Post-COVID-19 scenario planning

A survey sponsored by Unit4
The Chartered Institute of Public Finance and Accountancy (CIPFA) is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, major accountancy firms and other bodies where public money needs to be effectively and efficiently managed. As the world’s only professional accountancy body to specialise in public services, CIPFA’s qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA leads the way in public finance by standing up for sound public financial management and good governance.
Contents

1. Background  2
2. Key messages  3
3. About the methodology  4
4. Survey findings  5
1. Background

Financial planning and budgeting is essential for all local authorities, but after ten years of austerity, the impact of COVID-19 and rises in demand for services, robust financial planning is more challenging than ever. Forward-looking, strategic financial planning can help organisations lock in resilience for the long term – however, local authorities now need to plan for a world that is very different to just 12 months ago.

Andrew Burns FCPFA MBA
Associate Director, CIPFA

Between 18 February and 12 March 2021 (inclusive), an online survey was conducted of CEOs, CFOs, section 151 officers and heads of finance within local government, including blue light and other services across England, Scotland, Wales and Northern Ireland. The survey sought to explore how local government and others had approached budgeting during the pandemic and how they intended to move forward.

In May 2021, a roundtable discussion was held to provide further insight into a number of key topics arising from the analysis of the online survey. Participants consisted of those who had opted to volunteer as part of the survey.

The online survey and subsequent roundtable were hosted by CIPFA and sponsored by Unit4.

The National Audit Office (NAO) report *Local Government Finance in the Pandemic* (March 2021) covered a number of the same themes, and their conclusions provide external validity to many of the findings in this short survey. Their report is exclusively based on data and interviews with local government officers but provides additional context and background.
2. Key messages

Our evidence shows that since 2019, the average length of medium-term financial plans (MTFPs) has shortened. The increase in short-term planning horizons suggests that authorities feel they are unable to predict either service demand or income with confidence much beyond three years. This cautious approach may well be justified following COVID-19 as demand for services, such as social care services, is expected to increase.

Some of this financial planning will be influenced by the temporary nature of behavioural changes. The budget position will settle in the longer term, but permanent behavioural changes will have arisen, and these must be recognised and reflected in MTFPs.

It is perhaps not surprising that financial resilience is a major priority for all local authorities. The financial sustainability of the sector has been the subject of debate for over five years. Concerns over health and social care funding feature in the top-tier authorities, where this responsibility is a major cost and the future of social care funding is still unclear. For lower-tier authorities not responsible for social care, financial resilience is still a key factor in their decision making. Both identified the importance of a strong economy, as this directly affects the financial resilience of a local authority, for example with business rates contributing to the budget.

Our findings show that prior to COVID-19, 21% of respondents had budgets that were in deficit. Local authorities in deficit may have to use a greater proportion of their reserves or increase council tax by a larger percentage in order to deliver services. This makes them more vulnerable to service cuts and may require additional support from the government.

With the funding from the government to support local authorities during the pandemic, the majority feel confident that they will balance budgets. Looking forward, the increasing uncertainty is reflected in the lack of confidence over setting a balanced budget. While authorities will scenario plan, this is difficult to do, given the interplay between grants, income and demand.

Planning and scenario modelling is an effective and sensible approach to dealing with financial uncertainty. However, our findings show that a third of respondents lacked confidence in scenario planning. This was particularly marked in lower-tier authorities. CIPFA’s Financial Management Code refers to this approach in its guidance; however, it is complex and requires skills and capacity. Smaller authorities may not have some of those specialist skills or are in the process of developing them, and this may account for some of their responses. Regardless, the reliance on spreadsheets and the fact that there is a lack of assurance around some calculations may be a cause for concern as the importance of projected costings becomes increasingly significant and an area of increased risk.
3. About the methodology

The findings within this report are based on responses to an online survey and roundtable meeting. The online survey was conducted over a three-week period commencing on 25 February and concluding on 12 March. The survey consisted of 17 questions of varying types, including tick box, free text and numeric. Respondents were given the opportunity to respond to all questions, although none were marked as mandatory. Despite this, and given the variety of questions, response times varied from 10–40 minutes. In total, some 92 respondents participated from across England, Scotland, Wales and Northern Ireland. While the majority were from local authorities, there were also responses from police and crime commissioners, police forces, fire and rescue services and national parks authorities. Those approached to take part were identified as a CEO, CFO, section 151 officer or a head of finance from CIPFA’s client database. Each person was invited to participate up to three times unless they responded or had requested to be removed from our list. In total, 1,089 people were approached, resulting in a survey response rate of 8.5%.

The roundtable took place on Wednesday 12 May and was attended by 11 senior officers from a variety of local authorities, including district councils, county councils, metropolitan councils and English unitary councils, along with staff from CIPFA, who ran the event, and Unit4 in an observatory capacity. The roundtable ran for 117 minutes and the audio recording was transcribed for analytical purposes – anonymised extracts are included in this report. It should be noted that participants for the roundtable were not selected randomly but were those who volunteered to take part, having participated in the online survey. Our thanks go to those who gave up their time.
4. Survey findings

This section includes a detailed analysis of the findings across the three main themes of the online survey and subsequent roundtable: pre-COVID-19, impacts of COVID-19 and planning and forecasting. It draws together feedback from the online survey alongside, where pertinent, comments recorded at the roundtable and our commentary.

Pre-COVID-19

Figure 1: Respondents’ budget positioning pre-COVID-19.

Approximately one in five (21%) of respondents claimed that as the pandemic hit, their budget was in deficit, while 8% stated that they were in surplus, with the remaining 71% having a balanced budget. Of those in deficit, half (50%) were lower-tier English districts. Of those that were in surplus, the extent of this surplus ranged from 3% to 10%, with an average figure of 7%. Correspondingly, those in deficit reported figures ranging from -1% to -15%, with an average of -5%.

This picture reflects the different position authorities find themselves in financially when looking to set a budget. Funding is not shared equally across the sector, and although redistribution occurs, there are historical and economic reasons for this range. Local authorities in deficit may have to use a greater proportion of their reserves or increase council tax by a larger percentage. Those 21% in deficit pre-COVID-19 will be more vulnerable to service cuts and may require additional support from the government.
The evidence suggests that over time, the average length of MTFPs is shortening, down from five years in 2019 to three and a half years in 2021. Further analysis of the data revealed that lower-tier authorities experienced the most significant change.

This reduction in time covered by the medium-term financial plan highlights the uncertainty over future funding. The increase in short-term planning horizons suggests that authorities feel they are unable to predict service demand or income with confidence much beyond three years. This cautious approach may be well justified following COVID-19, as demand for services such as social care is expected to increase.

Roundtable participants observed that:

- the majority of financial plans are becoming increasingly focused on just one year, and medium-term financial plans are increasingly less robust than in previous years as a result of financial uncertainty in the sector
- although there is a review of business rates, this has been delayed, and there are likely to be further extensions to reliefs and holiday periods that will hit councils’ income
- the reliance on reserves is concerning, as these are finite resources, and the means by which depleted reserves can be replaced is far from obvious.
Figure 3: Medium-term financial plan priorities identified by respondents.

What were the priorities at the point that this MTFP was established?

**Top tier**

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial resilience/improved service delivery, including digital</td>
<td>58%</td>
</tr>
<tr>
<td>Strong economy, regeneration and housing</td>
<td>55%</td>
</tr>
<tr>
<td>Health and social care</td>
<td>50%</td>
</tr>
</tbody>
</table>

**Lower tier**

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial resilience/improved service delivery, including digital</td>
<td>86%</td>
</tr>
<tr>
<td>Climate change</td>
<td>55%</td>
</tr>
<tr>
<td>Strong economy, regeneration and housing</td>
<td>38%</td>
</tr>
</tbody>
</table>

For top-tier organisations, there was not that great a difference across the top three priorities. However, for lower-tier organisations, the priorities are quite distinct, with financial resilience/improved service delivery being the number-one issue by some margin.

It is perhaps not surprising that financial resilience is the major priority for local authorities. The financial sustainability of the sector has been the subject of debate for over five years. Health and social care would feature in top-tier authorities, where this responsibility comes at a major cost and the future of social care funding is still unclear. The importance of a strong economy interlinks with the financial resilience of any local authority with business rates contributing to the budget.
Roundtable participants suggested that:

- there remains a high degree of uncertainty over national policies such as the fair funding review, and social care reform, which does not improve decision making for local government

- specifically in relation to the fair funding review, there is concern about the timing, the quantum and redistribution.

The main factors for me are, firstly, the lack of financial certainty through the fair funding review and the grants position, and speaking again for districts in our county, things like the New Homes Bonus and joint working through that and the future of the Better Care Fund, not just the fair funding review, which continues to be kicked down the lane of late decisions on things like the adult social care levy...

**Roundtable participant**, county council

**Figure 4: Balanced budget likelihood by local authority as identified by respondents.**

What is the likelihood of your local authority setting a balanced budget for:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Certain</th>
<th>Likely</th>
<th>Unsure</th>
<th>Unlikely</th>
<th>Very unlikely</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021/22</td>
<td>91%</td>
<td>4%</td>
<td>4%</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>2022/23</td>
<td>45%</td>
<td>25%</td>
<td>12%</td>
<td>0%</td>
<td>43%</td>
</tr>
<tr>
<td>2023/24</td>
<td>43%</td>
<td>12%</td>
<td>0%</td>
<td>0%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Responses appear to reflect that over a three-year period, the likelihood or certainty of setting a balanced budget diminishes. In the financial year 2021/22, some 91% of our respondents felt they would set a balanced budget, falling to 12% by 2023/24. Interestingly, our results reflect the findings of the NAO report for 2021/22, which found that 92–93% of local authorities would set a balanced budget.

With the funding from government to support local authorities during COVID-19, the majority feel confident that they will balance budgets. Looking forward, the increasing uncertainty is reflected in the lack of confidence over setting a balanced budget. While authorities will scenario plan, it is difficult, given the interplay between grants, income and demand.

A key message from the roundtable suggested that although there is due to be a review of business rates, this has been delayed, and there are likely to be further extensions to reliefs and holiday periods, which will hit councils’ income. Furthermore, the issue may not just be about the “share of the cake”, but the “size of it”.

The whole fair funding review has been based around the belief that we have a greater share of business rates revenues retained in local government, and I think if a pandemic has taught us one thing, that comes with some significant risks.

**Roundtable participant**, English unitary council
So, business rates – obviously, massive uncertainty because a lot of the income that we get is generated from growth, and that’s a massive uncertainty going forward, particularly as businesses have been severely hit by COVID-19, so trying to forecast and predict the longevity of that is difficult at the moment.

Roundtable participant, borough council

Figure 5: Services respondents identified as being under the greatest budgetary pressures.

Which three service areas are currently under the greatest budgetary pressures?

This data would suggest that there has been a degree of flux experienced by lower-tier authorities over the period – for instance, in 2021, cultural and related services became the number-one issue, whereas for top-tier authorities, education has changed in importance and is now tied third (along with highways and transport and housing). However, for top-tier authorities, social care for both adults and children remains the primary concern. Although health and social care was not the number-one priority at the point the MTFP was established, there is a link to financial resilience.

The increase regarding cultural and related services in 2021 may be linked to the concerns surrounding leisure centres during the COVID-19 pandemic. Many lower-tier authorities have experienced significant financial pressures. By contract, housing has largely been protected through legislation and government intervention, although the temporary nature of this is recognised.
The impacts of COVID-19

Figure 6: The impact of COVID-19 on respondents’ budgetary positions.

Bearing in mind both the costs of COVID-19 and new grants received from government, to what extent has the budget position changed?

- Worsened, 50%
- Stayed the same, 38%
- Improved, 12%

Half of our survey respondents (50%) confirmed that in light of the pandemic, and taking into account grants received, their position had worsened. This will reflect the fact that government support did not cover all the costs of COVID-19. The Ministry of Housing, Communities and Local Government (MHCLG) has obtained monthly data from local authorities throughout the pandemic and it is evident that demand has risen quicker than funding in certain areas.

Some of this positioning will be temporary, and as behaviours change, budgets will settle, but it must be recognised that permanent behavioural changes will have taken place. For those in a worse place, there is the challenge of adjusting to this position in light of uncertainty.

Roundtable participants discussed the challenges that lay ahead and suggested that:

- the shape of the budget is changing, ie there are new pressures, and changes in behaviour will further influence pressures, including demand for green space, homelessness and domestic violence
- the pandemic has revealed further inequalities and, consequently, pressures on health services
- for lower-tier authorities, the budgetary situation is evolving, and while the sales, fees and charges income support scheme was welcome, ending it will cause further significant uncertainty
- procrastination by MHCLG in decision making and suggesting that councils use their balances to tide them over may have an impact on audit
- there are issues with regard to the Contain Outbreak Management Fund (COMF) monies, including not representing good value for money and the timeframe within which the funding has to be spent.
- some unspent funds that can be put into reserves may suggest councils’ finances are healthier than they are.
Figure 7: The key obstacles identified by respondents in achieving MTFP priorities.

What are now the key obstacles to achieving the priorities set out in the MTFP?

While the key obstacles for both top-tier and lower-tier authorities remain identical, the extent to which they matter varies.

These responses clearly show the level of concern experienced by the sector around funding. Delays to the social care White Paper, reforms to business rates, the well-documented work of the NAO and the Public Accounts Committee have all referenced these concerns.

Planning and forecasting

Figure 8: Respondents’ confidence in their local authorities’ financial planning in light of the pandemic.

How confident are you that your local authority’s financial planning and scenario-modelling process is robust and fit for purpose in the light of the COVID-19 pandemic?
There appears to be lower levels of confidence among lower-tier authorities compared to those in the top tier, ie roughly twice as many appear to be ‘unconfident’ or ‘neither confident nor unconfident’. Furthermore, while seven in ten top-tier authorities are confident about financial planning and scenario modelling, this is only four in ten for lower-tier authorities by comparison.

Planning and scenario modelling is an effective and sensible approach to dealing with such uncertainty. The CIPFA Financial Management Code refers to this approach in its guidance. However, it is complex and requires skills and capacity. Smaller authorities may not have some of those specialist skills or are in the process of developing them, and this may account for some of the responses.

Our roundtable participants commented that barriers to effective planning may well include:

- a lack of clarity on social care funding and the continuity of funds such as the NHS Better Care Fund
- the lifting of furlough in September and how councils will stimulate economic regeneration, given the potential changing role of LEPs
- the fair funding review, which is likely to be too late and may well be flawed, as it’s based on old data
- the fact that COVID-19 doesn’t respect financial periods, whether quarters or years
- resisting the temptation to make use of reserves without considering future stability
- having to plan for the future, ie beyond 2021/22, balancing short-term against long-term needs, especially transformational activity
- the ability to set aside funding for those who had previously declared a climate emergency, and the extent to which increased sustainability leads to increased costs and charges and a consequential expansion of capital programme.

**Figure 9: Tools respondents use to plan and forecast in their financial planning process.**

<table>
<thead>
<tr>
<th>What planning and forecasting tools do you use as part of your financial planning process?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spreadsheets</td>
</tr>
<tr>
<td>Custom, in-house solution</td>
</tr>
<tr>
<td>On-premises FP&amp;A tools</td>
</tr>
<tr>
<td>Other, please specify</td>
</tr>
<tr>
<td>Cloud-based FP&amp;A tools</td>
</tr>
</tbody>
</table>

Of the 81 responses received to this question, some 99% (80) indicated a reliance on spreadsheets, and of those 80, 48 (59%) use spreadsheets exclusively. Interestingly, ‘custom, in-house solutions’ are used by almost a quarter of all top-tier authorities, but only 12% of lower-tier districts, and ‘on-premises financial planning and analysis tools’ are as likely to be used by lower-tier districts as they are by top-tier authorities.
What level of internal assurance has been provided regarding projections of increased costs arising due to the pandemic?

Lower-tier district authorities are twice as likely to provide/state ‘No assurance/single calculation’ regarding the level of internal assurance provided as upper-tier authorities. Furthermore, the tool used to provide these assurances has typically been spreadsheets (94% of all authorities).

The reliance on spreadsheets and the fact that there is a lack of assurance around some of these calculations may be a cause for concern as the importance of projected costings becomes increasingly significant and an area of increased risk.

To what extent can you build out different scenarios to plan for changes in funding or costs due to the pandemic?

More than three times as many top-tier authorities confirm they are able to build out different scenarios with ‘ease’ compared with lower-tier authorities. However, no authority claims it can do so ‘with extreme ease’. Close to three in ten respondents can only do so ‘with difficulty’, with approximately half reporting this is something they can do ‘with neither difficulty nor ease’.
This response may reflect the challenges and skills required to plan for different scenarios at a time when there is very little certainty within the process. The data that drives this work can be difficult to obtain, and the assumptions on which the scenarios are based must take into account a broad range of metrics.

On the theme of scenario planning, our roundtable participants commented that:

- it’s done in the background by officers rather than put into the political arena, albeit the most likely case scenario is presented – in part, this might be down to the variations between the best and worst cases
- it’s not a trivial activity, and while in some cases the best outcome is the result, this isn’t always the outcome
- to publish to or share with members requires a high level of trust and honesty
- the presumptions are key but challenging, especially given this is still quite a new thing for local government finance professionals.

**Figure 12: Identification of short-term and medium-term efficiencies in respondents’ local authorities.**

To what extent has the identification of efficiencies been modelled in your local authority?

<table>
<thead>
<tr>
<th></th>
<th>Short term</th>
<th>Medium term</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All authorities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very great extent</td>
<td>8%</td>
<td>1%</td>
</tr>
<tr>
<td>Great extent</td>
<td>33%</td>
<td>14%</td>
</tr>
<tr>
<td>Some extent</td>
<td>39%</td>
<td>48%</td>
</tr>
<tr>
<td>Little extent</td>
<td>13%</td>
<td>31%</td>
</tr>
<tr>
<td>Very little or no extent</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Top tier</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very great extent</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td>Great extent</td>
<td>40%</td>
<td>58%</td>
</tr>
<tr>
<td>Some extent</td>
<td>35%</td>
<td>26%</td>
</tr>
<tr>
<td>Little extent</td>
<td>10%</td>
<td>2%</td>
</tr>
<tr>
<td>Very little or no extent</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Lower tier</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very great extent</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>Great extent</td>
<td>28%</td>
<td>13%</td>
</tr>
<tr>
<td>Some extent</td>
<td>41%</td>
<td>34%</td>
</tr>
<tr>
<td>Little extent</td>
<td>14%</td>
<td>38%</td>
</tr>
<tr>
<td>Very little or no extent</td>
<td>10%</td>
<td>13%</td>
</tr>
</tbody>
</table>

= Very great extent = Great extent = Some extent = Little extent = Very little or no extent
In the short term, some 50% of top-tier authorities have modelled to a very great or great extent, but among lower-tier authorities, only 35% have done so. Correspondingly, in the medium term, we find that around half (51%) of lower-tier authorities report they have modelled to little, very little or no extent, while among top-tier authorities, 28% have done so.

Identification of efficiencies is a part of the financial planning process, and this is evident in this response. While they can be part of the package of financial decision making, efficiencies and savings will not necessarily dictate the approach taken by the organisation. Modelling these efficiencies, however, will improve the subsequent discussions.
5. Further information

Click: Unit4 financial planning and analysis
Contact: comms.fpa@unit4.com

Click: cipfa.org
Contact: customerservices@cipfa.org