

inSIGHTS

CHANGING LOCAL SERVICES

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FOREWORD

In light of the upcoming General Election and the political uncertainty it brings about, the political parties have announced their programmes and are making pledges about what they are going to change when they come into power. But how much does local government trust national politicians to have a sufficient programme for change?

The economy has taken a positive turn and it seems that the country is on a path to secure economic growth. However, the immense scale of the financial challenge facing local government is becoming clearer and the austerity in local government is inevitably going to continue. This leads to councils being forced to find new ways of working and delivering services, and seeking out partnerships to provide the most cost-effective solutions for service users and residents. It is likely that the way services are being delivered will be radically different in ten years' time.

It is clear that the sector will not be able to carry on in the same way as it has in recent years and a substantial transformation needs to happen. The extent of the devolution debate has indicated that it has a very important place on the local government agenda and we are likely to see devolution of more power to different political and geographical units in the coming years.

The aim of this report, informed by the Solace Insights Survey conducted in November and December 2014, is to measure the mood in local government. It is crucial for Solace to identify and understand the main priorities for the sector and the key challenges faced by local authorities to help us better address our members' needs and be able to provide guidance to them.

We would like to thank CapacityGrid for supporting the Solace Insights Survey and this Report.

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CapacityGrid is delighted to be supporting the Solace Insights Survey.

CapacityGrid is a service technology company dedicated to helping local authorities get the best service outcomes with the scale of a network. We help council teams adapt to change by aggregating services and capacity to replicate success and by using data and technology to improve services and achieve outcomes more effectively and efficiently.

The debate about the nature and shape of public services and local government post 2015-2016 continues. With elections on the horizon, speculation about future budget settlements and too often sensationalised headlines about public service in play, it is vital that we focus on the future and how as a sector we meet political and economic uncertainty united.

CapacityGrid members are already uniting by sharing knowledge and intelligence to create new ways of working and delivering cost effective solutions for service users, so it's fitting that we are able to support this survey.

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EXECUTIVE SUMMARY



The nation is faced with political uncertainty. The upcoming General Election is the most unpredictable in years and this is casting a shadow over central government's reform agenda.

However, this uncertainty seems to have only a passing effect on local government. Solace members responding to our survey see a predictable, although bleak picture ahead for local government finance. While the UK economy might be improving, the recession's impact on public finances, and particularly local services, will continue to be felt for some time to come. We might have political uncertainty, but there is fiscal certainty.

Councils have been responding by protecting the frontline but as the cuts in central government funding continue, chief executives and senior managers are starting to fear the impact will soon be felt on service delivery. 49% are very concerned about the effect of cuts. Since 2010, local government has clearly responded effectively. The sector has delivered extreme levels of savings using a wide range of techniques. They are being increasingly innovative. As more traditional responses with a focus on back office functions, reduced management and asset management have been exhausted; demand management, income generation and more innovative forms of partnership have come increasingly to the fore. Innovation is now a necessity.

Senior managers have low expectations of help coming from Westminster. 84% don't believe any of the main political parties have a sufficient programme for change. While they hope for far more progress to be made, particularly in health and social care integration and housing supply, there is a realisation that most solutions will come from their local places and communities. The appetite for devolution remains strong.

This research paints a picture of local government under severe financial pressures, fearful of the potential future and feeling that solutions are unlikely to come from Government. Given the levers to pull, local government senior managers believe a brighter future is possible but this will require a new approach across all public services in the places where we live.

POLITICAL UNCERTAINTY, FISCAL CERTAINTY

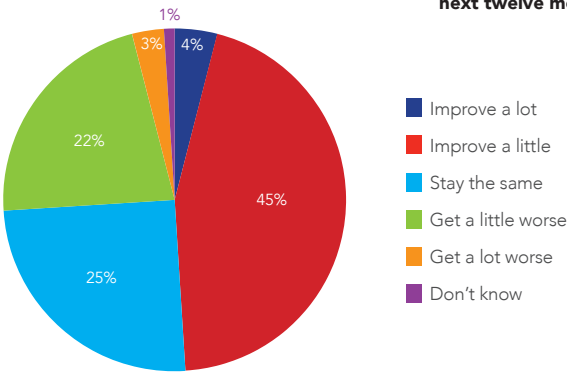
As we approach the 2015 General Election, there is a palpable sense of uncertainty across Government. Widely regarded as the most unpredictable election since 1945, the number of potential outcomes feels unprecedented.

At least six different combinations of party(s) could reasonably be expected to form the next Government, and a second General Election later in the year feels an increasing possibility. Few working in Government have experienced potential change on this scale during their working careers.

Conversely, and unlike much of this Parliament, there seems to be less uncertainty about the economy. Despite the threat of turmoil spilling over from the Eurozone, nationally, growth appears to be becoming entrenched. With the help of a more positive global economy and the impact of reduced oil prices, many are more confident about the future. Consumer spending is looking stronger, with low inflation and low interest rates likely for the next year at least. The Solace Insights Survey points to local government leaders also feeling positive about our short and long term economic future.

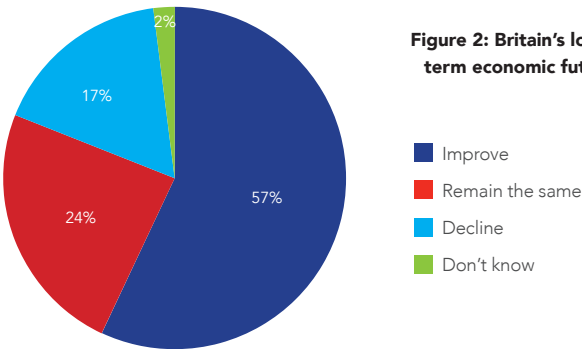
Economically, the next twelve months was seen positively by 49% respondents, whilst 25% felt it would stay the same and only 25% felt it would get worse (see Figure 1). In contrast, an Ipsos MORI Public Sector Leaders Survey in 2013 found 18% believed that the general economic condition of Britain would improve, 42% believed it would stay the same and 38% believed it would decline in 2013-2014. **The sector appears to be getting more confident.**

Figure 1: The general economic condition of Britain over the next twelve months



The same is also true over the long term. 57% of our respondents believed that it would improve over the next ten years, whilst 24% thought it would stay the same and only 17% that it would decline (see Figure 2).

Figure 2: Britain's long-term economic future



However, as the expectations of a sustained economic recovery rise, we are yet to see this positive news filtering through to the country's fiscal position.

The current ONS/OBR figures show that the UK's deficit is unlikely to be closed until 2018-19. National debt is currently at 79% of national income and, based on current policy, national debt will only fall gradually to 53% of national income in the 2030s, before it starts to rise again due to demographic pressures.

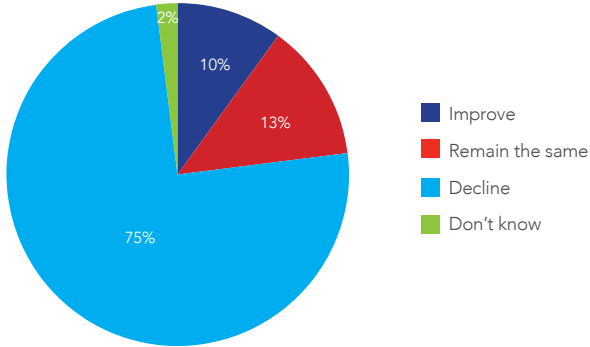
The last Autumn Statement implies real cuts to departmental spending of 14.1% between 2015-16 and 2019-20, compared to 9.5% between 2010-11 and 2015-16. This would return real departmental spending to around its 2002-03 level.

Since 2010, health, overseas development and non-investment spending on schools have been protected. If this was to continue until 2019-20, which seems likely, the other 'unprotected' areas would need to be cut by 27% after 2015-16, taking the total cut since 2010-11 to 42%.

During the current Parliament, local government has seen the largest reduction in revenue of any public service. Councils' core grant from Whitehall has fallen by 40% and the Local Government Association is predicting a £12.4 billion shortfall by 2020. It is clear that local government income will remain severely restricted for the foreseeable future.

Looking over the next ten years, 75% of Solace members believed the state of local government finance would decline, 13% believed it would stay the same, and only 10% felt it would improve (see Figure 3).

Figure 3: Perceptions of the state of local government finance over the next ten years



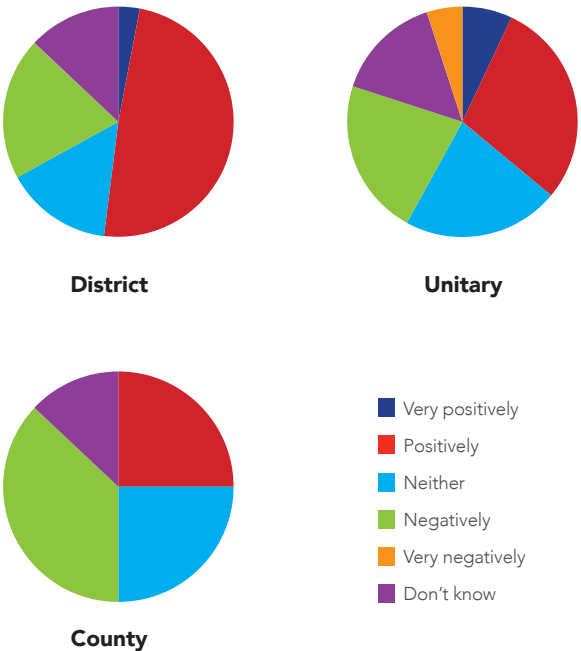
Breaking down further into types of local authorities, districts felt most positive about the state of local government finance with 52% feeling positive overall, 15% neutral and 33% negative (see Figure 4). Unitary councils had very balanced results with 37% feeling negative, 22% neutral and 36% positive about the future of local government finance. Lastly, counties had the most negative view with 50% feeling negative, 25% neutral and only 25% positive.

However, the pressure on councils does impact across the country in very different ways, which is reflected in the different responses we have received. Government cuts have been delivered primarily through revenue support grants and therefore impact on the most deprived, while demand pressures, which are most significant in social care, impact disproportionately on upper tier authorities.

According to the LGA, by 2020 40% of local government spending will be on adult social care. When we account for inflationary and demographic pressures in waste management and social care, the money available to fund all other services shrinks from £26.6 billion in 2010-11 to £15.1 billion in 2019-20 – and £3.1 billion of that is for new public health responsibilities.

For some, these revenue pressures have been partially mitigated by the positive impact of the New Homes Bonus, business rate retention and historical prudence. Reserves have also enabled some to plug income gaps in the short term, and others have been able to retain or increase reserves in the expectation of future challenges. However, unallocated reserves now equal 7% of annual expenditure, equivalent to operating costs for just 26 days.

Figure 4: How respondents feel about the state of local government finance over the next ten years, by type of authorities



Therefore, with the economy likely to move positively but the public sector still in severe fiscal restraint, we are likely to see pressure developing from a mismatch of expectations. If the 'feel good factor' from a growing economy does spread across the country, the public may be surprised to see austerity accelerating in the public sector, particularly if its impact on frontline services is increasingly visible.

In addition, economic growth and prosperity will also lead to pressure to increase wages. Indeed, the Prime Minister has already explicitly asked private sector employers to pay their staff more. If similar pressure translates into the public sector, we have the potential for challenging industrial relations and the key lever that has delivered savings since 2010, namely wage restraint, being taken away.

The buoyant nature of central government taxation may mean that Whitehall will be able to respond. However, with councils increasingly funded from fixed property taxes (council tax and business rates), without significant reform local government finance will only be put under more pressure.

In contrast to the political uncertainty nationally, local government's long term fiscal position is clear and increasingly desperate.



STRUGGLING TO PROTECT THE FRONTLINE

Given the size of the UK's fiscal challenge, perhaps it would be surprising if local government was not feeling the impact even though we have only reached the halfway point. Most of our respondents said they had been affected by public sector spending cuts in the past twelve months, with 57% affected a great deal and 35% affected a fair amount. Only 8% responded that they had not been affected very much, whilst 1% believed their organisation had not been affected by spending cuts at all.

However, Solace members don't feel this impact is consistently affecting service quality. When asked to reflect on quality of service that their organisation now provides, compared to before the public sector spending cuts, 41% felt it was much or a little better. In contrast, 27% felt it was about the same or a little worse, while 31% felt it was a little or much worse than before.

Similarly, when asked how they felt their local residents perceived the quality of service their organisation now provides, 30% thought local residents thought it was much or a little better, 40% about the same, 20% a little worse or much worse. Worryingly, 9% were unsure.

Our responses suggest an increasingly positive trend in attitudes since 2013, when Ipsos MORI asked the same questions of public sector leaders as a whole. The responses they got indicated that 16% felt the quality of services was much or a little better, 56% felt it was about the same, 28% felt it was a little or much worse than before the spending cuts.

Any sense of optimism soon evaporates when the sector looks forward. Public sector leaders in general, according to the 2013 Ipsos MORI survey, expressed high levels of concern (52% very concerned, and 38% fairly concerned) about the effects of future public sector spending cuts on their organisations.

Similarly, in local government there is a great deal of anxiety. Almost half of Solace members (49%) are very concerned about the effects of spending cuts on their organisations, with 43% fairly concerned and only 7% either not very concerned or not at all concerned.

As the previous section made clear, the financial challenge is significant and will continue for some time, and there is significant concern that the negative impact on services will soon start to become apparent.



RISING TO THE CHALLENGE

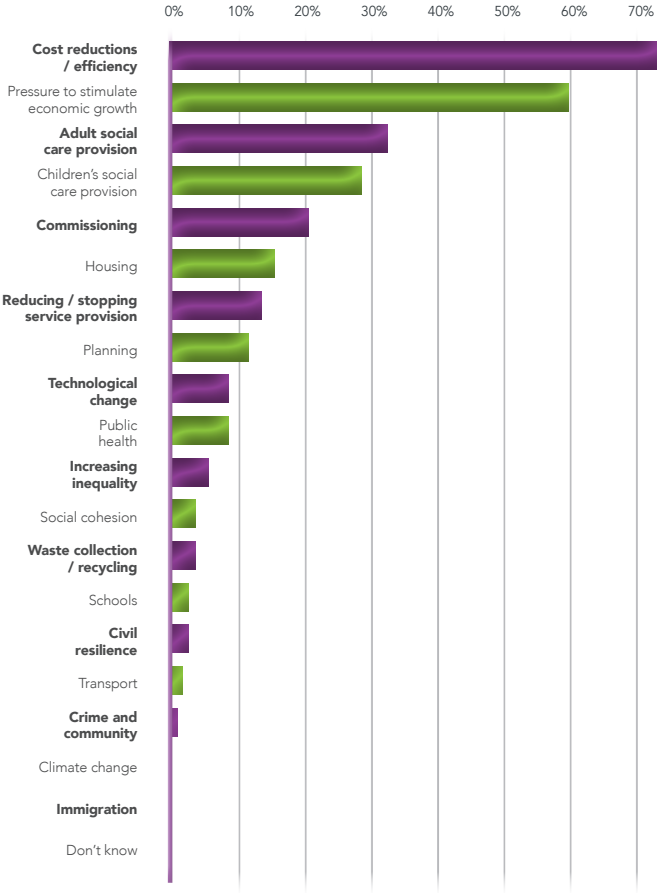
Considering the top priorities for local government, the pressure to reduce costs comes unsurprisingly to the fore. Looking at the past twelve months, we asked Solace members about what they perceived as the top three main priorities for local government (see Figure 5). Overall, these turned out to be:

- 1. Cost reductions/efficiency (74%)
- 2. Pressure to stimulate economic growth (60%)
- 3. Adult social care provision (33%)

These were followed by children’s social care provision (29%), commissioning (21%), housing (16%) and planning (12%). Naturally, children’s social care, although fourth most important overall, was in the top three choices for county council respondents. Similarly, although deemed sixth most important overall, housing was in top three priorities for district council respondents reflecting the different service provision between tiers.

Interestingly, given the attention nationally, immigration and climate change did not register.

Figure 5: Top priorities for local government in the past twelve months



Local government, even now, is not just responding to Government cuts and austerity. Councils remain very conscious of the need to continue to improve their local areas despite the severe financial restrictions.

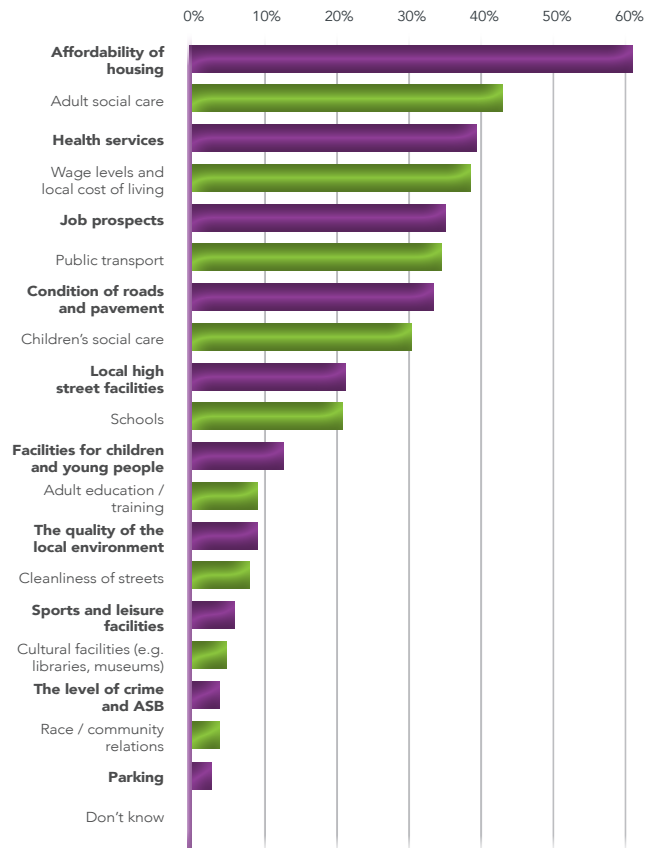
Our survey asked members to choose four to five issues that most needed improving in their local areas in the coming twelve months (see Figure 6). Crucially, the top issue that came out in the results, scoring significantly higher than the rest at 61%, was affordability of housing. Second and third were adult social care and health services, scoring 43% and 39% respectively. Fourth and fifth were wage levels and local cost of living (38%) and job prospects (36%).

The next few issues scored a similar level of importance for local government. However, surprisingly low scores were given to schools (21%) and environment (9%), both of which would have perhaps been expected to score more highly in the past, as well as crime (4%) and community relations (4%).

Ipsos MORI have asked the same question to the British public in their 'Local Improvement Index' poll in August 2013. For the public, the top five issues that needed improving were condition of roads and pavements (43%), activities for teenagers (36%), cleanliness of streets (25%), job prospects (23%), and affordability of housing (19%).

Compared to the results from our respondents, the Ipsos MORI poll shows that housing scored only 19%, adult social care 9%, health services 14%, wage levels and cost of living only 9% and job prospects 23%.

Figure 6: Issues that most need improving in our respondents' local areas in the coming twelve months



INNOVATION: A NECESSITY

During this time of austerity and ever-increasing public sector spending cuts, councils have prioritised the pursuit of more efficient solutions to address the financial challenges that they face. This has led to a boost in finding new innovative ways to deliver services in the most cost-effective way possible. According to our respondents, the most widely used types of 'innovation' that councils have used in the past twelve months (see Figure 7) were:

1.Reduced spending on back office functions (73%)

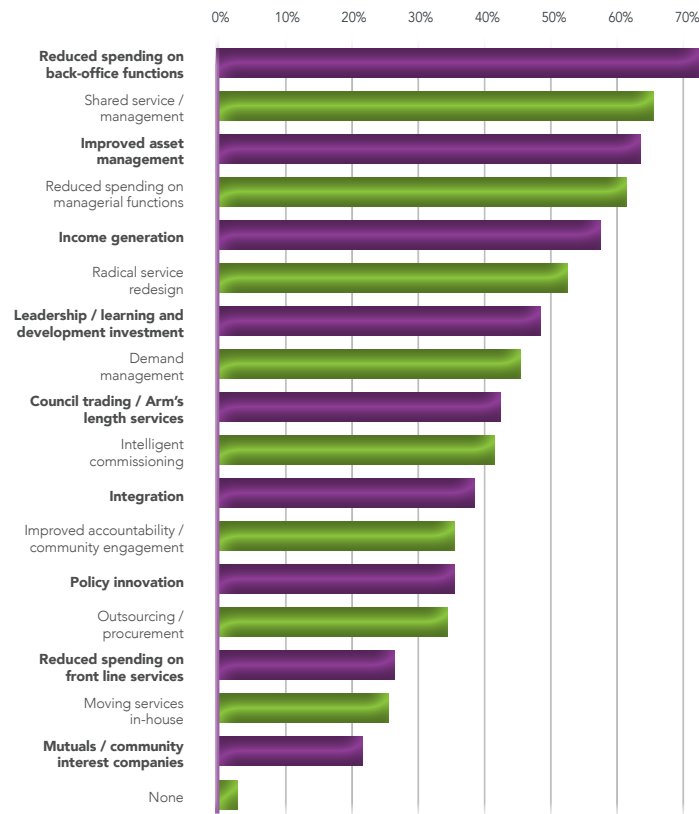
2.Shared service/management (66%)

3.Improving asset management (63%)

Reduced spending on managerial functions (62%), income generation (58%), radical service redesign (53%), leadership/ learning and development investment (49%) and demand management (46%) were the next most popular examples overall.

These responses suggest a relatively traditional profile of innovation in the first instance. Focusing on areas such as the back office, asset management and even shared services could be considered as reasonably low hanging fruit that doesn't require significant changes to either business models or organisational culture.

Figure 7: The most widely used types of innovation used by local government in the past twelve months



However, when we asked respondents to consider the next twelve months, they were significantly more likely to suggest more innovative solutions (see Figure 8). The top three answers were:

1. Partnership working with other organisations (83%)

2. Income generation (72%)

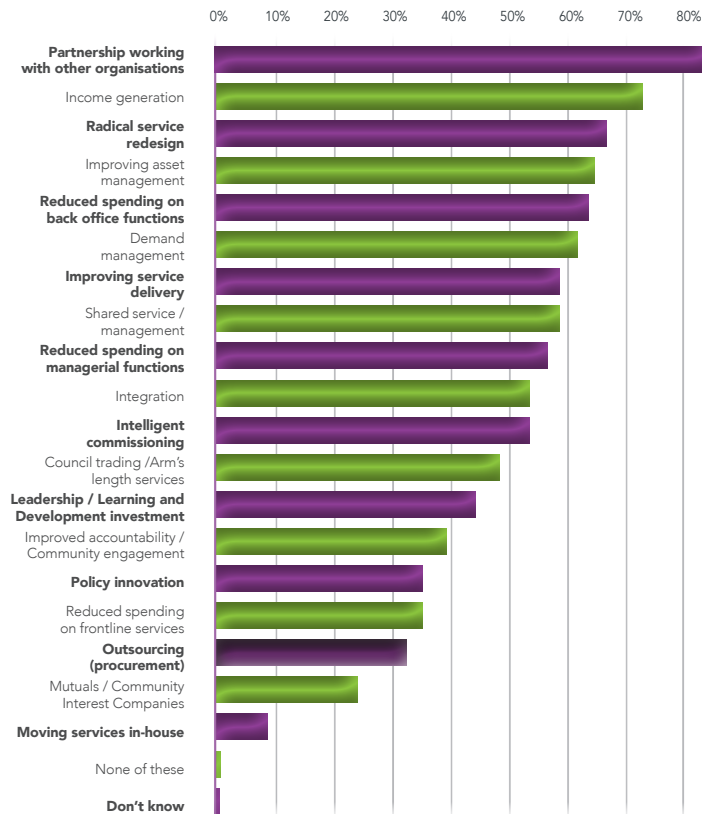
3. Radical service redesign (66%)

The more traditional areas for innovation also still feature, but have been pushed down the rankings significantly. Among the least popular types of ‘innovation’ was reducing spending on frontline services used by the public.

Councils are increasingly recognising that adapting to their financial future will require significant change. While bearing down on back office costs, contracts or removing management has enabled cuts to be delivered to date, more sophisticated approaches are increasingly being adopted.

For example, many of the principles behind more frugal innovation are being applied, including working with residents to manage demand, co-production and using assets flexibly. In many cases these techniques are in their infancy but they will have an increasing impact on the sector’s ability to absorb the cuts that are expected over the coming Parliament.

Figure 8: Types of innovation councils were planning to use more in the coming twelve months



LOW EXPECTATIONS OF HELP FROM WESTMINSTER

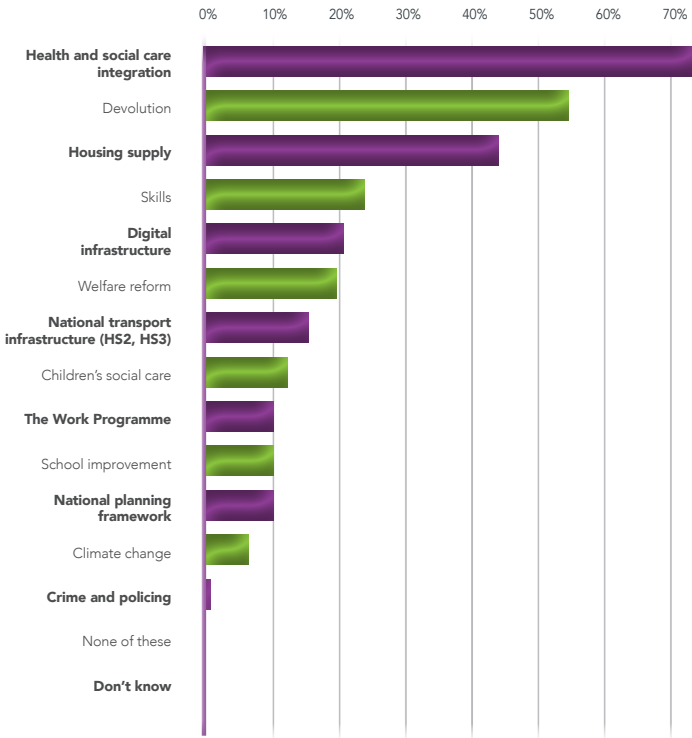
As we approach the General Election in May, political parties are starting to set out their manifestos and what they see as priorities for a future government. Looking specifically at our sector, we asked the respondents what three areas they felt should be the main focus of central government following the election (see Figure 9).

Significantly the highest priority was given to health and social care integration (72%). Given their role, this was an extremely strong priority for county councils, who all responded with this as their highest priority. More surprising, perhaps, was that significant number of districts also gave health and social care priority, possibly recognising its importance to the overall financial health of the sector.

The second and third most important areas of focus for the next Government were devolution (52%) and housing supply (42%). Interestingly, the bottom two areas (less than 10%) were crime and policing, and climate change. Very low priority was also given to the Work Programme, school improvement, and National Planning Framework.

Devolution is an area in which Solace members remain keen for the Government to make significant steps forward early in the next Parliament. 81% of our respondents agreed that more of the money spent by local government should be raised locally. In contrast, 10% neither agreed nor disagreed with the statement and only 9% disagreed.

Figure 9: Areas that should be the main focus of central government following the next General Election



While you might expect local government senior managers to be enthusiastic about fiscal devolution, the public also show signs of being supportive. In a recent Ipsos MORI poll for the Joseph Rowntree Reform Trust, 42% of respondents agreed that more money should be raised locally, with 27% neither agreeing nor disagreeing. Only 30% disagreed with the change.

When asked whether they felt that government power in Britain was too centralised, 63% of the general public agreed and 13% disagreed with the statement.

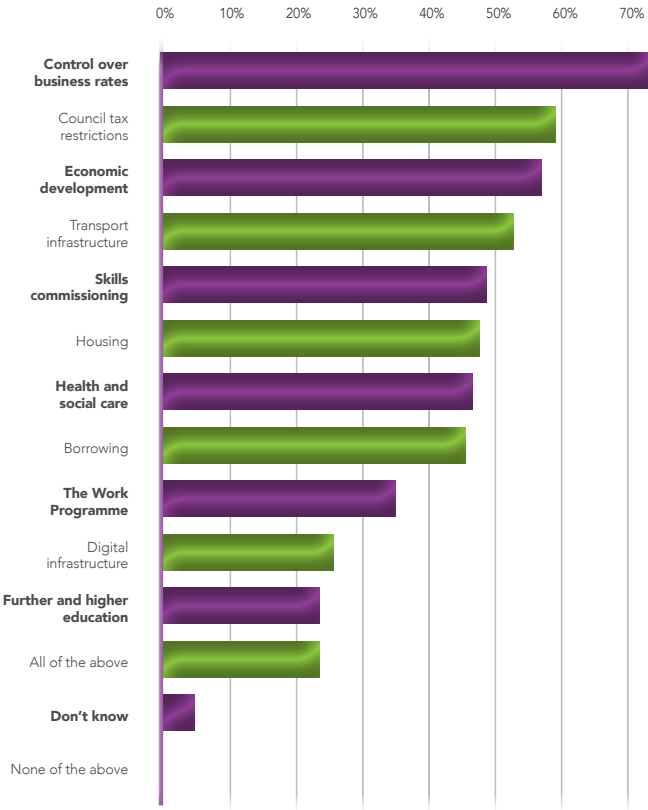
We also asked Solace members in which areas they would like to see devolution of power in the coming twelve months (see Figure 10). Over 70% would like to see devolution of control over business rates, followed by devolution of power over council tax restrictions (56%) and economic development (55%). Over 23% were keen to see devolution of power in all of the areas.

Despite some scepticism, the appetite for devolution to local government clearly remains strong. The national parties are currently fighting over the policy ground, and the next Government's approach will fundamentally shape the way local government operates in the future.

There was also a little optimism among Solace members responding to our survey, with 53% believing that the decision-making process in the UK in ten years from now would be a 'bit less centralised', and a small group (7%) who felt the UK would be significantly less centralised. However, the sector evidently has little trust that national government can deliver significant support to progress the changes local government so clearly needs.

When asked to what extent they believed that any of the main political parties had a sufficient programme for change for local government, 84% of Solace members either disagreed or strongly disagreed. Only 6% agreed either slightly or strongly.

Figure 10: Areas in which our respondents would like to see devolution of power in the coming twelve months



A POSITIVE FUTURE?

This report paints a picture of a local government sector with severe financial pressures, fearful of the potential future and feeling that solutions are unlikely to come from Government. But that does not mean the sector is universally pessimistic. Looking at local government in ten years' time, 43% felt positive, 20% neutral, and 35% felt negative about the future of the sector overall (see Figure 11).

We also asked Solace members what role they felt a council would perform in ten years' time. Many (45%) believed the council will be an organisation with a growing role and remit that delivers a localised agenda, whilst 7% believed it would become an organisation with a growing role but that the remit would be to deliver to a national agenda.

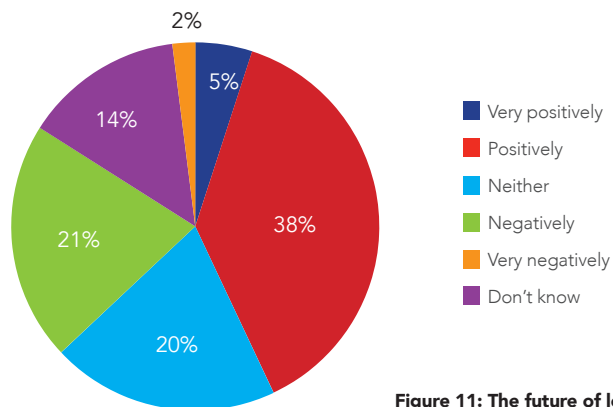


Figure 11: The future of local government in ten years' time

Furthermore, 44% saw the council as having a diminishing role, with 23% feeling that that diminished role would be to deliver a national agenda, while 21% felt it would be to deliver a localised agenda.

This mixed, inconclusive view shone through when we asked about the types of services local government might or might not deliver in the future. Health and social care dominated the responses but there were contradictory views about where its future might lay. Many believe that the future of social care may lie away from local government, with the creation of a national health and social care service. However, others take a contrasting view, suggesting that health services may integrate with social care at the local level.

There is clearly significant organisational change ahead – but where the chips will fall is still uncertain.

APPENDIX:

SURVEY METHODOLOGY

The Solace Insights survey was conducted in November and December 2014. In total, 97% of respondents were Solace members. We received 117 responses overall; 72% of respondents were current chief executives or senior managers of a local authority, 11% were former chief executives or senior managers, and 6% were current middle managers.

Of these, county councils were represented at 8% of the total, district councils at 36%, unitary/London borough/metropolitan borough councils at 42%, private sector at 7%, and any other organisations at 8%.

The highest response rate was received from the South East, London, East of England, Scotland, East and West Midlands, and the North West.

Overall, 46% of respondents had more than 25 years of local government experience, 25% have worked in local government for 15-25 years, 17% have been in local government for 5-15 years and 12% have worked in the sector for up to five years.

The population sample consists of 66% male and 34% female respondents.

Respondents were asked to reflect on the main priorities and challenges local government is currently facing, reflecting on their work over the past year. We also asked them to consider the short-term future of local government by expressing their views on the upcoming twelve months in local government, and the long-term future of local government in ten years' time.

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