

# Financial Foresight

Current insights on local government financial sustainability

Autumn 2020



# Introduction

COVID-19 probably arrived at the worst time for many councils. Even before the arrival of coronavirus, many local authorities were at significant financial risk after 10 years of austerity, during which time spending on local services fell by 21% in real terms.

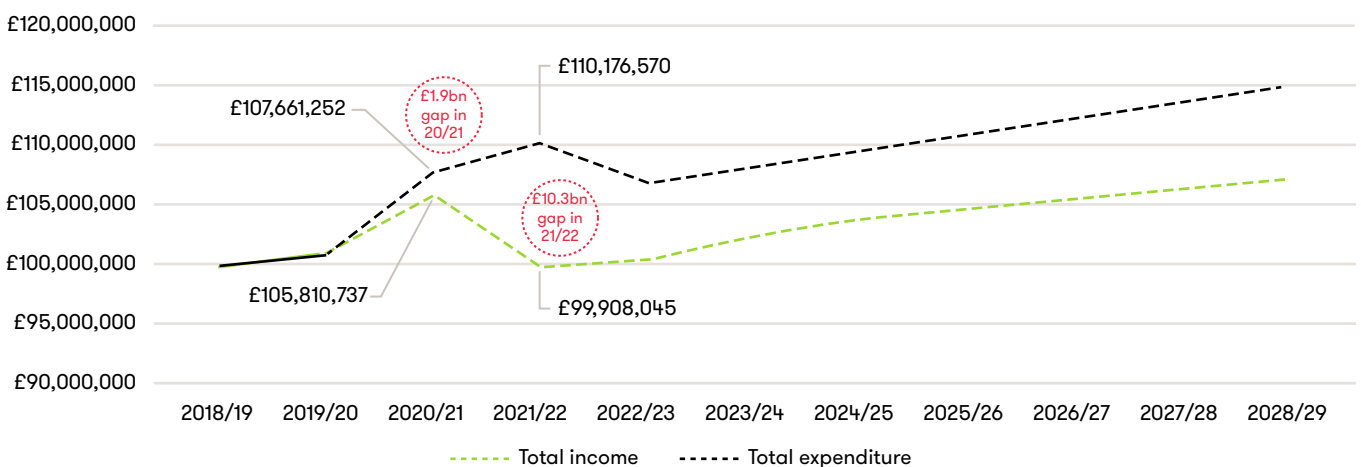
To help balance the books, local authorities reduced spending on more discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income sources, including a more commercial approach.

However, after a decade of austerity, coupled with the impact of the first wave of COVID-19, the need for local authorities to focus on financial resilience and their long-term sustainability is now more crucial than ever. But financial resilience isn't the only challenge as it must be balanced with the outcomes local leaders want to achieve for their place and communities. For example, social care and homelessness, amongst other citizen needs, need to be addressed in order to achieve vibrant places that work for all.

In terms of where we're currently at, there are very few services that haven't been impacted by the pandemic. As part of their response, many councils have created new service lines, including identifying and supporting shielded and other vulnerable citizens, and deploying people to new roles and assets to new functions (for example closed leisure centres repurposed as temporary mortuaries and food banks).

Coronavirus has shone a spotlight on local government finances like never before and increased the complexity of the issues council leaders now face, including even greater demand on social services, falling commercial revenues and the non-delivery of savings plans. Layer on this the potential negative impact of Brexit and the need to develop local policies to achieve the UN's 2030 sustainability goals and the UK government's own ambitions regarding the levelling-up agenda and climate change, and the challenges that need to be overcome can seem insurmountable.

## Local Authority Income and Expenditure (England) 2018/19 to 2028/29



Source: Grant Thornton/CIPFA Financial Foresight

Central government has made significant additional funding contributions to help local authorities deal with the impact of COVID-19. Despite this, the total funding gap for councils in England is currently estimated to be £4.5 billion for 2020/21<sup>1</sup>, with the sector still in the process of determining the longer term financial impact of the pandemic. The tranches of government funding provided so far has generally focussed on alleviating the financial pressures created by COVID-19 related spend, and so has had limited benefit for lost income such as that relating to leisure services.

This document aims to highlight how Grant Thornton and CIPFA can together help councils rebuild their strategies through the utilisation of Financial Foresight.



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<sup>1</sup> Grant Thornton/CIPFA Financial Foresight

# Adaptive financial planning in a COVID-19 environment

Local Government Chief Finance Officers have a statutory duty to ensure their council is able to set and maintain a balanced budget. Whilst some councils may be able to draw on reserves to help manage their funding position, this is not a sustainable solution.

In the absence of additional sources of funding becoming available, some councils will need to take drastic action over the short to medium term to ensure their finances stay in balance – but what does that mean, both for councils and their communities?

This stark financial context has significant implications for councils as they start to move from the initial emergency response stage to the recovery planning stage of the pandemic.

## Key risks councils will need to consider



How service delivery may need to change overall as a result of COVID-19 and how long-lasting cultural and behavioural changes will impact operating models.



The reopening of facilities such as leisure centres, including balancing the impact of COVID-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules.



The impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure.



Whether certain services will need to reduce or cease altogether to manage the funding gap.



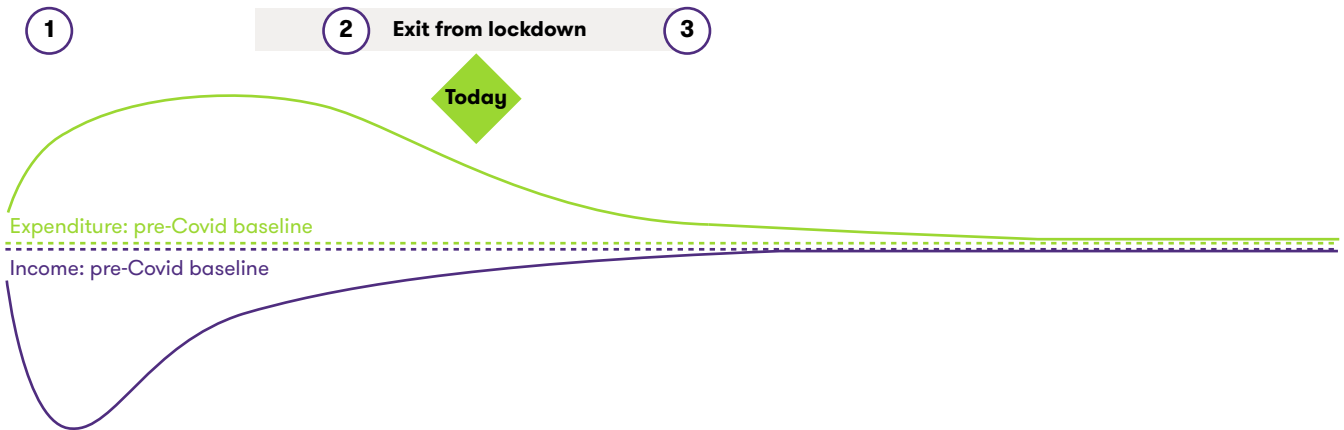
The economic impact of COVID-19 will impact on service need and on the demand for income generating services.



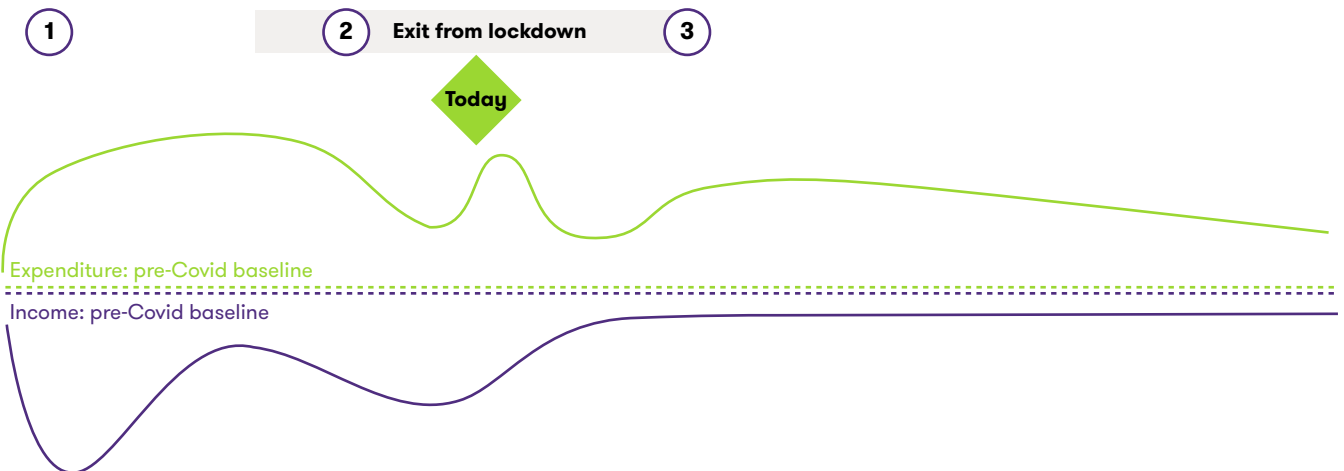
Understanding the various scenarios, including their financial implications and the resources available to deliver them, will be critical over the short to medium term.

How councils manage income in terms of financial planning and management is becoming increasingly important and requires a particular focus as part of COVID-19 recovery plans. More than ever, budgets must be linked to desired outcomes.

### Scenario A: swift return to normality



### Scenario B: second wave and ongoing disruption



# How Grant Thornton and CIPFA can help

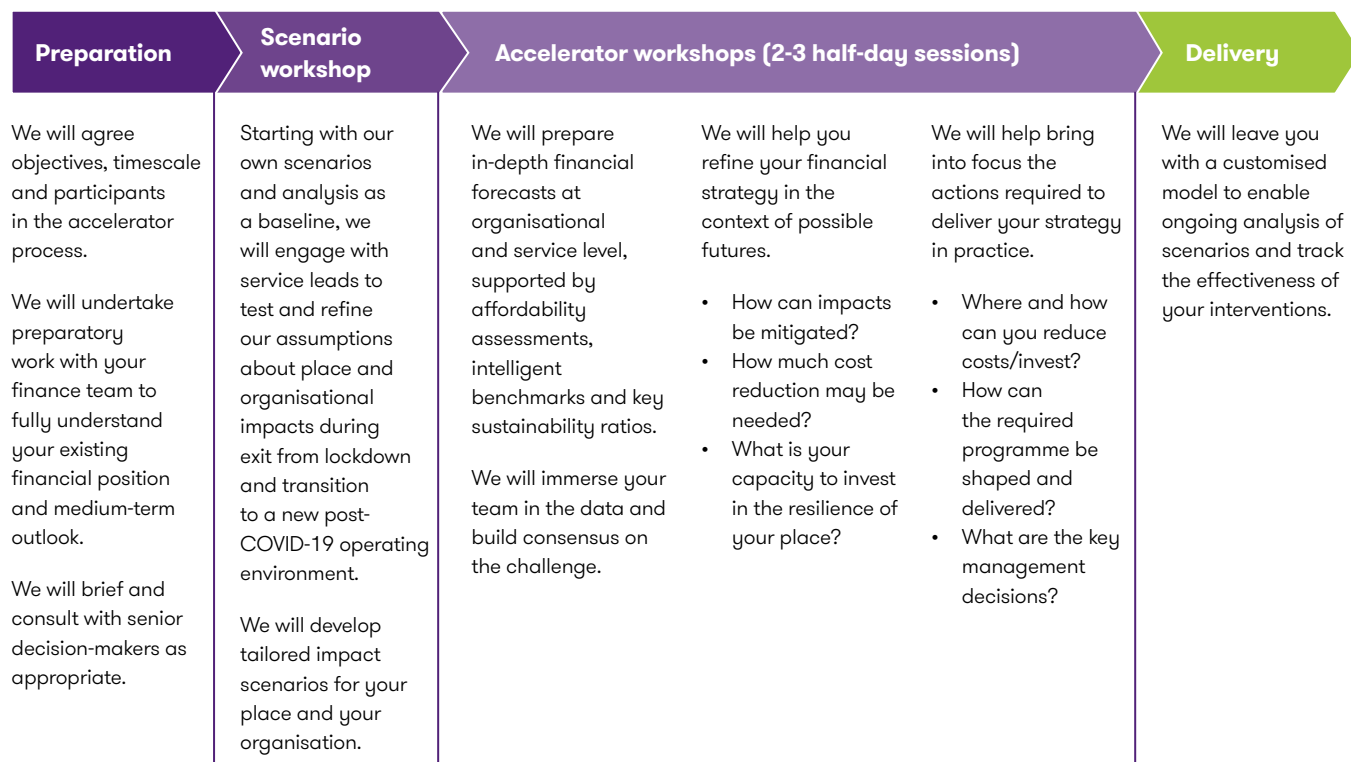
## The Financial Foresight approach

Financial Foresight, Grant Thornton and CIPFA's joint modelling tool, projects costs and income forward to provide a baseline financial forecast for every council in England. In addition to income and costs projections, Financial Foresight benchmarks spend between authorities, and applies socio-economic and service outcomes in order to understand the nature and effectiveness of spend.

This analytical framework enables us to engage with authorities at both a sector and individual council level, providing relevant and critical forecasting data direct to your team that would otherwise take months to assemble and clean. From this baseline we apply the testing and sensitivity functions of the platform to appraise the validity of different financial strategies, by benchmarking savings aspirations against peers, and measuring the impact on net spend and reserves of proposed interventions.

Financial Foresight is a six stage approach as set out below:

### 1. ENGAGE      2. SCENARIOS      3. FORECAST      4. STRATEGY      5. REMEDIES      6. ACT AND MEASURE





## The financial strategy accelerator workshop approach

Financial Foresight identifies the optimal mix of financial levers required to arrive at a sustainable longer term financial strategy, presented to you in a dynamic data visualisation suite.

A critical component of the service is the Financial Strategy Accelerator workshop. Designed to underpin holistic multi-service financial strategy development, our local government specialists, together with our data science and modelling teams will support you in the development of a robust and sustainable financial strategy and action plan.

During the Accelerator workshops, we will guide you through the following four core areas:

- 1** The baseline forecast and current financial prognosis, based on a preliminary run of the Financial Foresight platform.
- 2** Future aspirations and financial objectives – working through, with you, where your council is trying to get to in its financial strategy.
- 3** Understanding different scenarios, testing the options and levers – we run the Financial Foresight model against different scenarios and proposed interventions, i.e. benchmarking potential strategies for cost, outcome and socio-economic validity. We will work with you to arrive at the optimum mix of measures to provide a sustainable financial trajectory going forward.
- 4** Developing the plan – 24 hours after the workshop we will deliver your Financial Strategy Accelerator report setting out the strategy developed in the workshop, as well as provide you with a populated version of the Financial Foresight model for the council team to work with on an ongoing basis.

## Supporting data and insights

We are able to draw on a suit of data and insight platforms and tools to support our discussions, including the CIPFA Future Resources Model.





### Southend-on-Sea Borough Council

“Foresight helped our management team to get a clear and shared view of our financial trajectory and the wide range of factors that shape it. Using Foresight as a platform, our work with Grant Thornton has rapidly developed our thinking on how we meaningfully invest in the outcomes that matter to our Borough and our communities.”

—Alison Griffin, Chief Executive, Southend-on-Sea Borough Council

### London Boroughs of Enfield, Redbridge and Barnet

We were engaged separately by three London boroughs to support strategic financial planning. We delivered the Financial Foresight and Financial Strategy Accelerator processes to the leadership team of the Council, framing financial objectives of the Council over the medium term and helping to shape interventions to improve the financial trajectory across the medium term. We worked with each management team to help produce the range of transformation proposals required to meet their financial objectives.

### London Borough of Lambeth

We are using the latest version of Financial Foresight to support a COVID-19 recovery plan at LB Lambeth. We are generating evidence-based scenarios for impacts on residents and businesses within the borough and using these to build financial forecasts for the Council. We are currently engaging with the management team to use these forecasts to clarify potential budget gaps and mitigating actions over the medium-term.





## Cambridgeshire County Council

We worked with Cambridgeshire County Council to develop their strategic financial planning. Using the Financial Foresight model, we held Financial Strategy workshops with the Council's leadership team from which we identified a revised target financial trajectory for the Council, a set of strategic priorities around transformation and investment, and outline proposals for immediate implementation.

“Working with Grant Thornton to use the Financial Foresight tool, the joint management team for Peterborough and Cambridgeshire were able to get straight into the heart of rich conversations about the different financial trajectories for both Councils, and to agree a set of interventions to strengthen their position over the medium term. The whole process has helped us to inject pace and rigour into our financial improvement and transformation programmes.”

—Amanda Askham, Director, Business Improvement & Transformation, Cambridgeshire County Council & Peterborough City Council

## Peterborough City Council

We were engaged in a major assignment to develop a revised Medium Term Financial Plan (MTFP) and operating model for Peterborough City Council. We delivered Financial Foresight to the entire leadership team of the Council, and from that process developed a range of savings and growth proposals to support a more sustainable financial trajectory and forecast. We went on to support the Council with a major transformation project to help address a long-term structural deficit within their budget and pull the organisation back from the brink of serious financial problems.

## Wigan Metropolitan Borough Council

We worked with Wigan Metropolitan Borough Council to support development of the next iteration of their 10-year MTFP, framed around the latest iteration of the Wigan Deal strategy and programme. Using Financial Foresight and CFO Insights, we are focused in particular on demand-led services which are creating significant budgetary pressures. Financial Foresight is helping service leads to understand the impact of overspends on the overall financial trajectory of the Council, as the new plan is developed and risk areas are understood in more detail.

# About us

## About Grant Thornton

Grant Thornton UK LLP has a well established market in the public sector and has been working with local authorities for over 30 years. We are a leading provider of advisory, consulting and audit services, counting over 40% of English upper-tier local authorities as clients.

Our approach draws on a deep knowledge of local government, combined with an understanding of wider public sector issues. We have significant insight, data and analytics capabilities which supports our advisory and consulting work with local government. Our team comprises consultants, analysts, researchers and developers with a range of backgrounds which includes operational roles in the sector. Much of our work is underpinned by our national insight, data and analytics, which help to shape location and customer strategies.

We are backed by a wider firm that offers 3,500 specialists across a wide range of business advisory services working from 27 UK offices.

We have a deeply collaborative approach, and we work effectively across systems and with organisations from the public, private and third sectors. Our people, have a strong public service ethos, who are proud to be part of our client's improvement journeys including through the implementation stage.

## About CIPFA

CIPFA is the leading accountancy body for public services, providing education and training in accountancy and financial management.

We believe that improving public services is the key to changing lives for the better – and that good public financial management is central to achieving that. To help us achieve this ambition, in addition to our life long learning services, we also provide a range of leading advisory and consultancy services across the public sector. As a result we can help local authorities develop robust financial plans – which in turn help them to make a real difference not only to their financial resilience but also to the communities they serve.





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