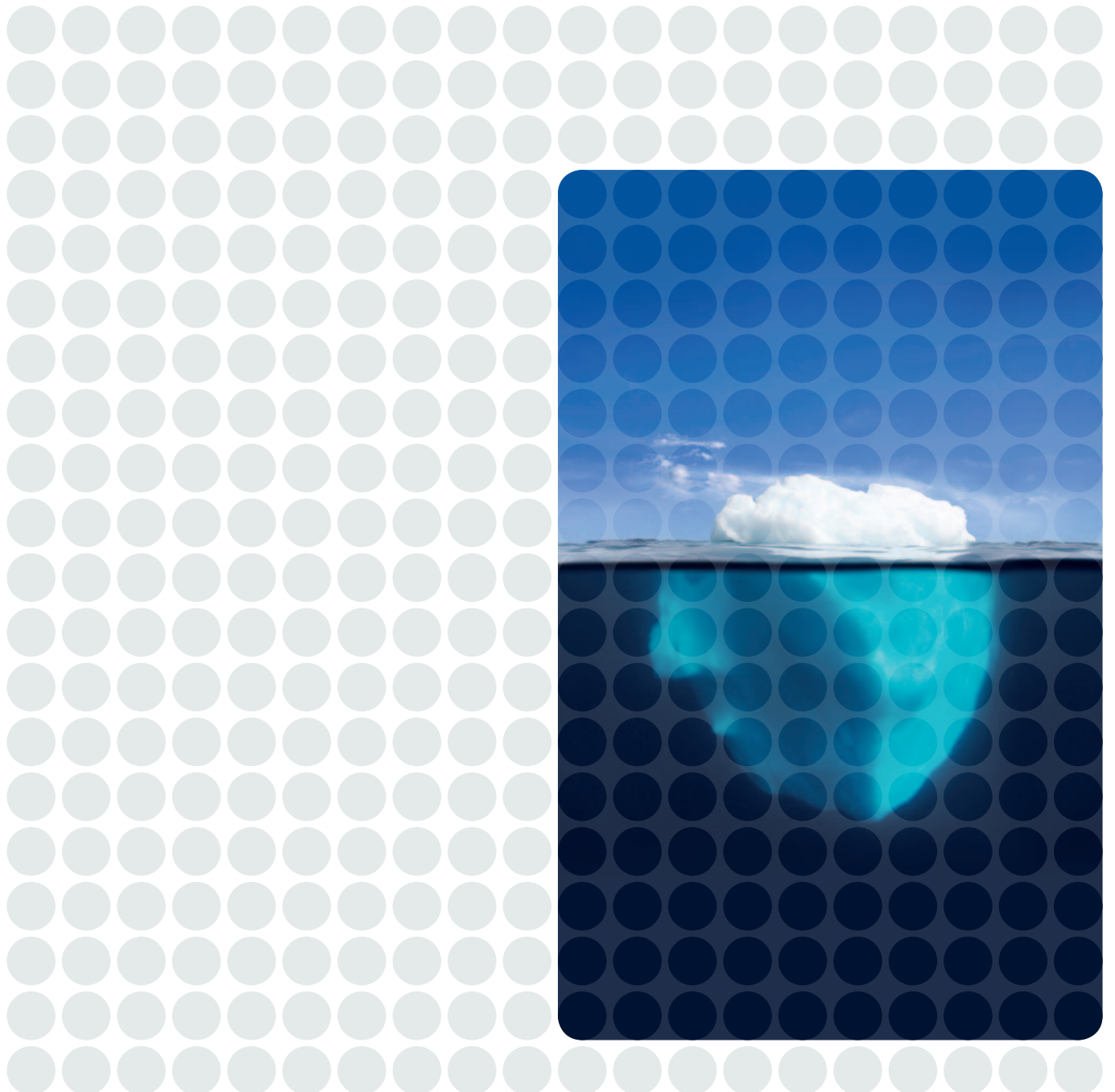




# From Evolution to Revolution

The 2013 Senior Manager's Risk Report  
in association with SOLACE



## Forethought

**Much has been written about where local authorities are in 2013. Opinions and analysis varies from; on the verge of social breakdown and bankruptcy, to imposed commercial metamorphosis. Whichever conclusion individual local authority chief executives most agree and identify with, you will no doubt be fixated with the consequences of austerity, financial constraints and how to survive and thrive an inevitable transformational future. A seismic shift in financial stability and a society paradigm has to shake the status quo. Standing still is the most perilous position of all.**

In 2013 Zurich Municipal (in association with SOLACE) interviewed a small selection of CEOs and senior managers from divergent local authority areas on where they were, where they wanted to be and the threats and opportunities associated with getting there. Free and frank discussions were held under a blanket of anonymity. Many of the topics were well known and well practised; some were exciting, surprising and radical. Here, in our first 'pilot' report of this kind, we outline how the senior managers describe their reality: their experiences and aspirations may inspire yours. The quotes are theirs and so are the issues.



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**What's the state for?**

We aspire to outsource **all** our services.

**We have to think commercially.**

Budget cuts are driving a different ethos – we are prepared to consider the unthinkable.

**The politicians push harder and take a “why can't you?” attitude.**

Politically, major outsourcing is a no-no.

**People have to realise that Localism also means services may no longer be free.**

We have to connect with younger generations.

**We worry most about someone dying as a result of our incompetence.**

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## Thinking aloud

**“The only certainty is there’s going to be less money.”**

Financial sustainability is a priority for local authorities. The immediate concern for local authority leaders is managing budgets, while maintaining service quality and meeting increasing demand. While funding shrinks, needs remain the same or are greater. Government has cut budgets but statutory duties have grown for local authorities. Population changes reflecting immigration, a baby boom and an ageing society, coupled with welfare reform, means councils have to deliver more for less. From the senior manager interviews, this puzzling equation is disturbing sleep, taxing minds and stretching imaginations.

According to PWC’s 2013 report, ‘The local state we’re in’, beyond 2013/14, confidence in meeting savings targets falls, with over half of local authority CEOs surveyed saying 2015/16 will be the toughest year to come. The PWC research shows that nine out of ten CEOs and Leaders believe: ‘some local authorities will get into serious financial crisis or fail to deliver the essential services that residents require within the next three years.’

**“£30m savings in the next two years will be difficult.”**

## Current thinking

**“There’s a different attitude now – we are avoiding borrowing, trying to pay off loans, managing cash flow and financing our own investments.”**

In 2013 the overwhelming attitude remains one of ‘squeezing’ – continued contraction to fit smaller budgets and meet ongoing obligations. CIPFA’s 2013 CFO Budget Survey identified the biggest risks to budget delivery as council tax benefit and business rate income. CIPFA said: “with continued financial restrictions the move towards expanding ideas has to be made soon.” Opinion is that committing to providing services in the age-old way could lead some authorities to the extreme conditions we’ve seen in Detroit. (In 2013 the LGA identified one district council as unviable.) The banks may have been rescued in 2008 but there is no certainty local authorities would be in the future.

In 2013 the LGA warned that 86 councils (out of the 370 in England and Wales) could face a financial meltdown. Sir Merrick Cockell, chairman of the LGA, said: ‘Local government has so far borne the brunt of cuts to public spending. If the Government pursues the same policy again local services will suffer to the point where many councils start failing their communities.’ Sir Merrick Cockell also responded robustly to media reaction against the August 2013 figures on councils’ growing reserves. “Reserves are all that stand between councils and financial collapse and this prudent, justified increase is the correct response to the uncertainty facing funding for local services.”

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An LGA statement explained one reason why councils feel it necessary to plump up their financial cushion: “The Government’s welfare and pensions reforms are passing hundreds of millions of pounds of additional costs onto local government. Reserves are being set aside to help councils partially manage those new costs and dampen their impact on funding for the services residents use every day.”

**“There is an issue around central government not understanding how local government works.”**

At this point, the majority of local authorities have not drawn on financial reserves to make up for reduced income, according to the National Audit Office (NAO) but attitudes to risk appetite indicate they are more willing to draw on reserves if necessary.

**“We have to cope with 40 per cent less resource and an increasing demand.”**

**“Some areas are hit more than others: we are struggling with less money for school maintenance and capital development when we have to meet needs of new families and demand for additional housing.”**

Echoing The NAO’s report of 2013, Financial Sustainability of Local Authorities, the interviewees’ opinion is: “the first two years savings have been broadly achieved without dramatic pain and the customer noticing. The next two years will be much more difficult and customers will notice.” Tough times and tougher choices ahead then, as additional savings that do not impact adversely on long-term strategy and sustainability, become harder to find.

**“Politically, major outsourcing is a no-no.”**

**“It makes little difference which party is in control, however the money is spent, it’s still less money. Whichever party gets in, you have to distinguish between what’s rhetoric and what is the reality.”**

“The shock of the new – Can Councils Innovate their way out of Austerity?’ a report from the New Local Government Network (NLGN) is based on a survey during June 2013, which gathered responses from 83 council officers, representing over 65 individual councils. ‘A clear message emerged: many councils are expecting to make huge savings from innovation, but they are worried about a lack of time and skills to drive change, and they think the sector as a whole is changing too slowly. The findings are worrying because they suggest that local government’s transformation efforts could stall in the coming years... They know there are big practical barriers to innovating: 70 per cent said there wasn’t enough time to focus on innovation and 56 per cent said their council did not have the right skills for innovation.”

## Thinking ahead

### **“Back office efficiencies are still underway but there’s scope for a further squeeze.”**

Initial budget cuts won’t be felt immediately but CEOs are waiting for the shockwaves to hit. And then there are the shrinking budgets from 2015 to plan for and to manage – internally and externally. The public don’t yet realise the real impact and future implications for the services they rely on.

### **“Our citizens haven’t noticed the first £90m of cuts but they will notice the next £90m!”**

Increased attention to detail on cost benefit analyses is leading to efficiencies and improvements across a wide variety of services. The interviewees, like those polled in the 2013 PWC and NGLN report, ‘Gaming the Cuts’, reiterate a strong belief in the ability of local authorities to make the best out of a bad situation and create robust, long-term benefits through budget-led transformation programmes.

### **“We have to drive efficiency. We have a large scale housing transfer.”**

### **“Before, we overspent on winter maintenance, now general road maintenance is good and take the approach of getting it right first time.”**

Budget constraints have focussed the interviewees on achieving better value and better outcomes, which moves service delivery into new areas. All CEOs talk about major programmes of internal efficiency but their nature depends on the political colour of the authority and the degree of risk they are prepared to take. This risk appetite extends to new philosophies and endeavours and it can be the number, variety and sheer newness of projects that tips the balance of risk. In particular, lack of relevant skills and expertise, as well as time, are close contenders as the greatest threats to real progression. Innovation brings its own risks. Intransigent political and managerial attitudes are potential obstacles too.

### **“A key risk for the Council is initiative overload. We have numerous big initiatives, new models and new areas to embed.”**

### **“There is an issue with middle management – they are very protective and don’t get the rationale for change.”**

The number of CEOs devolving the day to day running of their authorities to their management team is growing. Changing cultures and the potential difficulty of bringing along middle management can make transformation difficult to implement and puts influencing high up the agenda. Bringing along political Leaders can be equally tricky.

PWC’s report, ‘The local state we’re in,’ looks ahead for the next few years and describes; ‘a shift in focus to managing demand, changing services levels and restructuring or closing frontline services. So far Chief Executives are more likely to have embraced this agenda than Leaders.’

### **“Directors own risk themselves. The Leader and I spend a lot of time talking about risk – particularly around the big projects and initiatives. Managing risk today is about getting your processes and governance right.”**

All local authorities interviewed have systematic and structured frameworks for managing risk, Audit Committees, three levels of risk register, frequent reviews and owned action plans but all can still feel vulnerable during transition and transformation.

As local authorities become commissioners rather than providers of services, the word ‘commercial’ repeatedly forms part of the CEO’s mantra. ‘Public services’ in the future means services provided FOR the public, not necessarily by the public sector. Perhaps the new moniker to reflect this new era should be ‘society services’?

### **“It’s important local authorities approach new challenges with a private sector, commercial mindset.”**

### **“The real debate is around ‘what is the state for?’”**

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## Think big

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### **“Getting people to accept cultural change is a key challenge.”**

Local authorities have 1,335 statutory duties, with discretion on how they provide services according to local priorities. The NAO says that: ‘to remain financially sustainable, they must meet their service obligations with the available funding. Introducing the ‘general power of competence’ in the 2011 Localism Act increased local authorities’ discretion over the range of services they provide.’ There is also discretion on HOW those services are provided too.

### **“We are building supply chains. The need for strong outsource management will become crucial.”**

#### **One local authority steps into the future:**

- ‘Expression of Interest’ submitted for a partnership Community Budget.
- Joint services agreed with a neighbouring county.
- Legal shared service arrangements with a local council.
- For the first time have set a two-year budget 2013-15
- Improvements to Children and Adult social services to increase efficiency and bring them into 21st century. (“Because they are so critical, these services have not yet been touched.”)
- An Integrated Health project is starting soon.

### **“The connection to ‘the man in the street’ is totally different to years gone by. We need to engage in a new way.”**

Local authorities have internal and external stakeholders to inform and engage. Growing disengagement from the public, especially younger generations, means that more effort has to be made to gain consent from communities to operate in new ways. Dr Claire Mansfield’s ‘Great Expectations – The next steps for a New Generation,’ an NLGN report published in January 2013, outlines the longer term implications of the changing values and characteristics of our future citizens. She states: “local authorities, in particular, can capitalise on the connection and attachment to the local area and use it as an opportunity to engage residents locally.”

Just how to connect with the under 25 year olds is obvious to one CEO: “social media is massive! There has got to be participation in the digital age.” Yet the perceived risks of data loss and cyber security, along with associated skills shortages are some of the greatest barriers to reaching out to communities today.

### **“Information security is a real risk for councils.”**

### **“We’ve left IT support in-house. We’ve not contracted out due to data management fears.”**

## Radical thinking

**“Budget cuts are now driving a different ethos: we are prepared to consider the unthinkable.”**

As The NAO’s ‘Financial sustainability of local authorities’, states: ‘Local authorities and their partners recognise they... will have to consider longer-term and more fundamental reforms to providing public services alongside continuing to find further short-term efficiency measures.’

The mood is changing from reactive to proactive. Local authorities are increasingly creative about what can be done and how it can be done differently. Not only is financial sustainability a continuing aim but providing sustainable services is too. To do this, the interviewees believe radical thinking will have to replace traditional views on serving the community.

**“The attitude is changing – we are not ‘being done to’. It’s now, ‘the solutions are in this room.’ Next we have to turn talk into action.”**

Local government is in transition from the slash and burn phase to a new reality that offers opportunities and encourages innovation. It’s a current, much quoted cliché that recession and economic hardship spawn creativity and entrepreneurship – public services can benefit too.

**“Our ambition is to become a Beacon council then to go in and support other councils and run their services. We are already in talks with a neighbouring council to do this.”**

## Think the unthinkable

Interviewees’ examples of transformational working go beyond simple outsourcing, they operate outside of the traditional silo mentality and one size fits all provision of services:

- Radical forms of financing and infrastructure like Community Budgets (see panel) pursued as a workable model.
- Councils as developers using their own money, with economic growth a priority.
- Local authority owned outsourcing companies – “CAPITA without the shareholders”.
- A local authority controlled company created to provide Childrens Services as a result of the ‘commissioning council’ concept.
- An Integrated Care Organisation (ICO) with several organisations working together with a common purpose.

**“The radical Children Services development is probably one of the most difficult things we have ever had to do, but we are now two years into the initiative and it is becoming business as usual.”**

### Whole-place community budgets

Whole-Place Community Budgets (WPCB) aim to ‘rewire public services around people’, according to [www.communitybudgets.org.uk](http://www.communitybudgets.org.uk). They are a continuation of efforts to improve local joint working. The National Audit Office (NAO) explains: ‘one way public bodies are looking to achieve these longer-term changes is through making better use of the totality of public funding spent locally. Rather than operating in traditional ‘silos’ created by organisational boundaries, bodies may elect to work jointly by aligning their objectives, activities and resources where they believe a collaborative approach can add most value.’ The NAO produced a report in March 2013, ‘Measuring the costs and benefits of Whole-Place Community Budgets. It assesses the success, threats and opportunities of the four areas in the pilot programme.



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## Don't think twice

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### **"No-one is biting our hands off to share best practice. Where is all this shared working?"**

As UK plc moves slowly (but not so surely) out of the doldrums, reorganisation and redevelopment replaces retrenchment. Innovation and reinvestment for some local authorities however, is a step too far. Many feel constrained by cost cutting and cannot reach beyond it. Others appreciate the liberating effect of their new remit.

Determining the risk appetite, especially in this environment, is a challenge. As one CEO explains: "It's about taking risks but managing risks too." Some local authorities see the greatest risk in doing nothing.

### **"I feel we need a more proactive and strategic partnership with risk providers."**

### **"The retail development model is broken, so we've had to step in to stimulate redevelopment in key areas. Investing in an area stimulates employment too."**

One CEO's experience of becoming a Commissioning Council:

*"The Commissioning Council concept arose from political direction, although it was not expressed precisely in these terms. A new Council was elected and the administration were very clear about what they required in terms of achieving cost savings. The aspiration is to outsource or partner as much as possible with the exception of planning – members will always want to have the process close to them.*

*There are two risks to becoming a commissioning council, a) the doing it and b) the risks once you've done it. But what mitigates those risks is having stability within the management team. This is absolutely critical when considering large projects and initiatives, with enormous change management issues.*

*Choose your partner with care! What looks the same on the surface sometimes isn't underneath. In outsourcing and partnerships you are reliant on others' stability and a 'meeting of minds' with the people that you are working alongside."*

PWC describes what it calls an 'agile council' in their 2013 Talking points publication: 'Becoming an agile council is about being change-ready – being able to respond to complex and ever-changing environments. Agile councils think and act differently – they break down existing models in favour of new approaches that centre on the customer, they base decisions on strong business intelligence and operate through simpler, standardised organisational structures and processes. By embracing a change-ready culture they remain one step ahead of whatever social, economic or political environment is thrown at them, continuing to deliver exceptional outcomes for their citizens.'

### **"Value for money in commissioning is important for the Council. In respect to the staff mutual; they would have to pitch versus a benchmark in an external market that is already established."**

### **"When projects are more complex, you HAVE to have more rigour, which is a benefit as it feels more comfortable."**

## Think small

**“SMEs are very important to economic development.”**

### **A summary of Key Findings from CentreforCities – Small Business Outlook 2013 Report**

- Every city and Local Enterprise Partnership (LEP) needs to understand more about its SME base.
- All cities need to tailor support to the specific needs of their SME base.
- Cities and LEPs should focus on improving the local business environment.
- LEPs should work with the UKTI to support SMEs to diversify their customer base beyond the local market.
- LEPs should consider establishing Business Growth Hubs to help SMEs.
- LEPs should work in partnership with other local organisations.
- National government should build on City Deals and Heseltine to devolve more funding and powers around skills, transport, housing and business support.
- National and local government should support SME growth through improved public sector procurement processes.
- The Government needs to simplify business support infrastructure to improve SMEs' access to support.
- National government should recognise the geographical dimension to SME success and failure.

**“The real focus is on reducing the demand for services through prevention. However, when local government cuts grants to charities – the very organisations who can help with prevention – the strategy does not work.”**

As councils take on new roles as commissioners of services rather than direct providers of them, the dynamics within local authorities change, as does the view of the outside world. The perception that budget cuts and increasing need has led to a lower quality of service provision has fuelled the media and influenced central government and the public, in attitudes to local government. Radical new ways of providing these services, with local authorities seemingly stepping aside from the role (and the perception may be, their responsibilities) will inevitably add further scrutiny to local government actions. Never more has a clear, long-term strategy, rigorously managed operations and strong communications support been more important in maintaining credibility and building resilience.

**“You have to be mindful of managing reputation risk in all you do.”**

**“Regarding exit strategies – one of the areas of consideration is around reputation and credibility. It is ‘embarrassing to have to back out of something’.”**

## Thinking aloud

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The interviewees each described a totally different present and a plethora of ways to create a different future. Some are coloured by the political hue of the council, some are bound by local history, culture and skill sets, and some believe the sky's the limit. There is no presumption or prescription for the ideal way forward for them, or for any other local authority.

There are formal, managed projects and programmes at central and local government level that span national issues and can be bought into or adhered to. And of course there are statutory, legal and regulatory duties and responsibilities that proscribe the role of the council. All of the problem solving and creative thinking that is keeping CEO's minds busy is born from the need to rethink budgets and consequently, service delivery.

After shaving budgets, examining efficiencies and shedding assets, local authority CEOs are moving closer to thinking the unthinkable and asking the really difficult questions: do public services have to be provided by single public bodies, and do these services have to be free?

**Thank you to the participating local authority senior managers and CEOs, SOLACE and all those who made the interviews and this report possible.**

**This is Zurich Municipal's first local government senior managers' report in a series, and we would welcome your feedback on its contents. Please contact Julie Hannington, Research and Insight Manager at [julie.hannington@uk.zurich.com](mailto:julie.hannington@uk.zurich.com) or on 01252 387742 if you would like to share your views.**

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