="list-style-type: none"> <li>Council tax as a percentage of income</li> </ul>	Good	<p>Council tax provides a relatively large share of the Council's revenue resources at about 44% of the total.</p> <p>The ability to set council tax is restricted by the referendum limit, but members do need to consider the political and financial implications of setting the main council tax and any adult social care precept.</p> <p>Collection levels impact on available resources and are monitored.</p>	<p>The Council needs to monitor collection levels which have not bounced back to pre-COVID levels and look set to be further impacted by the cost-of-living crisis.</p>
<ul style="list-style-type: none"> <li>The cost of total borrowing as a percentage of NRE</li> </ul>	Good	<p>The Capital Financing Requirement and borrowing are increasing at a pace.</p> <p>Servicing costs however remain relatively unchanged in terms of percentage of net revenue expenditure.</p>	<p>The Council needs to more robustly forecast its future capital financing requirements and the cost of serving future debt, given the rapid rise in interest rates.</p> <p>It also needs to consider the viability of projects and the scope for invest to save in support of corporate policies and savings delivery.</p>
<ul style="list-style-type: none"> <li>Routine Financial Management</li> </ul>	Good	<p>The Council has robust management accounting arrangements which produce monthly reports to departmental management teams and quarterly Financial Monitors for chief officers and members.</p>	<p>Reporting and accounting arrangements for Central Items, particularly the 'big ticket' items (Housing Benefits and the Collection Fund) need to be improved to facilitate regular in-year monitoring and reporting in these areas.</p>
<ul style="list-style-type: none"> <li>Performance Management</li> </ul>	Satisfactory	<p>The Council has good performance management systems that provide timely information to chief officers and members.</p> <p>The performance information should be more clearly linked to the periodic financial modelling resulting in a clearer vision of the big picture.</p> <p>Benchmarking is undertaken by Finance staff, but it is ad hoc and targeted rather than</p>	<p>Performance, financial and risk management information need to be aligned and cross referenced to provide a full picture of the Council's service delivery.</p> <p>Benchmarking needs to be put on a more regular and formal basis, using tools such as dashboards.</p>

Factor	Rating	Assessment	Improvements
		<p>systematic and comprehensive.</p> <p>Risks have been incorporated into the MTFS, but performance, financial and risk management information are not joined up to provide a coherent overview of the Council's position.</p>	
<ul style="list-style-type: none"> <li>Links to Other Plans</li> </ul>	Satisfactory	<p>The Council has plans that set out its policy direction over the term of the administration (Borough Plan) and forward financial plans (MTFS, Capital Strategy).</p> <p>Links between the various plans should more clearly be articulated to ensure a joined up policy and financial framework.</p>	<p>The core strategy and planning documents need to be aligned and the links between the documents need to be articulated.</p> <p>At a practical level, when savings or growth proposals are put forward, they need to be set in the context of the corporate policy direction set out in the Borough plan.</p> <p>Responsive requirements should be recognised.</p>
<ul style="list-style-type: none"> <li>Effective Medium and Long-Term Planning</li> </ul>	Satisfactory	<p>The Council has detailed and robust medium term financial plans and in a limited number of areas, such as the HRA, longer-term plans.</p> <p>Longer term planning (5-10 years) is an area that requires improvement.</p>	<p>The MTFS needs to cover a consistent period (say next year plus three future years)</p> <p>A long-term financial strategy should be introduced to capture at a high-level areas that can be quantified over a period beyond the MTFS.</p>
<b>OVERALL ASSESSMENT</b>	<b>GOOD</b>	<p>There are a number of areas where the Council is performing strongly and the areas that have not been rated 'good' should not impact on the overall financial sustainability of the Council.</p>	

## Conclusion

The Financial Resilience Assessment is positive with seven areas assessed as good and three areas viewed as satisfactory. In no area was the council found to be deficient. The 2023/24 FRA made a number of recommendations for improvements which have been actioned. In particular, this report demonstrates closer alignment of policy and financial strategy in the savings proposals and recognition of the need for longer term planning and robust financial monitoring in the current challenging economic environment.