

Covid-19 and local government financial sustainability

CIPFA South East

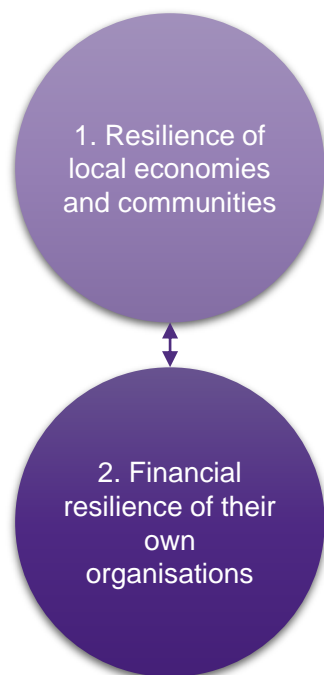
Guy Clifton

29 September 2020



Adaptive financial strategy and resource planning in a volatile environment

Councils are focused
on two key areas



Our offer

Help to assess and forecast
place,
organisational
and **financial**
impacts

Our approach

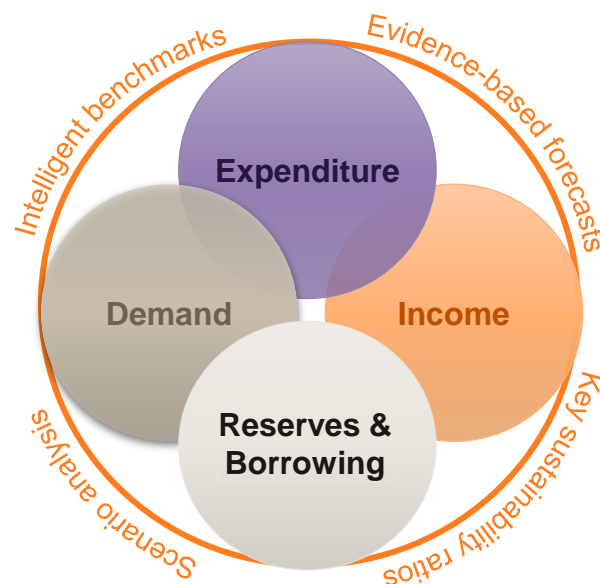
Scenario analysis
Financial forecasting
Strategy development

Outcomes

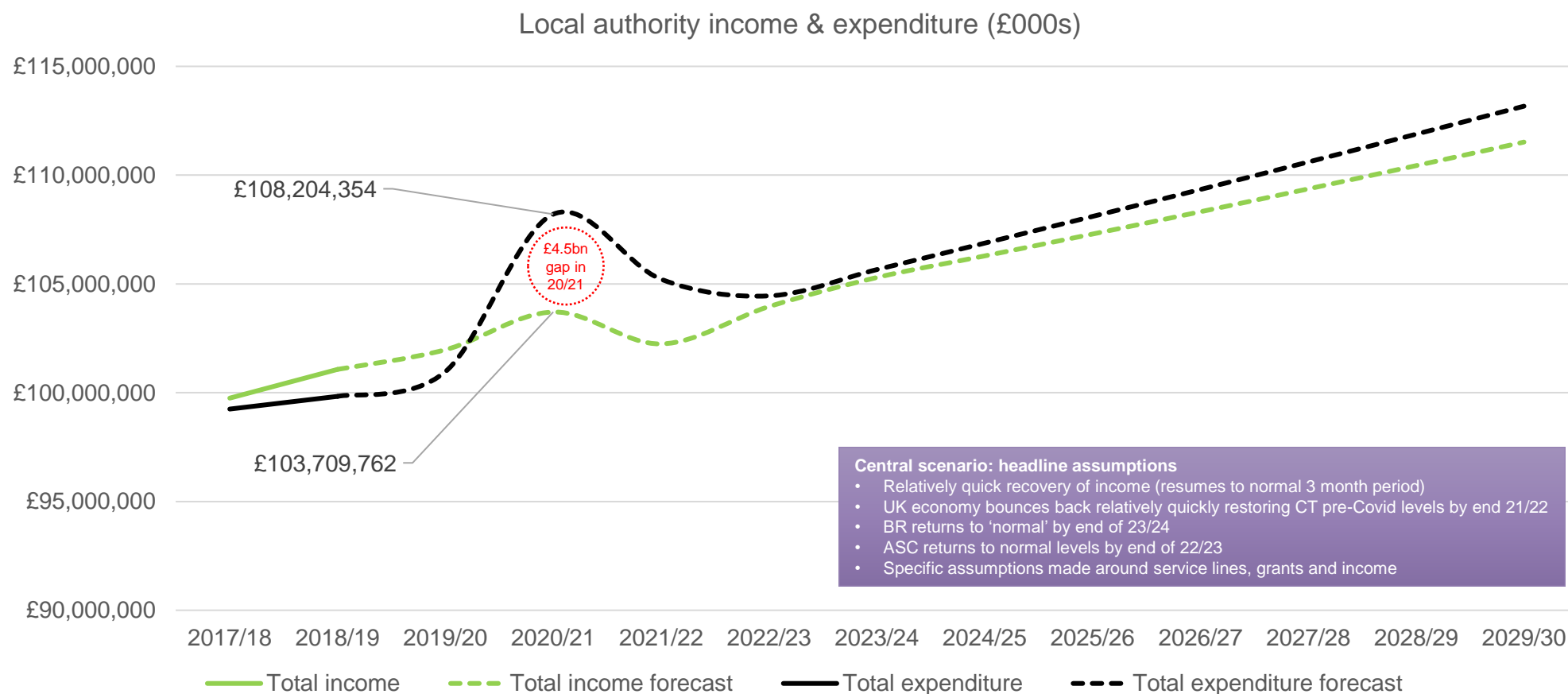
Evidence base for resource planning and financial strategy for recovery

What is Financial Foresight?

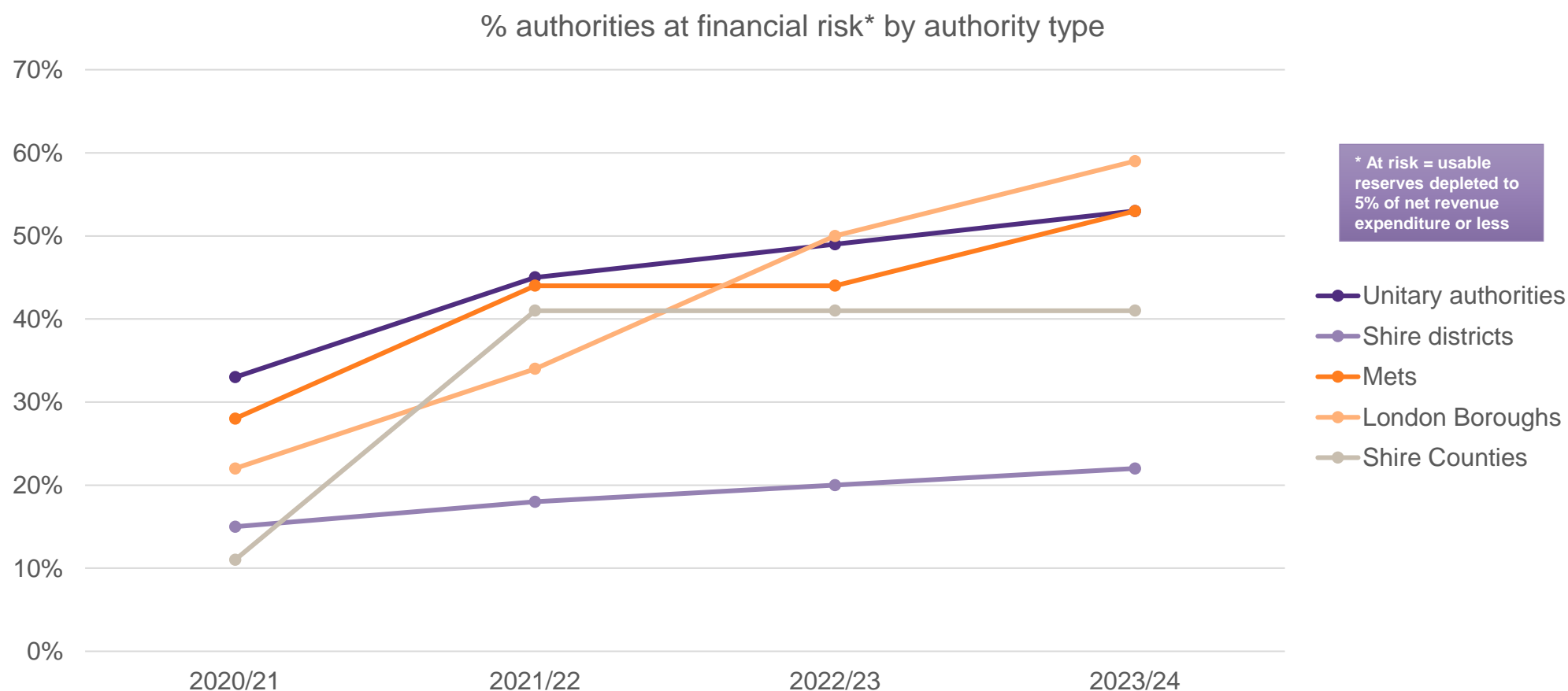
1 – Forecast an adaptive financial model and forecast for every authority in England and Wales



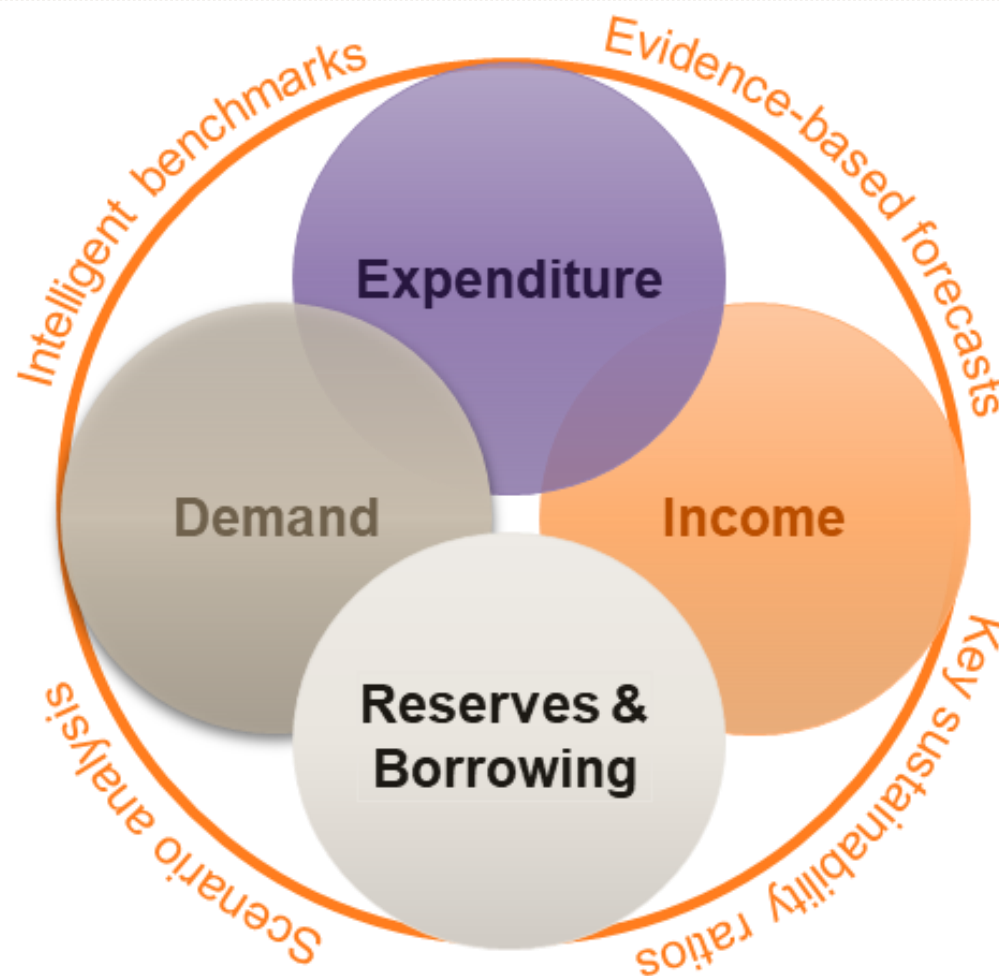
Our foresight model currently indicates a £4.5bn unmitigated gap for 20/21 in local gov finances



40-60% of upper-tier authorities will be financially unsustainable by 2023/24 in a “do nothing” scenario



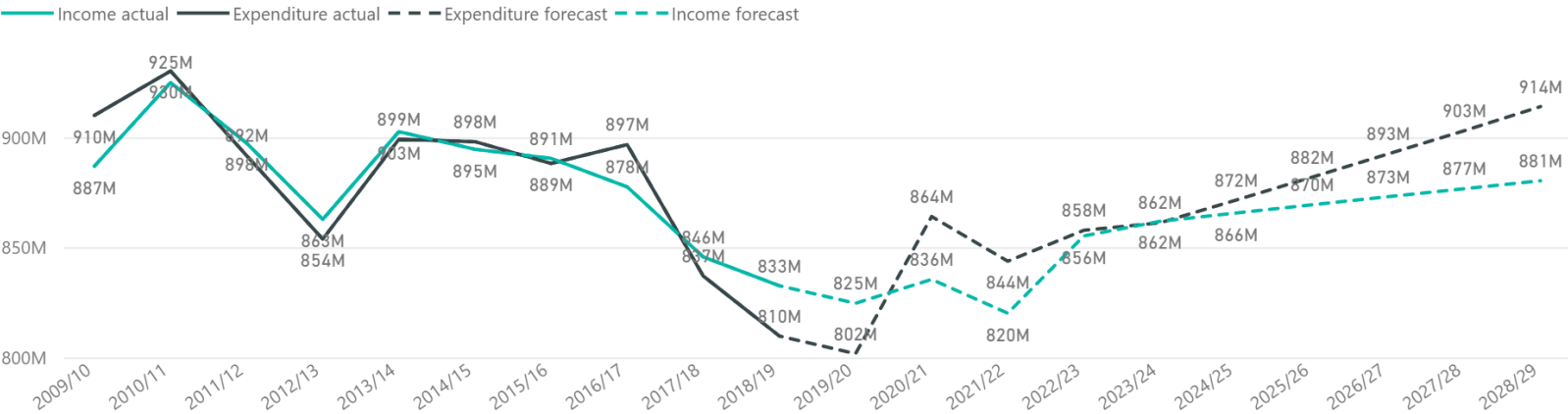
The Foresight model



SAMPLE MODEL OUTPUTS

Baseline Income, Expenditure, Reserves - Covid-19

Income actual, Expenditure actual, Expenditure forecast and Income forecast by Financial year



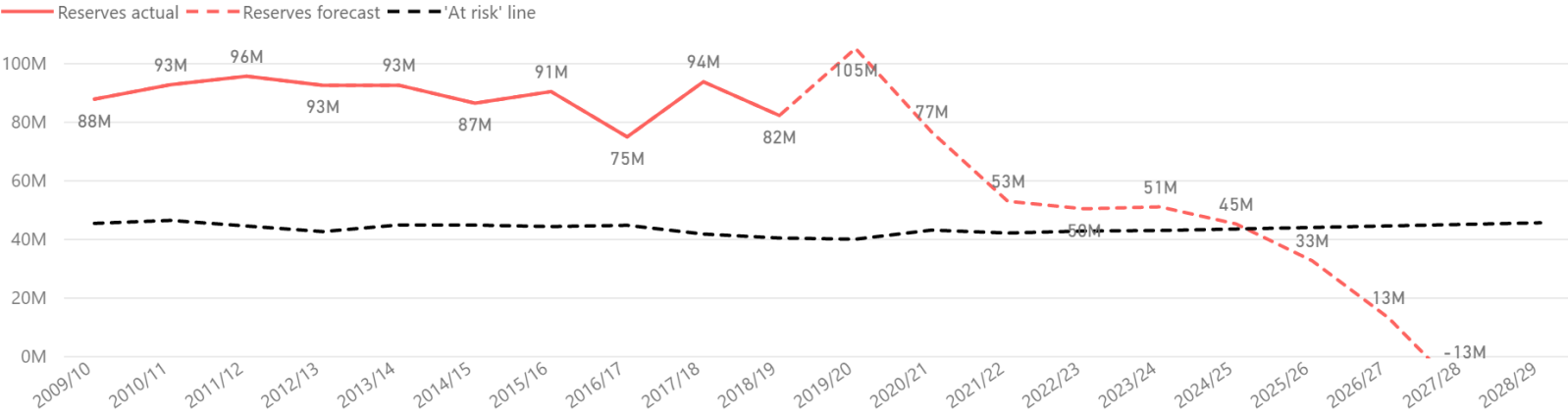
Expenditure YoY change

0.00

Income YoY change

0.00

Reserves actual, Reserves forecast and 'At risk' line by Financial year



- Use this list to select which reserves you would like to include
- ☒ Other earmarked financial ...
 - ☐ Public Health financial res...
 - ☐ Schools reserves level
 - ☒ Unallocated financial reser...

2024/25

Year 'at risk'

SAMPLE MODEL OUTPUTS

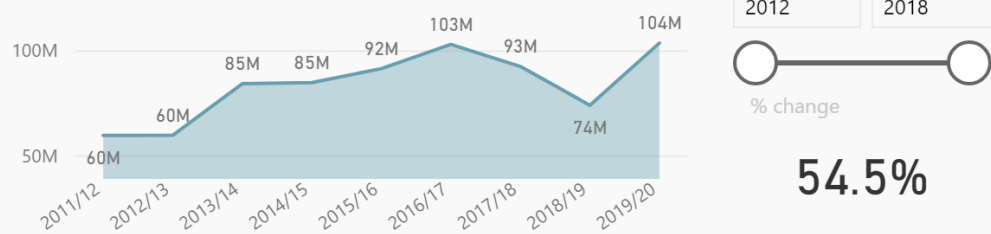
Service line

Children's Social Care

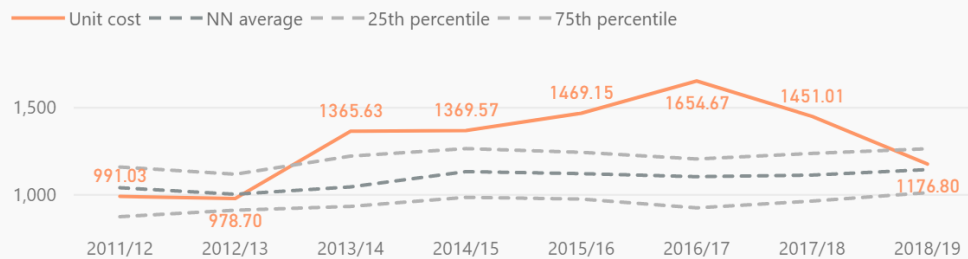
Forecast →

Historical context

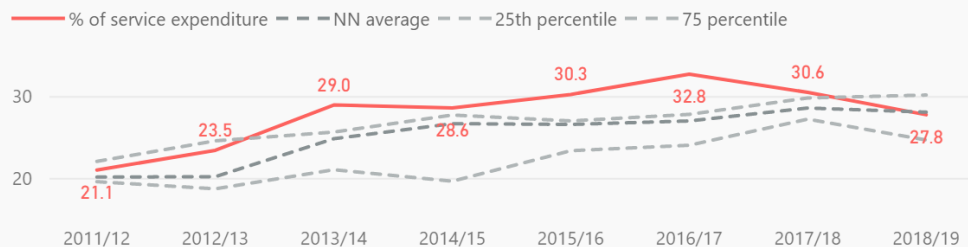
Service line expenditure



Unit cost and near neighbour average

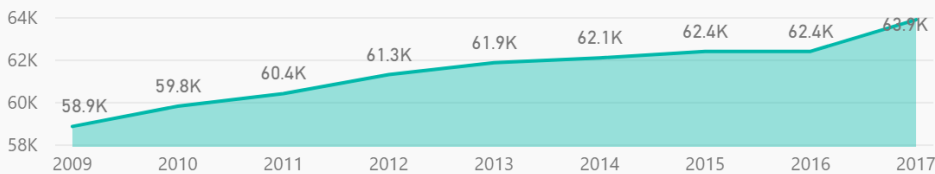


% of service line expenditure and near neighbour average



Historical context

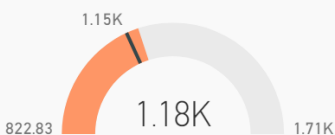
Denominator: Population 0-17



Use this drop down to select a year to compare your unit cost to your near neighbours

2018/19

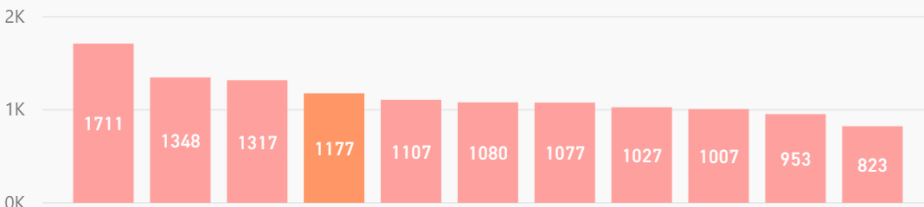
Unit cost comparison



Unit cost rank

4/11

Near neighbour unit costs

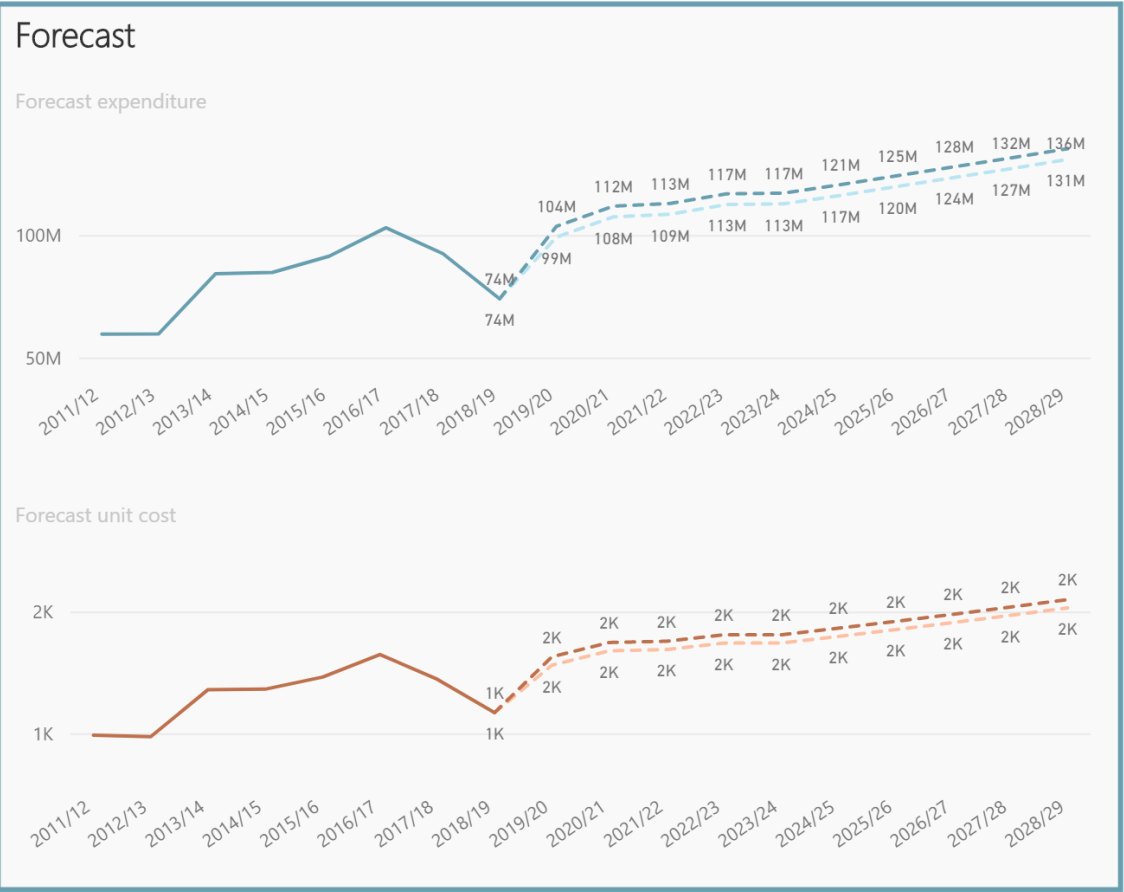


SAMPLE MODEL OUTPUTS

Forecast Demand Led Services

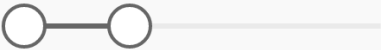


Children's Social Care ▼



Use this slider to select the years you want to calculate a saving over

2018 2021



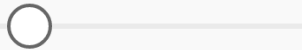
Single year opportunity Cumulative opportunity

4.4M 13.1M

Opportunity

Use this slider to move your unit cost down your near neighbour ranks

1

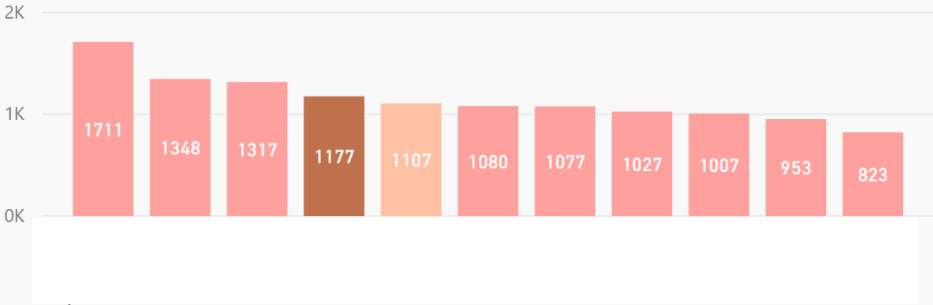


Use this slider to apply a year on year % change to the service line

0



Near neighbour unit costs



Opportunity

Service line opportunity

| Attribute | Rank | Unit cost | Reduced unit cost | Opportunity |
|----------------------------|-------|-----------|-------------------|-------------|
| Housing Services | 9/11 | 151.65 | 110.43 | 5,717,808 |
| Children's Social Care | 4/11 | 1,176.80 | 1,107.38 | 4,382,590 |
| Highways & Transport | 6/11 | 10.21 | -2.98 | 4,332,787 |
| Adult Social Care | 8/11 | 375.21 | 363.92 | 2,995,003 |
| Environmental & Regulatory | 8/11 | 90.56 | 85.29 | 1,728,728 |
| Planning & Development | 7/11 | 24.12 | 23.74 | 126,056 |
| Central Services | 6/11 | 70.20 | 70.04 | 51,562 |
| Cultural & Related | 11/11 | 24.91 | 24.91 | 0 |

Use this slider to move your unit cost down
your near neighbour ranks

1



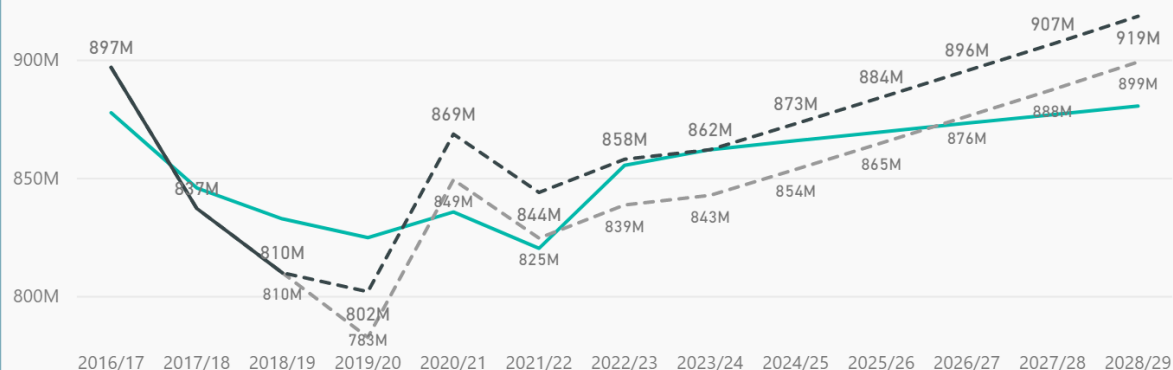
N/A

Opportunity year at risk

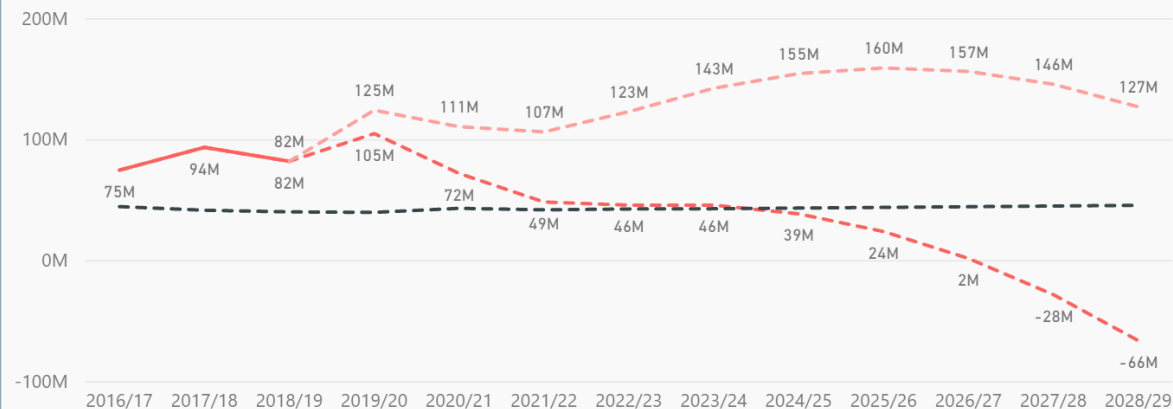
19.33M

Total Opportunity

Forecast income and expenditure with opportunity








Forecast reserves with opportunity



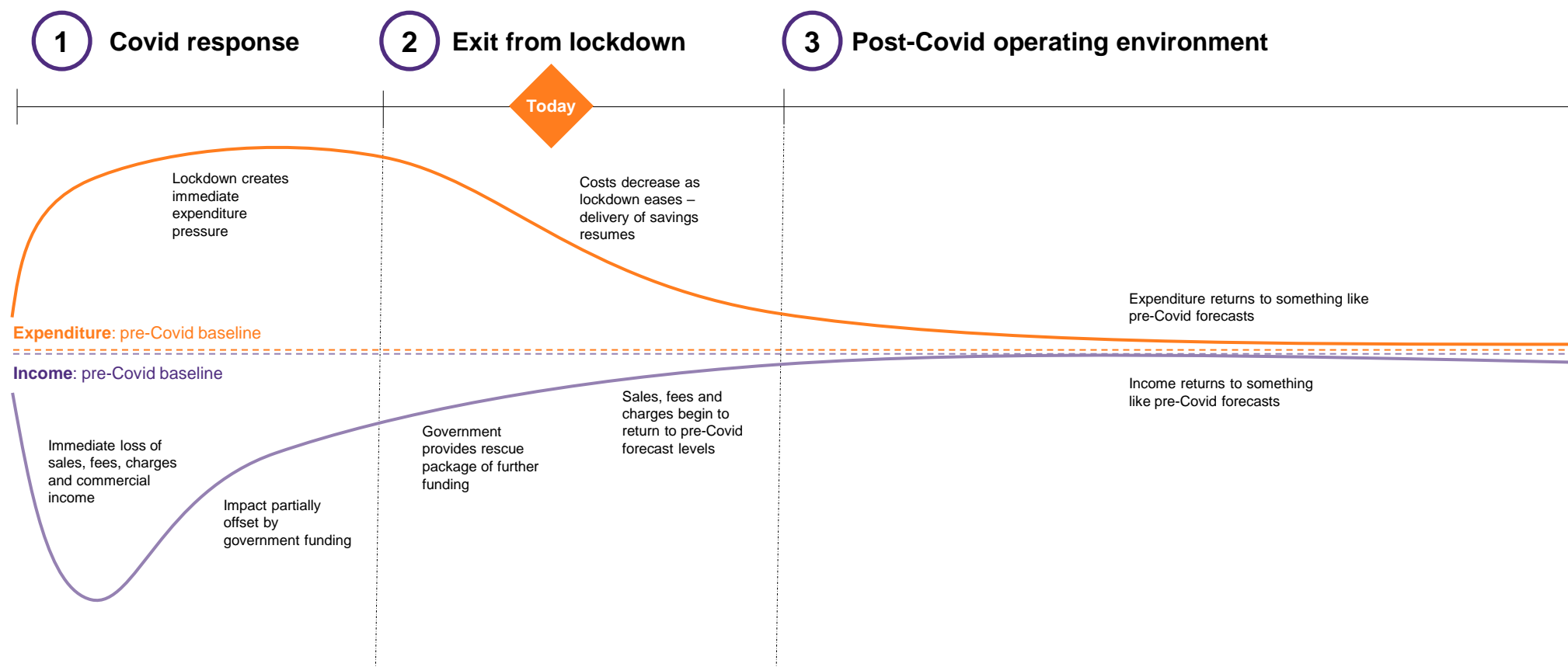
We start with place impacts

Scenarios and hypotheses: your area in 12-24 months?

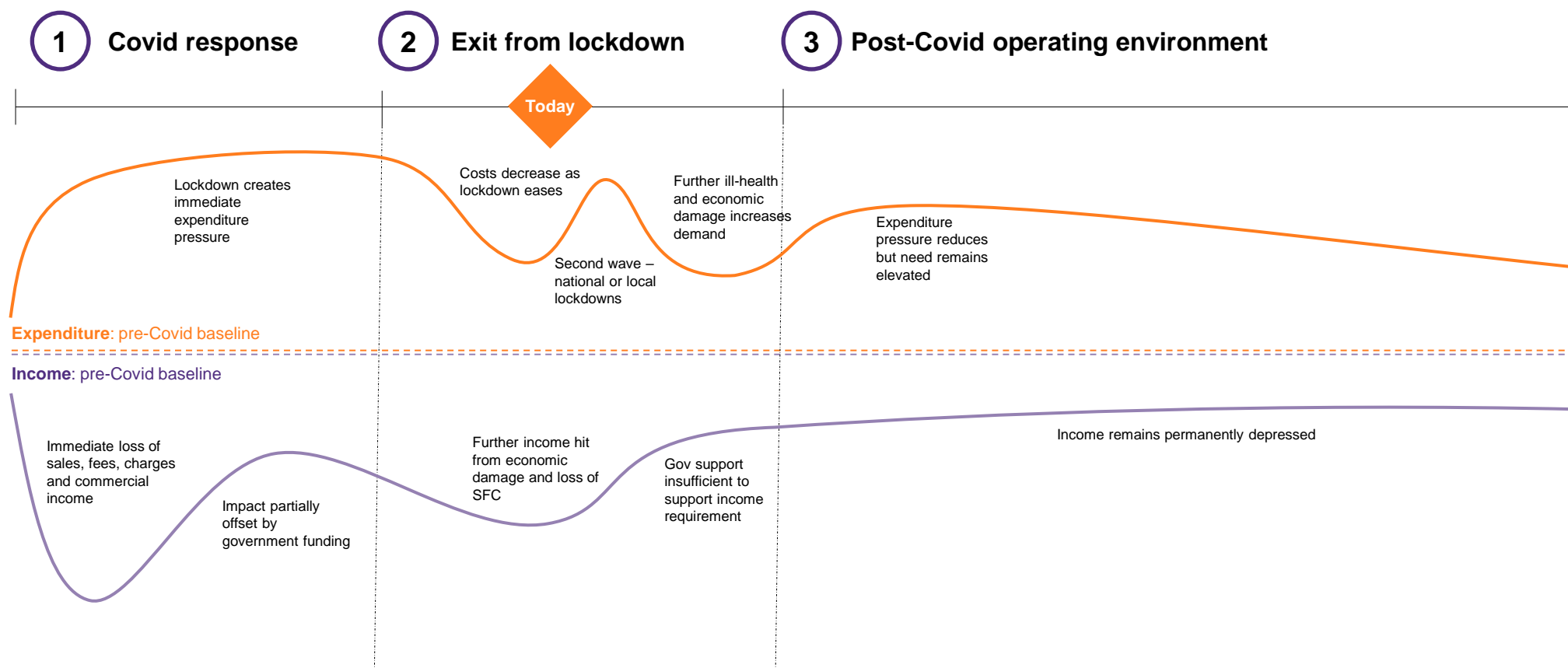
| Theme | | Reasonable worst case | Reasonable best case |
|------------------------------|---|--|---|
| People & community |  | <ul style="list-style-type: none"> • Uneven exit to lockdown and growing unrest • Socio-economic inequality is compounded • Community dependency and raised expectations • Turbulence and activism within the VCS | <ul style="list-style-type: none"> • Smooth exit from lockdown and growing confidence • Renewed focus on tackling inequality • Community mobilisation is channelled into ongoing resilience • Strengthened VCS relationships and focus |
| Business & economy |  | <ul style="list-style-type: none"> • 18% hit on GVA – slow recovery and trailing unemployment • Unmitigated skills gaps • The end of the high street • Economic stagnation | <ul style="list-style-type: none"> • 5-10% hit on GVA – rapid bounce back • New skills for new jobs and new jobs for old skills • Changing lifestyles rejuvenate town centres • Economic stimulus |
| Health & wellbeing |  | <ul style="list-style-type: none"> • Increased demand and escalating need • Newly-vulnerable cohorts place strain on the system • Unit costs increase as markets deteriorate • SEND transport unable to adapt to social distancing | <ul style="list-style-type: none"> • Positive lifestyle changes and attitudes to care • New service models for newly-vulnerable • Costs managed through prevention and market-shaping • Innovation in home-based specialist care |
| Environment & transportation |  | <ul style="list-style-type: none"> • Opportunity missed to sustain environmental benefits • Emissions worsened by avoidance of public transport • Capital programmes stuck • Failure of leisure and cultural services | <ul style="list-style-type: none"> • Ability to invest in transport modal shift and green infrastructure • Sustained impact on emissions due to new behaviours • New, shovel-ready infrastructure programmes • Leisure and cultural services adapted to social distancing |
| Organisational |  | <ul style="list-style-type: none"> • Local government side-lined with un-funded burdens • Austerity 2 – brutal cost reduction • Return to old practice with higher costs • Commercial portfolio becomes a liability | <ul style="list-style-type: none"> • Councils at the forefront of civic and democratic renewal • Fair funding and fiscal reform • Learning and adaptation to new operating environment • Commercial portfolio reshaped for economic and social gain |

... then develop corresponding financial scenarios for your organisation

Scenario 1 – swift return to normality

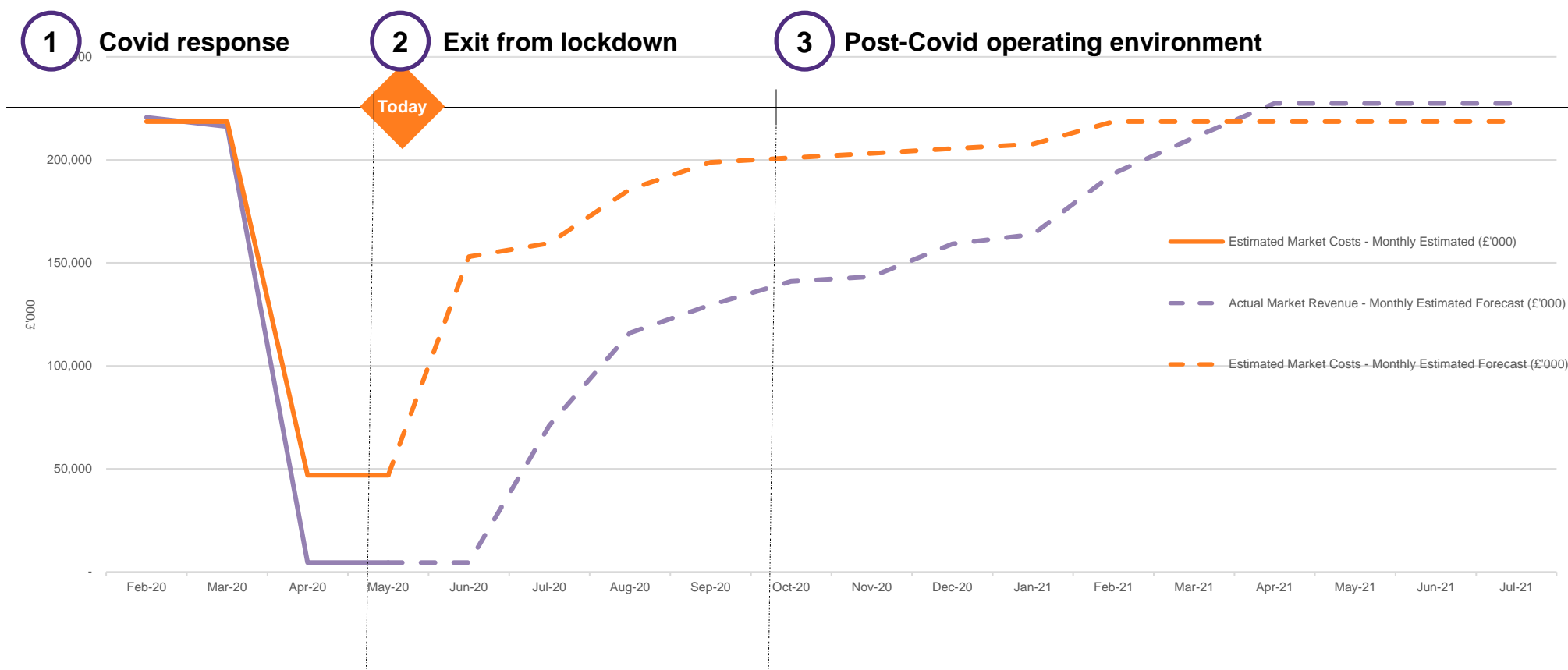


Scenario 2 – second wave and ongoing disruption



Service-level trajectories are used to build up the overall picture

Example: national trajectory for leisure services

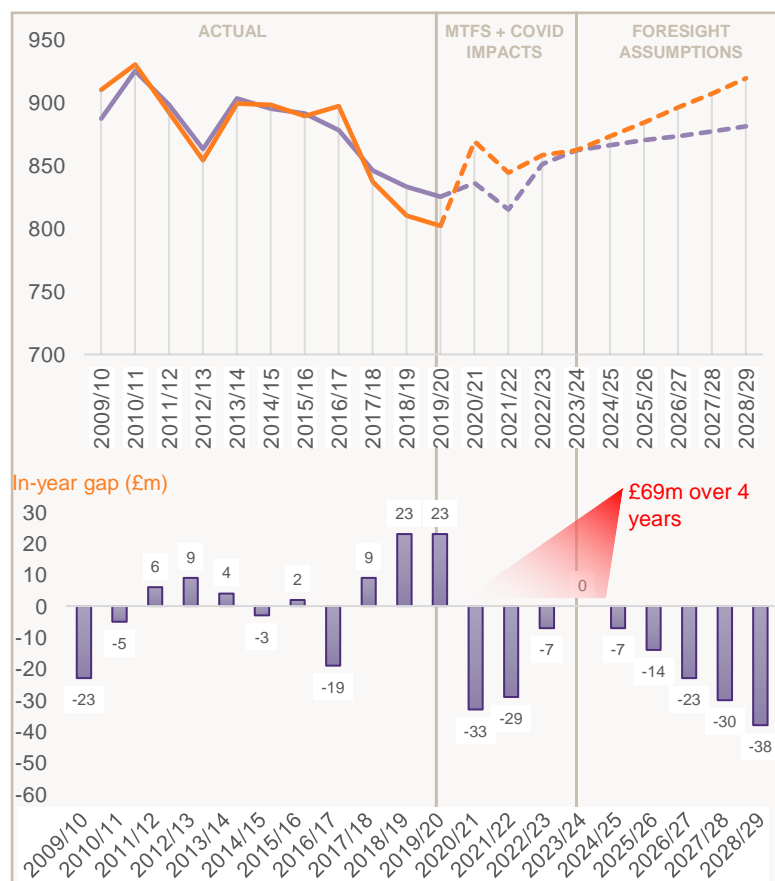


We can then paint a range of financial scenarios....

- Actual expenditure
- - - Forecast expenditure
- Actual income
- - - Forecast income
- In-year budget gap

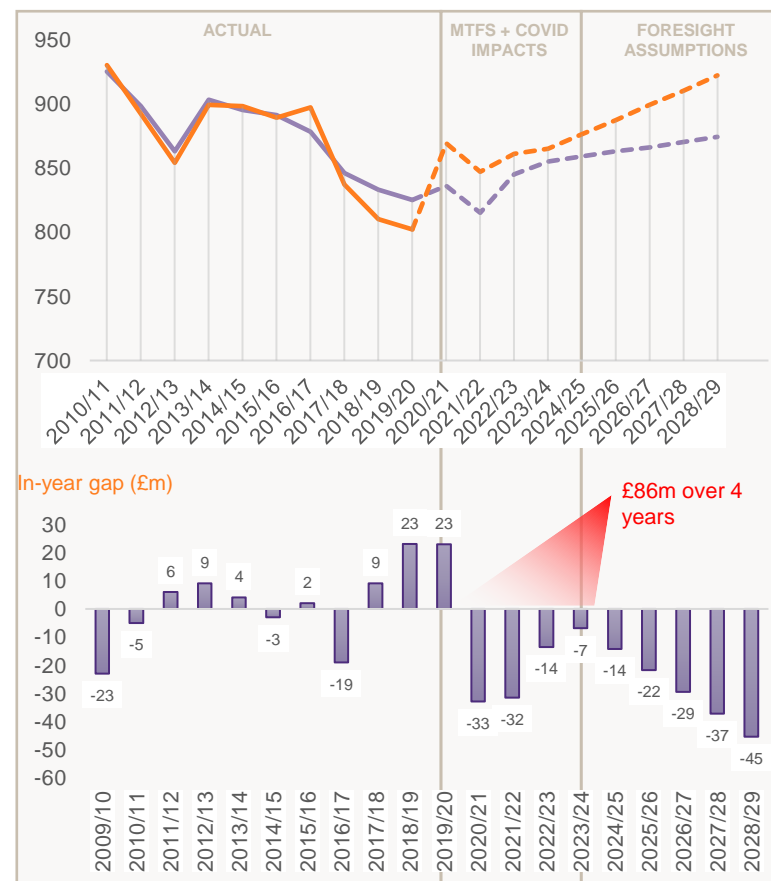
Reasonable **best** case scenario

Income and expenditure (£m)



Reasonable **worst** case scenario

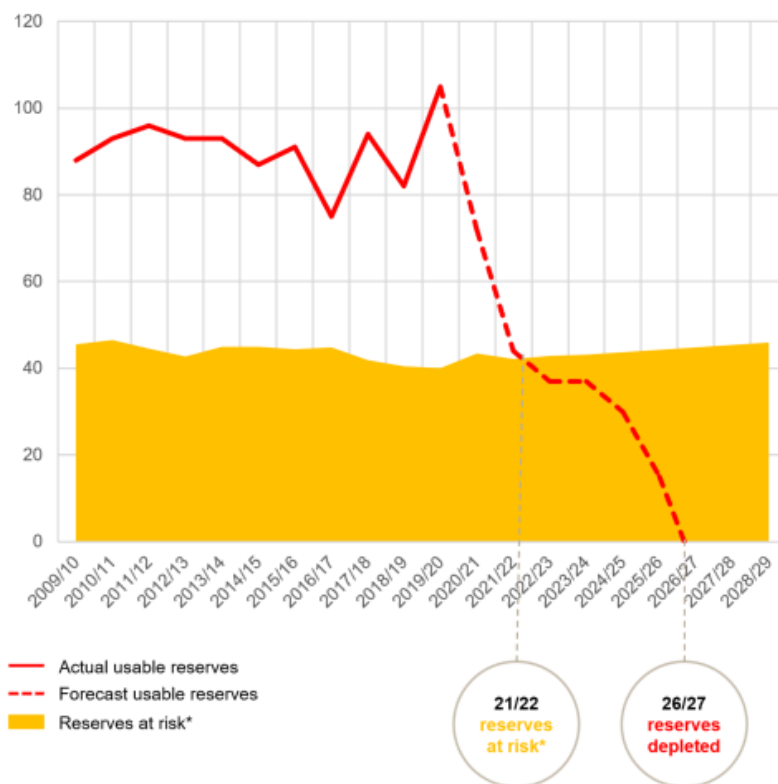
Income and expenditure (£m)



... and model impact on reserves without other interventions

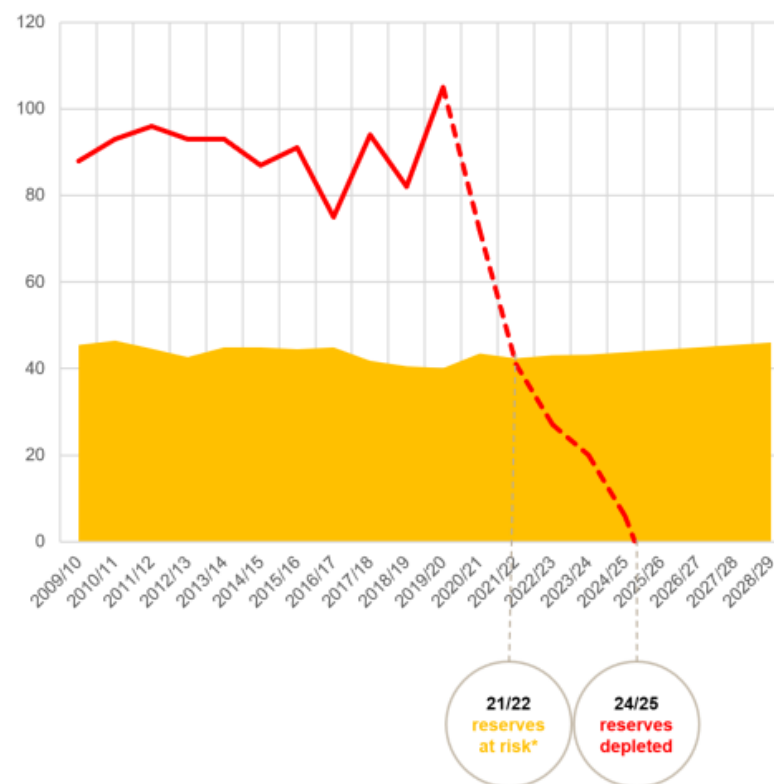
Reasonable **best** case scenario

Usable reserves (£m)



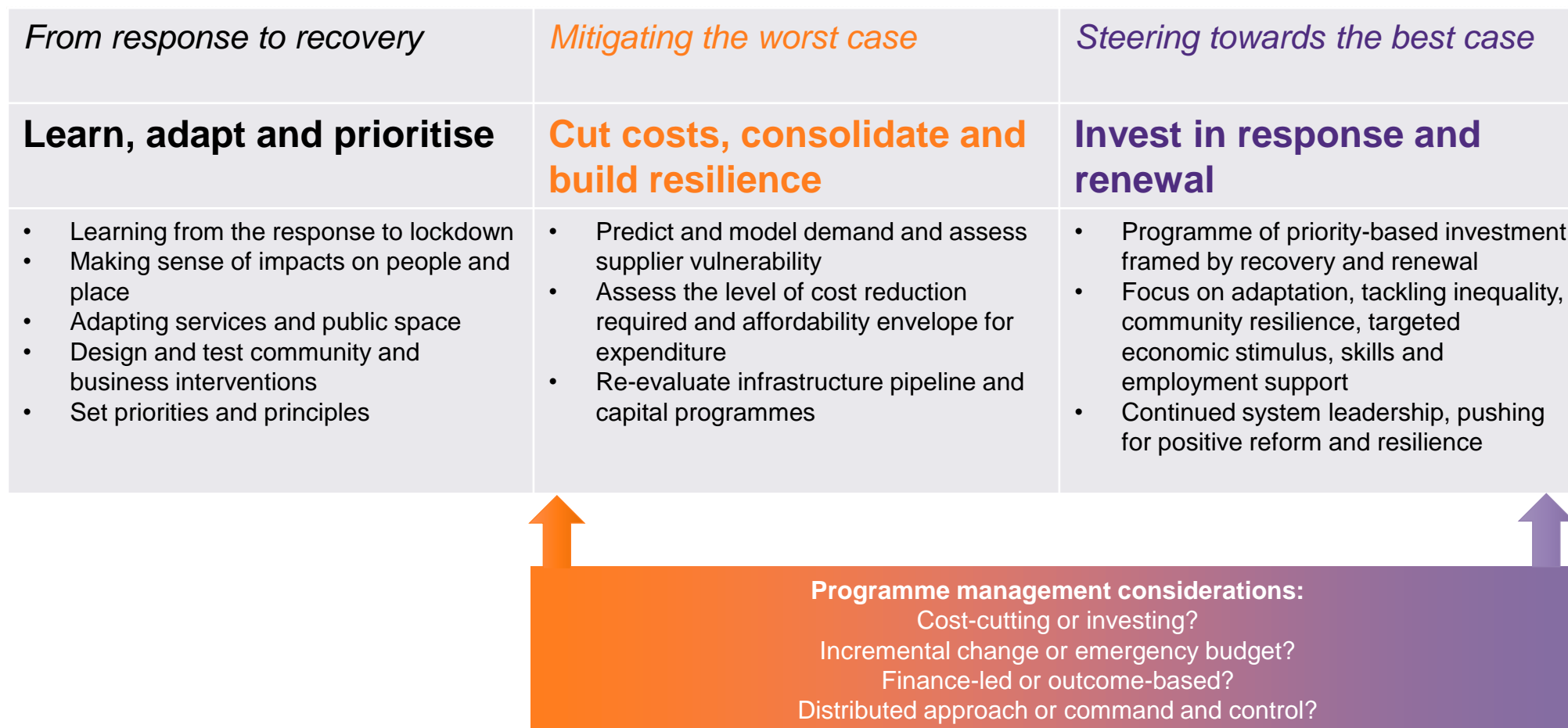
Reasonable **worst** case scenario

Usable reserves (£m)



* "at risk" = equal to or less than 5% of net revenue expenditure

Strategy: what do you do when everything is uncertain?



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

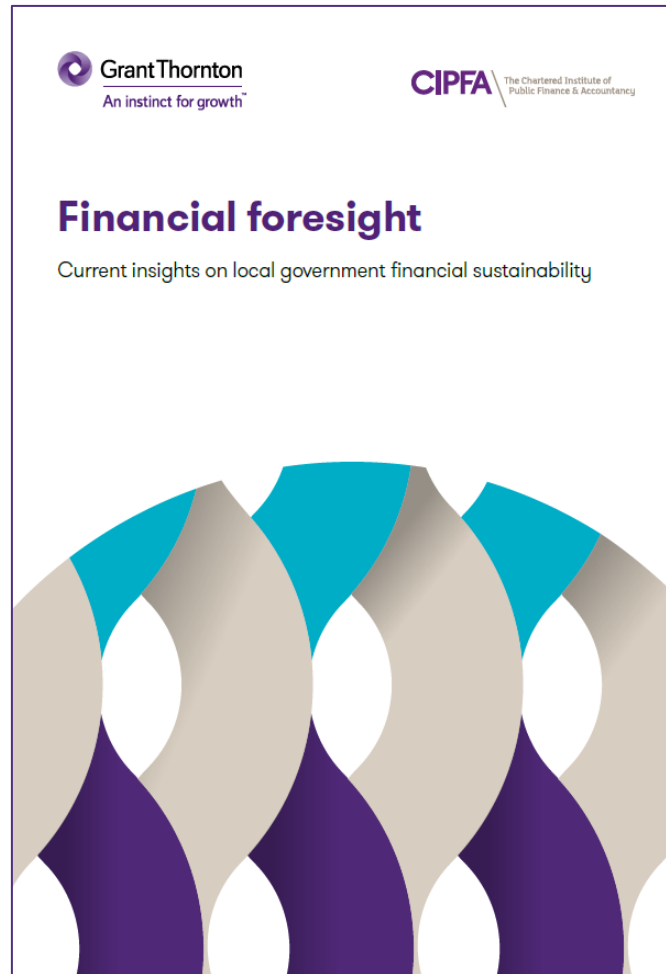


Strategic investment in transformation and economic growth where cliff edge is 4+ years out



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

CIPFA/Grant Thornton publications



<https://www.grantthornton.co.uk/en/insights/how-local-authorities-can-prepare-for-coming-challenges/>

<https://www.grantthornton.co.uk/en/insights/empowering-councils-to-prepare-for-the-future/>

Thank you
for your kind attention

Any questions?



Contact details.

Guy Clifton, Director.

T: 07771 974285

E: guy.clifton@uk.gt.com

W: grantthornton.co.uk

