

An aerial photograph of London, England, featuring the Tower Bridge and the River Thames. The city skyline is visible in the background, including the Shard and other skyscrapers. A yellow banner is overlaid on the left side of the image.

CIPFA SE – Essex Hub Event

Update on Local Government Financial
Resilience

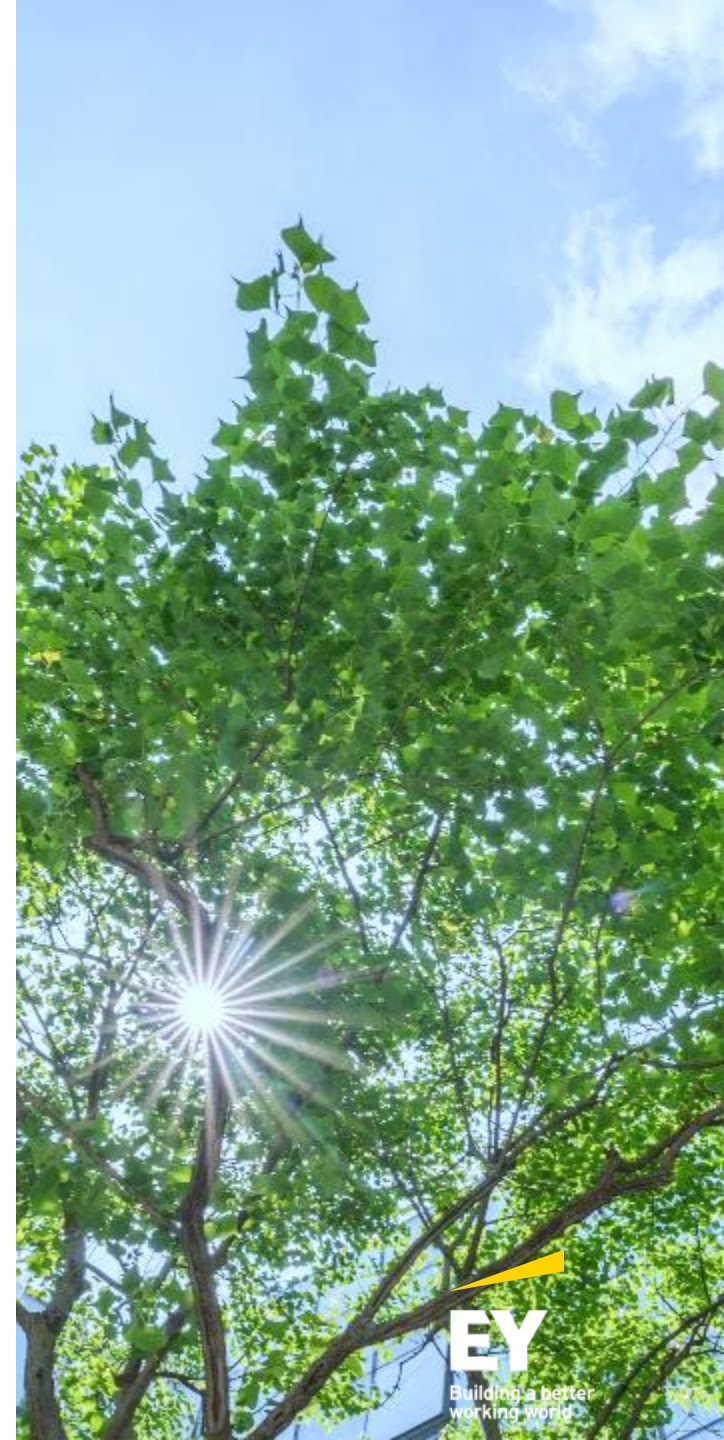
24th January 2024

Introduction



Naeem Ahmed

EY Associate Director, Government
and Infrastructure



Overview of my career journey to date

- ▶ Began working in Local Government as a finance graduate trainee
- ▶ Most recently Director of Finance and Deputy 151 Officer at the London Borough of Hackney
 - ▶ Led the COVID-19 and cyber-attack recovery programme
- ▶ Joined EY back in October 2023 in the Corporate Finance Government and Transport Team
 - ▶ With a specific focus on Local Government finance
- ▶ CIPFA Fellow
- ▶ Elected on CIPFA Board in 2021. Support the institute to set the strategic framework for the governance of public funds



Items to cover

- ▶ National context
- ▶ Challenges for the year ahead
- ▶ 2023 Section 151 Confidence Barometer
- ▶ EY focus on supporting local authority financial resilience



National context

Four in 10 councils at risk of going bust over next five years

Woking council declares bankruptcy with £1.2bn deficit

Previous Tory leadership embarked on risky investment spree involving hotels and skyscrapers

Birmingham City Council spending crisis live as urgent probe ordered into finances

Non-essential spending at Birmingham City Council has been frozen - follow reaction here

Report highlights risk of 'inappropriate financial activity' at Nottingham City Council

Devolution critical to net zero, city leaders say

By: Oliver Rudgewick | 11 May 23

The government will fail to accelerate the transition to net zero without the devolution of funding and additional resources to boost local authority capacity, city leaders have warned.

Council 'gambled' £200m taxpayers' money on solar farms project

Thurrock council paid millions to high-flying businessman to invest in energy scheme

LGA Survey: Almost 1 in 5 Councils in England at Risk of Effective Bankruptcy

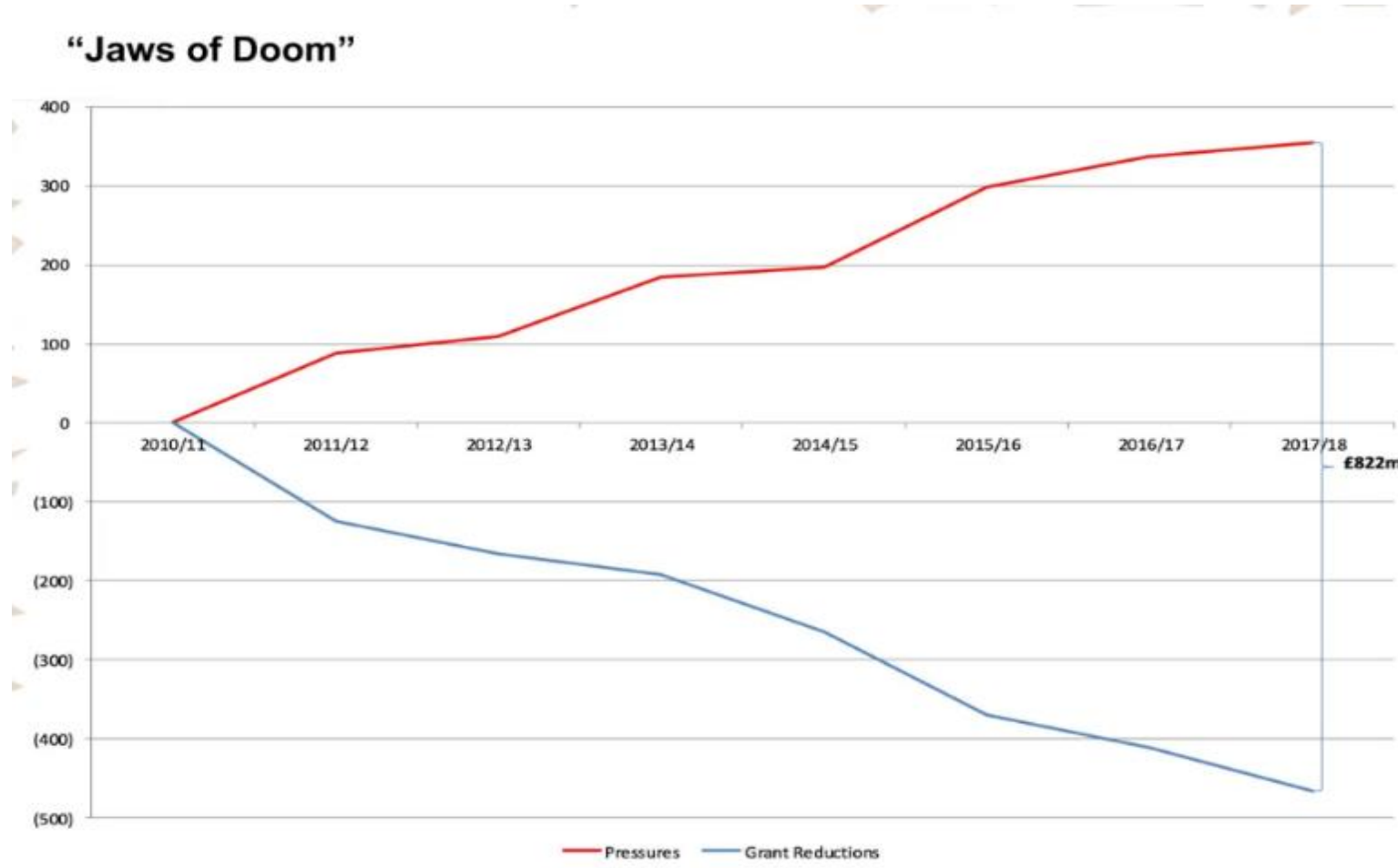
Nottingham's financial controls 'not fit for purpose'

By: Oliver Rudgewick | 29 Jun 23

Weak financial controls and a "culture which is not focused upon compliance" contributed to Nottingham City Council's unlawful



National context



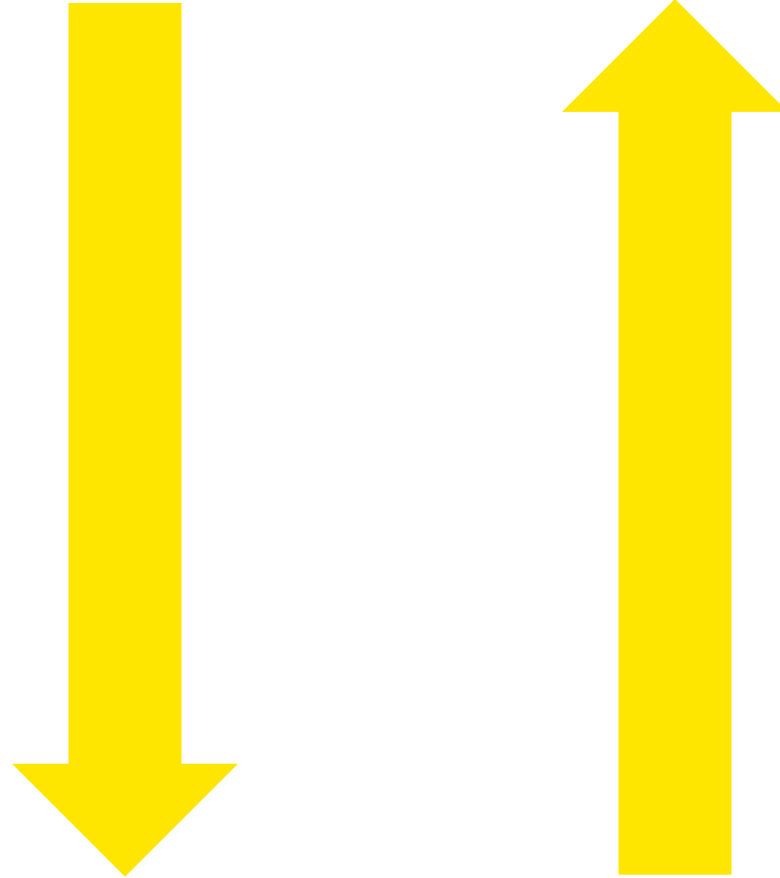
- ▶ The so called “jaws of doom” - a reference to a graphic produced by Birmingham City Council to show worsening budgetary pressures, that resembled a crocodile’s mouth



Financial stability and resilience – the warning signs

- ▶ Reserves reductions

- ▶ Capacity and capability challenges



- ▶ Savings unplanned/ not delivered up

- ▶ Debt growing

- ▶ Budget Gaps up

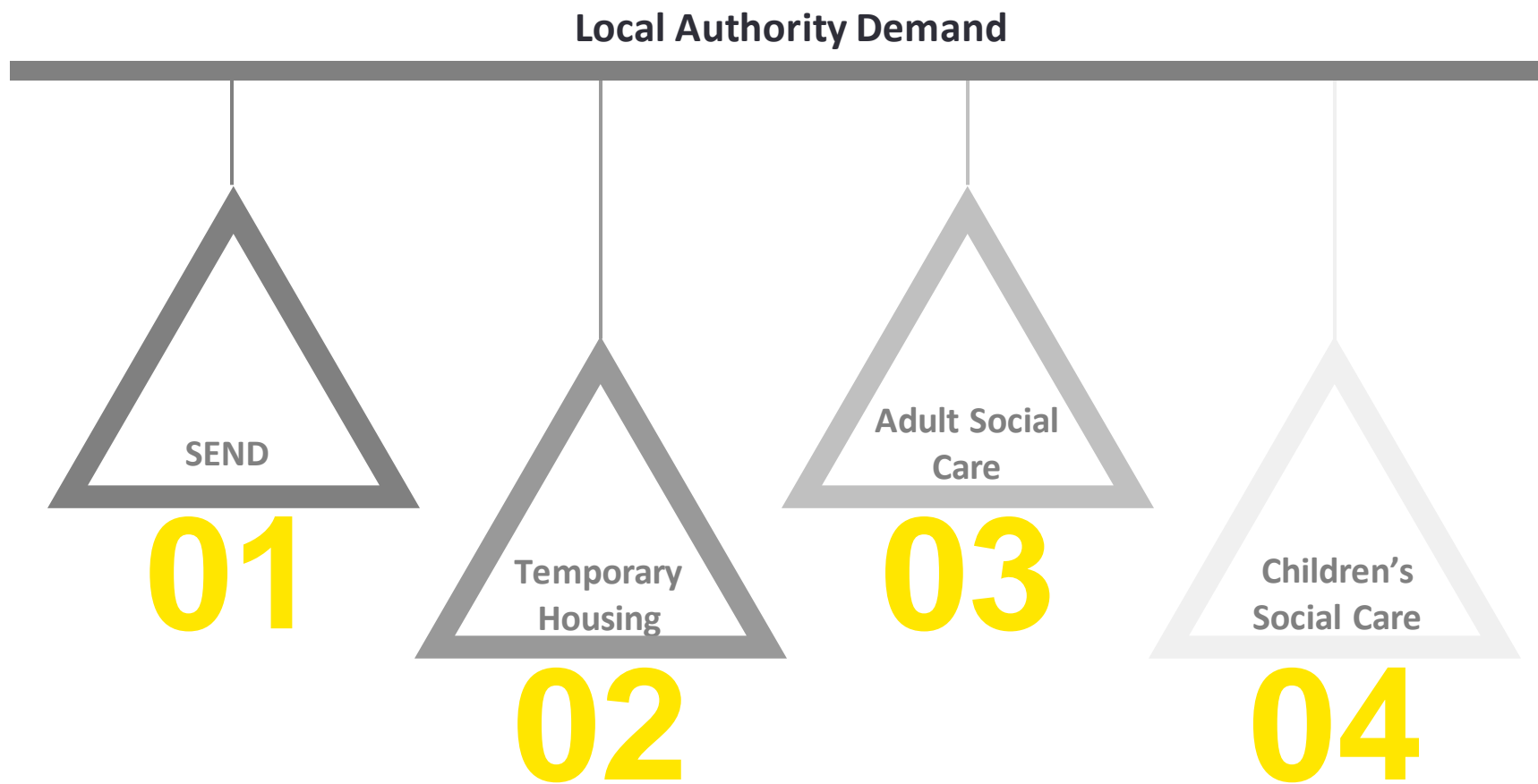
- ▶ Risks increasing and appetite unchallenged

- ▶ Unplanned Overspends up

- ▶ Short Planning Horizons up



Unprecedented demand



Key messages

- ▶ Challenges in local government financial sustainability are not new; whilst they evolve, the sector has been operating with financial duress for a long period of time
- ▶ This past year has been different, with key drivers, driving well managed councils to the brink, along with the particular economic / fiscal environment
- ▶ This resulted in a raft of S114s, with the taboo of them having disappeared and an apparent stalemate between Local and Central Gov't
- ▶ Likely General Election in November, however the economic challenges likely mean there will not be a financially sustainable solution to address some of the challenges in Local Government (one-off funding often increases the financial cliff edge)



Reflections on the challenges in the year ahead: A view from Marcus Richards

- ▶ 2024 will undoubtedly be a hugely challenging year across local government. For many, the 2023 budget setting and medium-term financial planning process will have been one of the most demanding in memory, with local authorities required to make increasingly difficult decisions in ever more challenging circumstances
- ▶ These demands will have taken their toll, and EY foresees that 2024 will provide no relief to the pressure experienced by local government
- ▶ 3 key challenges for the year ahead:
 1. Exposure to economic volatility
 2. Balance sheet fragility
 3. Talent with its interactions with services and technology



Marcus Richards (Partner)

Marcus leads the EY Local Government Corporate Finance Practice



Key Challenges for the Year Ahead

▶ Exposure to economic volatility

- Many authorities are counting on successful implementation of new savings initiatives in 2024 to boost efficiency and generate considerable savings
- Current challenging economic conditions, including potential supply chain disruption and declining consumer confidence due to geopolitical tensions, could severely test the assumptions on which these savings initiatives are based
- Authorities are increasingly turning to commercial activity for financial stability. However, this exposes them to potential economic volatility and related risks



Key Challenges for the Year Ahead (cont.)

▶ Balance Sheet Fragility

- Local authorities are experiencing significant financial stress with concerns over balance sheet health and diminished reserve fund capacity, leading to an increased reliance on strategies like asset disposals as a quick source of capital
- The market for such transactions is currently underperforming, and forward-looking predictions don't show immediate improvement, making the strategy increasingly risky
- Despite these challenges, some authorities are successfully creating innovative models to leverage their assets and balance sheets. These models require complex strategic planning and due diligence, which presents another challenge given the ongoing pressure for rapid cost savings



Key Challenges for the Year Ahead (cont.)

▶ Talent and its interaction with technology

- Many local authorities are grappling with complex challenges and the sector faces potential difficulties in talent retention and attraction. 2024 offers an opportunity to showcase the attractive, meaningful work environment within the sector
- As financial and commercial challenges evolve, authorities need to strategically recruit and identify essential skills, particularly in terms of technological proficiency, emphasising the importance of data analytics and artificial intelligence capabilities
- The confidence barometer underscored a variation in understanding of financial challenges among local authorities, emphasising the need for clarity and trust in the relationship between Finance and Services departments for effective financial management



Key Challenges for the Year Ahead (cont.)

▶ Optimism for the Year Ahead

- Despite constraints, there are optimistic prospects for the sector, mainly due to increased public awareness of its challenges, creating opportunities for effective community engagement and well-informed decision making
- Technological advancements, particularly artificial intelligence and automation, can improve financial resilience by potentially enhancing efficiency, reducing costs and identifying new revenue streams or fraud cases
- These advancements could set a stage for a more robust and efficient sector in the future, despite the imminent challenges



The 2023 Section 151 Confidence Barometer

- ▶ Issue 1 of the Section 151 Confidence Barometer.
- ▶ Considers risks and challenges that are influencing confidence of the Section 151 Officer.
- ▶ Focuses on:
 - In-Year
 - MTFP
 - Internal Challenges
 - External Challenges
 - The role of the s151 Officer

Section 151 Confidence Barometer
Issue 1
November 2023

2023/24 Financial Position

The 2023 s151 Confidence Barometer demonstrates a picture of concern and uncertainty across the sector with respect to 23/24 in-year budgetary positions. As at period 8 within the Local Government financial year, just under a third (29%) of Local Authorities are not confident of being able to deliver their in-year budgetary position. The survey highlights the pressures that certain service areas are placing on Local Authority operating models: the issues prevalent in the SEND and Children's Services sectors, along with temporary accommodation and homelessness case pressures, are placing strain upon the stability of Local Authority finances. This is compounded with a sector in planning capability that are ever more difficult current fiscal and economic conditions. The ever greater proportion of statutory services leaves the sector to deliver against priorities.

72% of s151 Officers are not confident or only somewhat confident that their deliver against their in-year budgetary position. The services highlighted as confidence are statutory in nature and aligned to the sectors that are known financial duress.

a. How confident are you that your Local Authority will deliver against its in-year budget position?

b. Service areas that s151 level confident about deliver budget

c. From the list below please select the service area which you believe require the most investment over the MTFP period?

d. How confident are you that your Local Authority can deliver its Capital Programme over the MTFP period?

Financial sustainability can not solely be the remit of the finance function - services have a key role to play.

Who of those who see a role who were concerned about integration between finance and service planning processes, 88% of s151 Officers believe that they are integrated in a medium or large extent across their organisation. However, responses indicated concerns over the data available to finance functions to appropriately forecast, with only 22% of s151 Officers suggesting they have a large extent of the data they feel they require. In addition, uncertainty over Government funding is highlighted as a key contributor to concerns over the sector's medium term financial plans.

e. To what extent do you believe your finance function has access to appropriate data and insight to forecast effectively over the MTFP period?

83% Uncertainty over Government funding is highlighted as a key contributor to concerns over the sector's medium term financial plans with 83% of s151 Officers stating that this, to a large extent or more, is a contributor to a lack of confidence in their MTFP.

Section 151 Confidence Barometer Survey



The 2023 Section 151 Confidence Barometer – Key Headlines

28%

of s151 Officers are confident of delivering against their in-year budgetary position

50%

of s151 Officers were not confident in their organisation's ability to deliver a balanced budget over the course of their MTFP

72%

of Local Authorities are reducing funding in areas that are long-term priorities, to meet short-term budget pressures.



The 2023 Section 151 Confidence Barometer – Key Headlines (cont.)

86%

of Local Authorities are actively implementing technology and automation solutions to reduce operational costs

79%

of s151 Officers feel that their organisations are unprepared to address the financial implications of external events.



How EY supports Local Government financial resilience

We have three compelling offerings that protect, de-risk and stabilise Local Authorities irrespective of their financial and economic context

1

Strategic Finance Partner

For Authorities requiring industry leading financial and commercial advice
For Authorities requiring industry leading financial and commercial advice.

EY bring industry leading financial, commercial and transformation expertise capable of tackling complex technical challenges faced by Authorities

2

Contingent Service and Contract Cost Reduction

For Authorities with acute contract pressures in services such as Social Care, Transport and SEND

EY bring five functional capability sets to secure operational and commercial efficiency and effectiveness

3

Acute Financial Distress

Councils in financial distress – having issued or about to issue a S114 notice

Providing specialist situational experience to support Councils and officers in navigating financial distress to find a path to sustainable finances / transformation





Thank you!

Feel free to contact me for further details about anything I have discussed today.

Naeem Ahmed
naeem.ahmed1@uk.ey.com
Mobile: 07944 980785