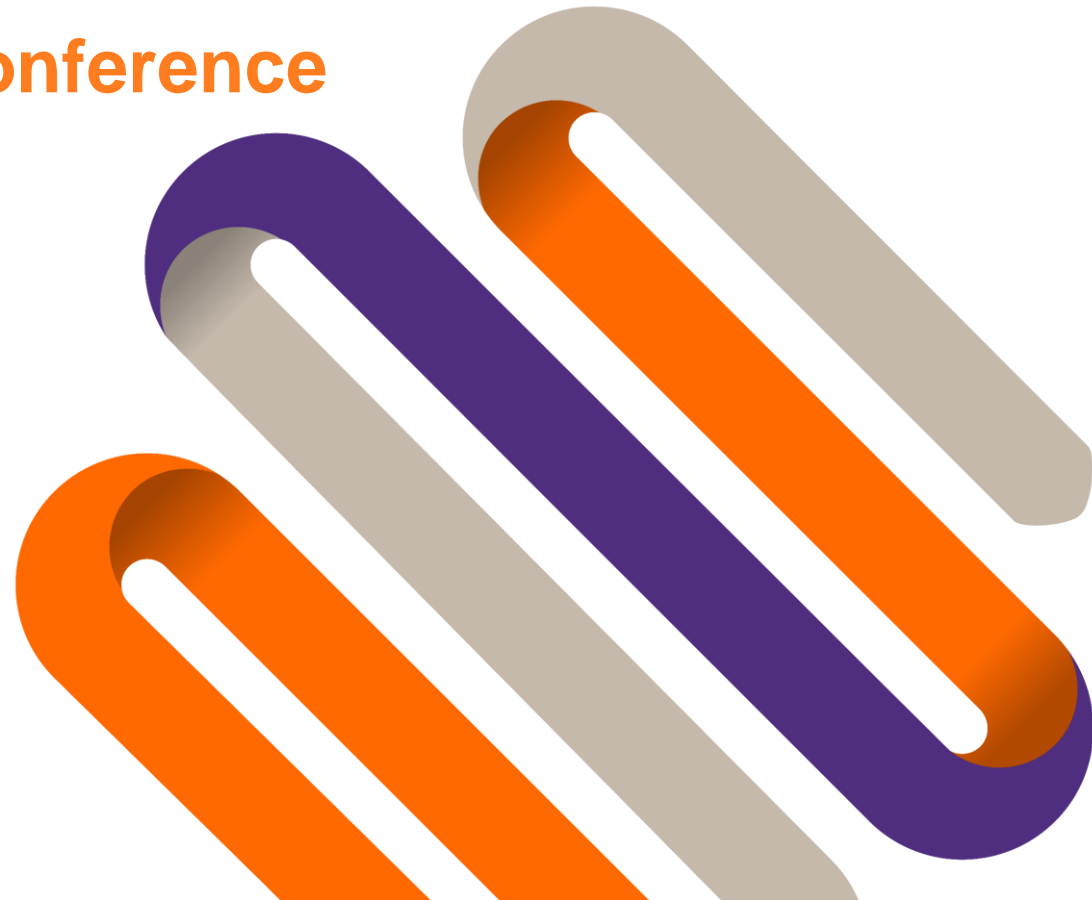


The long term financial sustainability of local government

CIPFA South East Wessex Conference

Guy Clifton & Simon Christian

12 March 2020



We all live in a VUCA world...

Volatility

In a volatile environment traditional models of cause and effect are much less predictable.

Uncertainty

Change leads to uncertainty and uncertainty leads to anxiety. Change is less predictable and learning needs to be fast and continuous.

Complexity

Increased complexity comes from many directions, operational complexity, information overload and social complexity.

Ambiguity

Many of the habits and behaviours that have served us so well in the past seem to be less and less valid leading to a new need for deep inquiry.

VUCA organisational response

1. Anticipate the issues that shape events
2. Understand the consequences of issues and actions
3. Appreciate the interdependence of variables
4. Prepare for alternative realities and challenges
5. Interpret and address relevant opportunities

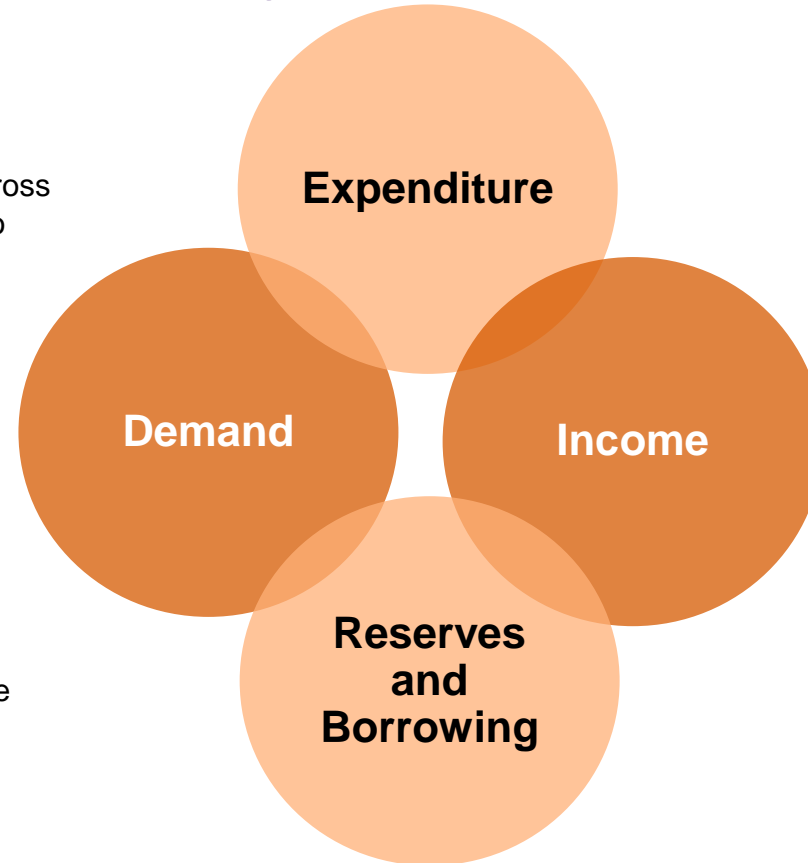
What is Financial Foresight?

A **future** focused model building from CFO Insights. Supported by the strategy accelerator to define and refine the financial strategy.

For expenditure we have used inflation forecasts for different service areas, our baseline forecasts apply a 1% increase across non-demand led services lines and 2.1% to ASC and 3% to CSC.

For Council Tax we use the MHCLG household numbers forecasts, for Business Rates, the ONS business employee number forecasts.

Council's sustainability position



Whole sector comparators

For baseline demand we use ONS population forecasts, using appropriate age co-horts. For housing we use MHCLG household projections.

Macro assumptions used are based on those with the strongest correlations to spend, income or demand.

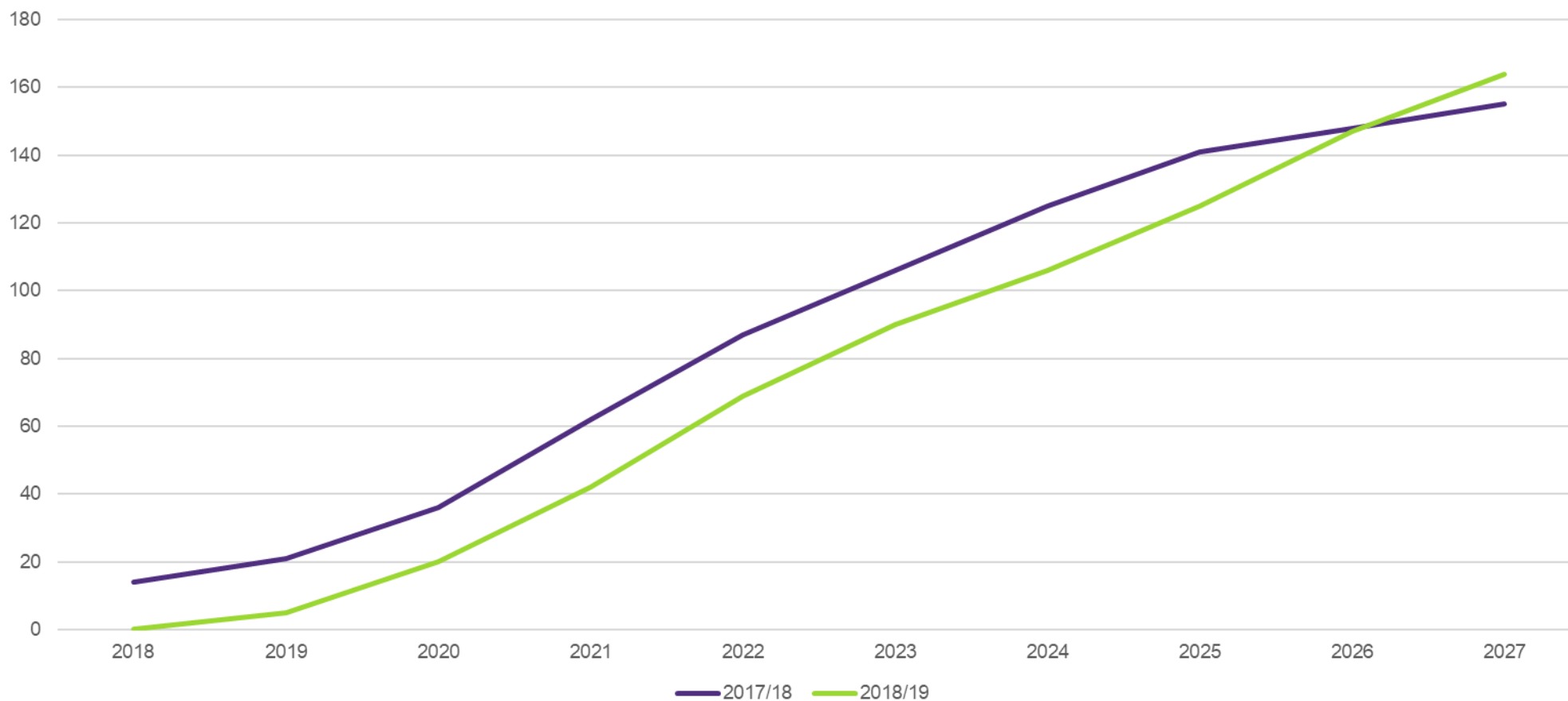
Foresight model updates

When launched at the CIPFA Annual Conference in July 2019 the model used 2017/18 outturn for the baseline.

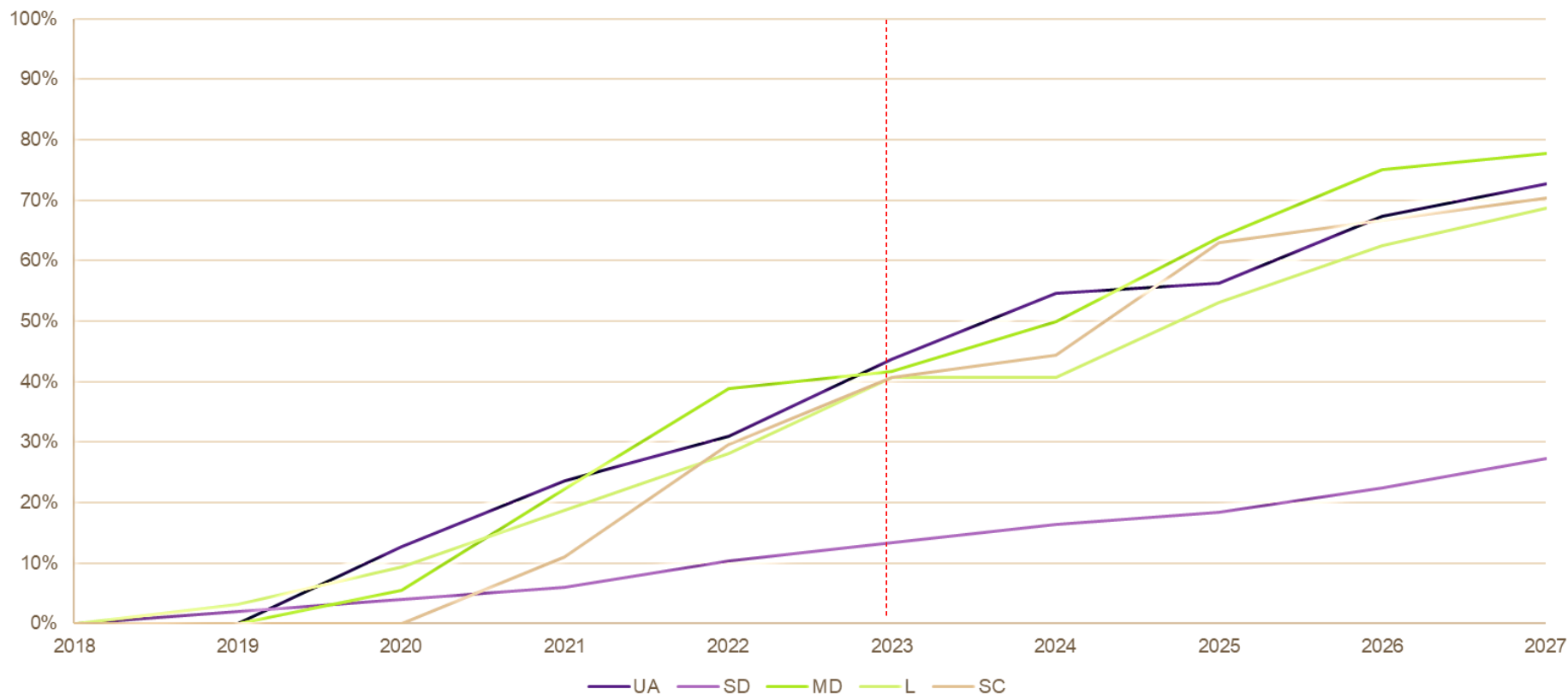
We have updated the model to include:

- provisional 2018/19 RO data
- Spending Round additional funding for 2020/21 only
- Spending Round additional funding in baseline 2020/21 onwards
- No deal Brexit

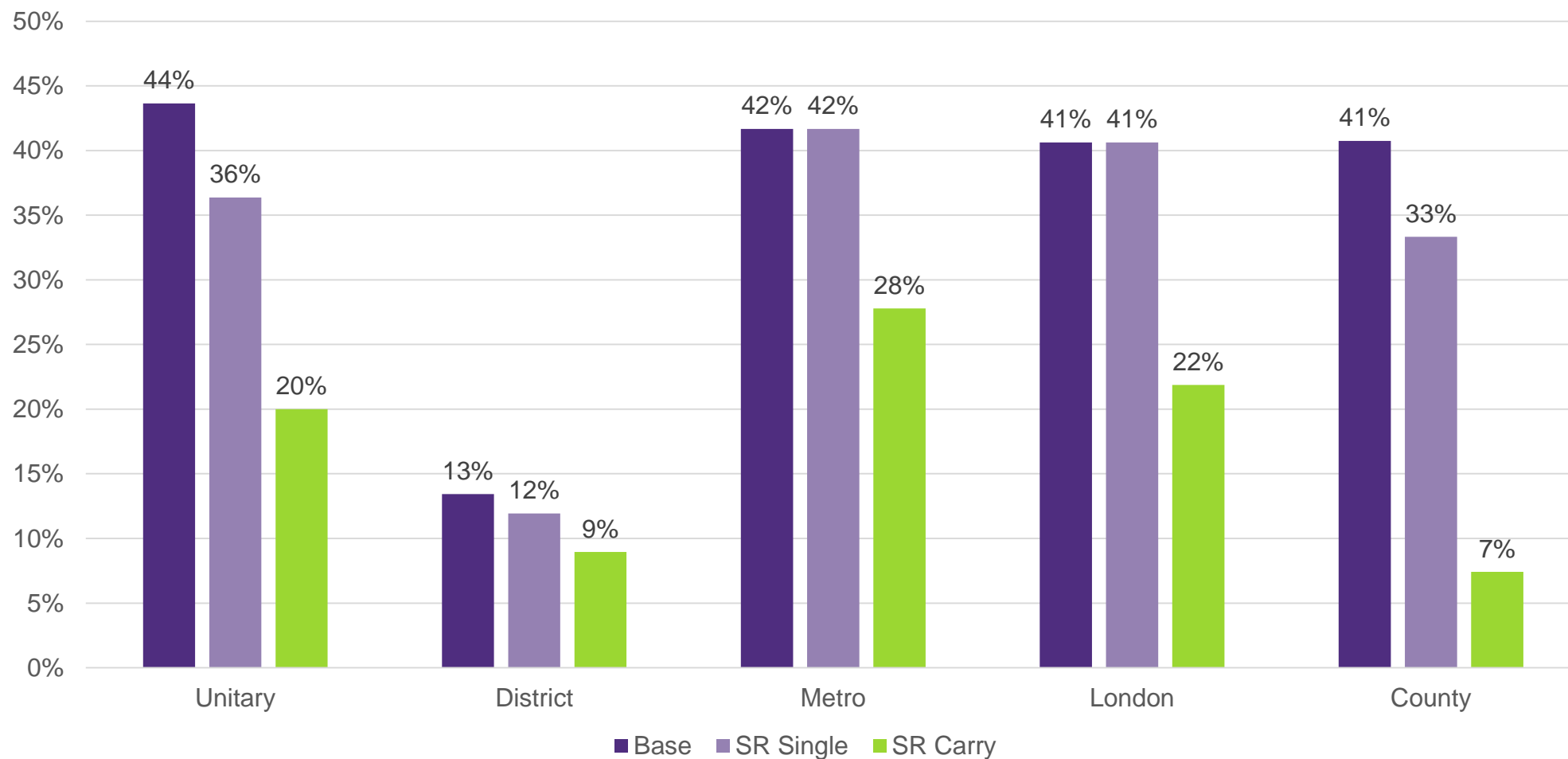
Cumulative comparison: 2017/18 projection vs 2018/19 projection (no SR)



2018/19 Baseline: At Risk by Category of council (%)



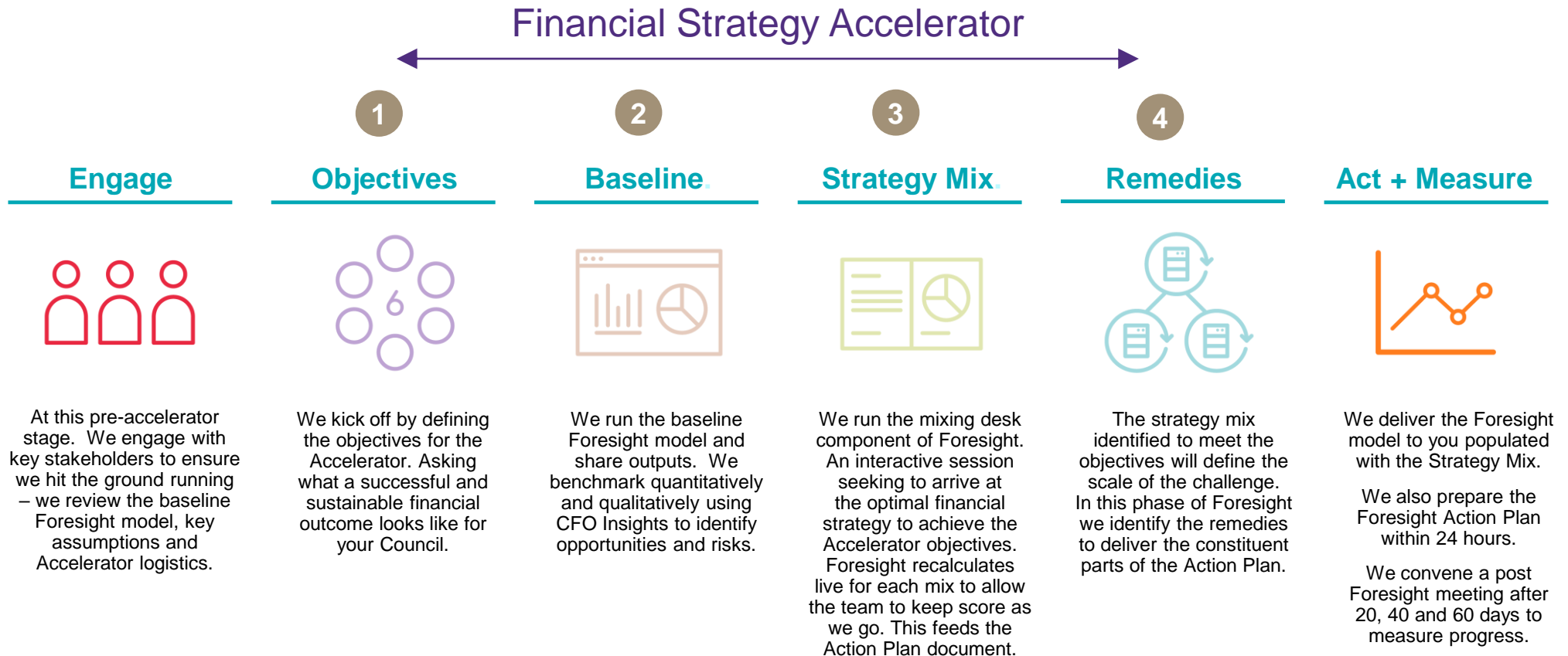
At Risk Authorities in the next 5 Years (2019/20-2023/24) by type of council



In thinking about financial resilience in your authority what issue gives you most cause for concern?

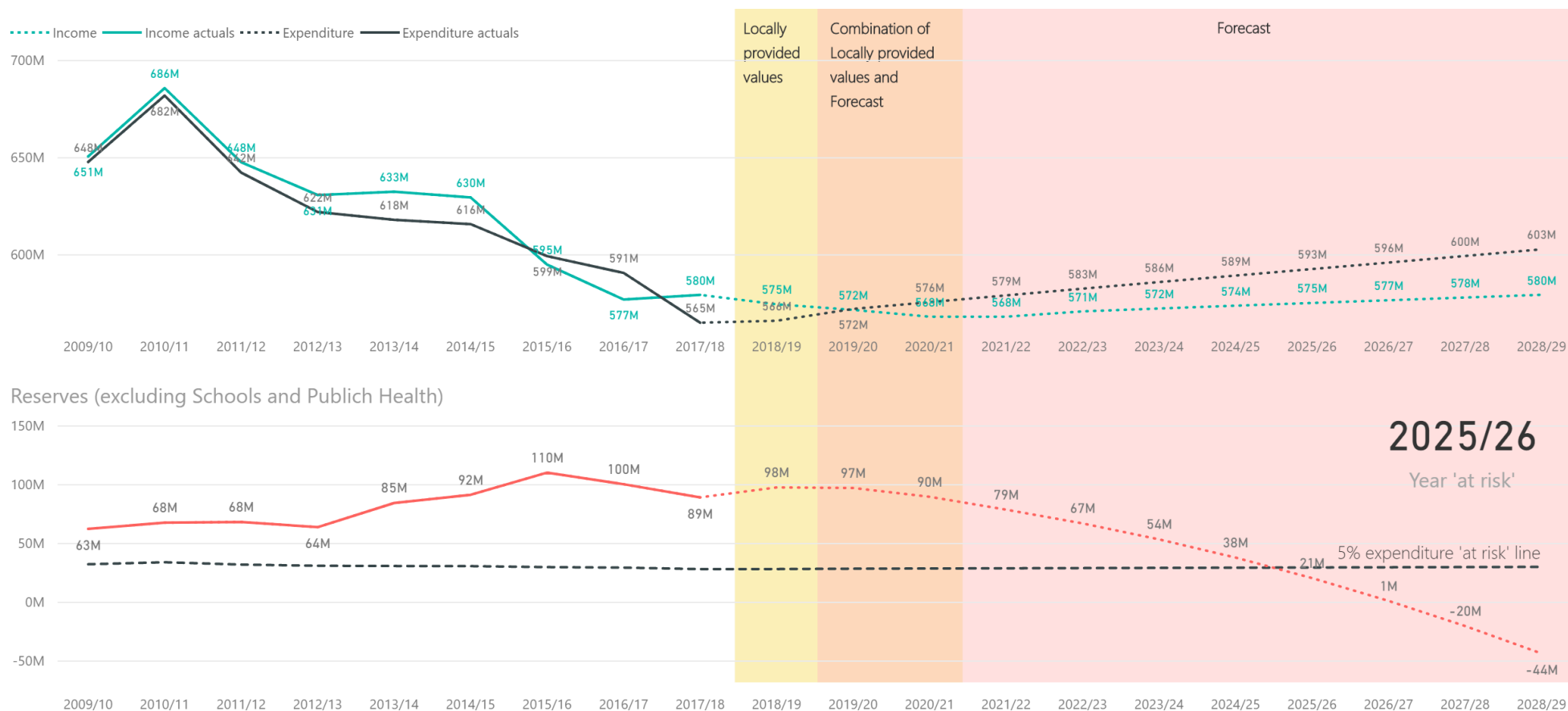
1. Rising demand for social care, housing and homelessness
2. An increase in complex needs of families
3. The impact of Brexit on the local economy
4. Uncertainties around raising local taxes and income
5. Uncertainty of future funding/fair funding review
6. All of the above

The six-step Foresight process



Tailored forecast

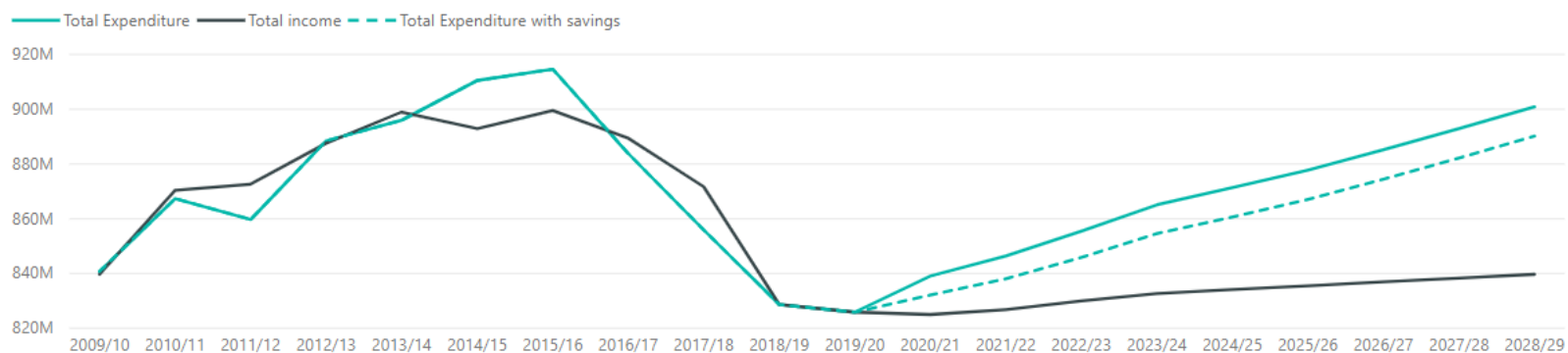
Council A will run out of reserves in 2025/26 if nothing changes



Impact of savings proposals

Council B has pushed back the year of depletion by two years with its latest tranche of savings proposals

Total Expenditure, Total income and Total Expenditure with savings by Financial year



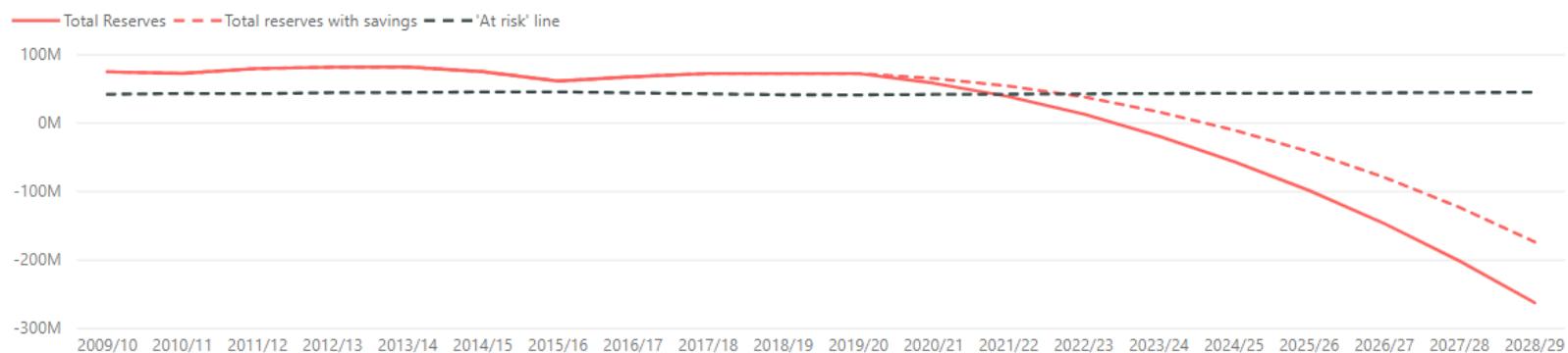
Baseline Year 'at risk'

2020/21

Savings Year 'at risk'

2022/23

Total Reserves, Total reserves with savings and 'At risk' line by Financial year

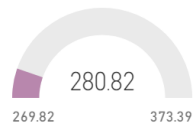


Social care forecast

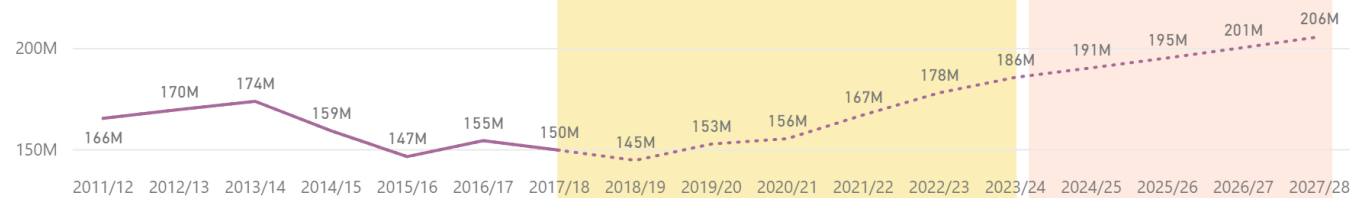
Council D Forecast

Option: Forecast basis

Adult Social Care

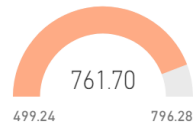


Total ASC

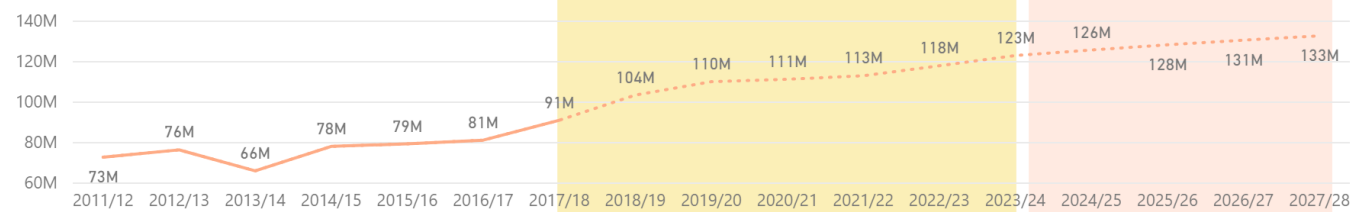


Option: Forecast basis

Childrens Social Care



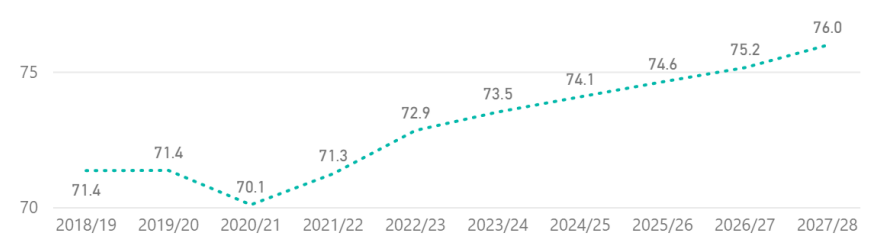
Total CSC



DLS % of total expenditure



DLS % of locally generated income

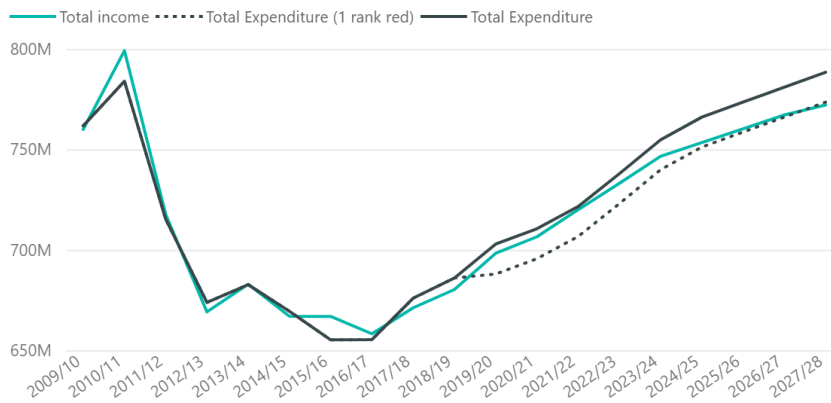
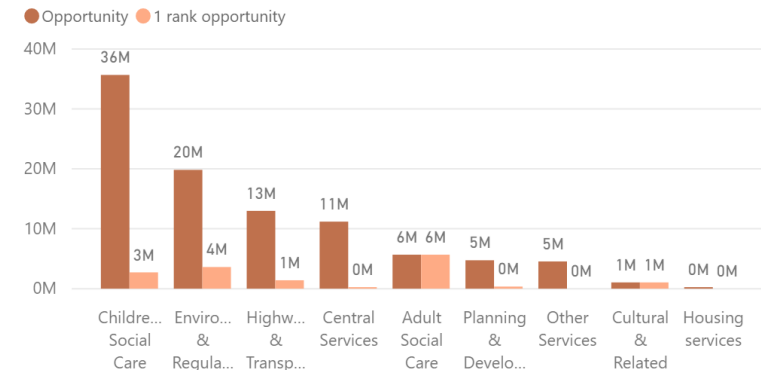


Savings opportunity

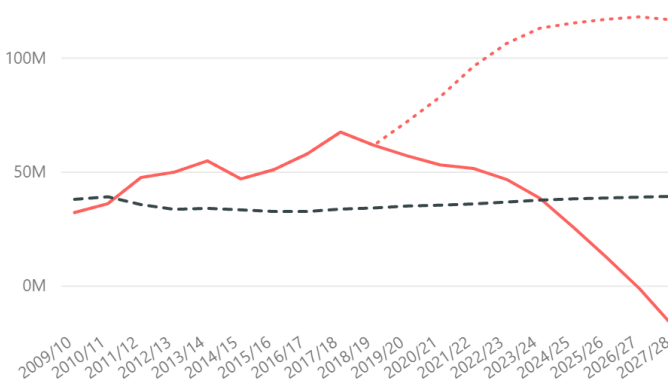
Council C could save £14m by reducing unit costs to the level of their next lowest comparator

| Service line | NN rank | 2018 value | 2018 unit cost | Opportunity | 1 rank opportunity | 1 rank change % of service line |
|----------------------------|-----------|-----------------|----------------|-------------------|--------------------|---------------------------------|
| Adult Social Care | 10 | 144,795,000 | 280.82 | 5,673,980 | 5,673,980 | 3.9% |
| Environmental & Regulatory | 2 | 37,567,000 | 57.66 | 19,828,273 | 3,611,978 | 9.6% |
| Children's Social Care | 2 | 103,531,000 | 761.70 | 35,673,403 | 2,717,349 | 2.6% |
| Highways & Transport | 6 | 30,055,000 | 6,261.99 | 12,988,301 | 1,400,706 | 4.7% |
| Cultural & Related | 10 | 6,662,000 | 10.23 | 1,045,015 | 1,045,015 | 15.7% |
| Planning & Development | 8 | 1,324,000 | 2.03 | 4,740,011 | 350,585 | 26.5% |
| Central Services | 7 | 8,864,000 | 13.60 | 11,189,362 | 102,859 | 1.2% |
| Housing services | 7 | 0 | 0.00 | 65,246 | 0 | - |
| Total | 52 | 7,388.03 | | 91,203,593 | 14,902,473 | |

Opportunity and 1 rank opportunity by Service line



Total Reserves and 1 rank opportunity



1 rank year 'at risk'
N/A

Outputs from deploying Foresight in England

| | Unitary Council | County Council | Unitary Council | London Borough | Unitary Council |
|----------------------------|--|--|--|---|--|
| Year at risk (*) | 2019/20 | 2022/23 | 2029/30 | 2021/22 | 2025/26 |
| Outline financial strategy | Rapid financial improvement programme . | A new financial strategy with two key objectives: <ul style="list-style-type: none"> • Immediate grip on areas of high expenditure • Strategic investment and transformation over the medium term | Five-year programme of outcome-based investment and transformation. | Current focus is on a short-term tactical cost reduction and transformation programme. | An ambitious ten-year programme of community development and place-based reform |

Remedies: Insights from our Foresight clients



Forecasting of high risk cohorts in demand led services is an opportunity for Finance



Management teams often have less **financial literacy** than desirable but Foresight has helped



Rapid Financial Improvement for councils closer to the cliff edge



Foresight has resulted in **'Transformation Reshaping'** – focusing effort on biggest £ prizes



Strategic investment in transformation and economic growth where cliff edge is 4+ years out



Modelling and delivering “affordable” **operating models**

What best describes your council's position?



Are you operating within a structural deficit?

Are you delivering remedies to ensure financial sustainability?

Are you comfortable with your council's long term financial plan?

Recap: Financial Foresight helps you...



Build a robust baseline forecast with intelligent and relevant comparator benchmarks



Engage with key stakeholders through a facilitated financial strategy accelerator workshop



Understand the wider performance and socio-economic context for financial decisions



Accelerate the financial planning process through access to Grant Thornton's public services analytics lab



Test and appraise the impact of different financial levers and external factors



Develop a robust medium to long term financial strategy and prescribe remedies for intervention

Thank you
for your kind attention

Any questions?



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