# New world of risk: change for good

Contents

Research methodology

Ipsos MORI interviewed 70 chief executives and board level directors within local government. Interviews were conducted on the telephone and fieldwork was conducted between 18 March and 11 April 2014.

In addition, Ipsos MORI conducted qualitative interviews with 11 risk management professionals in local government.

Ipsos MORI interviewed 997 adults aged 15+ in Great Britain, conducting interviews face to face using Computer Assisted Personal Interviewing (CAPI). Fieldwork was conducted between 11 and 17 April 2014. Data are weighted to region, social grade of chief income earner, respondent age, respondent working status, and gender.

Percentage results may not add up to 100 due to multiple responses, computer rounding or some respondents not having a view.
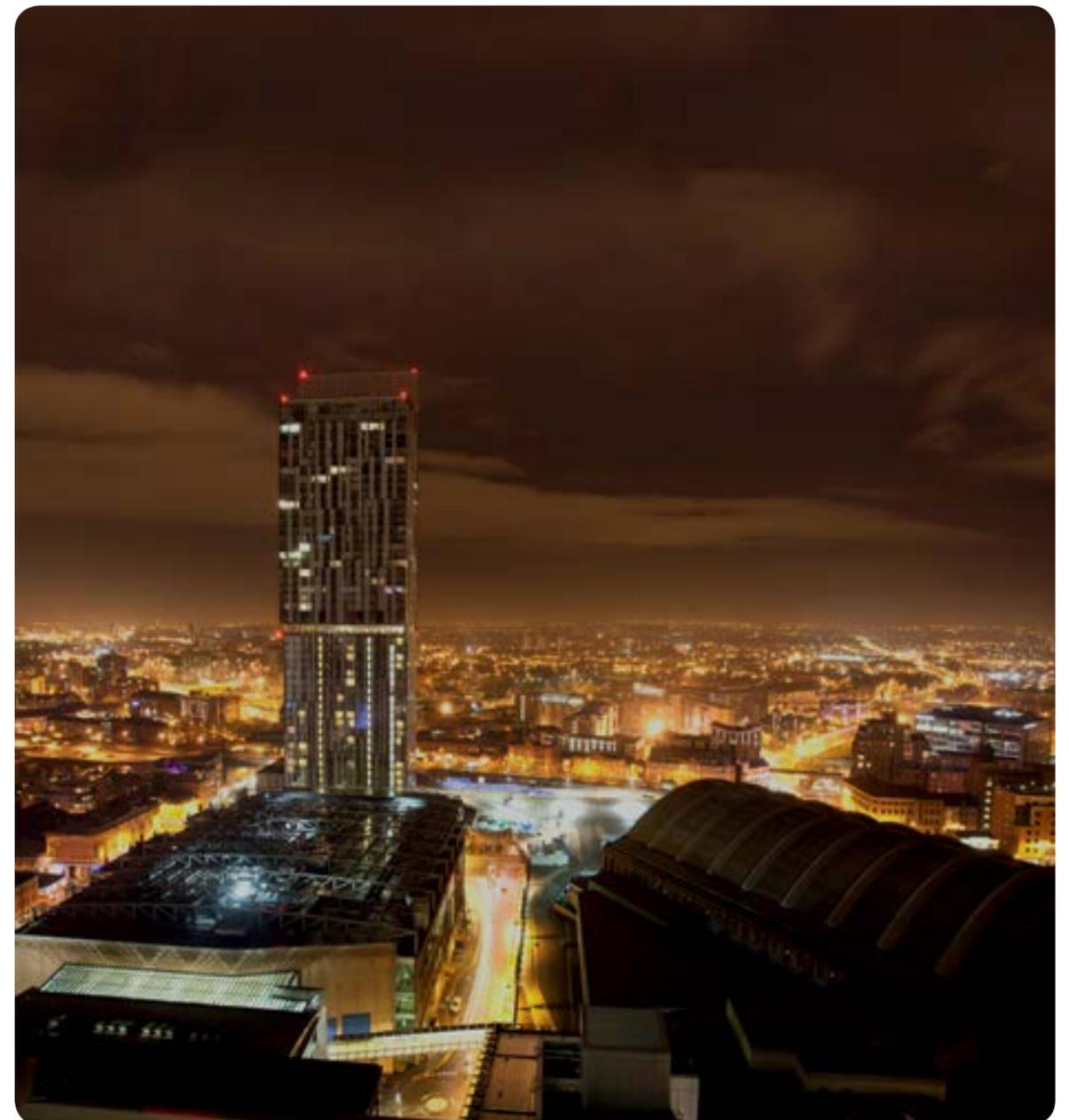
Foreword

Local government is undergoing a profound transformation. Austerity and increasing expectations have wrought a lasting change on the management of local authorities, while rising demand and greater community engagement have radically altered the nature and delivery of public services.

Local authority leaders are now bedding into the new era and taking a more strategic, longer-term approach to efficient service and outcome delivery. The coming few years will be the greatest test of their approach; whilst the next rounds of spending cuts will cut deeper into core operations.

As a result, councils are morphing from service providers to service commissioners – adding new layers of complexity and risk, but also opening up new opportunities for improvements and community engagement. Innovation and transformation – whether in funding models or new forms of service delivery – is becoming an increasingly central part of the job description for local authority leaders.

Based on our discussions with local authority senior management teams, whilst financial concerns remain paramount, organisational transformation is now perceived as a much greater risk priority than it was in our last report four years ago. Maintaining a strong workforce is also a growing challenge that local authority leaders do not feel well equipped to handle.

Despite these myriad challenges, local authorities can be proud that only a minority of the public we interviewed for our research had noticed significant changes to the services they receive – though this may not be sustainable as deeper cuts set in. More importantly, communities have a significant understanding – and acceptance – of the challenges facing local government. This will be invaluable as communities take on more responsibility for their own welfare and become a part of the solution for economical service delivery. Local businesses too can contribute and generate income by supporting the communities in which they live, and so it is important that councils continue to create environments which foster resilience and success for SMEs.

Of course, while early initiatives such as community budgets and locally integrated service delivery may prove successful, they won't work for all local authorities. Their effectiveness depends on regional socio-economic conditions, governance leadership and political will, as well as the level of maturity of cross boundary and sub-regional organisational structures.

Against this evolving backdrop, one thing is certain: tomorrow's local government will not look like today's. Local authorities will be smaller, leaner organisations with a resilient infrastructure, working extensively in partnership with others. They will be more dynamic, using political pressures to drive positive transformations.

Local authorities can take comfort that it is not just the public sector that needs to prepare and transform for the future. A recent report "Responding to Global Risks: A Practical Guide for Business Leaders", to which Zurich contributed, says that business leaders in general are not doing enough to prepare for the risks that arise from our increasingly inter-connected world, for example, government debt crises, extreme weather events and social instability.

Zurich Municipal has worked closely with local government over the last two decades, and has a unique understanding of the challenges and opportunities they are facing. We hope this report will provide a useful insight into the changing risk landscape and how it is perceived both by local authority peers and by the communities they support.

There are undoubtedly significant changes afoot for local government, but they do not alter its core role – delivering vital services for local residents and remaining the beating heart in the communities they serve. Zurich Municipal is proud to support their work.

Paul Tombs
Head of Public Services

For many working in or around the public sector over the past few years the old curse of "may you live in interesting times" has seemed very apt. We are indeed living in interesting times, with ongoing radical and far reaching change to the public services in which we operate.

My experience across various organisations has taught me that in tough times the most fruitful course of action can be to spend time and treasure stepping back from the immediate challenges that we face to invest time thinking about the medium to long term. As such I believe that while the "interesting times" we are in are of course challenging, they are also very exciting, presenting all of us with massive opportunities.

Indeed public services and local government in particular are discovering that while the "diet and exercise" of austerity have in many ways been good for us, producing leaner and more efficient organisations, this will ultimately not be enough to make us fit enough for the extensive challenges we face. The reality is that we need now to be considering much more fundamental and structural reform to government and services if we are to be fit for purpose and meet the rising demands and expectations placed upon us.

The successful navigation of such fundamental change will of course require the management of diverse opportunities and risks. Indeed for the public sector the risk landscape has never been more complex and varied, and new risks are emerging to challenge the most sophisticated transformational planning and implementation.

At CIPFA (Chartered Institute of Public Finance and Accountancy) we recognise that the risks of adaptation and innovation alongside ongoing uncertainty will be critical factors in the financial management of all public sector organisations for the foreseeable future. Which is why this report by Zurich Municipal is such a useful resource. It is a detailed appreciation of the risks local authorities will face and we recommend its findings to our members and the wider public service community.

Rob Whiteman
Chief Executive of CIPFA

CIPFA The Chartered Institute of Public Finance & Accountancy

The new risk landscape

Since we published our Tough Choices reports (2010/11)[1], financial pressures have continued to escalate for local government. There is now growing recognition that austerity is not a short-term solution to economic problems but a long-term 'here to stay' approach to public sector funding. The result is not so much a change in perceived risks – although short termism in decision-making may be less of an issue – but a change in risk priorities.

Catalysts and changes

Having made the initial rounds of cost cuts, local authorities are likely to struggle to complete the final stages required. Many have already reduced their workforces significantly and are focusing on changing the way they fund and provide services.

Continuing financial pressure

Having substantially cut spending in a number of areas, some local authorities are struggling to implement the final stage of central government's 2010 spending review to reduce local authority funding by 26 per cent (£7.6 billion) in real terms.

> Some local authorities are struggling to implement the final stages of the 2010 spending review which requires a 26% reduction in funding.

In its January 2013 report on "Financial Sustainability of Local Authorities[2]," the National Audit Office warned that local authorities may find it harder over the rest of the spending review period to absorb funding reductions and maintain services. It estimated that local authorities still need to find about half of the savings to be made before March 2015 after considering the latest figures for inflation, council tax and government grants.

This view was echoed in December 2013 in Grant Thornton UK LLP's annual report on the financial health of local government in England[3]. It stated that local authorities have so far met the challenges of public sector budget reductions. 2016 is expected to be a tipping point for some authorities, when the pressure becomes acute and financial failure is a real risk. The report said that 79 per cent of councils anticipate some form of tipping point in 2015/16 or 2016/17.

In February 2014, the Local Government Association (LGA) made a submission to HM Treasury[4] stating that financial sustainability is the greatest challenge facing local public services. It said that councils will have to reduce and withdraw from providing services that local people care about. It cited road maintenance, planning and economic budgets, libraries, leisure services, arts centres and museums, youth clubs, staff reductions for regulatory services including environmental health and trading standards and non-critical care services.
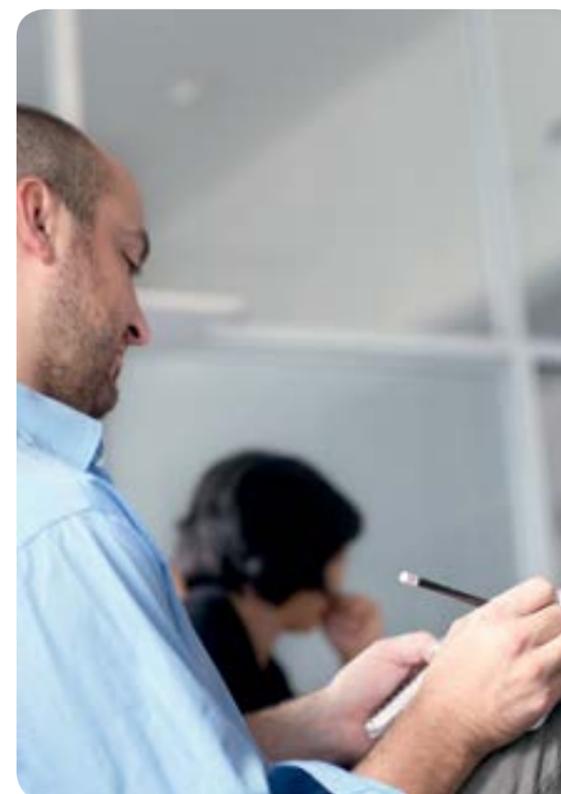
To assist local authorities' financial planning, in January 2014 the LGA in partnership with the Chartered Institute of Public Finance and Accountancy (CIPFA), launched an independent commission to look into local government finance[5]. The Commission will explore how reforms to the local government finance system can help address the challenges facing the country such as promoting economic growth, reforming the welfare system and integrating health and social care.

Workforce reduction

In September 2013, the GMB union said that official data showed there had been 631,000 public sector job losses since 2010 and that worse was to come[6]. It stated that the Office for Budget Responsibility's forecast for net total public sector job losses meant that for the next two years a further 400,000 jobs could be lost.

> 631,000 public sector job losses since 2010 with a further 400,000 forecast over the next two years.

There are no signs that local government jobs lost will be replaced. According to the Manpower Employment Outlook Survey[7] hiring intentions in the public sector remained at 0% for the first three months of 2014. Key trends affecting public sector employment include a movement towards a more flexible workforce, higher or more specialist skilled staff and front line roles.

Service delivery and budget changes

Outsourcing is an established strategy for local authorities and is set to grow. Research undertaken by YouGov for Interserve, "Local Services in Need of Transformational Change[8]," said that outsourcing currently accounts for a quarter (26 per cent) of all council services and has grown six percentage points, from 20 per cent, in the last twelve months, as councils seek efficiencies.

> Larger councils plan to outsource up to 60% of all their services.

The research showed that local authorities plan to outsource 32 per cent of all services by 2014/15. However there is considerable variation. Those councils who need to make greater than average savings (over 25 per cent efficiency savings) or have larger budgets (over £100 million) plan to outsource up to 60 per cent of all their services. Other councils aim to keep resources in house or share with other public sector organisations.

A House of Commons Communities and Local Government Committee report[9] on local government procurement published in March 2014 said that local government spends around £45 billion – over a quarter of its annual expenditure – on procuring goods and services from third parties.

> Whatever the truth, outsourcing is now a fundamental part of public service delivery.

In monetary terms, the amount involved is significant. The National Audit Office November 2013 report on managing government suppliers[10] indicated that £84 billion is spent by local government on procuring goods and services from third parties, which is a substantially higher figure than the House of Commons report mentioned above. Whatever the truth, outsourcing is now a fundamental part of public service delivery.

[1] http://www.zurich.co.uk/newworldofrisk/toughchoice/toughchoice.htm
[2] http://www.nao.org.uk/wp-content/uploads/2013/03/Local-Authority-Full-Report.pdf
[3] http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf
[4] http://www.lgcplus.com/Journals/2014/03/18/l/c/p/LGA-Budget-submission-2014.pdf
[5] http://www.localgov.co.uk/Commission-into-local-government-finance-launched/35460
[6] http://www.gmb.org.uk/newsroom/public-sector-jobs-lost
[7] http://www.localgov.co.uk/Public-sector-job-losses-highest-in-local-government-survey-finds/35201
[8] http://www.interserve.com/docs/default-source/Document-List/sectors/local-government/local-services-research-final-july-2012
[9] http://www.publications.parliament.uk/pa/cm201314/cmselect/cmcomloc/712/71202.htm
[10] http://www.nao.org.uk/wp-content/uploads/2013/11/10298-001-Governments-managing-contractors-HC-811.pdf

The Local Government Association (LGA) report, Whole Place Community Budgets: A Review of the Potential for Aggregation[11], January 2013, prepared by Ernst & Young LLP, together with success of the four whole place community budget pilots already in place, boosted local and central governments' interest in transforming service funding and delivery through community budgets and other shared delivery models.

The report suggested that there was potential to save between £9.4 billion and £20.6 billion over five years if the pilot schemes were rolled out nationwide in addition to providing better outcomes for communities.

Local businesses too can support the communities in which they live and it is important for local authorities to create and maintain environments that foster the resilience and success of SMEs.

Central government and joint initiatives
In July 2013 the government announced its selection of a further 18 councils to develop community budget-style pooled spending[12] as part of an ongoing roll-out programme. The Public Service Transformation Network is helping the councils to develop 'practical reforms' to local services.

In addition, the government has introduced schemes and funding to stimulate and assist local government change. These include the following:

- As part of the government's Transformation Challenge Award scheme, a £7 million fund to allow 30 councils to implement more shared service arrangements[13].

- A joint initiative, the Delivering Differently programme[14], to help local authorities transform their services by using new delivery models such as mutuals and voluntary organisations.

- The launch of a £410 million fund in April 2014[15] to finance plans to integrate local public services, reduce duplication and cut costs.

> The Public Service Transformation Network is helping councils develop 'practical reforms' to local services.
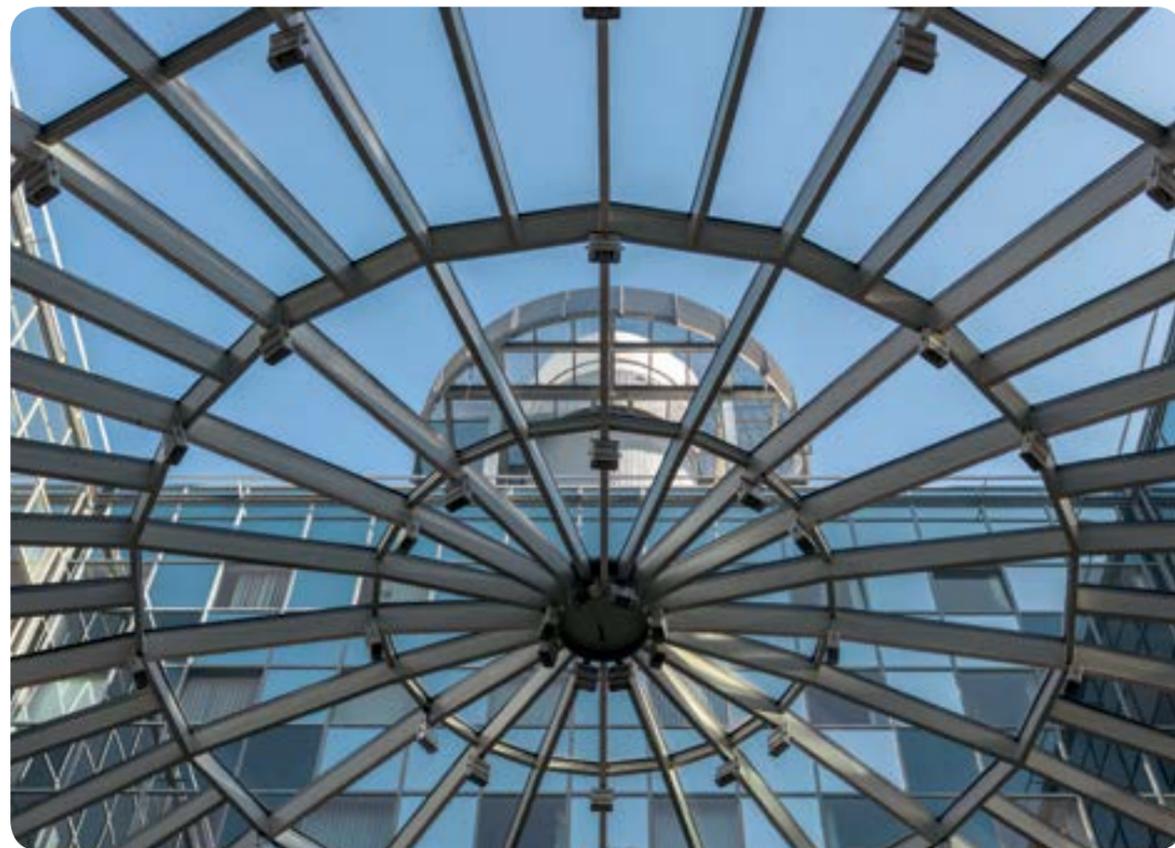
New priorities

Have local government's perceptions of risk changed since 2010? Many of the issues raised in our Tough Choices report[1] remain important. However, our 2014 research shows that continued financial pressures, acknowledgement that austerity is 'the new norm' and the consequent need for transformation have all affected risk rankings.

Changes in local government senior management team perceptions of risks	Risk Ranking	
	2014 Local Govt leaders (n=70)	2010 all public sector leaders (n=100)
Budget pressures*	1	1
Changes in government policy, legislation and regulation	2	2
Workforce (attracting and retaining the right skills, performance, reward package)	3	5
Business and organisational transformation (statement added in 2014 study - no comparison available)	4	–
Working with other organisations (for example supply chains, outsourcing and partnership working)	5	6
Reputation management	6	3
Social risk e.g. population changes, crime, antisocial behaviour	7	7
Data protection or security†	8	8
Operational risk management including health & safety	9	4
Environmental challenges, e.g. extreme weather events, climate change††	10	9

In 2010 the following statements were worded as follows: *Budget uncertainty; †Data protection or security risks; ††climate change

The respondents in 2010 were leaders from a cross section of public sector organisations. The 2014 study gave a more focused view on those working solely in local government.

Respondents rated each major risk on a scale of 1-10 where high is a score of 8-10, medium is 5-7 and low is 1-4. Risk ranking is based on the percentage of respondents rating each statement of high importance (8-10).

Zurich Municipal's view:
We find the low focus on operational risks, and emergency and crisis response surprising. "Interconnected" major incidents arising from events such as flooding have the potential to cost very large sums as well as disrupting infrastructure and having a significant detrimental impact on communities. The inclusion of the statement around transformation and its subsequent ranking of 4th suggests that it is of significant importance on senior management team agendas. However, we feel that this is an issue that will rise in the future as local authorities grapple with effective organisational change with the outcome of improving public service delivery.

[11]http://www.lgcplus.com/Journals/2013/01/10/c/I/x/LGA-and-EY-Community-Budgets-Report-.pdf
[12]http://www.publicfinance.co.uk/news/2013/07/18-councils-selected-for-next-stage-community-budgets/
[13]http://www.publicfinance.co.uk/news/2013/10/dclg-hands-out-7m-to-shared-service-projects/
[14]https://www.gov.uk/government/news/central-and-local-government-team-up-to-improve-local-service-delivery
[15]http://www.publicfinance.co.uk/news/2014/04/pickles-announces-410m-fund-for-service-integration/

Risk challenges in 2014

In order to obtain a 'rounded' picture of risk perceptions and management in local authorities, our research encompassed both senior management teams and risk managers. In addition, the research looked at how communities view the risks.

We asked chief executives and directors of local authorities to grade the risks associated with current challenges in order of importance.

Top ten areas of risk or uncertainty at senior management team level			
	Importance %		
	High	Medium	Low
1 Budget pressures	94	6	0
2 Changes in government policy, legislation and regulation	53	41	4
3 Workforce (attracting and retaining the right skills, performance, reward package)	50	37	13
4 Business and organisational transformation	49	44	7
5 Working with other organisations (for example supply chains, outsourcing and partnership working)	44	44	11
6 Reputation management	39	51	10
7 Social risk e.g. population changes, crime, antisocial behaviour	39	44	17
8 Data protection or security	23	53	24
9 Operational risk management including health and safety	21	49	29
10 Environmental challenges, e.g. extreme weather events, climate change	20	50	30

Respondents rated each major risk on a scale of 1-10 where high is a score of 8-10, medium is 5-7 and low is 1-4.

Risk Managers' views on risk challenges:
Additionally we spoke to eleven risk management professionals in local government on their views of risk challenges.

On resilience:
"Whether we have got resilience any longer as we cut back staff, do we have sufficient support to backfill where there are illnesses and long-term illnesses? And in all of that the pressure is then on staff because there are less people to do the work – the work still needs to get done."

On budgets:
"We have seen a need to cut back £180 million in the next three years, which will clearly have an impact on our ability to deliver services."

On transformation:
"It's making people think; that's the best thing. It's making people think 'do we have to deliver services the way we've always delivered them'… Some of them have never thought about how they deliver a service for years. It's making people more innovative and more commercially minded."

On workforce:
"Staff are seeing an erosion of some of their benefits, they have more work to do for the same money…Now that the economy is picking up, … there are more opportunities out there whereas maybe two/three years ago there weren't the opportunities to go to. Traditionally councils don't pay wages that are top of the level so they could go to a job with maybe less responsibility and get more money."

On working with other organisations:
"The risks are very much around where does the responsibility lie and unless you've got very clear, well defined contracts then sometimes it is difficult to determine when something is wrong, where that responsibility lies. And in some cases, even the courts are still finding there is a responsibility still with the local authority, even though it was felt that that liability, that responsibility was passed on."

Zurich Municipal's view:
Funding has been, and will continue to be, a major issue affecting all aspects of how each council is run. Budget cuts will have a knock-on effect on everything, from resourcing to how councils continue to deliver services consistently and effectively.

Board concerns about political, legal and regulatory changes are understandable. Such changes are often unpredictable which makes future planning difficult, aligned with the fact that such changes also may take a very short term approach.

Transformation has to be a major risk in the sense that local authorities are embarking into the unknown – it's equivalent to starting a new business. Early risk assessment and development of management strategies are essential, alongside a clear vision of the end game.

The high importance of workforce risks today illustrates local government's concerns about the need to retain/attract people with the right skills to drive the necessary changes forward. We believe it is essential to have a clear vision of the future operating environment, ensuring that risk management is embedded in existing key positions.

Board level perceptions of importance of risks versus ability to deal

**Importance of risks for organisation versus its ability to deal with those risks**

Average scores for each risk have been used to plot overall importance against overall ability to deal.
Base: Local government chief executives and other board-level directors (70) 18 March – 11 April 2014.

Source: Ipsos MORI

	Senior management team perceptions of ability to deal with top risks	Good %	Average %	Poor %
1	Operational risk management including health & safety	71	27	1
2	Data protection or security	61	37	1
3	Working with other organisations (for example supply chains, outsourcing and partnership working)	59	40	1
4	Budget pressures	49	44	7
5	Business and organisational transformation	49	49	3
6	Reputation management	46	51	3
7	Environmental challenges, e.g. extreme weather events, climate change	44	50	6
8	Social risk e.g. population changes, crime, antisocial behaviour	44	50	6
9	Changes in government policy, legislation and regulation	34	49	14
10	Workforce (attracting and retaining the right skills, performance, reward package)	29	66	6

Respondents rated each major risk on a scale of 1-10 where good is a score of 8-10, average is 5-7 and poor is 1-4.

Our research of chief executives and directors shows that local authorities are changing the services they offer to meet these challenges with 70 per cent undergoing significant change and the same proportion saying they are also changing their business and operational processes.

Most agree that their organisation is changing to a great extent – both services and processes

Q To what extent, if at all, would you say your organisation is changing…
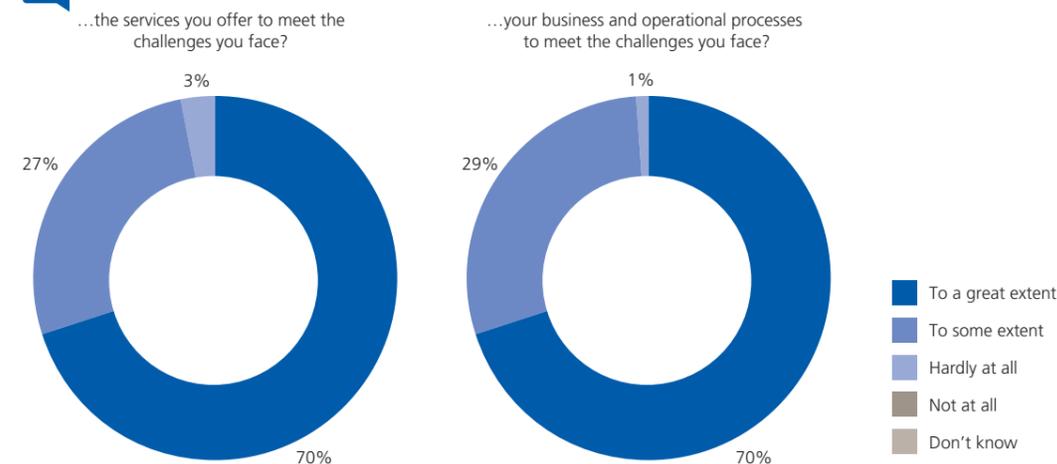
Base: Local government chief executives and other board-level directors (70) 18 March – 11 April 2014
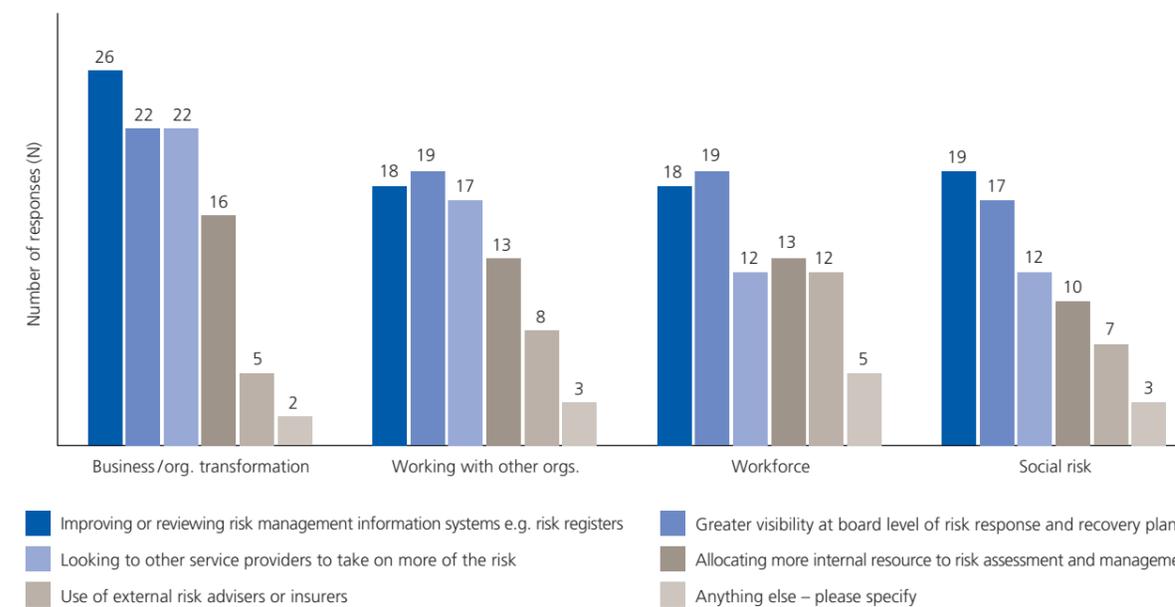
Source: Ipsos MORI

Organisational ability to respond

Chief executives and directors of local authorities say that their organisations are employing a range of risk strategies for responding to these major issues. Improving or reviewing risk management information systems is the most popular approach for dealing with business and organisational transformation, followed by greater visibility at board level of risk response and recovery plans, looking to other service providers to take on more of the risk and allocating more internal resource to risk assessment and management.

Reviewing and managing risk registers and improving the visibility at board level most common responses

Q You said earlier that one of the risks your organisation was facing is [X]. Which, if any, of the following steps are you taking to manage the risks associated with this?

Base: All who were asked each statement: Business/org. transformation (26); Working with other orgs. (22); Workforce (20); Social risk (19)   Source: Ipsos MORI
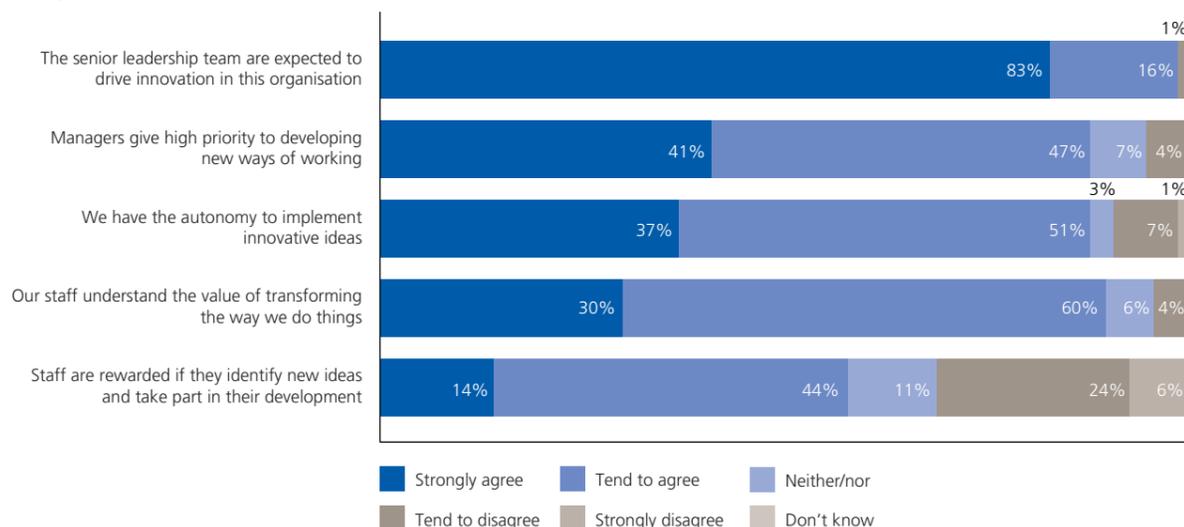
There was almost universal agreement (99 per cent) that the senior leadership team is expected to drive innovation, while 88 per cent of respondents agreed that managers give high priority to developing new ways of working. A similar number considered they had the autonomy to implement innovative ideas. Most local authorities (90 per cent) also believed that their staff understood the value of transforming the way they do things. Whilst 58 per cent considered that staff were rewarded for identifying new ideas and participating in their development, 30 per cent disagreed.

Most feel that the senior leadership team are driving innovation

Q To what extent do you agree or disagree with the following statements about your organisation?

The senior leadership team are expected to drive innovation in this organisation — 83% | 16% | 1%

Managers give high priority to developing new ways of working — 41% | 47% | 7% | 4%

We have the autonomy to implement innovative ideas — 37% | 51% | 3% | 7% | 1%

Our staff understand the value of transforming the way we do things — 30% | 60% | 6% | 4%

Staff are rewarded if they identify new ideas and take part in their development — 14% | 44% | 11% | 24% | 6%

- Strongly agree
- Tend to agree
- Neither/nor
- Tend to disagree
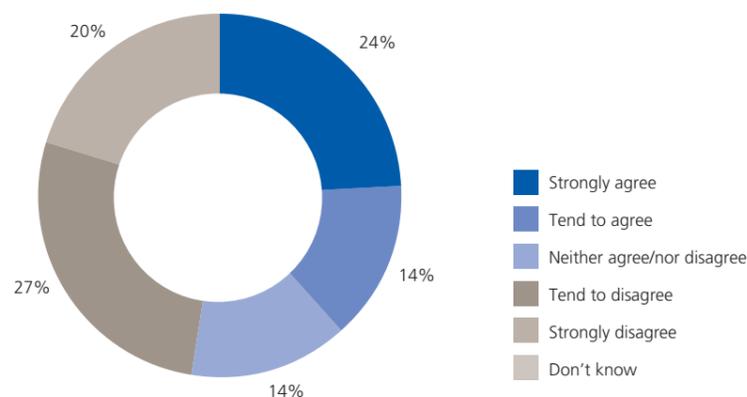- Strongly disagree
- Don't know

Base: Local government chief executives and other board-level directors (70) 18 March – 11 April 2014   Source: Ipsos MORI

There was less consensus of opinion on questions relating to outsourcing and staff incentives. While 38 per cent agreed that outsourcing had become an integral part of their authority's business model, 47 per cent disagreed, with the remainder having no view.

Organisations are split when it comes to integrating outsourcing into their business models

Q To what extent do you agree or disagree with the following statements about your organisation? Outsourcing has become an integral part of my organisation's business model.

20% | 24% | 14% | 14% | 27%

- Strongly agree
- Tend to agree
- Neither agree/nor disagree
- Tend to disagree
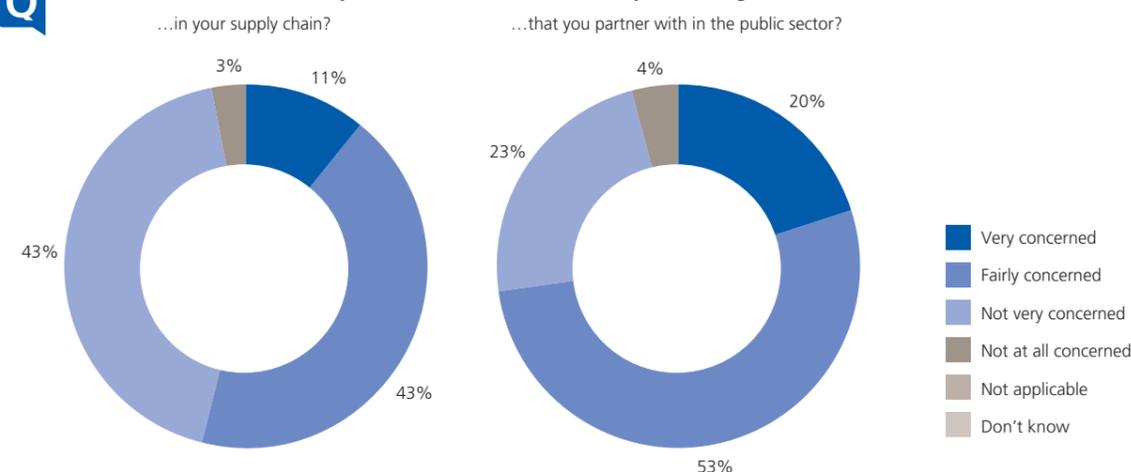- Strongly disagree
- Don't know

Base: Local government chief executives and other board-level directors (70) 18 March – 11 April 2014   Source: Ipsos MORI

Local government outsourcing and partnering initiatives have developed significantly in recent years and our survey showed the local authorities are concerned about the financial stability of the organisations they rely on. Only a handful were not at all concerned about their suppliers and did not consider financial stability of partners in the public sector to be a risk. However, there was a difference in the level of concern. While most were concerned about their supply chain, concern was greater in respect of public sector partners: with 54 per cent and 73 per cent concerned respectively (see chart opposite).

Around three quarters are concerned about the financial stability of public sector partners – over half for organisations in their supply chain

Q How concerned, if at all, are you about the financial stability of the organisations…

…in your supply chain?

…that you partner with in the public sector?

…in your supply chain? — 3% | 11% | 43% | 43%

…that you partner with in the public sector? — 4% | 20% | 53% | 23%

- Very concerned
- Fairly concerned
- Not very concerned
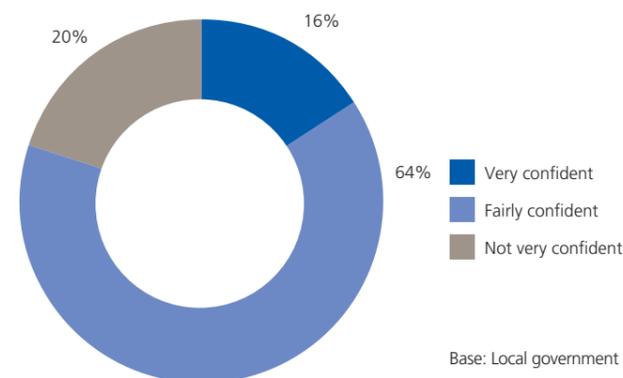- Not at all concerned
- Not applicable
- Don't know

Base: Local government chief executives and other board-level directors (70) 18 March – 11 April 2014   Source: Ipsos MORI

Zurich Municipal sponsored a report from New Local Government Network, Great Expectations – The next steps for a new generation[16], which was published in January 2013. This considered the possibility of young people facing a widening 'expectation gap' as their dreams of a stable career, home and family become ever more unattainable, and how local government can play a crucial role in bridging this gap. We therefore asked local authorities whether they were confident that they could successfully engage with young people using their services. While most were confident, there is clearly room for improvement with only one in eight saying they are very confident about engaging young service users (16 per cent).

### Eight in ten confident in their ability to engage with young people that use their services

Q How confident, if at all, are you that your organisation is able to successfully engage with the young people that use your services?

16% | 64% | 20%

- Very confident
- Fairly confident
- Not very confident

Base: Local government chief executives and other board-level directors (70) 18 March – 11 April 2014
Source: Ipsos MORI

Data security

Almost all (99%) of the local authorities' chief executives and directors interviewed are confident that they have the capability to protect sensitive data.
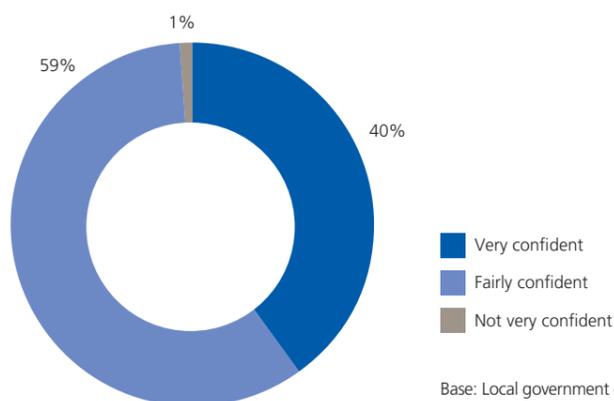
1% | 40% | 59%

- Very confident
- Fairly confident
- Not very confident

Base: Local government chief executives and other board-level directors (70) 18 March – 11 April 2014
Source: Ipsos MORI

Zurich Municipal's view:
The confidence demonstrated in the research findings on data protection may be misplaced. In 2012 and 2013, the Information Commissioner's Office fined no fewer than 16 UK councils in addition to a number of fines imposed on other public sector organisations.

[16]http://www.nlgn.org.uk/public/2013/great-expectations-the-next-steps-for-a-new-generation/

Future challenges for the board

Some local authorities believe that lack of funding and welfare reforms will remain high on the agenda in the next five years. And retaining good staff and maintaining services are all important issues, along with protecting the vulnerable. There are major concerns about budget cuts and the implications for local government services.

Q Looking ahead over the next five years, which two or three types of strategic risks or challenges will be priorities for local government as a whole?

Lack of funding and capacity

"Financial. Balancing decreasing budgets and grants from government and sources of future income. That's the biggest risk."

"Financial uncertainty except we are certain there will be ongoing financial pressures. There will be capacity issues from a diminishing workforce and diminishing funding and could lead to a big gap between political and public expectations and capacity to deliver."

"The reduction in funding and therefore what type of organisation do we need to be in 5 years time and what services should we be delivering and how will that affect the public. Everything is linked to finance. The real challenge is capacity at a senior strategic level to deliver strategic change."

Welfare reforms

"Managing a complex partnership environment. Senior management capacity and resilience. The impact of the economic situation and welfare reforms on local community."

"Poor planning by central government; welfare reforms have been a shambles and the effect on local government hasn't been thought through. Not having been part of the initial planning process has been a challenge and risk and my concern is that this will be repeated."

Ageing population/adult social care/public health

"Demographic changes… in terms of an ageing population and the impact that ageing population has on the level and intensity of services we need to provide."

"The maturing population and the growing demand for adult social care and services to reflect the maturing population will impact the whole of the community and business."

"Children's services, protecting the most vulnerable. Adult social care and health integration and a generic revenue and capital budget fallout."

Partnership working

"The financial environment we're working in. Partnerships/external organisations, because we are already working with a number of those facing the same issues. Lack of capacity to perform even statutory obligations."

"The financial challenge we face and at the same time having to integrate with partners. How we work as a region with other council partners and how we utilise the private and third sector to support us on how we deliver our functions."

Q Overall, what do you think are the main risks for your organisation as a result of the changes you are making?

Lack of funding and capacity

"Not having the right staff with the right skills. Around managing our reputation during this time of change. About expectations of our community with reducing budget settlements for example having to stop delivering services."

"Mainly as services change those most vulnerable and needing services most missing out is the greatest risk. Reputationally, organisationally and politically; our reputation is affected as we change the services we offer. The risk of losing talented staff during the changes and not being able to recruit talent. The pace issue; risk of having to do all of this at a significant pace. Service and organisational changes, short-term thinking rather than long-term thinking."

"Availability of services to all in particular harder to reach groups. Whether or not the council is moving at as quick a pace as customers want us to. Our technology solutions are proven for a reasonable period of time. The outcomes we expect are delivered and we deliver them as efficiently as expected."

"Getting partners to work on the same joined-up-plan. Everyone is at different stages and it's all about partnership working that's the biggest threat. Uncertainty over income. Changes in legislation and changed responsibilities placed on local government by central government."

The community view

Overall, local authorities are confident that their risk management processes can fully address the risks they face with only a very small percentage of respondents interviewed expressing some doubt.

This contrasts with the views of 997 members of the public who took part in the research. The public are more evenly split between those who feel confident in public services' abilities to meet the challenges ahead (49 per cent) and those who are not confident (47 per cent).

The public demonstrated some awareness of the challenges currently facing public services.

Public awareness of public services challenges*		
	Most important %	Least important %
Budget cuts	47	6
Changes in society (ageing population, immigration)	34	6
Finding new ways to deliver services more efficiently	25	7
Changes in people's health and lifestyles	23	7
Responding to changes in the government's policies	22	6
Retaining good staff and positive morale	21	4
Losing public support in their ability to deliver services	17	8
Protecting personal data and keeping information secure	16	4
Tackling the effects of climate change	13	30
Having good relationships with other organisations they work with	10	11

*Respondents were able to select many 'important' statements, but only one 'least important' statement.

In addition to budget cuts, we asked members of the public to select the three risks facing local councils that they were most concerned about. Their concerns were around declining service quality and protecting those who most need help.

Greatest public concerns	
	%
Quality of services will decline	31
People most in need of services will get poorer services or less help	29
Protecting vulnerable groups (e.g. older people, children)	25
Maintaining delivery of core services	25
Fewer frontline staff	20
Social change (e.g. ageing population, immigration, changing lifestyle)	19
Bureaucracy/top heavy management	17
Overall quality of staff will decline/good people will leave	16
Changes in government policy	15
Rising public expectations	9
Encouraging local business investment	7
Technological change (e.g. storing personal data electronically)	5

Despite the pressures, most members of the public do not consider that the services their councils provide have noticeably changed. 63 per cent considered services such as refuse collection, street cleaning, education and social care had remained unchanged with 34 per cent disagreeing and the remainder having no view.

Zurich Municipal's view:
It is reassuring that the public respondents do not appear to have noticed any significant changes to service delivery so far. This may be in part because cuts have disproportionately affected those most reliant on public services. However, the hardest cuts are yet to come as local authorities pare down even further, having probably to date only completed 40 per cent of the cuts they need. How will communities react in coming years as the remaining cuts take place?

Public tolerance to cuts varies according to the services and sectors affected. There is particularly high awareness of societal changes, for example, the need to protect and provide help to vulnerable groups and issues around immigration and population. Local authorities should be aware that any changes in these areas are likely to trigger a more immediate adverse reaction in their communities than less contentious issues and it is easier to cut services, such as highway maintenance and refuse/recycling collections.
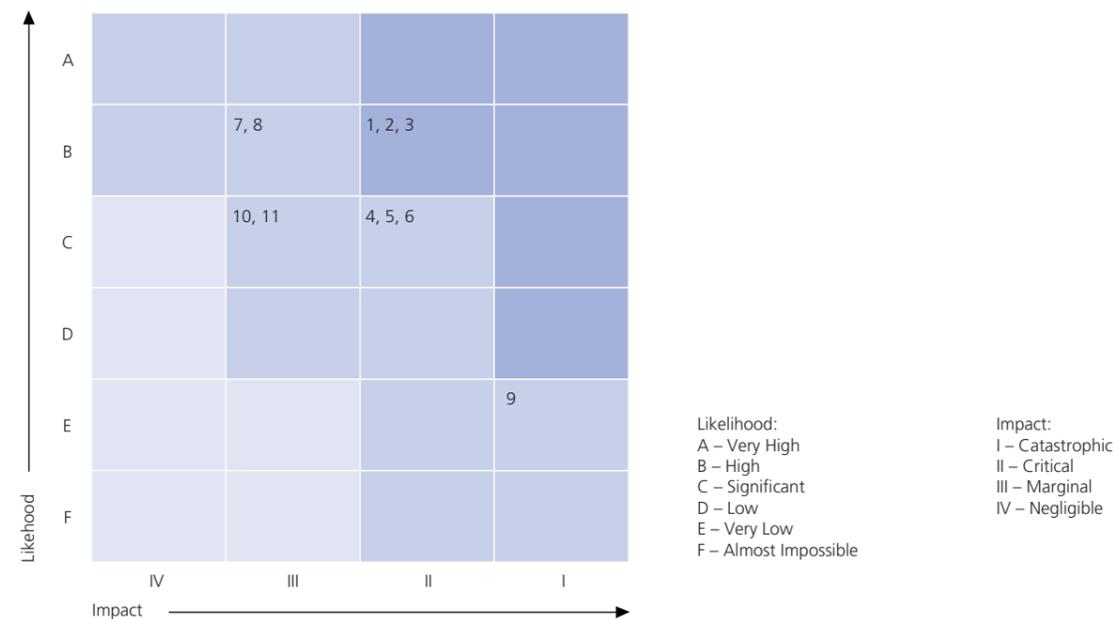
Zurich Municipal view: local government risk ranking

Based on the research conducted for this report and our own experience in the local government sector, we have compiled a list of the top risks facing local authorities.

Risk ranking methodology

Harnessing experience working with front line organisations, Zurich Municipal market and technical experts reviewed risks (insurable and non-insurable) for the local government sector. The experts assessed the risks and impact for the generic organisation, the wider sector and local communities as a whole over the next five years. A best practice total risk profiling (TRP) methodology led to an evidence-based prioritisation. The end result represents Zurich Municipal's best assessment of the risks and challenges facing the local government sector. The risk ranking is not meant to reflect the specific risk profile of any one organisation.

Likelihood:
A – Very High
B – High
C – Significant
D – Low
E – Very Low
F – Almost Impossible

Impact:
I – Catastrophic
II – Critical
III – Marginal
IV – Negligible

Zurich Municipal's view of top local government risks			
Risk	**Description**	**Key challenges**	**Trend Indicator**
1	**Financial sustainability** – effective management of finances through ongoing austerity (the new 'normal') and increasing demand on services.	• Limited ability to make savings and service key projects and ongoing maintenance • Unplanned spikes in demand • Further falls in income and inability to identify alternatives • Pressures to minimise council tax increases • Potential compromise on commissioning standards • Inadequate reserving to release funds for other projects • Employee morale	→
2	**Transformation** – the business processes of transforming from the existing model to the desired outcome, looking at innovative ways of meeting business objectives and service delivery.	• Managing lack of resources/skills • Workforce and change management issues • Possibly complex platforms involving a range of political organisations • Failure to plan and/or delivery failure	↑
3	**Commissioning** – including partnership working, supply chain and contract management.	• Need for procurement skills (e.g. ensuring no inappropriate indemnity clauses, suppliers have appropriate liability insurance and the tender bidding process is fair) • Ensuring service quality and continuity • Monitoring compliance with statutory and other requirements • Potential cost versus savings imbalance • Potentially new business models with no proven track record • Reliance on outsourced high turn-around staff instead of experienced employees	↑
4	**Welfare reform** – delivery of services through ongoing welfare reform (e.g. the Care Bill and child benefit changes) and potential demand pressures as changes come to fruition.	• Effects of capped payments, payment in arrears, payments direct and claiming online • New IT system implementation • Council tax benefit reduction • Greater incentive for fraud • "Revolving door" risks and service demands • Responding to the potential cumulative economic and social impact on vulnerable service users	→
5	**Public health and social care** – public health integration and managing new responsibilities.	• Demographic change – demand outstripping supply • Underfunded services • Skills and capacity gaps • Invocation of the Human Rights Act imposing greater duty for protection • Ensuring 'care at home' initiatives do not increase risk exposure • Public health directors' vacancies lead to service breakdown	↗
6	**Environmental** – risks (some regional) including climate change, extreme weather events, escape of water, flooding, coastal erosion, fracking, sinkholes and waste management, with increased frequency and severity of loss.	• Comprehensive risk analysis • Changing growing seasons • Road maintenance • Meeting CO_2 targets • Continuity of services • Management of water/resources	↗
7	**Statutory responsibilities** – compliance with statutory responsibilities, including health and safety, safeguarding infrastructural issues, maintenance, regulatory framework, information governance and transactions.	• Impact of employee cuts on roles and responsibilities • Sharing sensitive data with third party service providers • Ensuring and monitoring compliance by partners/suppliers • Checking and amending 'standard' contracts and wordings • Reduced standards of inspections • Reputational implications of incidents	↗
8	**Technology** – using new technology/systems to reduce costs and fulfil today's communications, accessibility and transaction requirements.	• Robustness, resilience, protection and security of systems • Managing and sharing sensitive data • Availability of expertise and user training • Maintaining multi channel communications for non-computer literate • Health and safety considerations for employees working from home	↑
9	**Pandemic** – a rapid and widespread infection/disease, affecting the health and wellbeing of a significant number of people over a large area.	• Service continuity planning • Fast and effective communication systems • Ensuring seamless response with emergency organisations • Impact of disruption/loss of major local employer • High claims if resources diverted to support front line critical services, impacting future insurance costs	→
10	**Fraud** – deliberate actions by criminals to seek financial gain at the taxpayer's expense.	• Creation/inflation of claims • Possible increase in employee dishonesty/misappropriation of funds. • Increased occurrence of hard to diagnose injuries (e.g. physiological injury and chronic pain) • Robust and effective prevention and detection procedures • Reputation management	↗
11	**Political** – risks driven by political agenda.	• National and local stability • Instituting successful long-term planning against a background of uncertainties (e.g. Scottish devolution, change of government)	↑

Meeting the challenges

At a time when austerity measures are being recognised as the new 'normal' and local authorities are engaging in long-term plans for transformation to ensure their viability and service delivery, they need to consider positive ways to manage risk. The following checklist may assist.

- In many organisations, austerity is driving the need for a transformation agenda. Do you have a vision for the future around which your organisation can plan?

- Successful transformation needs the engagement of a creative and motivated workforce. How do you achieve the necessary motivation in the light of financial constraints?

- Do you have the right skills in place to manage risks around the procurement of new services and partnerships?

- Are you clear around the organisation's risk appetite for innovation and do you have the skill sets in house to manage this?

- Increased risk taking poses a challenge to your organisation's resilience. Are you confident in your contingency planning and continuity management of critical services and functions?

- How do you address the governance and resilience of your supply chains: partners, suppliers and contractors?

- Do you understand the ownership of risk in your partners and contractors and where your organisation's responsibilities and liabilities fall?

- Cross organisational management of sensitive data and information is a known vulnerability. How are you addressing this concern in your new future?

- Reducing capacity and financial resources places challenges on the operational and statutory risks faced by your workforce. Is anything falling between the gaps e.g. health and safety?

- Recruitment and retention have never been more important, given the need to find and keep the best possible talent. How do you actively address this critical risk?

- There are good examples of innovative working to address austerity issues, in both the public and private sectors. How do you go about accessing this insight?

- How do you foster resilience and success in your local business communities, particularly for SMEs?

- What contingency plans do you have in place if your change programme fails to deliver the benefits anticipated?

For more information visit www.zurichmunicipal.co.uk.

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