Forethought

For the past four years Zurich Municipal has been observing the worlds of local government, speaking frankly and comprehensively with CEOs across Great Britain. We have analysed trends, heard concerns and reported risks. Over 60 senior executives have talked to us about what makes their hearts beat faster – with excitement and with apprehension.

“It is the best of times and the worst of times,” states one CEO, echoing the opening lines of Dickens’ Tale of Two Cities. She describes the take on the many worlds of local government. It is the tale of the have and the have nots; the risk takers and the risk averse; the regionalists and the localists, the urban cities and the rural counties. And it is the story of a cultural revolution taking place within all of these organisations.

In 2016 many local authorities are becoming bold commercial entities driving forward communities. For some it is change or bust. In contrast, there are CEOs struggling with community sustainability and funding black holes. They might not succeed. Some local authorities are worlds apart from others.

The difference of styles and strategies is evident. There’s a polarisation between the optimists and those with deep concerns; some who see opportunities at every turn and others with real challenges around new and bigger risks – and the potential for failure.

Whichever world councils are in, many recognise a need for fundamental change. There’s a multitude of ideas on what to do and how to do it. The problem is that everyone is doing something different and there’s not enough time to share ideas and experiences.

With wholesale change comes a change in risk appetite. Risk taking is now the default position. CEOs are viewing calculated risk as an acceptable side effect of opportunity and are adamant councils must take bold risks on behalf of citizens. CEOs are looking for a new breed of risk managers to support this.

There’s a huge emphasis on social care and health. They are two worlds drawn together, both with existential challenges.

There are new worlds of thinking on future models of local government. Should it be done virtually through whole system working or literally through physical and legislative change? Much is at stake.

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£10 billion saved and £10 billion to go. The task could not be starker. SOLACE members have been candid in their views, and for many they are ‘worlds apart’. In last year’s report we saw how the Pioneers were leading the way with innovation and commercialisation. We’re now starting to see the results of their hard work. Risk management has turned on its head, risk avoidance has become risk taking and the future is more unpredictable than ever.”

Paul Tombs
Head of Public Services, Zurich Municipal

“6 years of austerity have led us to a tipping point. For some of us, the future is built around growth and commercialisation. For others, the challenge is greater and squaring the circle is becoming increasingly more difficult. This report highlights the full spectrum of risk and the many diverse ways members of SOLACE are rising to the task. We’re all risk managers now and opportunity and risk are our currency.”

Gavin Jones
Chief Executive Essex County Council and Solace Chair
The chief executive’s perspective

CEOs believe local government has been too good at its job!

After all, councils have delivered on austerity, yet are only 50% through the cuts. “It will need a council to tip over for Government to sit up and notice” warns one CEO. Some are ready to push against central government’s bidding if councils are likely to crash and burn. “No further!” was the determined view of one.

CEOs are managing a new norm that is “volatile, uncertain, complex and ambiguous”. Community cohesion is fragile in some areas, exacerbated by the Referendum. There is dissatisfaction, disturbance and dissent. Some predict a breakdown in civil order.

The Referendum vote threw central and local government into shock and uncertainty but Brexit may offer a breather for councils as central government’s attention is focussed externally. As one CEO recounts, the best time for local government was during the Empire: “when everyone at home was left to get on with it.”

Whichever world their council inhabits, CEOs are of one voice – the sheer flood of issues and changes in 2016 make their jobs very different, and more difficult. “It’s endless plate spinning” comments an exasperated interviewee.

CEOs are leading unique culture shifts as they change from process driven authorities to commercial, outcomes based, organisations. It’s a new world where councils expect people to work in completely new ways. And as organisations are run differently, they need different skills.

CEOs recognise that to attract new people, cultures need to change. “We have to encourage a working style that empowers. I want people who can make decisions knowing they have authority.” Culture change is essential but difficult. “The goal is getting people to change because they want to, not because they have to.”

However experience still has its place. As councils are rocked by transformation and efficiency measures, redundancies, early retirement and lost knowledge pose different risks. Valuable organisational history and expertise can be lost.

CEOs and leaders need to reskill too. “We need people, facilitation, negotiation and team work skills.” The sector is losing experienced CEOs as rationalisation creates one where once there were several.

CEOs know they are missing opportunities. Interviewees ask where they can share “ideas and insight“ now they have lost formal structures like the Audit Commission and CPA for reporting success, failure and improvements.

“The CEOs role is akin to getting all the faces on a Rubik’s cube aligned.”

“Leadership is not about the traditional triangle. I am at the bottom of an inverted triangle. I support frontline staff.”

“CEOs have to absorb uncertainty and project certainty.”

“It really irritates me when people say: ‘we’ve always done it that way’. I just say: ‘well it obviously hasn’t been working!’”

“Poor performing organisations have people who change because they have to not because they want to.”

“We have to attract people who know what they are doing.”

“We have to buy in the knowledge we need.”

“We need a strategic framework to deal with uncertainty.”

“Local authority CEOs need to work more collaboratively.”
Austerity and opportunity

2013 was a simpler world. In our first report conventional savings were the norm.

With far less money by 2014 CEOs were concerned about running out of ‘low hanging fruit’ to pick. Then talk of transformation gathered speed, with councils reinventing before our eyes. As the need for cuts gathered pace, so did reform. By 2015 talk became action.

2016 interviews have exposed extremes. Complex changes are enacted at frenetic speed leaving some CEOs reeling. Some are excited, some are nervous. Some councils will thrive, some won’t survive. Many see 2016-2017 as a tipping point.

Austerity has inspired citizen-centred reinvention. The CEO focus for many has turned from the coffers to the community. Forget austerity, go for growth. Let’s go for new investment and new income – there’s nothing to lose!

Actually there is something to lose – councils. What happens when a council goes bankrupt? We’re told at least one council in England will be declared unsustainable in 2017. “We will not have enough money to fund mandatory obligations in the next 18 months. We have explored every angle possible to prevent a Section 114.” Some CEOs express concern over difficult decisions they have to make in coming months, as cuts to services start to affect those who access them.

Most believe sustainability is only achievable through growth. A buoyant local economy means more and better services. Growth brings thriving businesses and a steady income from business rates but any dip in confidence in the market impacts future income. Brexit may slow growth.

Local authorities are becoming more dependent on money generated from council tax and business rates. New income streams from infrastructure and regeneration investments are expected to make up the difference as government funding falls off in 2020. Councils again remain divided, as some income rich authorities are confident about a seamless change to financial sustainability, while for others self-funding is an impossible dream.

“Local businesses will be effectively paying for social services.”

Although the financial challenge has been less extreme in Scotland, times are changing. “It now feels incremental change will not be enough and we need to move to transformational change. The task is to translate rhetoric into a pragmatic plan” says one Scottish CEO.

“We will grow our way out of austerity.”

“We aim to be self-sufficient by 2020: We won’t require government grants.”

“All the easy options have gone.”

“People haven’t seen the impact of cuts yet, but they will.”

“There has been no vision for improving things for future generations.”

“The wider world is recovering from recession but not public services.”

“We are not financially sustainable!”

“2017 will be incredibly difficult. There’s a black hole to fill.”

“It’s no longer about how we can save money but how we can raise income.”
Collaboration and innovation

CEOs acknowledge the difficulties of living in a world with old-fashioned governance and infrastructure trying to meet modern challenges.

With the shift from paternalistic provider to a local leadership role, councils are re-examining how statutory duties can be delivered.

The ‘whole system’ approach has been high profile in health and social care integration but it is being taken up across many areas of public services. This model recognises and requires the contribution of all partners to deliver high quality services. It relies on stakeholder agreement and inter-dependency, and enhanced relationships and partnerships. The aim is for service user and outcome led solutions.

Shared services have their own challenges according to some, who understand the inevitability of outsourced services but are not always convinced by them: “Shared services must prove long term viability.” Others worry about the ongoing daily risks associated with fragile partnerships. They cite oversight and governance of partners as critical and aligned risk management essential.

“I worry more about the risk in partner organisations than my own.”

Asset sharing is a way of saving and improving too, however some don’t believe it is happening enough, or fast enough: “This is a massive missed opportunity.” Sharing buildings across the place, for example, seems common sense but is not always achievable.

Changing demands on local government means councils are moulding service demand and managing expectations. Local authorities are now demonstrating that local decisions are informed by community engagement. “You have to talk to your customers to create real solutions” says one CEO. The view is that effective citizen support has to be community centred and targeted, with different types of services to meet local needs. These needs can be very local, as one CEO explains: “Sometimes locality is just one street.”

Cross council policies and programmes are essential to achieve desired outcomes. Some argue that Districts are better placed to meet the demand management challenge. They are much more visible to communities and have the historical understanding of local needs and valuable insight into the best ways of meeting them.

“It’s not about doing to people but about working with people.”

“We are recalibrating our relationship with the community and the voluntary sector.”

“We need to work horizontally across organisations.”

“We’re trying to build some resilience into the organisation through a combined authority.”

“You have to separate delivering from commissioning.”

“I worry about the fragility of partnership relationships and the fragility of partner organisations.”

“We need to be better at procurement and supply chain management.”

“It’s not about systems, it’s about people.”

“We need to shift money upstream.”
Integration – health and social care

NHS demand is increasing by 4% a year but money to meet it is not. Although ring-fenced and immune from austerity cuts, government health funding remains the same with a 0.9% inflation related increase. The funding gap is widening as demand increases.

Failure in social care is still a nightmare for CEOs. For all the complex macro challenges, the most important – safeguarding – is still top of mind. “One of the things that keeps me awake at night is a child-related incident.” Add to this adult and children’s social care overspends, the threat of intervention and the impact on reputation, and CEOs have a lot to think about.

With the NHS bowed down by chronic and ageing healthcare, and a fragile council social care system, integration is even more urgent. For some it is happening right now. Everyone is looking to Scotland and Greater Manchester who have gone live with integration.

Local authorities are leading on integration and are consequently bearing the brunt of integration risks. Devolved health care may be the acknowledged way to deliver but combining health and social care is considerably risky. The largest obstacle is that health and local government work to different business models. Statutory ownership remains unclear. CEOs indicate breaking points could be agreement on ownership, responsibilities, accountability and culture.

Combined organisations need to work together to genuinely resolve the challenge of budget savings. NHS budgetary issues are huge and of some concern to local authorities. One CEO noted that two-thirds of health trusts in London are overspending and have announced cuts.

“Local authorities are now social care organisations, and business success funds social care.”

“There is a social care graph of doom.”

“It is an ill health service reliant on footfall.”

“Managing demand is also about managing the NHS relationship better.”

“Health and social care requires a complete change of commissioning.”

“We need to design a health system that is solvent, clinically sustainable and effective.”

“I have to help health be more effective.”

“NHS has command and control hierarchies, which makes it difficult to work with.”

“In health there is too much focus on governance and top down reviews rather than being outcome focussed.”

“The question is not: ‘what is the matter with you?’ but ‘what matters to you?’ ”
Prevention services were handed to councils in 2016. The Red Cross highlighted that one third of Health and Wellbeing Board’s strategies do not have a strong enough understanding of ‘prevention’. However CEOs predict this understanding will grow and so will implementation of the prevention philosophy.

Prevention is not just key to health and social care reform but to all areas of public services, including police, fire and education. Early help and intervention mean fundamentally changing the way public services work, shifting the focus from providing for residents to working alongside them.

“The aim is to prevent needs arising by creating an environment where people can develop skills and resources to be more independent.”

Local authorities have to re-negotiate their relationship with communities and empower people to take care of themselves. So far service provision has been predicated on helping those that can’t help themselves. This has been the central plank of local government’s role but it is changing, to how to work collaboratively with communities.

Who should be helped and how? With increasing demand comes urgent emphasis on identifying who needs most help and how their lives can be improved. As one CEO explains; “66% of the council’s budget is spent on 2% of the population”. Another CEO quotes; “the most vulnerable 10% get 70-80% of the money.”

Many talk of demand management. It is based on better understanding the drivers of demand to re-shape services in a more efficient and effective way. The emphasis is on assessing future risks to target resources towards prevention now.

As one CEO remarks; “demand management can sound like service rationing” but ambitions reach farther than economics. The aim is to manage social and personal issues before they become problems, such as the growing challenge of bedblocking.

Prevention rather than cure equals demand management. Demand management and prevention have roles to play across society. “If it costs £10,000 a year to keep someone on benefits and £1,500 a year to get them into work, what’s the obvious answer?”

Prevention is not going to work for everyone. Expansion of free schools and academies means some local authorities have difficulty accessing or influencing 11-18 year olds. Although some authorities have excellent relationships with the academy sector, many have become less engaged.

“Demand management is a bet: we are placing bets.”

“The objective is to empower people to take care of themselves.”

“Demand keeps increasing because we keep feeding it.”

“Everyone who walks through my customer service centre is a failure for the council.”

“Prevention is the holy grail.”

“The public services structure is a ludicrous way to deliver prevention.”

“The prevention agenda and analytics, and demand management are not going to benefit adults in the short-term.”

“Prevention payback will take a whole generation.”

“Prevention may not save money it may just move the cost to later in a person’s life.”
Devolution reflects the two worlds of authorities distinctly: It is critical to some, of little value to others. One CEO describes devolution as a ‘smokescreen’, another says: “Devolution offers the responsibility, but only part of the funding.”

For some it is an aspiration, while others see it as fundamental to a successful future. The hope is that dogmatic devolution will give way to wider freedoms in the regions. The theme of ‘taking back control’ pervades at all levels. CEOs need growth opportunities to make real and long-term differences locally.

Structural changes take up huge resources and time and many CEOs feel there are better and more pressing local issues on which to focus. One devolution sceptic says: “It is absolutely right that local authorities take back control of their finances but what do they actually govern?”

Devolution deals are good for growth but there remains reluctance around structures and governance. “Form should follow function.”

Combined authorities are springing up everywhere. The mantra is: ‘stronger together’. Like all devolutionary schemes the biggest challenge in the creation of a combined authority is cultural integration.

“The devolution agenda risks a war between the two tiers.”

“Increased scale can result in arrogance, remoteness and alienation.”

“Devolution is tough going: We don’t feel autonomous yet.”

“Smaller authorities lack resilience.”
Climate change

Climate change and sustainability, the key talking points of ten years ago have taken a back seat to short-term economic priorities in recent years.

Although a background concern for all councils, renewed attention on sustainable futures is pushing it up the strategic risk agenda. Localised flooding in particular is a huge issue for many. Last winter’s major floods will not be isolated incidents given that 40 per cent of the UK population lives only one metre above sea level. Some CEOs believe it needs to take priority – quickly.

Floods have become a big risk for affected areas. However some CEOs criticise that tampering with budgets and ad hoc schemes have led to piecemeal plans that don’t make a national difference. The wish is for large-scale investment, with more local government control.

The view is that flood prevention and management should be top of mind for all local authorities – after all climate change is the no 1 international risk. Now local authorities are taking the long view and once again are planning for climate change impacts.

“We’ve lost sight of climate change and loss of biodiversity. These long term issues do not sit well with budgetary challenges.”

“How are we going to manage and mitigate climate change?”

“It’s not a question of if, rather when.”
A new world order

Many areas need investment in infrastructure, with housing, transport and skilled jobs necessary to achieve the goal of growth. Extraordinary commercialisation underpins ambitions. Some concepts and projects do not sit well with council members but CEOs believe short-term compromises can bring long-term gain.

Lack of housing and more acutely, homelessness poses devastating challenges for London and southeast England. House building targets are not being met and a reliance on temporary accommodation has made budgets skyrocket. One London borough anticipates a £7-13 million overspend in 2017.

Housing cannot be solved borough by borough, with strategic thinking required across the M25 inner area. An expanding London has a knock on effect as low to middle income families are pushed further out. Where are London’s essential public sector employees, like nurses, teachers and social workers going to live?

Education in its broadest sense is another subject discussed by CEOs. Isolation from academies, and new technical colleges and apprenticeships to stimulate local skills improvements, are on the list. The main overarching question regards accountability.

Does this sit with local or national government? In Scotland Holyrood directly funds education but some CEOs want a more regionalised view and more control. “We need to increase innovation and collaboration across authorities.”

Both Scotland and Wales are reviewing Brexit and the financial impact of abandoned EU funded projects. While Scotland voted to stay, Wales voted to leave.

Brexit is not the only problem troubling Welsh CEOs. Local government reorganisation has stalled. The tensions between north and south, and the regions and Cardiff (“We’ve swapped Cardiff for Westminster”) is encouraging further devolutionary murmurings. In the meantime local government and the NHS have an increasingly uneasy relationship and financial pressure on both is oppressive.

As one Welsh CEO puts it: “We are heading for the perfect storm.”

“We are getting past the point of incremental change.”

“We need to achieve resilience through enterprise.”

“Commercialism is less about selling services and more about creating assets.”

“Our growth strategy means reinvesting income locally.”

“Regeneration is hard anywhere.”
Final thought

CEOs are asking: “What happened?” and “how did we let this happen?” “We’ve saved £10billion and there is £10billion more to find.”

Like the boiling frog scenario the heat has been turned up gradually for the past six years and now local government is at boiling point. CEOs and citizens are getting overheated – community cohesion is at risk as austerity continues to bite.

Some councils are near the point of no return and may fail. Some see their future in devolutionary deals. Most are looking at ways to generate income, some are flourishing, and a handful are truly confident. There is a wide spectrum and they can be worlds apart.

Councils are innovative in asset use, trading services with public and private sector organisations, and selling value. Doing ‘business’ is now a remit of a local authority.

Local government is straying into new areas and the risks are different. The emphasis is on opportunity, and calculated risk is accepted and often applauded. Risk management has turned on its head.

All professionals advising on risk now manage many more interconnected issues. Risk managers have to be business advisors, adopting a profile that includes; analyst, presenter, negotiator, influencer, facilitator and challenger, with an all important strategic understanding. Risk management is now seen as fundamental to the business.

We have yet to fully understand the direction of the post referendum government. CEOs are still managing the aftermath of the vote and many worry about community cohesion. For local government, perhaps the most important aspect for Brexit is the impact on the economy. If an economic slowdown halts investment, the foundations for local authorities’ future funding and plans for local growth may crumble. It’s a brave new world – or worlds.

“Society as we know it may start to break down.”
“People have a different risk appetite now.”
“Taking risks equals reward and opportunity.”
“We need to know how to deal with failure in a political climate.”
“We must be able to manage complex risk.”
“The risk manager must understand the golden thread – the strategy and how it runs through the organisation.”

危機
危機

Chinese word for chaos ‘wei-chi’ two words meaning danger and opportunity reflects the two worlds of local government.
Zurich Municipal would like to thank the participating local authority Chief Executives and Senior Managers, and SOLACE for their support in making this report possible.

We would welcome your feedback on the contents of this report. If you’d like to share your views, please contact us:

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