



**Tipping Point 2016?**

**Challenging the current**

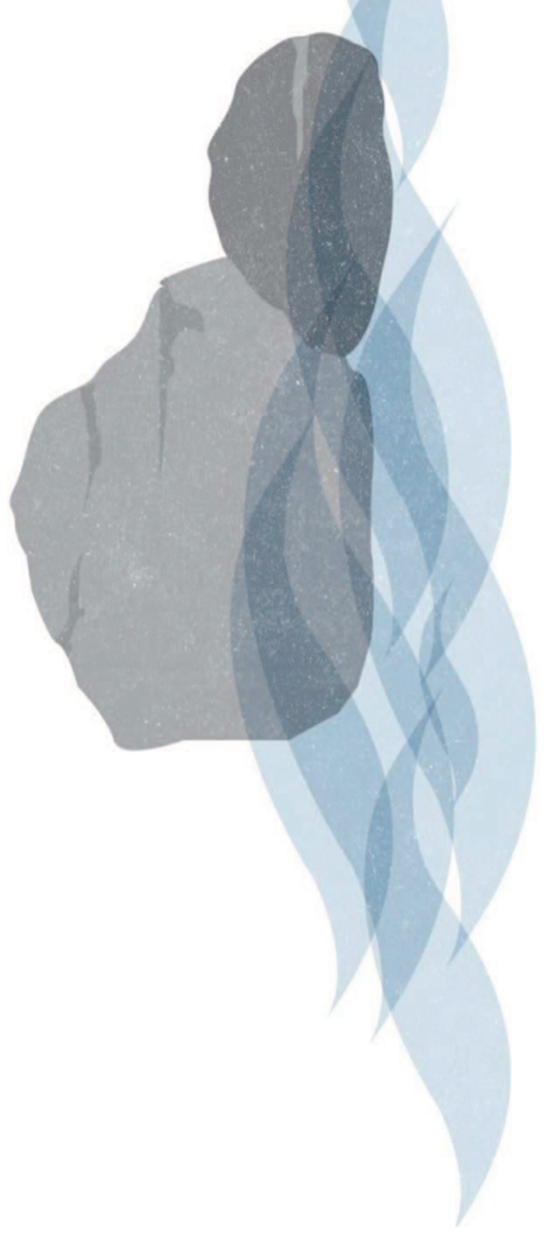
**Surrey County Council Audit & Governance**

**Committee**

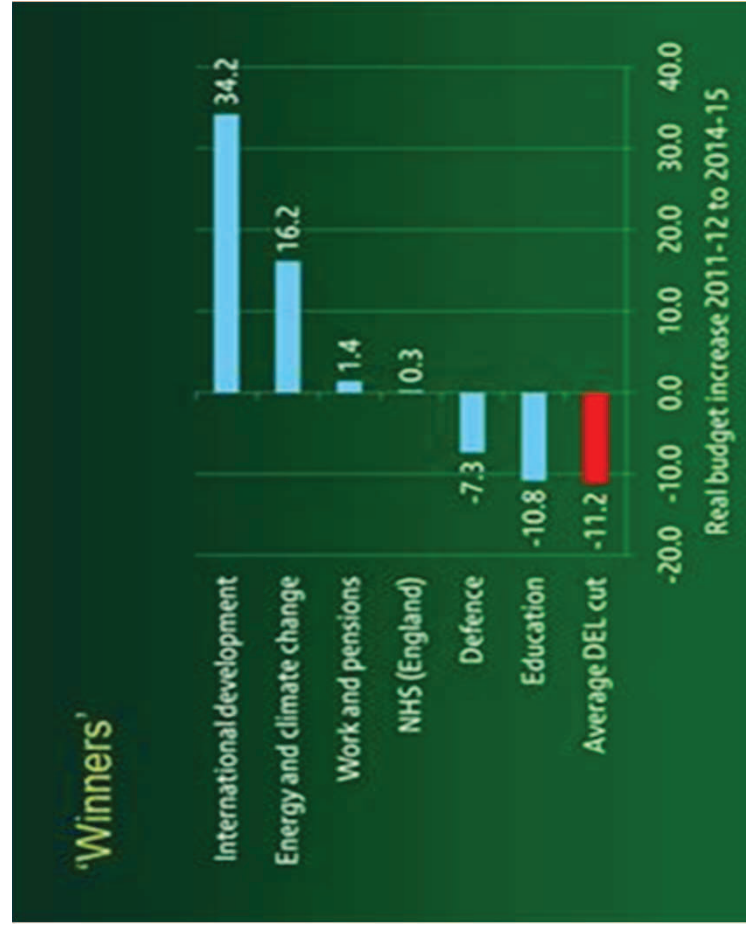
**24 March 2014**

# Agenda

- The national picture
- Financial health of the sector
- The future?



# The national picture – SR10



Source: Joseph Rowntree Foundation,

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# And then there's SR13

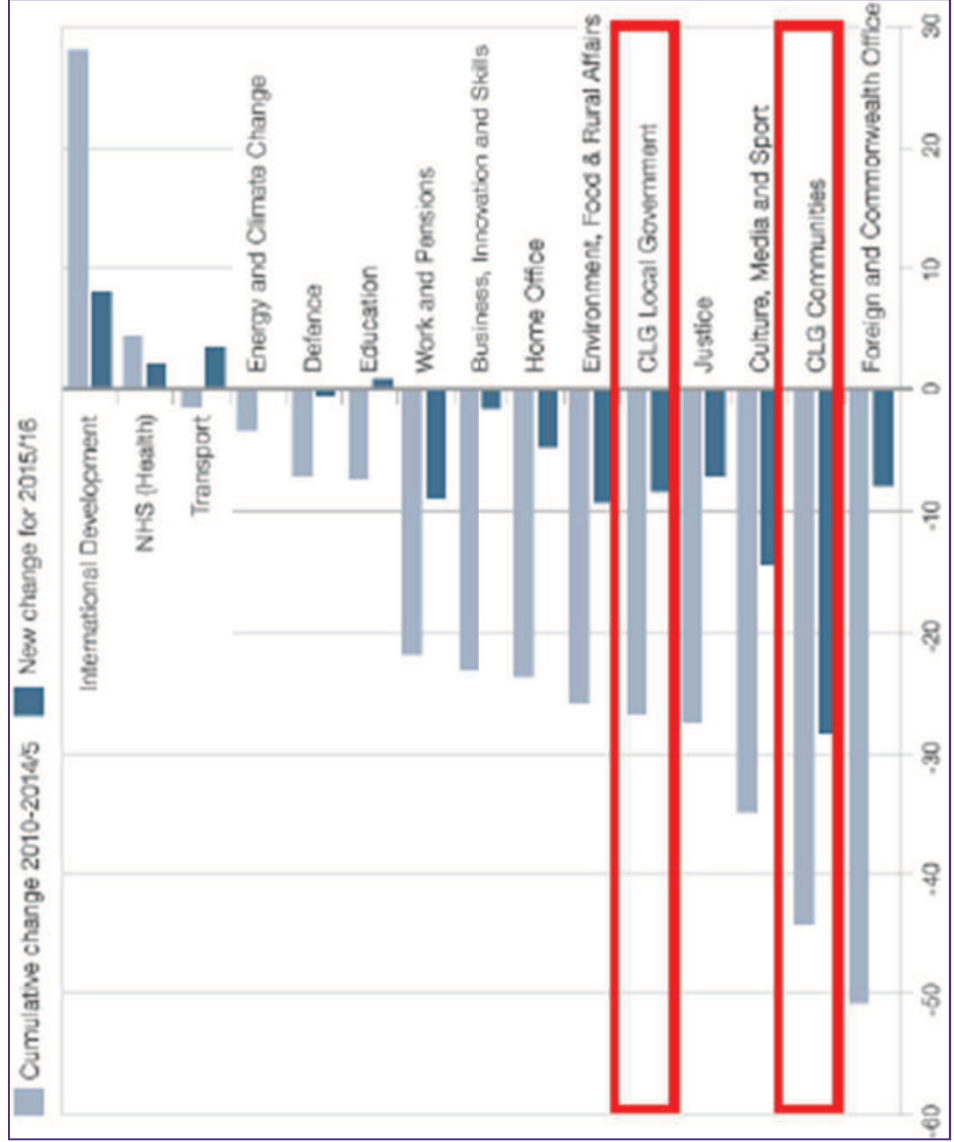
- Spending round for 2015/16 announced in June 2013
- A further 10% funding reduction for local government...
- By the end of 2015/16, local government will have seen spending reduce by 35% compared with 8% in education and a 4% increase in health

	Baseline <sup>1</sup> 2014-15	Plans 2015-16	Per cent Year-on-year real growth
<b>Departmental Programme and Administration Budgets</b>			
Education <sup>2</sup>	52.8	53.2	-1.0
NHS (Health)	108.3	110.4	0.1
Transport	3.5	3.2	-0.3
Local authorities	1.2	1.1	-10.0
DCLG local Government <sup>3</sup>	25.6	23.5	-10.0
Business, Innovation and Skills	13.6	13.0	-5.9
Home Office	10.4	9.9	-6.1
Justice	6.8	6.2	-10.0
Law Officers' Departments	0.5	0.5	-5.0
Defence	23.9	23.9	-1.9
Foreign and Commonwealth Office <sup>4</sup>	1.2	1.1	-6.3
International Development	8.3	8.5	1.1
Energy and Climate Change	1.0	1.0	-8.0
Environment, Food and Rural Affairs	1.7	1.6	-0.6
Culture, Media and Sport	1.2	1.1	-7.0
Work and Pensions	5.5	5.0	-9.5
DWP non-baselined funding <sup>5</sup>	1.9	0.9	-
Scotland <sup>6</sup>	25.6	25.7	-1.5
Wales <sup>7</sup>	13.6	13.6	-1.8
Northern Ireland <sup>8</sup>	9.6	9.6	-1.5
HM Revenue and Customs	3.2	3.1	-5.0
HM Treasury	0.1	0.1	-10.0
Cabinet Office <sup>9</sup>	0.4	0.3	-10.1
Single Intelligence Account	1.6	1.7	3.4
Small and Independent Bodies <sup>10</sup>	1.3	1.3	-2.0
Spending commitments not yet in budgets <sup>11</sup>	-	1.1	-
Reserve	2.8	2.8	0.0
Special Reserve	1.8	1.0	-44.1
Localised business rates <sup>12</sup>	-17.2	-17.6	-
<b>Total Resource DEL excluding depreciation</b>	<b>316.0</b>	<b>312.9</b>	<b>-2.7</b>
Adjustment for Allowance for Shortfall, Budget Exchange and non-baselined funding	-0.4	0.0	-
<b>Total Resource DEL excluding depreciation forecast</b>	<b>315.7</b>	<b>312.9</b>	<b>-2.6</b>
<b>Memo:</b>			
Local Government 'savings' <sup>13</sup>	54.8	54.8	-2.3

Source: Spending Round 2013, HMT, June 2013

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# Put these together



Source: HM Treasury and Institute for Fiscal Studies

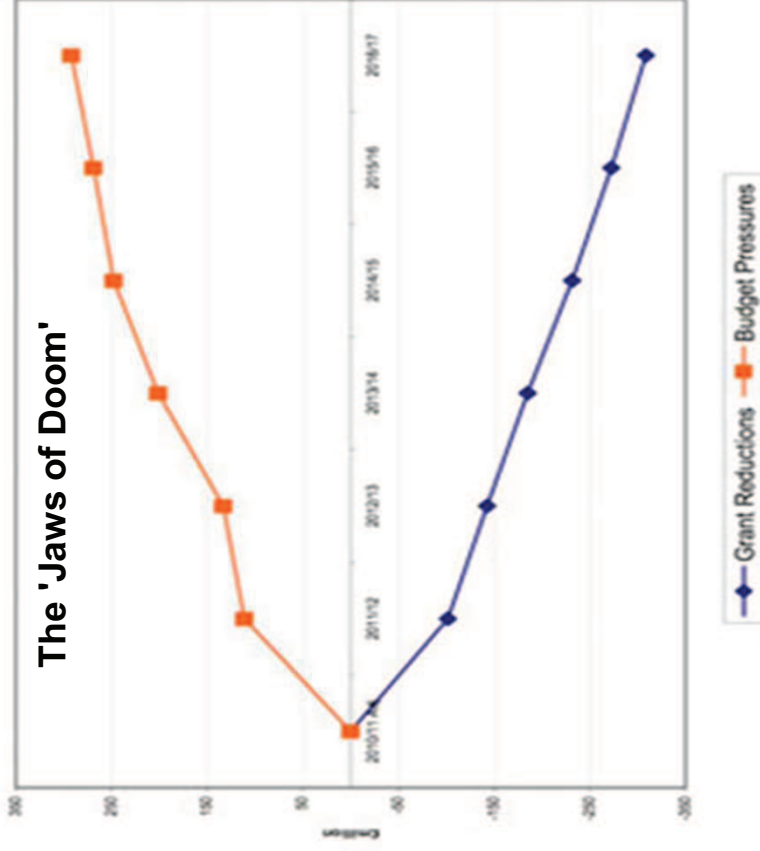
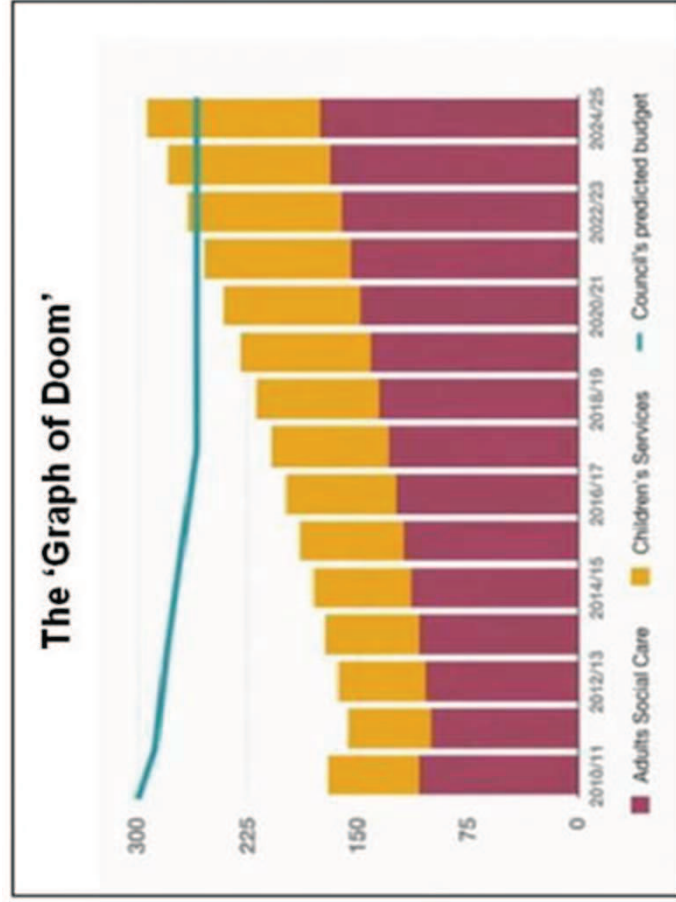
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## It is not only reductions in grant funding

- **reducing** income from **fees and charges**
- **demographic pressures** and increasing complexity of need
- **welfare reform**, and increases to local government welfare related spending
- **restrictions** on additional **Council Tax funding**
- **localisation of business rates**
- implementing other **Government policies**, such as academies, health and wellbeing boards, integration of health and social care, LEPs, etc
- **limitations** on the ability to **finance capital** projects

# Many authorities have predicted doom



Source: London Borough of Barnet, June 2012

Source: Birmingham City Council, Dec 2012

# So what is the current position?

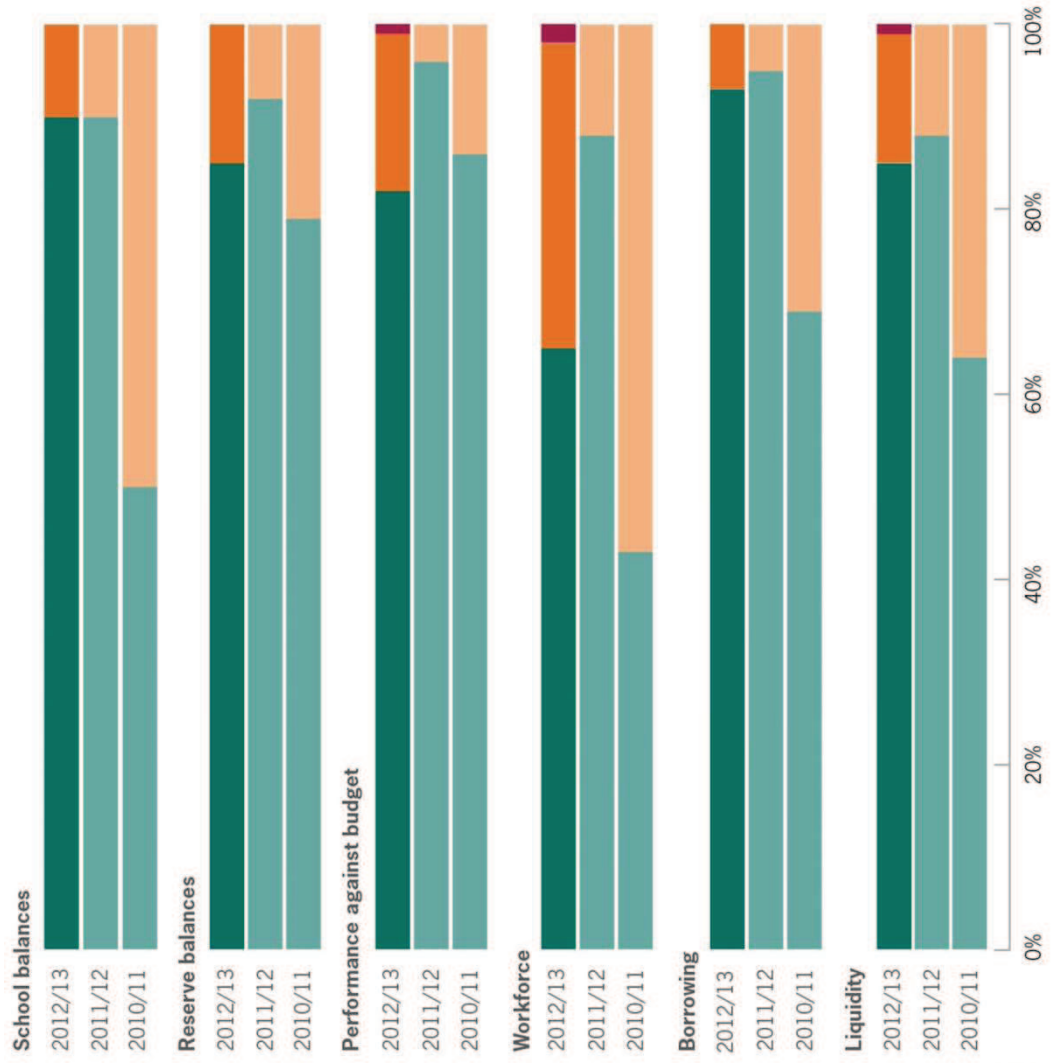
- GT national programme of reviews examining financial health of local authorities
- Surviving the storm (2011)
- Towards a tipping point? (2012)
- Challenging the current (2013)





# Key indicators of financial performance

## Summary results



# Key indicators of financial performance

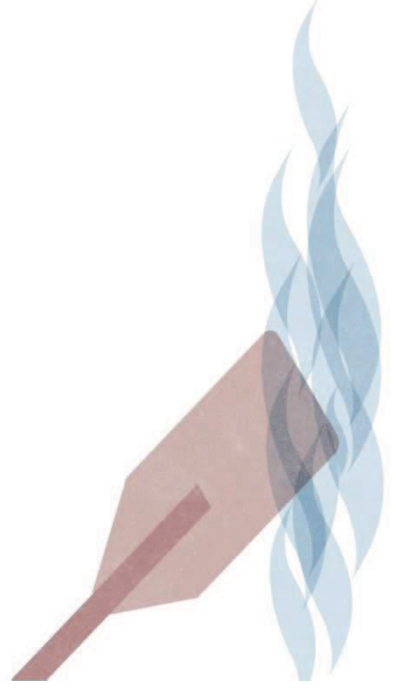
## Key observations

### Good practice:

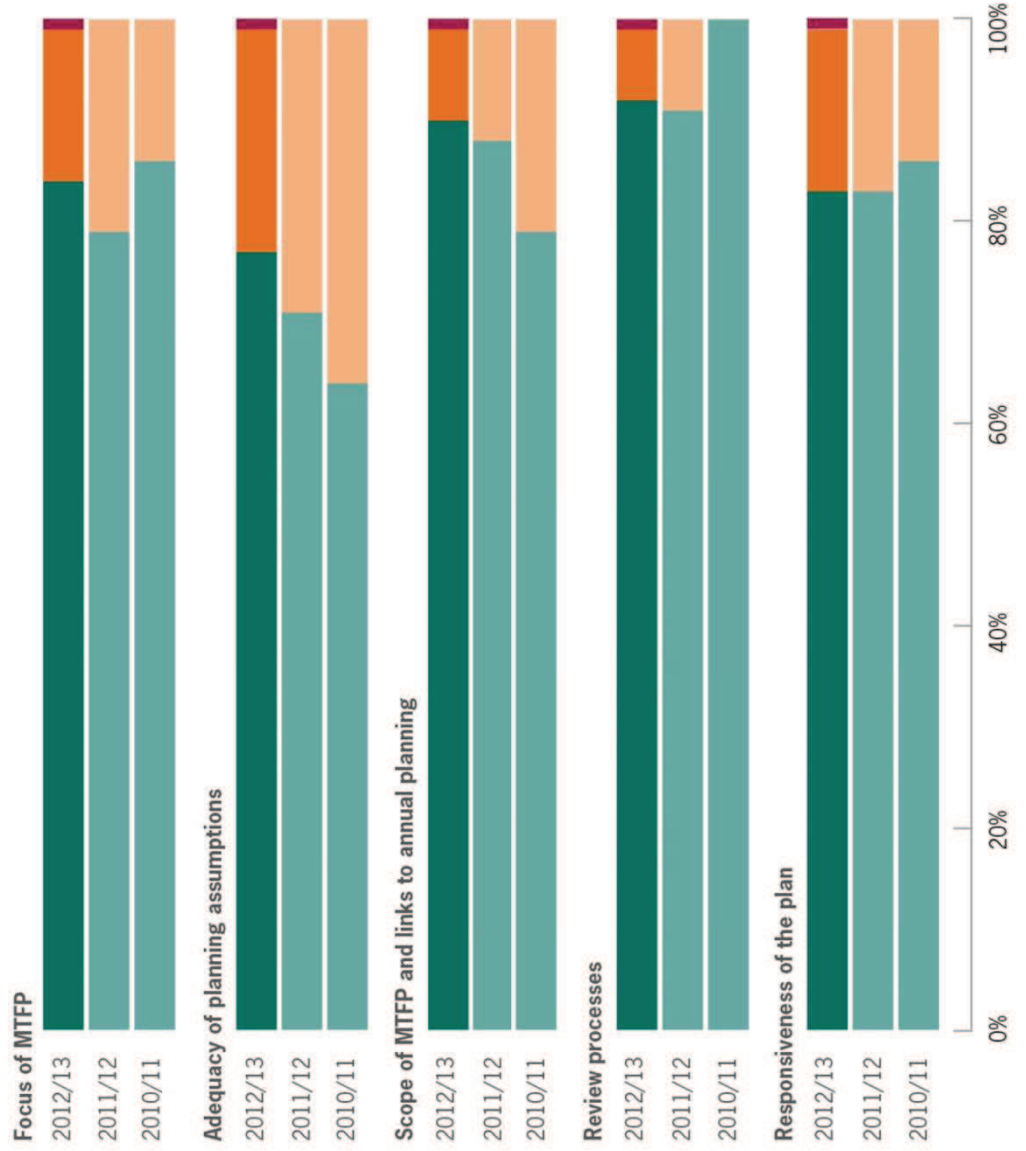
- 2012/13 budget management generally good
- long-term borrowing generally appropriate

### Risks:

- challenges with volatile budgets
- trend of reducing reserves
- planned reductions to liquidity
- unplanned absence a particular challenge



# Strategic financial planning Summary results



# Strategic financial planning

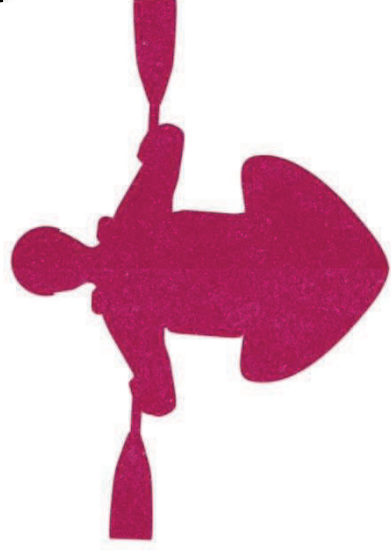
## Key observations

### Good practice:

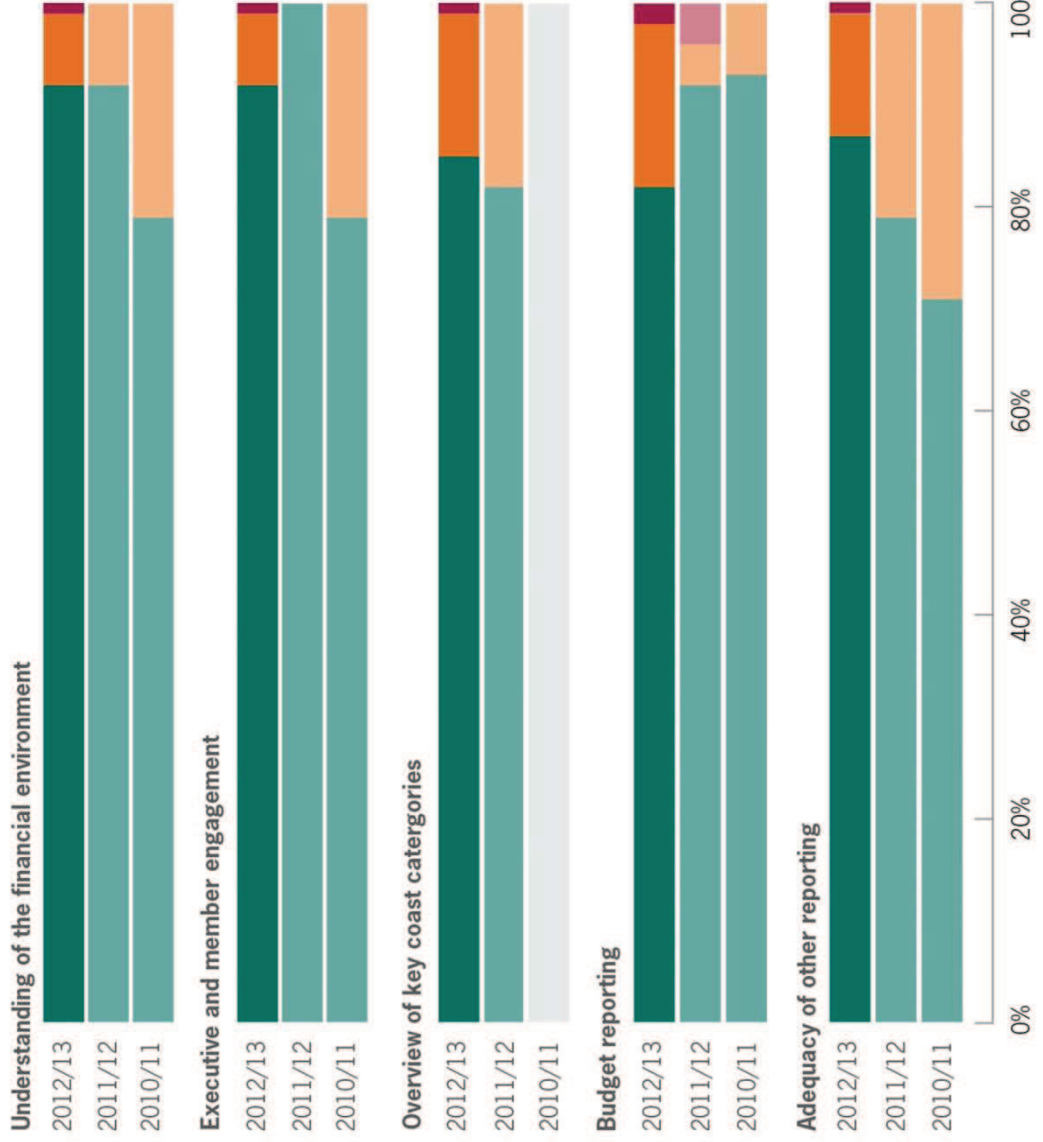
- MTFPs aligned to SR10 and corporate priorities
- effective review processes
- key assumptions understood

### Risks:

- strategic finance skills
- scenario planning
- sensitivity analysis
- corporate prioritisation approach



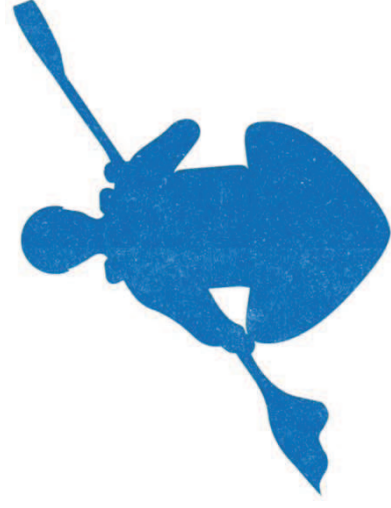
# Financial governance Summary results



## Financial governance Key observations

### Good practice:

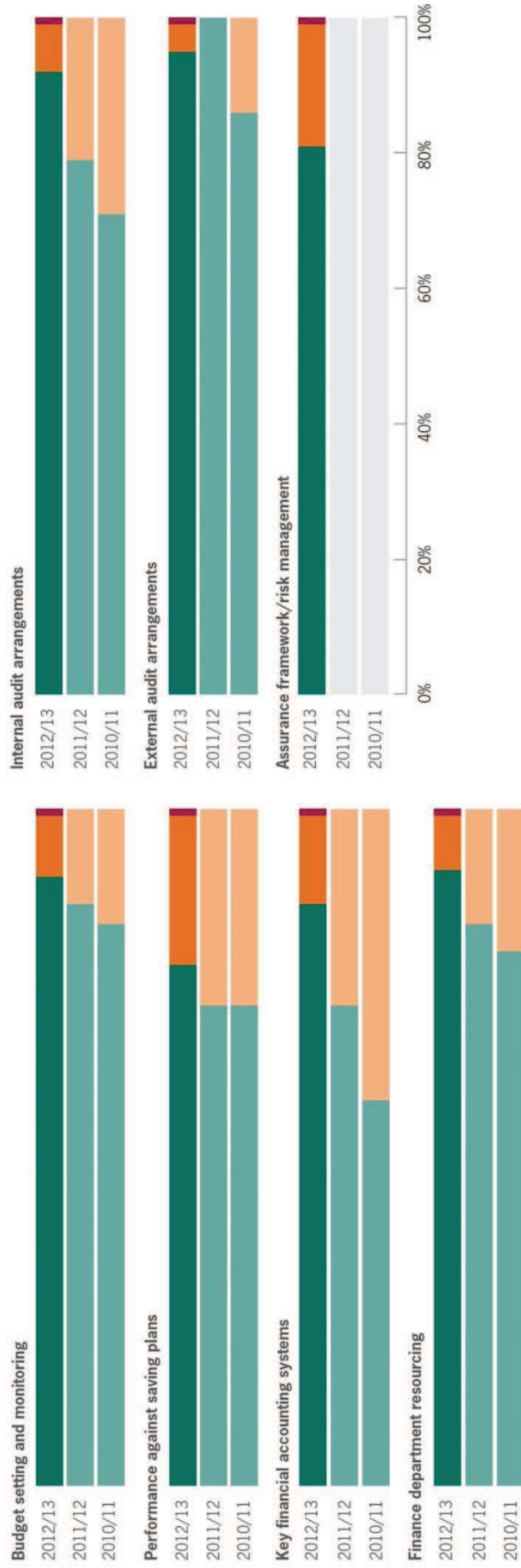
- financial reporting
- member engagement
- managing overspends corporately



### Risks:

- cultural change required by services (financial management)
- governance (third party service delivery)
- transparency in reporting savings
- capital programme underspends

# Financial controls Summary results



# Financial controls Key observations

## Good practice:

- financial controls in place for effective performance management
- internal audit risk based audit plans
- RAG rating of savings

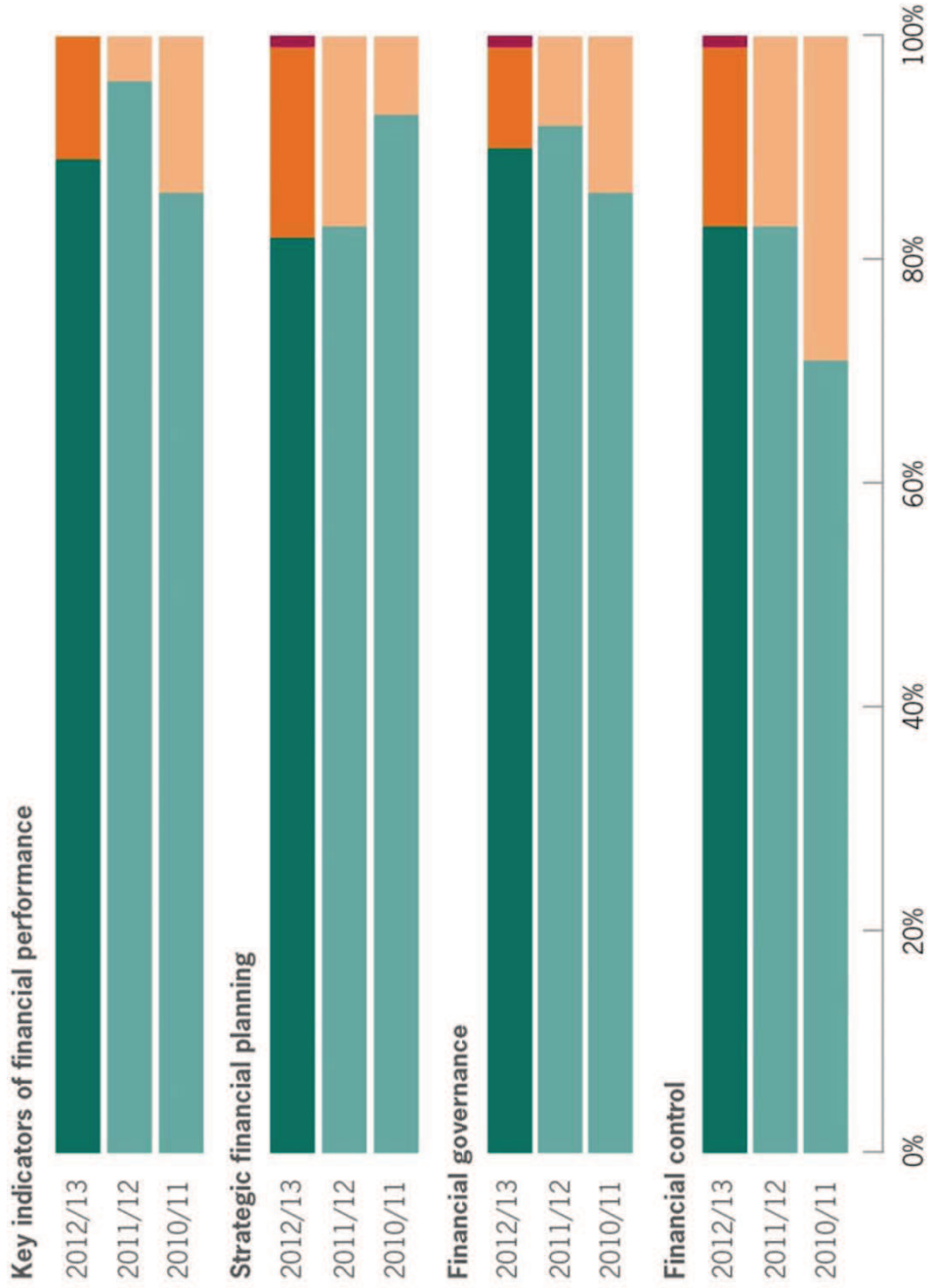


## Risks:

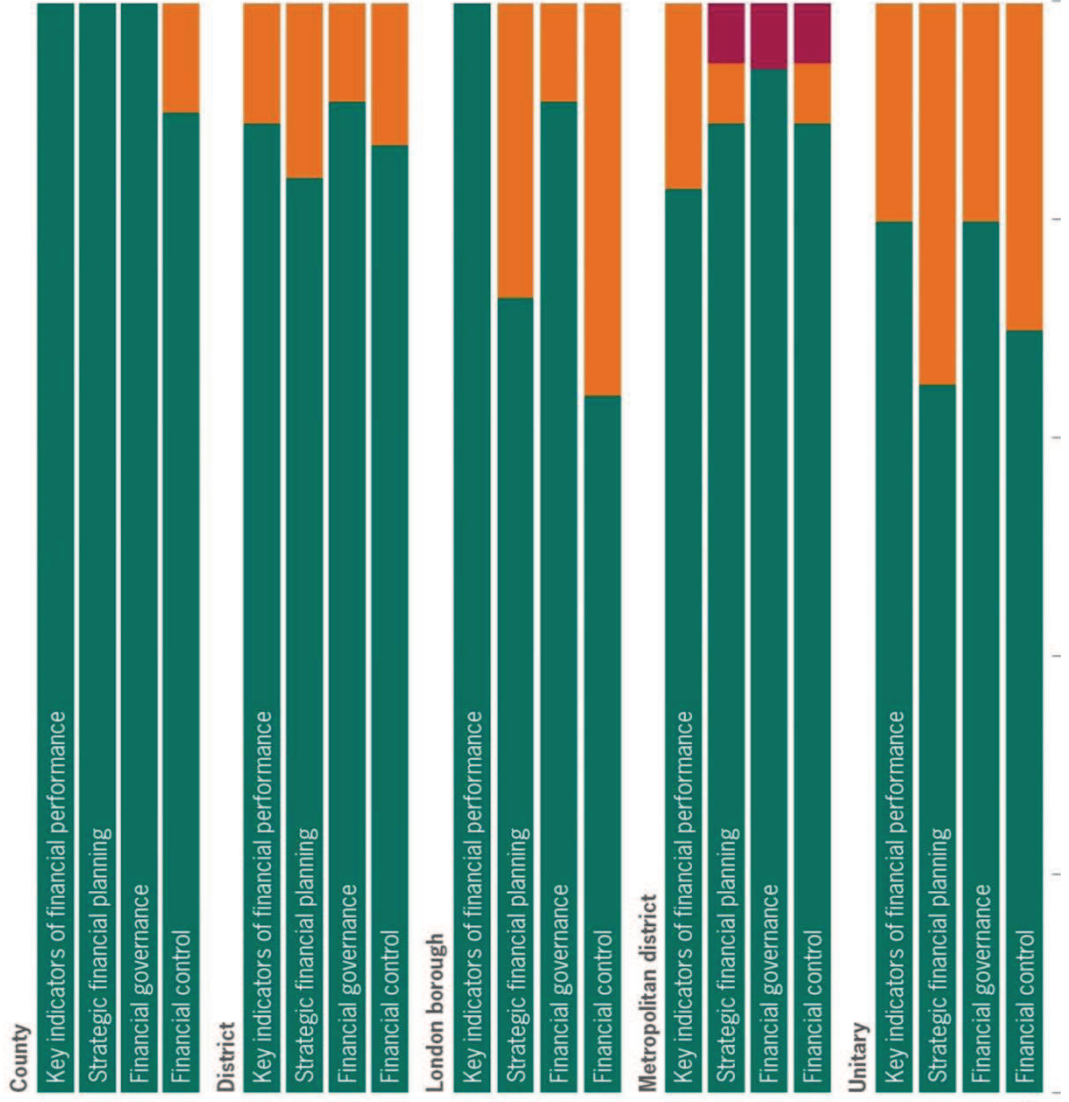
- reduction in finance resource
- financial systems - fit for purpose?
- use of unit costs, benchmarking, trend analysis
- use of countervailing savings



# Summary results

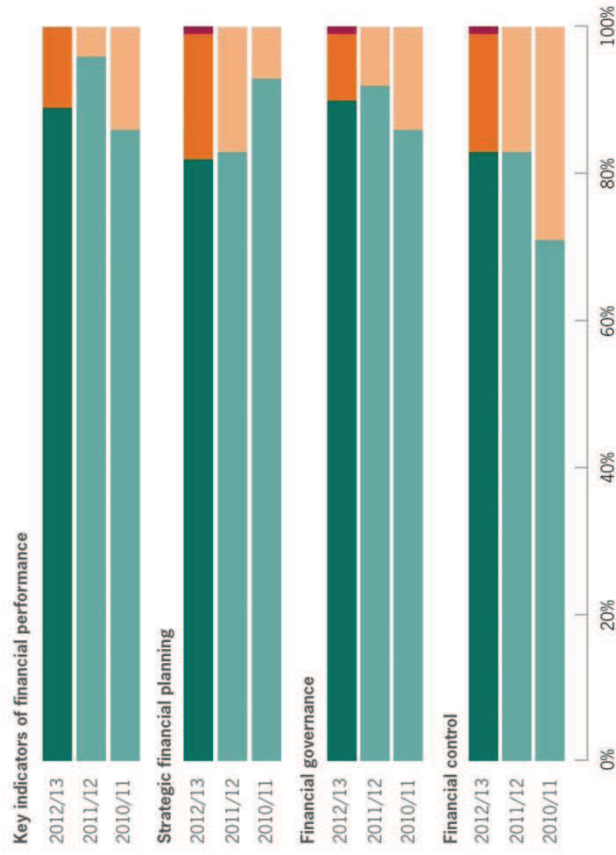


# Summary results: by local authority type



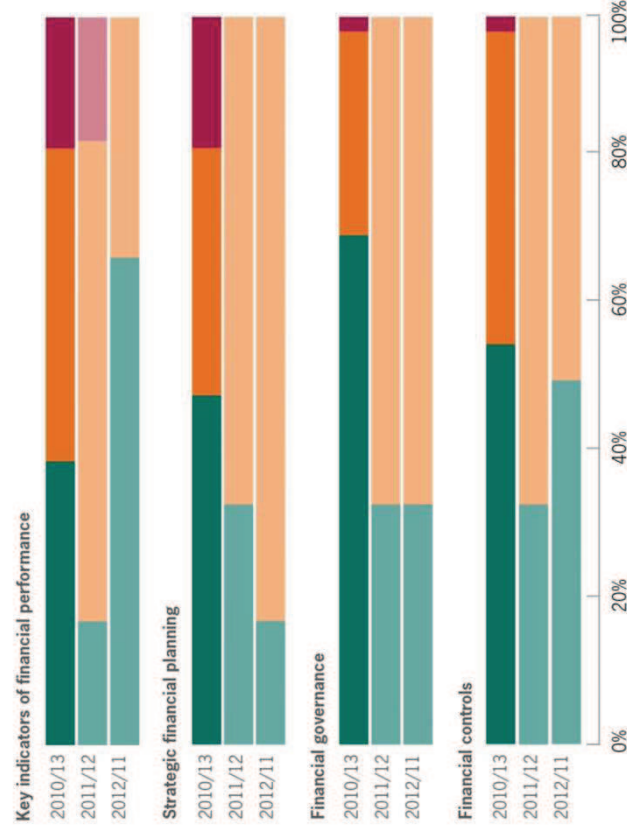
# Summary results: Comparison with health

## Local government



- Local authorities not alone
- But performing better than NHS bodies

## Health sector

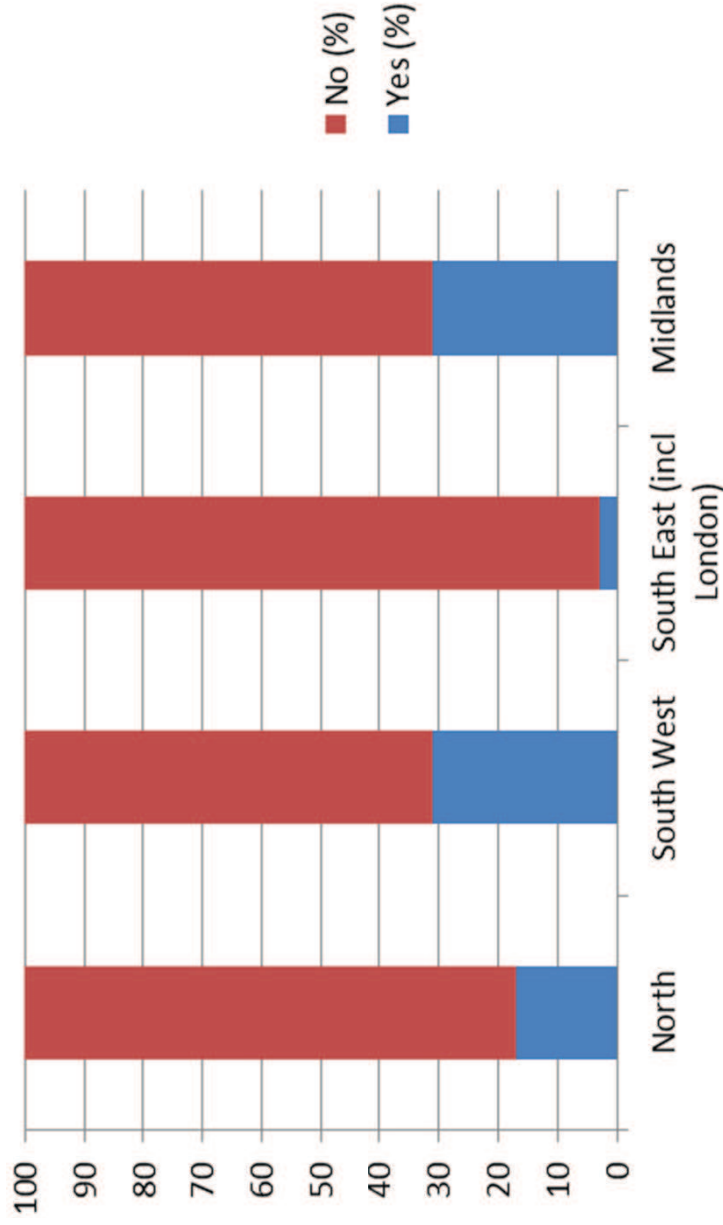


- Opportunity for cross-learning
- Importance of integrating health and social care

## Towards a tipping point...

- Our findings indicate significant challenges in the medium-term
  - **but** the sector is likely to ride out the storm until the end of 2014/15
- 80% of authorities in our survey do not anticipate a tipping point during this period
  - **but** the majority of councils felt a tipping point would be faced in 2015/16 or 2016/17

# Tipping point by 2014/15?

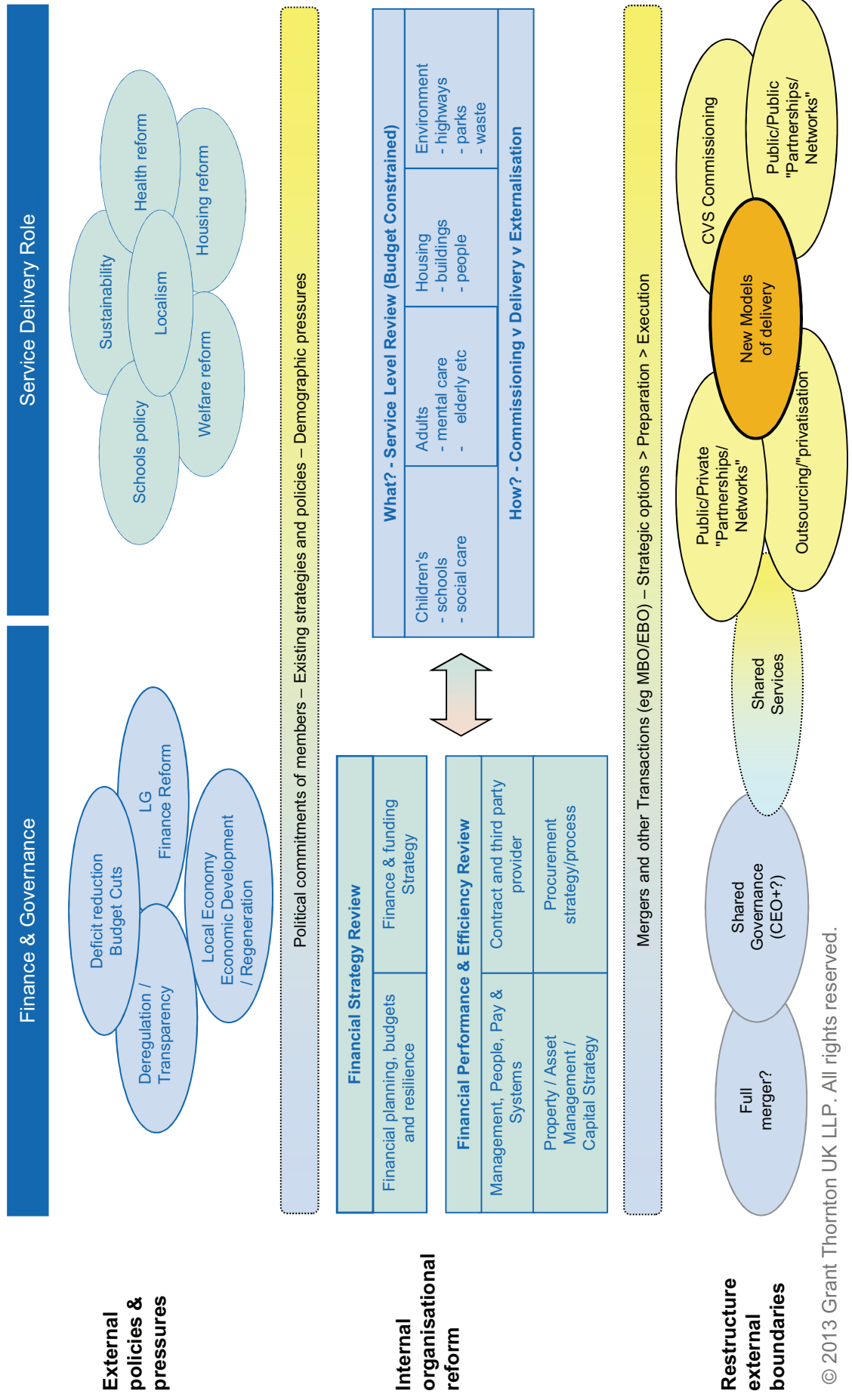


- The majority of councils felt a tipping point would be faced in 2015/16 or 2016/17

## Responding to the challenge

- Some form or re-organisation (statutory or otherwise)
- Sustained focus on partnerships such as health integration
- Greater focus on generating additional sources of revenue
- Accelerate the trend to alternative delivery models

# Reorganisation, partnerships etc...



# Alternative delivery models

## Shared services

- Management teams
- ICT
- Legal services
- Revenues and benefits
- Payroll
- Finance
- Internal audit
- Waste services

## Outsourced services

- Financial services
- Leisure
- ICT
- Waste
- Housing maintenance
- Highways maintenance

## Local authority companies:

- ICT
- Human resources
- Finance
- Economic regeneration
- Building control
- Housing development

## Joint ventures

- Financial services
- Leisure
- Economic regeneration
- Joint regeneration schemes
- Housing repair

## Other types

- Trusts (eg leisure, museums)
- Joint commissioning
- Spin offs / Mutuals



# What does the future hold?

## Challenges:

- Legislative changes
- Innovation
- Continuing austerity
- Changing delivery landscape
- Local government – but not as we know it!

## Risks:

- Delivering savings in the medium term
- Failure to meet statutory responsibilities
- Potential tipping points...



## 2016 Tipping Point? Challenging the current

<http://www.grant-thornton.co.uk/en/Publications/2013/2016-tipping-point-Challenging-the-current/>



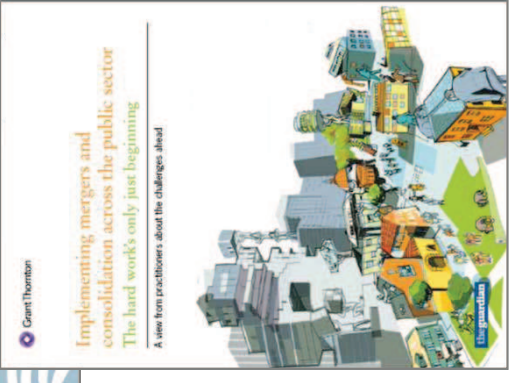
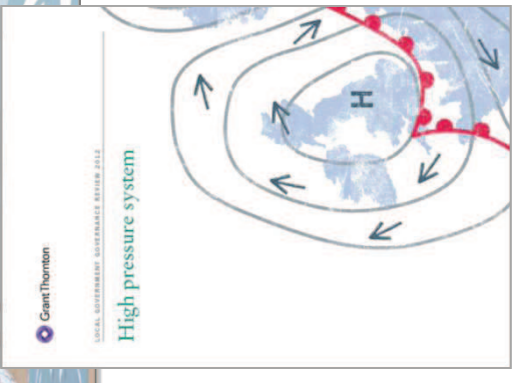
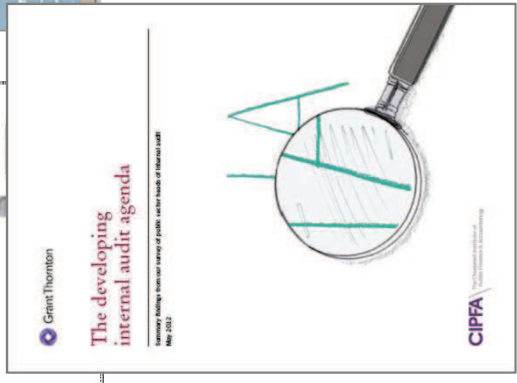
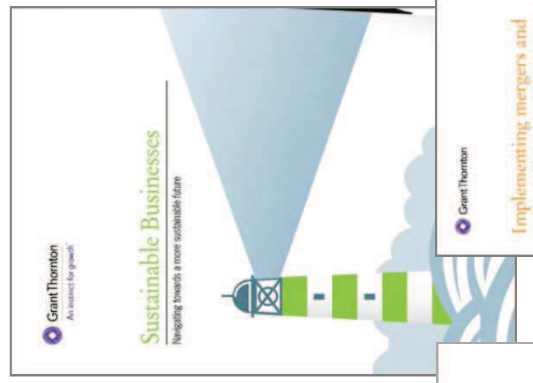
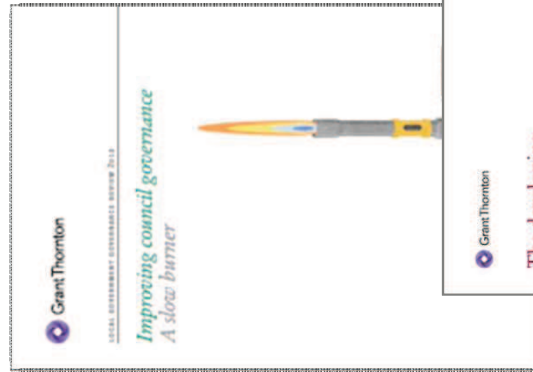
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We are the **leading firm in the local government audit market**, and are the largest supplier of audit and related services to the Audit Commission, and count **40% of local authorities in England as external audit clients**. We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit clients in the UK and over 75 local authority advisory clients. This includes London boroughs, county councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities.

This depth of experience ensures that our solutions are grounded in reality and **draw on best practice**. Through proactive, client-focused relationships, our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

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