

The Local State We're In

*PwC's annual local
government survey, 2014*



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1. Executive summary

Our fourth annual survey shows that councils remain concerned about their long term ability to manage funding cuts without impacting the quality of services delivered or outcomes achieved. With efficiency savings no longer sufficient, councils need to find new ways of working, redefining their role and purpose. This year's survey has an additional focus on the 2015 General Election and asks if it is time for a new deal between central and local government.

As in previous years, Leaders and Chief Executives remain confident in the short term, but confidence crumbles in the face of the longer term challenges ahead. Nine out of ten Chief Executives and Leaders believe that, within the next five years, some local authorities will get into serious financial crisis, while nine out of ten Leaders and eight out of ten Chief Executives believe that some local authorities will fail to deliver the essential services that residents require.

Furthermore, the gap between how councils see their own financial outlook and the health of the sector as a whole has closed. While in previous years Leaders and Chief Executives thought it would be others who would end up in financial crisis, this year there is close alignment between the outlook that individual councils have for themselves and for the sector as a whole.

At the same time, only around half of the public is aware of any reductions or cuts in services. A smaller proportion of the public than in previous years – 35% compared to 47% in 2011 – accept the need to make cuts or reductions in services. This means the need for councils to engage the public in the tough choices that need to be made, to meet the financial challenges they face in the next few years, is more critical than ever.

As councils make an honest appraisal of what the future holds, many are redefining their purpose and role and finding new ways of working. A strong theme that emerges in our survey is a shift in the role of the council away from delivering services and towards facilitating outcomes in collaboration with private and public partners, and citizens themselves, across a place. However, taking on an outcomes based approach brings its own challenges, not least the fact that less than half of respondents feel they have a good understanding of the cost of delivering outcomes on a multi-organisational basis across their areas. In the context of continued budgetary pressures, developing systems that accurately measure the impact of interventions clearly remains a critical challenge.

The integration of health and social care is one of the foremost examples of this shift to collaborative working in order to deliver outcomes. Progress has clearly been made and there's a growing recognition that joining up care has the potential to deliver better outcomes for the people and communities. But there are lessons to be learned from the barriers that still need to be overcome, including financial constraints, misaligned incentives and cultural differences.

Embracing the opportunity digital offers to engage with citizens in new ways is another example of how local government is responding to the dual challenge of rising demand and financial pressures. However, while Leaders and Chief Executives are confident of the digital approach they're taking, the public is less impressed, with less than a third agreeing that their council is fully embracing digital technology compared to three quarters of Leaders. Clearly, there is some way to go in keeping up with the rate of change driven by technology and meeting the public's changing digital expectations, as well as realising the financial savings and increased productivity that digital approaches can offer.

As councils shift from their internal focus on efficiency to an outward focus on the places and communities they lead, local government's role in supporting economic growth has once more come to the fore. There is a growing recognition of the role played by Local Enterprise Partnerships compared to last year, with 70% of Chief Executives and 76% of Leaders now recognising LEPs as key partners for growth compared to 50% in 2013. The survey also acknowledges the importance of small and medium enterprises (SMEs) and universities as partners for growth. Significant barriers to growth remain around local government's relative lack of influence over key drivers of the local economy, in particular infrastructure, skills and housing.

An overwhelming majority believe that the financial dividends of investing in growth and public service reform should be retained locally, and as we look to the 2015 General Election there are growing calls for a new deal between central and local government. Localism has been a key theme of the Coalition government's programme, but the sense in 2014 is that local authorities have been devolved the spending axe without receiving the additional powers and freedoms that would enable councils and their local public sector partners to do things differently.

In the short term, with little political appetite for top down local government reorganisation and no sign of financial pressures abating, it is being left to councils to develop new models of collaboration from the local level up. Whether local innovation alone will bring about local government reform at the scale and pace needed is another question.

Overall, this year's survey highlights a growing appreciation within local government that radical transformation across the public sector in a place is needed. So far, local authorities have done a good job in transforming their internal processes and operating models. As we look to 2015 and beyond, this approach will no longer be sufficient. Councils need to look outwards to redefine their role and purpose and lead transformation not just for their own organisations, but across whole places.



2. Introduction

In March 2014, we conducted our fourth survey of local authority Chief Executives and Leaders, together with online polling of a representative sample of over 2,000 members of the public. As in past years, our aim is to explore how councils are coping with financial pressures and transforming themselves in response to continued fiscal austerity, as well as the public reaction to the actions they've taken. One year ahead of the General Election, this year we've also explored what policy proposals local government would like to see on the table for 2015 and beyond.

Over the past four years, local government has transformed itself remarkably in the face of continued austerity and rising demand.

Our annual local government surveys aim to explore how councils are dealing with these challenges. This year's report explores a range of critical issues local authorities need to address as they look to 2015 and beyond, from overcoming barriers to integrating care to embracing digital opportunities to engage with citizens.

This report presents the survey findings and focusses on six key themes that emerged from the results:

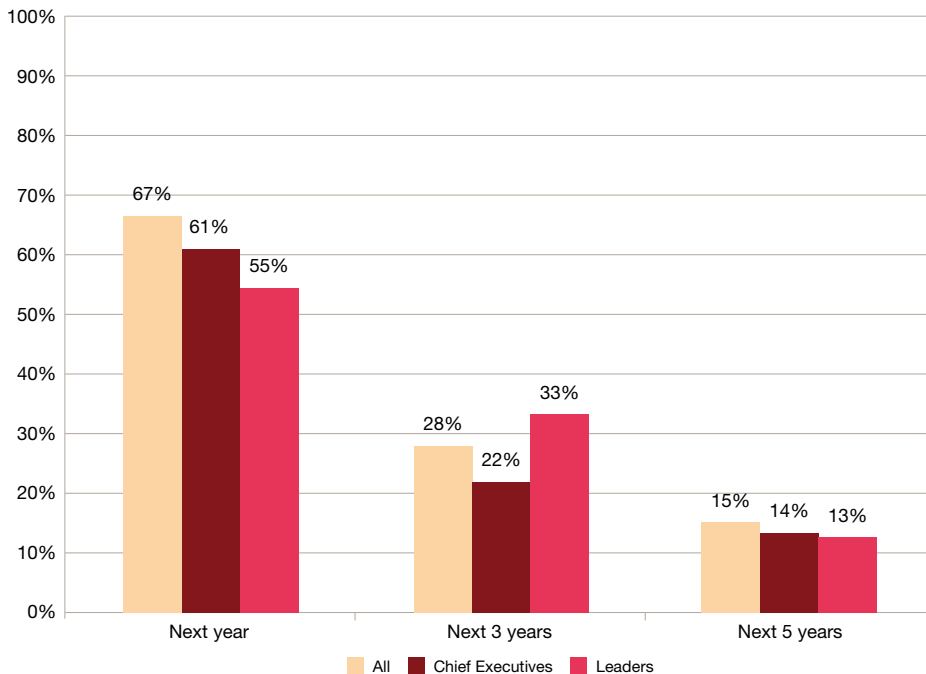
- Council confidence: How are councils coping with continued austerity and how confident are they about the future? Is the mood of Leaders and Chief Executives matched by the public?
- Focus shifts: To what extent are local authorities moving to delivering outcomes rather than services?
- Joining up care: How successfully are councils working with partners to overcome barriers to delivering whole person care?
- Digital expectations: Are councils delivering the digital offer that the public expects?
- Unlocking local growth: What are the barriers and enablers for good growth?
- Looking to 2015 and beyond: What new powers do councils want? Do they have the capacity to take on additional responsibilities?

3. Financial pressures continue

Local government continues to have confidence in its ability to deliver savings without adversely impacting services or outcomes in the short term, but when Leaders and Chief Executives consider the three and five year outlook, that confidence quickly crumbles. As continued austerity hits home, for the first year there is parity between Leaders and Chief Executive confidence in their own council and in the financial resilience of the sector.

Figure 1: Confidence in making savings without impacting services and outcomes

We are confident that we will be able to make the necessary financial savings without seriously impacting the quality of service delivery and outcomes in the...



Confidence ebbs

Our fourth annual survey of local government leadership highlights how local authorities are responding to continued public sector austerity. The 2014 survey results show that while confidence in the short term remains relatively high – two thirds of respondents are confident that they will be able to make the necessary financial savings without seriously impacting the quality of services or outcomes – as Leaders and Chief Executives look to the longer term, this confidence ebbs away (Figure 1). Looking five years into the future, only 15% of respondents are confident of their ability to continue to make savings without having a negative impact on services and outcomes.

To some extent it may be expected that as we look further into the future, greater uncertainty means respondents can't be as confident about the shape of the services they will provide. When we look to past surveys, Leaders and Chief Executives have consistently been confident about the short term outlook compared to the longer term picture. We have noted before that the sector has surprised itself with the scale of savings that have been made over the past three years. However, for many, another round of savings of the same scale are now required. Even with the knowledge of what has been achieved to date, it is that daunting thought that is causing councils to fundamentally redefine their role and purpose, rather than solely focussing on efficiency savings.

Continued austerity hits home

In a reversal of past years where respondents were more confident about their own ability to meet financial challenges than the ability of the sector as a whole, we're now seeing that Chief Executives and Leaders are slightly more confident about the future of the overall sector than they are about their own outlook. For example, when we consider the five year outlook, 85% are not confident that they will be able to make the savings necessary without impacting services, compared to 83% who believe that some local authorities will fail to deliver essential services.

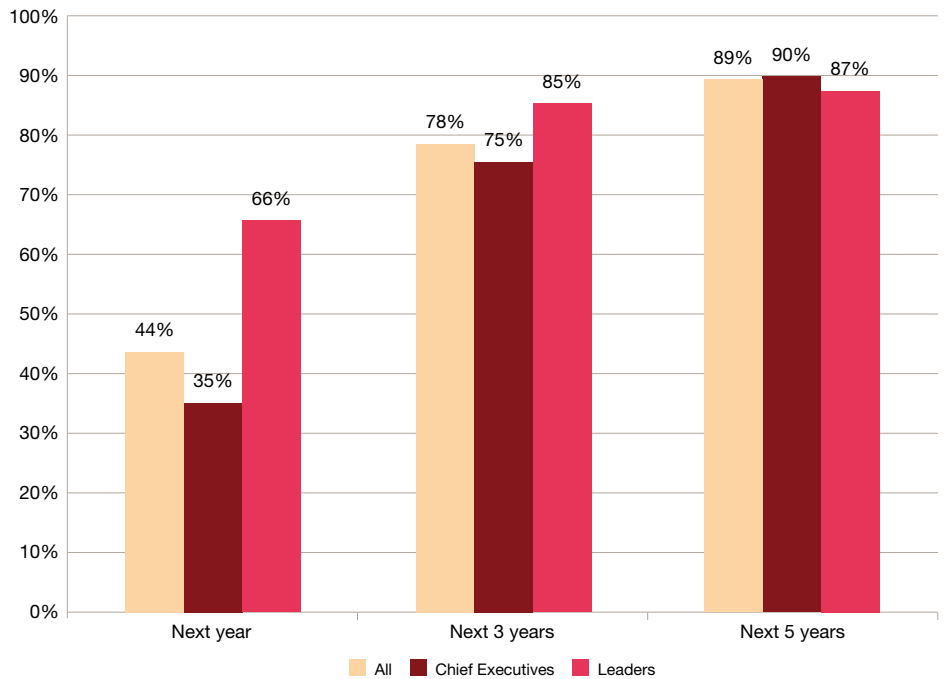
While it is positive that the sector leadership is taking a more realistic view of their own financial resilience and that of the sector, nine out of ten believe that some local authorities will get into serious financial difficulty in the next five years while eight out of ten believe that some local authorities will fail to deliver essential services in the next five years (Figure 2).

In the short term, there is a notable divergence between Leaders and Chief Executives, with 66% of Leaders believing that some local authorities will get into financial crisis in the next year, compared to 35% of Chief Executives.

In these circumstances, we are increasingly seeing councils begin to question their existing business model for delivering services and securing outcomes. Chief Executives and Leaders will increasingly see the need to redefine their role and purpose in response to continued austerity.

Figure 2: Confidence in the sector

Some local authorities will get into serious financial crisis in the...



Some local authorities will fail to deliver the essential services residents require in the...

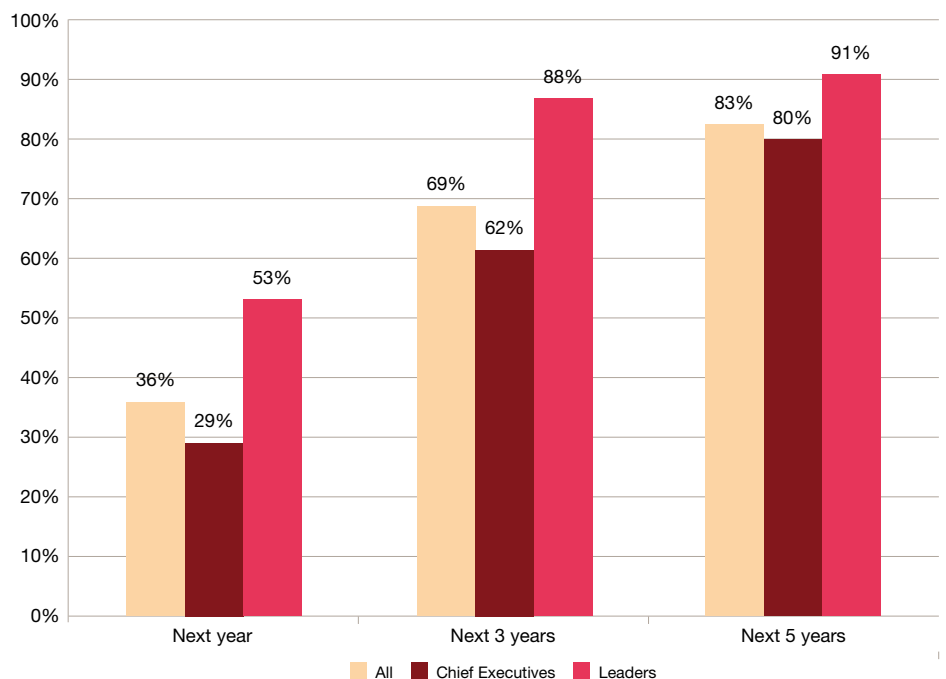
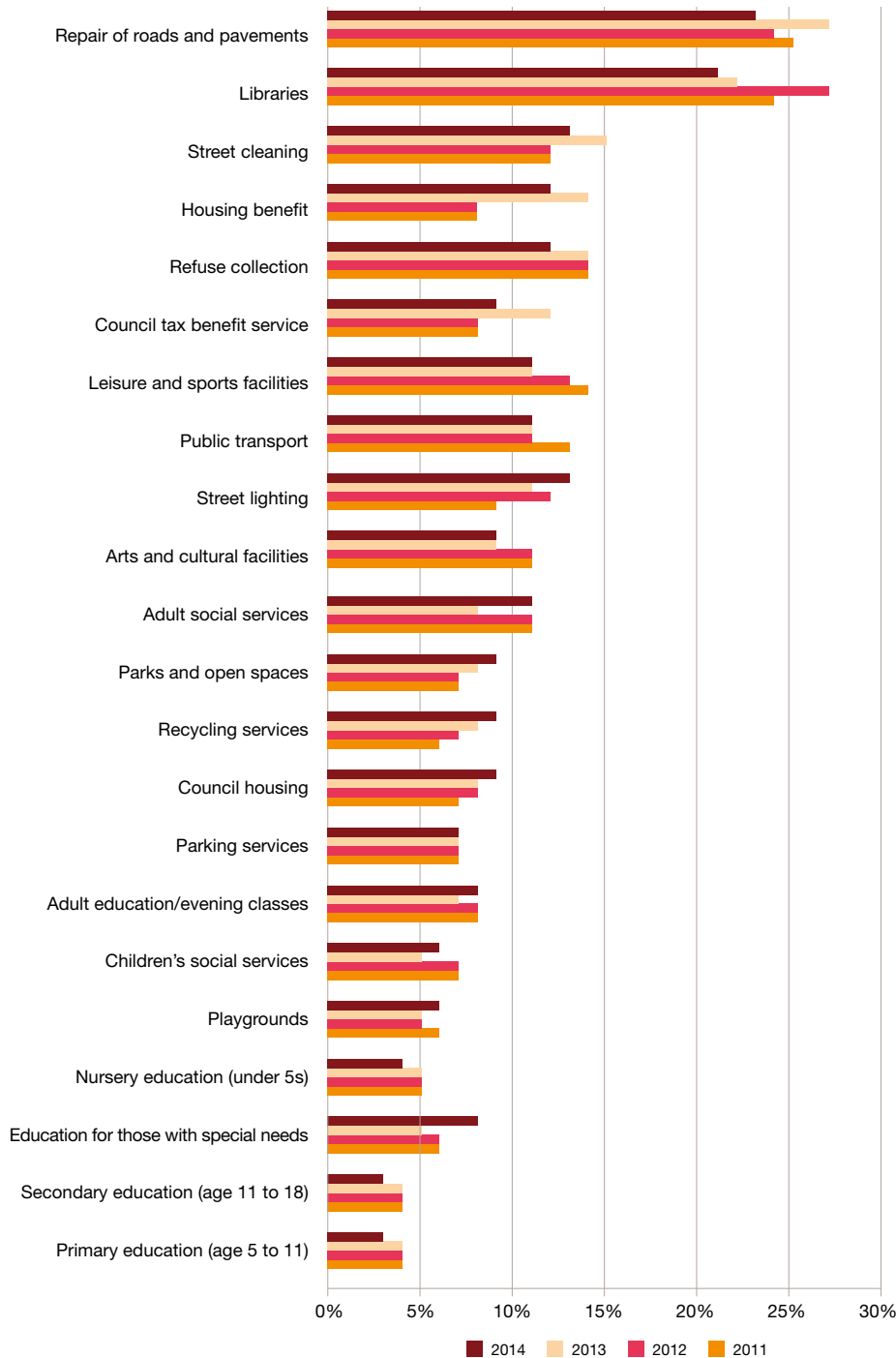


Figure 3: Public awareness of reductions in services

Which, if any, of the following services or facilities in your local area are you aware of having been affected by cuts in the past 12 months?



Many people remain unaware of any reductions to services

As with our 2013 survey, almost half of the public we surveyed were unaware of any reductions in local council services in their area. To some extent, this is a testament to the success of local authorities to date in focussing on internal efficiencies while protecting the frontline. However, it is also a foreboding of the challenge ahead, in engaging residents in the need to make changes or any further reductions to services.

Overall, public perceptions of service reductions or closures follow a similar pattern to previous years (Figure 3). Repair of roads and pavements is once again the area that most respondents commented on, with almost a quarter of respondents claiming to be aware of reductions, followed by 21% saying they were aware of library reductions or closures. Both of these figures have fallen slightly compared to 2013, perhaps reflecting that the initial outcry about council service closures is waning, just at the time when councils are facing their most significant financial challenges yet.

While residents are most likely to have noticed reductions to universal environmental services, the two service areas that have seen the largest increase in reporting of reductions or closures over the past year are adult social services and special needs education, with an increase in three percentage points for each. This suggests a growing concern around service reductions for the more vulnerable members of the community.

Community concerns

It is notable that the public is generally more concerned about the impact of reductions in services on their community, than on themselves personally. While half of respondents are concerned about the impact of reductions on themselves, six in ten are concerned about the impact of reductions on their community.

The public continues not to accept the need to make cuts or reductions

There has been a continued reduction in the proportion of the public who accept the need to make cuts (Figure 4). While this has only marginally dropped off since last year, compared to our first survey in 2011, we've seen public acceptance of cuts drop by more than ten percentage points.

Public understanding of the need for savings has dipped

The fall in public acceptance for the need for cuts has been matched by a dip in the proportion of the public who feel their council has kept them informed about the reasons for reductions or closures in services. Less than a third of the public feel their council has kept them well informed over the past 12 months, falling from 36% in 2013 to 31% in 2014 (Figure 5).

Overall our public polling presents a significant challenge for councils as they consider their three and five year outlook.

Against the backdrop of an improving national economy and potential rises in council tax, engaging the public on the impact of the financial challenges that councils are facing, and why they're getting what they may perceive as less for more, will be more important than ever.

Figure 4: Are councils cuts accepted or opposed by the public?

To what extent do you accept that your local council needs to reduce or close services or facilities in your local area?

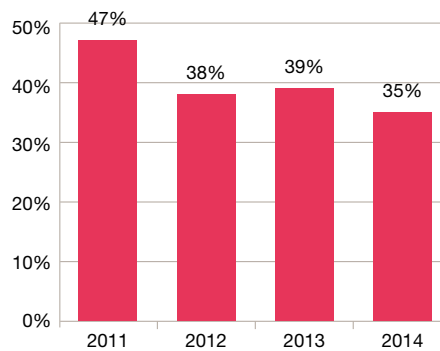
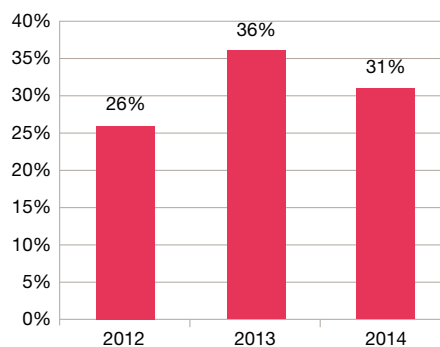


Figure 5: How well informed are the public?

How well informed do you feel your council has been keeping you about the reasons for the reduction, stopping or closures of services or facilities over the past 12 months?



4. Focus shifts: from council services to whole place outcomes

“We’re trying to work with local partners to have a fundamental appraisal of income flows and outputs to see whether they genuinely match to outcomes.”

Chief Executive

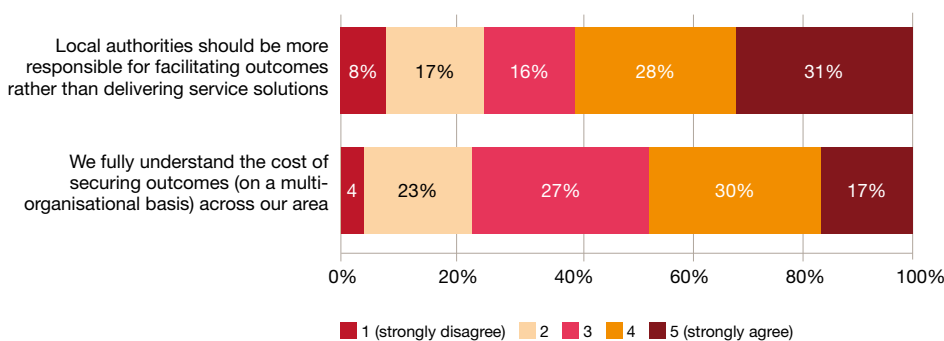
A majority of councils agree that their focus should be on achieving outcomes, rather than on service delivery. Taking an outcomes approach is allowing councils to think in different ways about the impact they have, but comes with challenges of its own. Whole place working is required, with multi-organisational decision-making based on the ‘locality pound’, but less than half of our survey respondents understand the costs of securing outcomes across their area.

The severity and duration of austerity, alongside growing demand for services, means local authorities are now having to take a more fundamental approach to transforming themselves for the future. Many authorities are already approaching a tipping point where it is no longer possible to undertake the same activities as before. At the same time, the achievements of the sector over the past few years have shown local authorities the extent to which transformation and adaptation is possible and the positive impact new ways of working can have.

Our Redefining Local Government Talking Point¹, published earlier this year, set out the challenge now facing councils. We highlighted that local authorities need to take an approach focussed on pursuing the right outcomes and impact in localities, irrespective of delivery method. Redefining the role and purpose of local government requires a shift in focus to viewing local public services in a more holistic way, considering how multiple organisations across a place can contribute to securing desired outcomes for people and communities. For councils, this means focussing on achieving impact through influence, alliance and collaboration, rather than through the direct delivery of services.

We asked Leaders and Chief Executives the extent to which they agree that local authorities should focus on enabling outcomes rather than delivering services, and our survey found that a majority – 6 out of 10 – respondents agree (Figure 6). A number of councils² we’re working with are already embracing an outcomes based approach, and opening up very different ways of thinking and operating as a result.

Figure 6: Shifting towards outcomes



¹ PwC (2014) Redefining Local Government, www.pwc.co.uk/redefininglocalgov

² For more on taking an outcomes based approach, see www.pwc.co.uk/localgov2014 for our discussion with Nathan Elvery, Chief Executive of Croydon Council.

The cost of everything

Effective multi-organisational working is essential to the success of an outcomes based approach. While desired outcomes can rarely be achieved by local authorities alone, councils do have a pivotal role to play in bringing together partners and the public from across a place, building consensus around place-specific outcomes and facilitating collaborative working relationships.

As our experience of integrated care (see section 5) has shown, a critical first step is overcoming current organisational boundaries and siloed working and agreeing a shared vision and strategy for the outcomes to be achieved. In the absence of place based budgeting, this needs to be underpinned by a good understanding of how effectively the ‘locality pound’ – i.e. the total public sector spend across a place – is currently being invested, rather than framing discussions around individual organisational or departmental budgets. By really understanding what citizens need, what is currently delivered, and the related costs of both across public services in a locality, it is possible to consider different outcomes and begin to optimise public service investment around them.

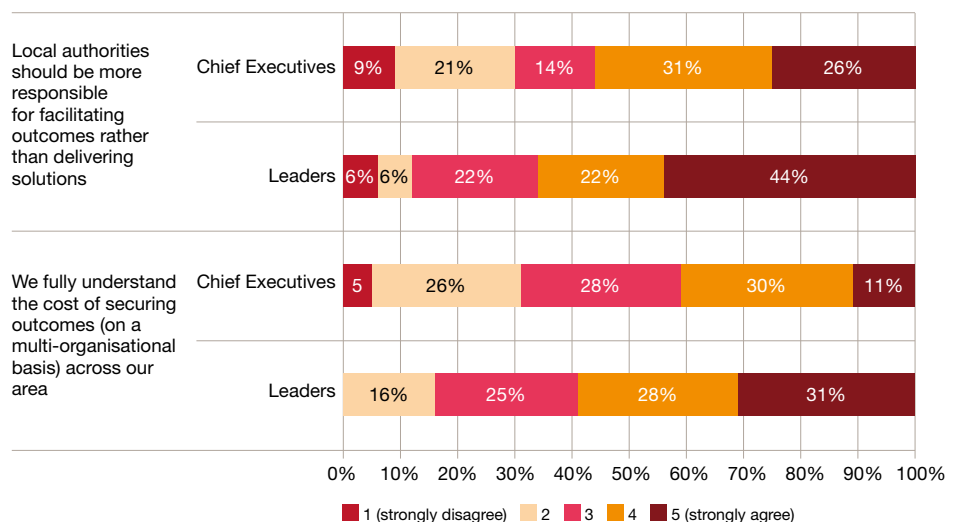
However, our survey showed that less than half of respondents feel they fully understand the cost of securing outcomes across their area on a multi-organisational basis. This is a gap that local authorities will need to address if they are to realise their potential to play a pivotal role in leading multi-organisational collaboration across their areas.

Members lead the way on outcomes

There is a clear division between Leaders and Chief Executives in relation to the fundamental role and purpose of the council. Leaders are more likely to strongly agree that local authorities should focus on outcomes than Chief Executives, with 44% of Leaders believing in an outcomes approach compared to 26% of Chief Executives (Figure 7).

There is a similar divide between Chief Executives and Leaders in relation to whether respondents agree that they fully understand the costs of securing outcomes across their area on a multi-organisational basis, with only one in ten Chief Executives strongly agreeing, compared to almost a third of Leaders.

Figure 7: Leaders are more likely to agree with the outcomes focus



5. Joining up care: overcoming barriers to deliver integrated care

“The main barrier to integrated care is that our neighbouring local authorities ‘do not get it’. Some organisations do not get the bigger picture in fear that they may not exist as a result.”

Chief Executive

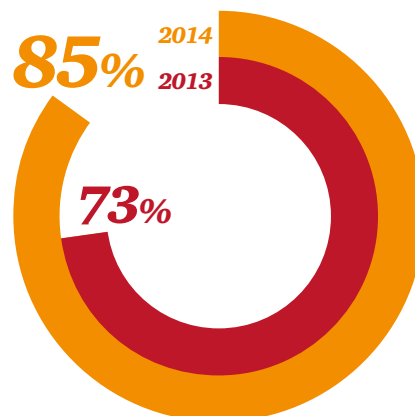
As the pressures facing health and social care organisations continue to mount, there is growing recognition that a whole system approach is needed in response. Local authorities increasingly recognise that further integration of health and social care has the potential to deliver improved outcomes, but significant barriers remain. Securing these improved health outcomes requires transcending organisational boundaries and working with partners and the public across a place to deliver the best value for the ‘locality pound’.

It is increasingly clear that the current fragmented system of health and social care has become unsustainable from both a financial and public perspective. Overcoming the current divisions within and between health and social care organisations is critical in order to move towards a more joined up model of care³.

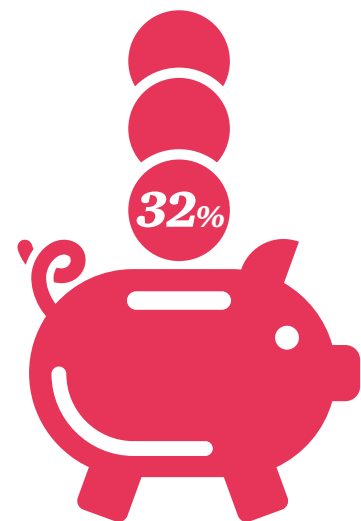
Our survey shows that a growing proportion of local authority Leaders and Chief Executives recognise that joining up care will have a positive impact on outcomes – rising from 73% in 2013 to 85% in 2014 (Figure 8).

Figure 8: Joining up to improve outcomes

Further integration of health and social care will have a positive impact on health outcomes (% agree)



Further integration of health and social care will generate savings for my council (% agree)



³ PwC (2013) NHS@75: Towards a healthy state, www.pwc.co.uk/nhs75

However, there is less agreement that integration will lead to savings for councils, with only 32% agreeing that integration will reap financial dividends.

When we probed further into the barriers to integrated care, respondents highlighted deep cultural barriers with NHS providers and commissioners, as well as funding pressures and misaligned incentives.

While the current configuration of the health and social care system clearly provides constraints to integrating care, this can't be an excuse for inaction. As some areas of the country are already demonstrating, substantial progress can be made when health and social care commissioners and providers from across a place can come together and transcend their organisational boundaries to consider their joint 'locality pound' and develop a shared vision for the outcomes they're seeking to achieve.

Critical factors for successful integration include: the need for facilitated discussion with strategic health and social care leaders; ensuring people working in the system have the space and time to think and plan and the infrastructure to enable change to happen; engaging the public on what they want and need; and crucially establishing a timeframe for delivering change that everybody buys in to.

Better Care Fund

The £3.8 billion Better Care Fund, announced in the 2013 Spending Review, is one of the key government initiatives designed to support the delivery of integrated care. However, respondents to our survey were not convinced that it is having the desired impact; 30% agree the Better Care Fund has had a positive impact, while 30% disagree and 40% are neutral. This is perhaps unsurprising, given that the Better Care Fund is still in early stages and isn't expected to be implemented until 2015/16. In respondents' comments, the short timescale in particular was seen as a challenge to making the most of the Better Care Fund, as well as cultural barriers between health and social care organisations.

While it is still early days for the Better Care Fund, if local authorities and health partners are truly to make the most of its potential to transform care, ensuring strong foundations are set from the outset will be critical.

“Many in the health service believe they will be bailed out financially and so don't fully embrace the need for change.”

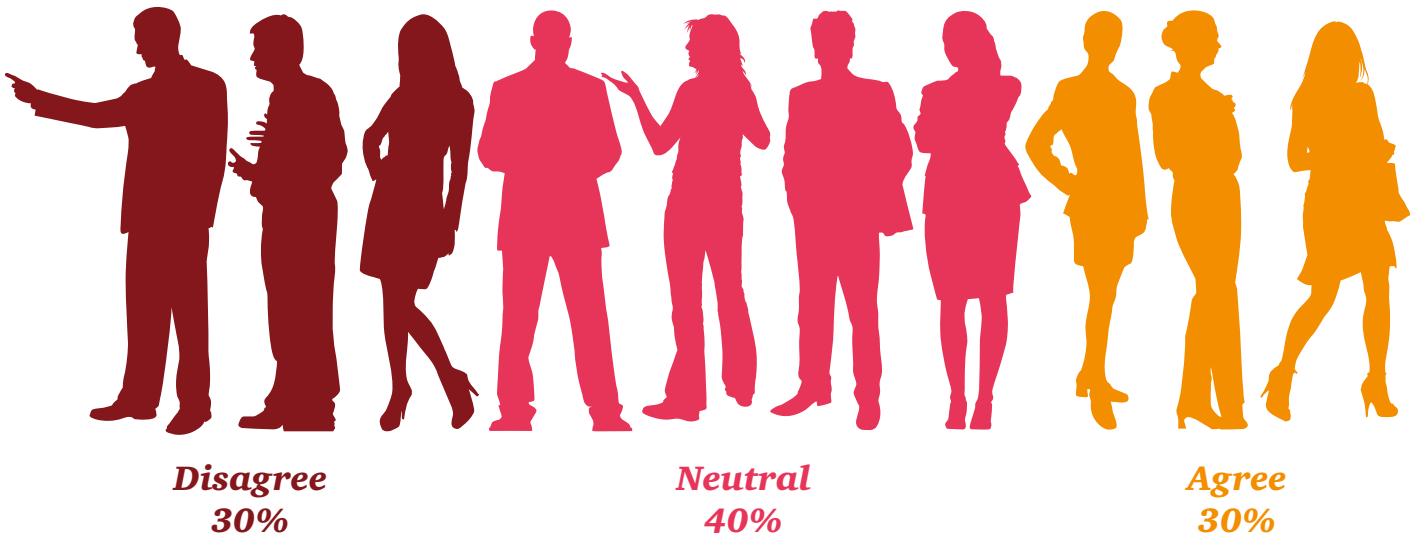
Chief Executive

Despite mixed views on the mechanics of the Better Care Fund, the recognition of the potential benefits to patients and the public through improved integration of services, as well as the opportunity to find efficiency savings for the system

as a whole, mean enthusiasm remains strong and over the next year we can expect to see a growing number of local areas working together across health and social care to drive this agenda forward.

Figure 9: The impact of the Better Care Fund

The Better Care Fund has had a positive impact on our ability to deliver better public services/outcomes:



6. Digital expectations: a new relationship with citizens

Digital technology is evolving fast and is already opening up a range of new ways that local government can support the delivery of services. Beyond this, digital technology has the potential to transform the relationship between councils and citizens, supporting people to secure outcomes for themselves. Our survey highlights that councils are enthusiastic about this agenda, but still have a long way to go to meet the expectations of the public.

The backdrop of ever scarcer resources alongside rising demand has drawn focus on the need to redefine the relationship between councils and citizens. Councils are increasingly facilitating and enabling citizens to actively achieve outcomes for themselves, and digital innovation has a key role to play in driving this shift.

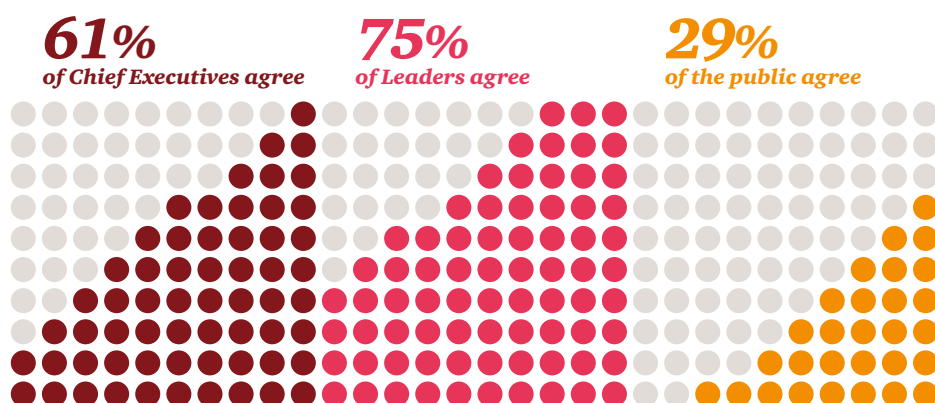
It is therefore more crucial than ever for councils to be in tune with technological change and its implications on citizen expectations, security and public service delivery. As we see the balance tip to most citizens being digitally aware

and connected in some way to the internet, the much vaunted benefits of ‘e-government’ are likely to become a reality with citizens demanding digital ways of interacting. The current and imminent waves⁴ of digital innovation also have the potential to go far and beyond the things that have already been achieved and planned to date.

Our survey shows that local authority Chief Executives and Leaders are feeling confident about their approach to new technologies. 75% of council Leaders and 61% of Chief Executives agree their council is confidently embracing the opportunities new technology offers to deliver better local public services. However, when we asked the public the same question, only 29% agreed (Figure 10). Clearly, local authorities still have some way to go when it comes to meeting the digital expectations of the public.

Figure 10: Embracing the digital agenda

My council is confidently embracing the opportunities new technologies offer for better local public services (% agree):



⁴ See PwC (2014) Redefining Local Government, www.pwc.co.uk/redefininglocalgov

“A changing compact between citizen and state needs to emerge – with the council withdrawing from a range of service provision, and increasingly supporting the local community to pick it up, if it is important to them.”

Chief Executive

Digital divide

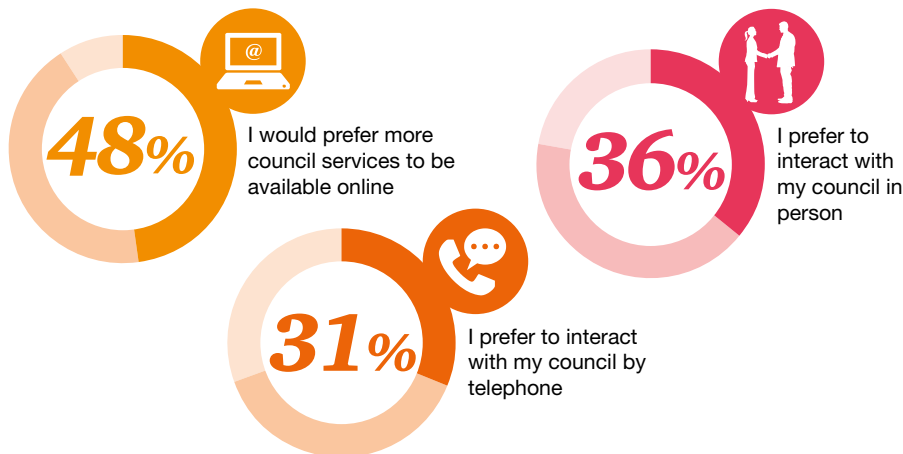
Through our public polling, we explored further the extent to which the public are using digital platforms to interact with their councils and found a notable level of regional variation. Almost half of Londoners (48%) and those in Wales (47%) had interacted with the council digitally in the last month, compared with 29% in the East Midlands. This variation demonstrates that there is much that councils can learn from leading adopters of digital when it comes to getting the full benefits of moving to digital transactions.

Digital expectations

We also asked the public if they actually wanted more services to be available digitally and found that almost half – 48% – agreed that they did. This is in no way restricted only to younger age groups. While a clear majority of 18-34 year olds expect a better range of digital services from their council, over 40% of over 55s also say they would prefer more council services to be available digitally.

In comparison, around a third of the public say they prefer to interact with their council in person (36%) and by telephone (31%), as shown in Figure 11. Clearly there is still an important role for these contact channels, but the survey also points to unexploited potential in fully embracing digital opportunities for interacting with the public.

Figure 11: Digital expectations



Doing digital

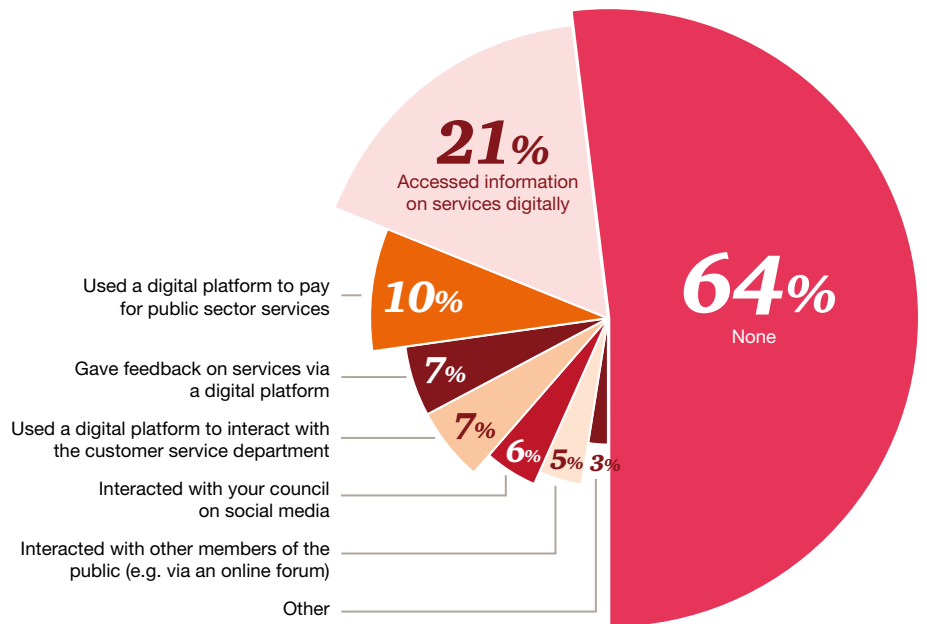
Many local authorities are already using digital technology to transform services and move to self-service where possible. When we asked the public about the different ways they use digital technology to interact with their councils, a fifth said they used their council’s website to access information and one in ten paid for a public service digitally (Figure 12). Smaller proportions have used their council’s digital platforms to interact with their council e.g. on social media or via a feedback mechanism, while 5% have interacted with other members of the public via a council hosted forum.

However, only one in three trust their council to manage their personal data and information. This will be a challenge for councils as they move away from digital transaction services and look for more innovative ways of using digital technology to change the nature of the relationship between the council and citizens.

Overall, the gap between council confidence and public expectations demonstrates that local government still has some way to go in embracing digital technology to transform the relationship between councils and citizens. In some cases, lack of consistency is the issue, where a number of service areas will have embraced sophisticated digital approaches while others are left behind. A more holistic approach is required to embed digital throughout the organisation. The public is clearly keen for more digital access to their council and Chief Executives and Leaders need to engage with the public on their own terms as they shape their future digital approach.

Figure 12: Digital interactions

In the last month, have you interacted with your council in the following ways?



“A renegotiation of the relationship between state and citizen is needed – reviewing expectations and behaviours each of the other (sometimes erroneously referred to as “demand management”).”

Chief Executive

7. Unlocking local growth: the keys to growth

“The absence of sustained long term mechanisms to forward fund infrastructure is a significant barrier to growth.”

Chief Executive

Local authorities recognise a wide range of key partners in achieving local growth, including small and medium enterprises, Local Enterprise Partnerships and universities. However, some of the levers to overcoming barriers to growth remain largely out of their hands. Lack of investment in infrastructure and lack of influence over skills policy are of particular concern.

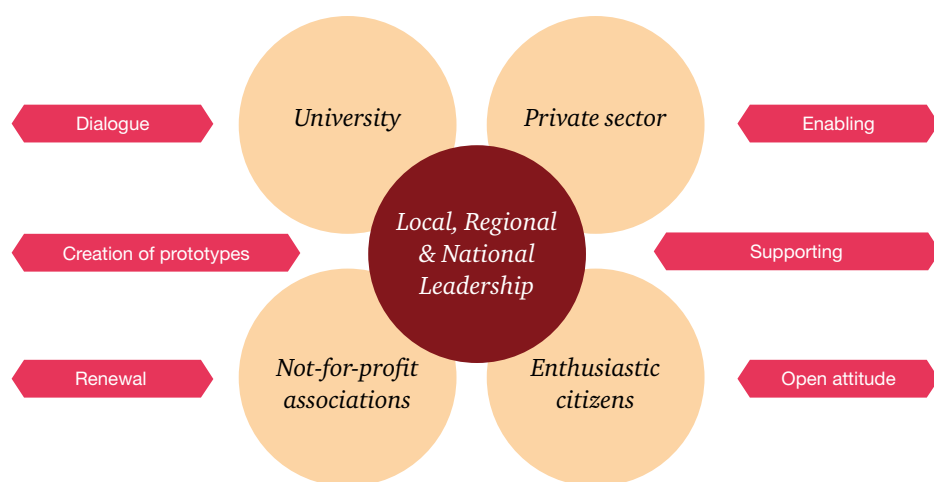
Councils have a pivotal role to play in unlocking local growth potential. Indeed, the relationship between economic growth, local jobs and council revenue is now clearer than ever. Local authorities need to consider how they will make the transition from a reliance on revenue support grants to income derived from growth. The ‘dividend’ of

investing in growth includes reduced dependency on council services, increased productivity and better value in the context of scarce resources. This direct interaction of economic growth, more jobs, increased income streams and reduced demand for public services needs to be reflected in a council’s strategic priorities.

However, as our Stepping Stones to Growth⁵ publication highlighted, when it comes to enabling good growth, a collaborative approach is required. Councils need to work together with private and other public and third sector stakeholders to enable good growth and fulfil their area’s economic potential (Figure 13). To be effective, these stakeholders need to be clear on their respective roles and how they are jointly and collectively responsible for good growth, including creating the business cases for others – in central government as well as mobile investors at home and abroad – to invest in their places.

We asked local authorities who they considered their key partners were in achieving growth (Figure 14). Seventy percent said that small and medium enterprises (SMEs), Local Enterprise Partnerships (LEPs), other public sector partners and universities were key partners for growth. The proportion identifying the key role played by the ‘new kids on the block’ – Local Enterprise Partnerships – has increased from 50% in 2013 to 70% of Chief Executives and 76% of Leaders in 2014. This suggests that LEPs are beginning to make their mark in helping to bring together private and public sector partners to support growth.

Figure 13: Collaborating for growth

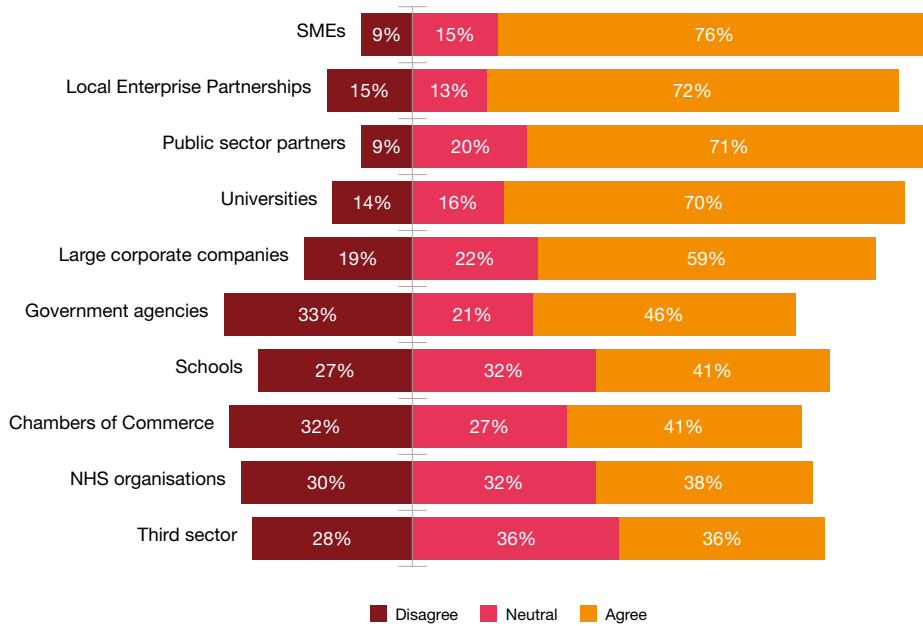


Source: Stepping Stones to Growth (PwC, 2013)

⁵ PwC (2013) Stepping Stones to Growth, www.pwc.co.uk/steppingstones

Figure 14: Key partners for growth

The following are key partners for us in achieving growth:



Box 1: The guiding principles for effective collaboration across organisations and sectors.

Local authorities have a leadership role to play in creating a hub for effective collaboration for growth. Councils are uniquely placed given their local democratic accountability and must keep a focus on the long term prospects for their communities and economies.

While there are no short cuts to investing in relationships to create effective collaboration across a place, Stepping Stones to Growth sets out some guiding principles for collaboration, including:

- Take a strategic, long term view of the framework within which the private sector operates – stability helps businesses to thrive
- Get the incentives right to drive collaboration so all partners have a vested interest in outcomes
- Create an effective dialogue on the co-design of policy, legislation and regulation
- Recognise the language of business and government can be different – understand and bridge those differences
- Invest in the development of personal relationships and mutual trust to achieve shared objectives

Source: Stepping stones to growth (PwC, 2013)

“Finding ways of funding the infrastructure needed to accommodate growth is a significant challenge, given that others control transport and employment programmes but we have to cope with the consequences for school places, roads and community facilities.”

Chief Executive

Barriers to growth

When we asked local authorities about barriers to economic growth, lack of investment in infrastructure overwhelmingly topped the table with 80% agreeing that it is a significant barrier to growth (Figure 15).

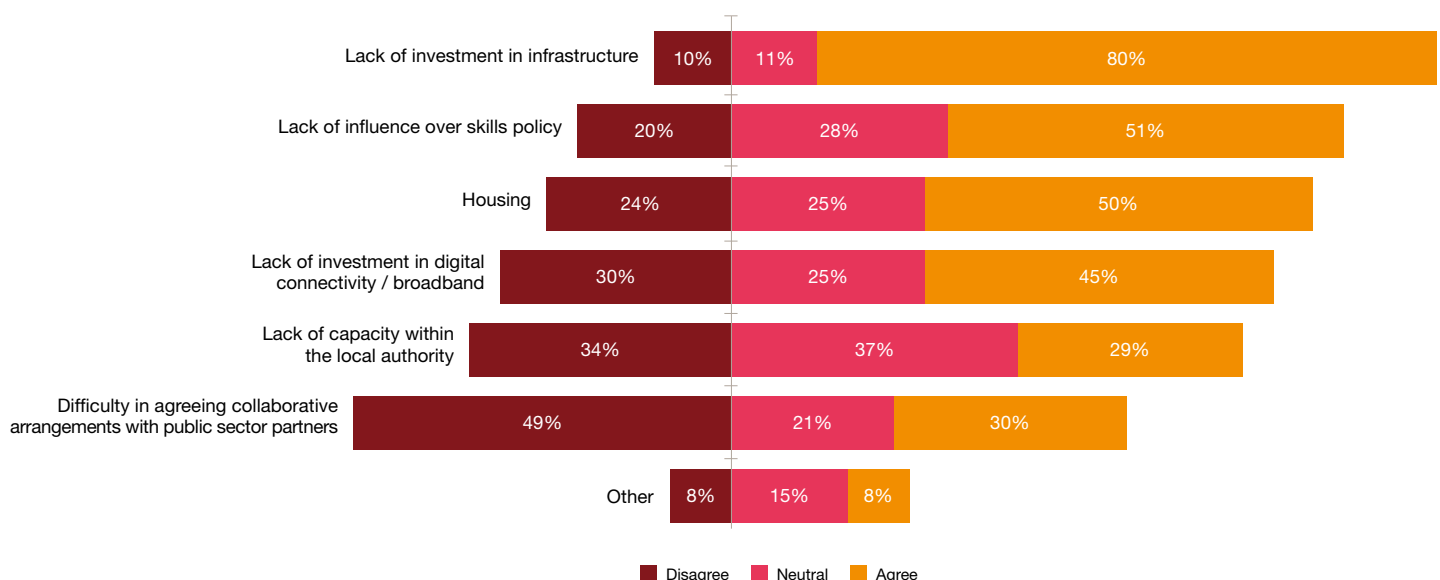
Economic evidence suggests, on balance, that well directed public infrastructure spending does support economic growth both at a national and regional level. While some upfront public sector investment is often needed to create investor confidence

in new infrastructure developments, grants from central government can only meet a small part of total needs for infrastructure and services. Places, and cities in particular, must therefore become more innovative with respect to how they raise finance, as well as being able to demonstrate clearly how investors will capture the value from infrastructure investments.⁶

In response to this challenge, our recent report, *Investor Ready Cities*⁷, provides city decision makers with the inspiration to create new approaches to private investment, and to make their cities investor ready (Box 2).

Figure 15: Key barriers to growth

The following are significant barriers to economic growth in my area:



⁶ PwC (2013) *Good Growth for Cities*, www.pwc.co.uk/goodgrowth

⁷ PwC, Siemens & BLP (2014) *Investor Ready Cities: How cities can create and deliver infrastructure value*, www.pwc.com/psrc

Box 2: Is your city investor ready?

As our survey results indicate, infrastructure investment is a critical component of good growth. We recently partnered with Siemens and Berwin Leighton Paisner to explore case studies of urban investment from across the globe and the critical success factors that underpin them. We found that successful urban infrastructure delivery can be driven by cities whose governance structures, legal and policy frameworks, and commercial planning can provide incentives for long-term investment opportunities.

Key factors that need to be addressed to ensure your city is investor ready include:

- **Ensuring that the appropriate legislative, regulatory and licensing regime is in place to inspire investor confidence in project feasibility and viability. For local authorities, maximising your ability to use land as a tool to deliver infrastructure and to facilitate future benefits could be a good starting point.**
- **Formulating a vision, with the strategic objectives, the priorities and programmes for achieving it including an overall budget strategy for delivering.**
- **Putting in place objective, robust governance procedures and vehicles to act as a focal point for investors and deliver the vision.**
- **Securing support from stakeholders for the vision, priorities and programme.**
- **Identifying successful contracting mechanisms for the delivery of a project at each stage in its lifetime.**

Source: Investor Ready Cities (PwC, Siemens & BLP, 2014)

“The system of getting people, especially the long term unemployed and generational workless families, into workforce is fragmented. I would like to see the local authority as the body that brings partners together.”

Leader

As well as a lack of investment, many respondents commented on the need for a more holistic approach to infrastructure. In particular, respondents highlighted issues of isolated housing developments and the need to create better links between where people live and where they work or where jobs are being created.

The other most significant barriers the survey identified are lack of influence over skills policy (51%) and housing issues (50%), while less significant barriers included lack of investment in digital connectivity (45%) and difficulty in agreeing collaborative agreements with public sector partners (30%).

Lack of capacity within the local authority is also cited as a significant barrier to economic growth by 29% of respondents. Given the workforce changes that local government has experienced in recent years, this is an issue that is unlikely to be specific to only economic growth. However, it serves as a warning that as local authorities seek to become more collaborative and outwardly focused, they will need enhanced capacity and different skills to support these new ways of working. In particular, the ability to support joint ventures, work collaboratively, and achieve impact through influence and alliance. Local government’s ability to recruit and retain high calibre talent is already a major challenge for many authorities and will continue to be high on the agenda as councils transform themselves to be fit for the future.

8. Looking to 2015 and beyond: a new deal for local government?

“I would like to think there would be a real devolvement of powers – not just words, and a move towards place based budgeting. I have no real expectation this will happen.”

Leader

With one year to go until the general election, Coalition policies have had a mixed reception from local government. Looking to 2015 and beyond, there is clear appetite from the sector for a new deal between central and local government, with eight out of ten respondents believing that the financial dividends of their investments in service reform, collaboration and growth should be retained locally.

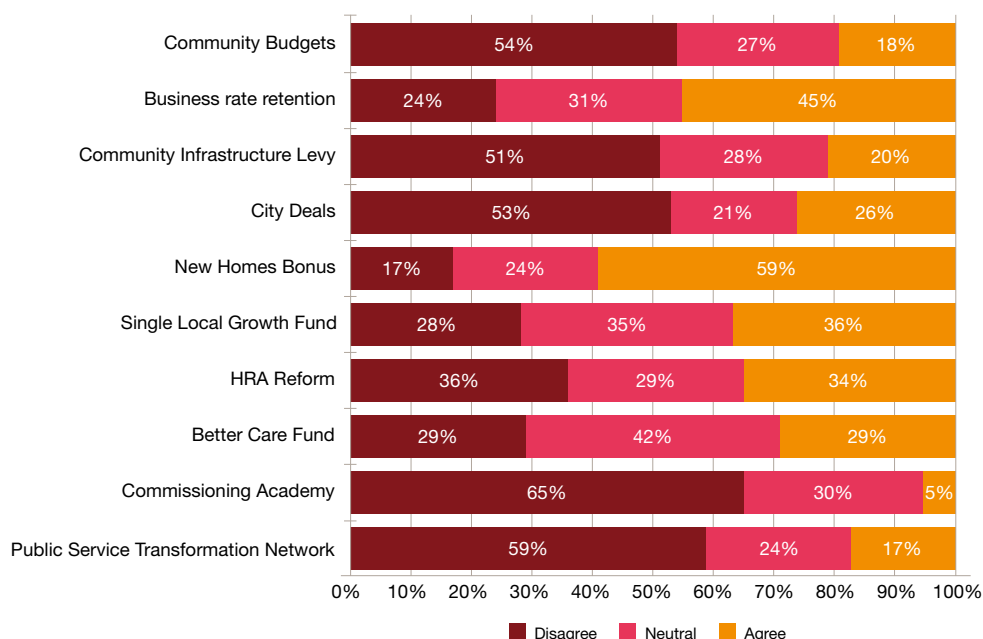
As in previous years, we used the survey to gauge reaction in the sector to government policy announcements. With one year to go until the General Election, which Coalition policies are having a positive impact and which are yet to make their mark?

The survey shows that the most popular government initiative we asked about was the New Homes Bonus, with 59% of respondents agreeing that it had made a positive impact. Almost half of respondents felt that business rate retention has had a positive impact, and around a third of respondents agree that the Single Local Growth Fund and HRA reform has been positive.

There is a less ringing endorsement of those initiatives that don't come with funding, with 65% disagreeing that that the Commissioning Academy has had a positive impact, 59% disagreeing about the positive impact of the Public Service Transformation Network and 54% unimpressed by the impact of Community Budgets. Given the financial situation that the sector finds itself in this is perhaps unsurprising. Whilst the potential impact of programmes that address the capacity issues of the sector or support collaborative working should not be underestimated, the survey points towards the need for a more fundamental redrawing of the relationship between central and local government, with more than eight out of ten respondents agreeing that more of the financial dividends of reform and investment should be retained locally.

Figure 16: Support for recent government initiatives

The following government initiatives have had a positive impact on our ability to deliver better public services/outcomes



The future shape of local government

Last year's survey showed a clear discrepancy between Chief Executive and Leaders' views on local government reform. This year officers and members appear to be closer to unison. 48% of Leaders and 38% of Chief Executives believe that local government reorganisations will happen over the course of the next parliament (Figure 17).

When we probed further and asked respondents what form local government reorganisation might take, almost half thought unitarisation was on the agenda (Figure 18). However, a third believed that reform would be voluntary and based on collaboration and shared services rather than centrally imposed. We're currently exploring the potential alternative futures to two tier local government reform with the think tank NLGN (Box 3) and a further report will be published later this year.

What also came out much more strongly in this year's survey is the idea of 'one public sector' across a place, stretching beyond the current focus on health and social care integration, with 15% of those who thought reform would happen agreeing that this was a potential way forward.

Figure 17: Support for local government reform

Significant reform of local government will happen over the course of the next parliament (% agree)

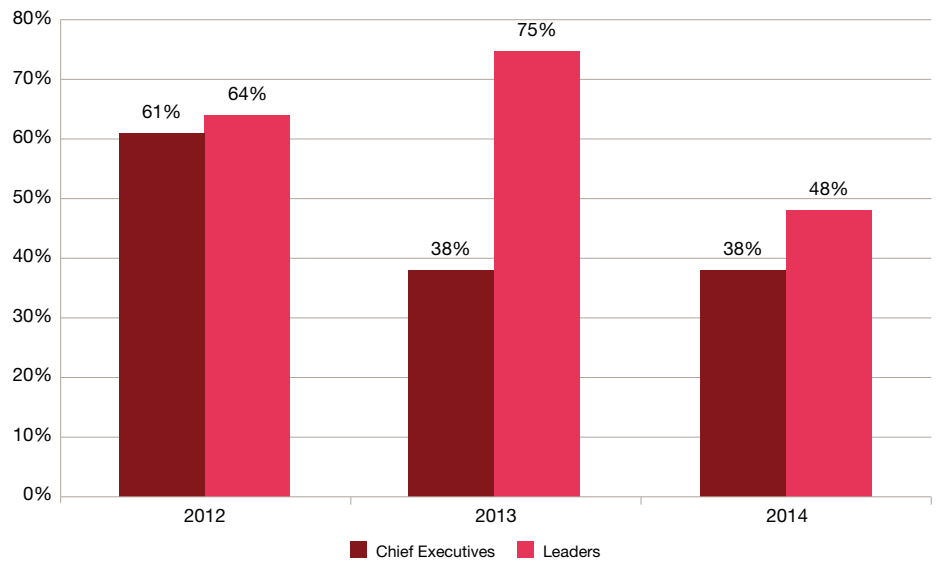
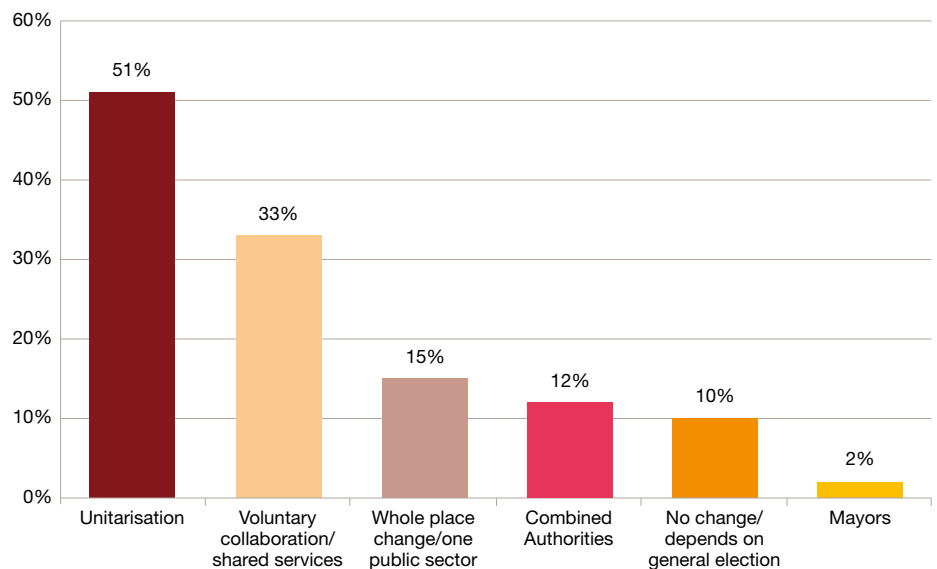


Figure 18: The form of reform



“Local government reform will either be a proper, well-planned process recognising that the world is very different from 1974 and the public sector in localities (not just what is currently local government) needs to change to reflect that. Alternatively – and more likely – it will be a quick and dirty upheaval brought about through exasperation at corporate or service failure in a number of places.”

Chief Executive

Box 3: Two Tier Futures

While it is becoming increasingly clear that two-tier local government is unsustainable in its current form, there remains little political appetite for top-down local government reorganisation. In the immediate term, it is up to counties and districts themselves to collaborate to create an alternative future for themselves, and quickly. But questions remain around whether voluntary models of collaboration and shared services can deliver the scale of savings needed.

We’re working with the New Local Government Network, and councils themselves, to explore what potential alternatives models of two tier collaboration might look like and the extent to which they could reap benefits, both financially and in terms of outcomes for people and places. A report will be published in the autumn.

A new deal between central and local government

Looking to the future, there is clear appetite from local authorities for a new deal between central and local government. 83% of respondents agree that the financial dividends of service reform, partnership working or investing for growth should be retained locally.

The form this new deal might take was reflected in respondents’ answers on the key policy issues for local government in 2015. Financial reform came out strongest (33%), followed closely by calls for ‘genuine’ localism (25%), where powers and responsibilities were matched by funding. While the Coalition government has made some progress towards decentralisation, some respondents referred to ‘policy on the hoof’, and there is a need to set out clearly a more comprehensive programme for devolution over the longer term (Box 4).

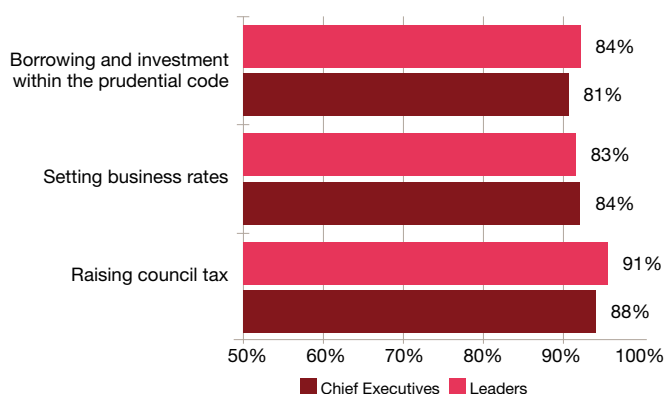
Looking more closely at financial reform, a strong majority of Chief Executives and Leaders agreed that local authorities should have more freedom to raise council tax, set business rates, to borrow and invest with the prudential code and to levy and retain property taxes (Figure 19). However, less than half agree that local authorities should be assigned a small proportion of income tax.

What would greater freedom bring?

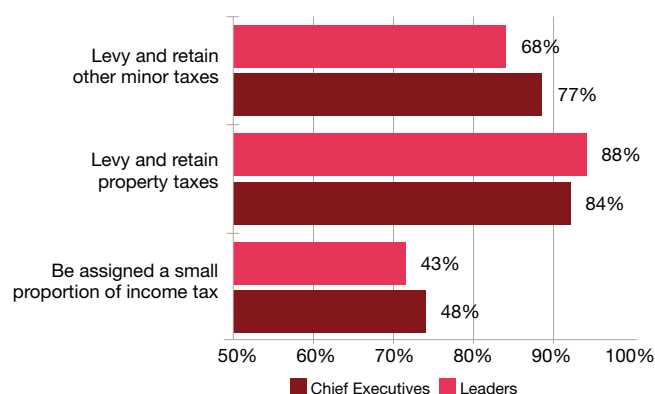
We asked respondents what their local authority would do if it had greater freedom from central government. Mirroring the key barriers that local authorities identified in regards to integrated care and enabling growth, the most common answer from councils was that they would invest in more infrastructure, regeneration and housing (17%), followed by working more closely with public sector partners across a place (12%), and changing what they do to become more commercial (12%).

Figure 19: Financial freedom

Local authorities should have greater freedom over (% agree):



Local authorities should (% agree):



Concerns with capacity

A concern over workforce capacity was one of the key issues that local authority Chief Executives and Leaders raised when thinking about the future. Local authorities have experienced a significant loss of talent over the past few years, at the same time as having to confront ever growing financial and demand challenges.

While many respondents were concerned about continuing to cope with reduced capacity, another key theme that emerged was the ability of the sector to recruit new talent and in particular its ability to attract the high calibre staff that are needed now and in future. While further decentralisation of powers and responsibilities to the local level has the potential to make local government a more attractive career proposition in the short term, councils will come under pressure to identify and build the workforce that it needs today.

Box 4: Decentralisation Decade

Calls for central government to let go are nothing new. But in the run up to the 2015 General Election, there is a growing head of steam around decentralisation in England, driven by the need for stronger regional growth and a new era of public service reform.

In this context, we're working with IPPR / IPPR North on a programme of research exploring what the next decade could hold for decentralisation in England – the **Decentralisation Decade**. We're exploring the following questions in our research: Who do the public hold accountable for service delivery and the health of the economy, and who is actually responsible? What aspects of decentralisation might help us achieve good growth and tackle economic inequalities? What can we learn from international examples of decentralisation? What would a ten year road map for decentralisation look like? A final report will be published in September 2014.

“So many people have gone now – and more are still to go. Learning and development will emerge as a key issue ensuring that we are an employer of choice, rather than a last resort.”

Chief Executive

9. Agenda for Action

While few local authorities have fully realised the potential savings from securing efficiencies, many are close to reaching a tipping point where simply doing things differently is no longer sufficient. Transformation as usual is no longer an option and a more fundamental redefining of the role and purpose of local government is needed.

This year's Local State We're In survey demonstrates that the response sustained austerity requires from local government isn't about a single solution, or even a list of solutions. Rather, a new strategic approach is needed to tackle the tough choices ahead, based around a number of key themes:

- **Focus on outcomes and impact, rather than services:** Redefining the role and purpose of local government requires a shift in focus to viewing local public services in a more holistic way, considering how multiple organisations across a place can contribute to securing desired outcomes for people and communities.

The first step to this approach is developing a good understanding of the current investment across a place – the locality pound – and its impact, as well as the drivers of demand. Building capacity around data and analytics is therefore essential.

- **Invest in collaborative relationships for reform and growth:** It is unlikely that councils will see their way successfully through the years of sustained austerity ahead without a strategic focus on greater collaboration.

Councils should continue to look for opportunities to secure improved outcomes, as well as financial dividends, through creating better collaborative working relationships with private and public sector stakeholders across their area. The investment here is considerable and the time to payback at least equally so, but the gains are potentially significant and the costs of inaction are crippling. Particular inroads have been made over the past year in building effective collaborative relationships with health partners and lessons can be applied more widely as councils take on a pivotal role in joining up public services across a place.

Progress has also been made with Local Enterprise Partnerships, and there is more local authorities can do to make a reality of good growth.

This new way of working will impact on the skillset and shape of local authority management teams in future. The ability to support joint ventures, work collaboratively, and achieve impact through influence and alliance will be critical.

- **Engage communities and redefine the relationship with citizens:** There remains a significant and growing need for councils to engage more effectively with their local residents and communities about the challenges they face, the options they need to consider and the decisions they need to take. If councils do not do so effectively, they are

unlikely to be able to drive through the changes that are implicit in a continued period of severe financial pressure.

Embracing the potential of digital technologies offers councils the opportunity to both make significant savings, and meet the changing expectations of the public. While some progress has been made to date, there is much councils can do to ensure consistency across all service areas in their digital offer.

Social media and other collaborative digital platforms allow councils to engage directly with residents and communities, and also to facilitate their interaction with each other. Shifting from e-government to this deeper level of engagement will be the next area of focus.

- **Striking a new deal with central government:** As we look ahead to the 2015 General Election and beyond, councils should consider what a new deal between central and local government might look like and seek to demonstrate their potential capability and capacity for taking on enhanced powers and responsibilities. With financial pressures demanding further headcount reductions in many local authorities, councils need to focus on attracting, developing and retaining the workforce they need today and in the future.

10. Contacts

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Chris leads our local government practice. He has been with PwC for 22 years. Chris has considerable experience in organisational transformation, customer

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Andy leads our local government practice in the Midlands and has managed a range of projects for local authorities focussing on transformation, efficiency and modernisation.

Andy specialises in strategic change and performance improvement. Andy has worked with local authorities for the last 21 years and, prior to joining PwC in 1993, worked in local government.

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Jonathan joined PwC's government and public sector practice in 2013. He concentrates on business model redesign, public services reform and the growth agenda. He

helps public sector bodies with a range of solutions particularly focussing upon 'digital by design'.

Previously, Jonathan was the Chief Executive of Cardiff City Council, leading the £1.1bn organisation delivering services to 346,000 residents. Prior to this, he was the Deputy Chief Executive at Bristol City Council following his time as the Police Commander for the city of Sheffield.

Acknowledgements

We would like to thank all the local government Chief Executives and Leaders who took the time to complete our survey.

11. Methodology

Our research covered local authority Chief Executives and elected Council Leaders across the UK. These surveys were conducted online during March – April 2014. The range of responses from different types of council and the geographical spread gave us confidence that the results were a broad representation of views from across the sector as a whole.

An online survey of 2,000 UK adults aged 18+ was carried out from 2-5 May 2014. The results of the public opinion poll have been weighted to nationally representative criteria.

This is the fourth edition of the Local State We're In, the first being published in August 2011.

12. About us

Working together with our clients across local government, health, education, transport, home affairs, housing, social care, defence and international development, we look for practical, workable solutions that make a difference in solving the pressing challenges that are being faced every day.

As well as bringing our insight and expertise to this sector, we contribute our thinking and experience to the public policy debate through our Public Sector Research Centre. To join this free online community, go to www.psrc.pwc.com and register today for our research and analysis.

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