

# *The local state we're in*

*PwC's annual local  
government survey*

2017



**pwc**

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## ***Contents***

1. Executive summary	4
2. Introduction	6
3. Continued austerity and council resilience	7
4. Digital disruption and data	11
5. Public service reform	15
6. Place based growth	18
7. Where next for devolution?	21
8. Agenda for action	23
9. Methodology	24
10. About us	25

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# 1. Executive summary

*The past year has been one of uncertainty and change for local government: from the outcome of the EU referendum, to the emergence of a new cohort of Metro Mayors and most recently the General Election.*

*Our latest 'Local State We're In' survey of Local Authority Chief Executives and Leaders shows that councils have coped well in the face of this uncertainty in the short term, but concerns about the longer term remain high and the scale of the challenge ahead is significant. Austerity continues to be the backdrop as councils grapple with digital disruption, embracing the potential of data and analytics and developing resilience. Beyond organisational priorities, there is a growing focus on partnership working in order to deliver place based growth and public service reform.*

## **Key findings**

### **The 'edge' feels closer**

While the majority of councils remain relatively confident about the one year outlook, with two thirds (68%) of our survey respondents confident about their ability to deliver in the year ahead, almost a third of councils now feel that the 'cliff edge' is imminent. When considering the three and five year outlooks, confidence halves and then halves again with only 16% confident that they will be able to make the necessary savings without impacting the quality of services or outcomes in the next five years. While this is not significantly different to last year's response rate of 18%, it still represents a new low for the sector in terms of confidence in the long term outlook.

### **Confidence in the sector is low**

When it comes to considering the sector as a whole, around half (54%) of our respondents think that some local authorities will get into serious financial crisis in the next year, rising to 88% in the next five years. Similarly, 49% believe that some councils will fail to deliver the essential services residents require in the next year, rising to 83% in the next five years. With the perceived threat of service and financial failure prevalent, the sector as a whole faces uncertainty as it looks to the future.

### **Public engagement is a challenge**

The public's view also provides a challenge, with only a third of those questioned in our polling accepting the need to reduce or close services or facilities in their local area. In addition, only 17% agree that their council has become more effective and 19% agree that their council has become more efficient. While these figures don't represent significant shifts from last year, neither do they indicate any growing recognition in the eyes of the public of the challenges that local government faces.

### **Significant capacity and capability gaps remain**

Councils need to build organisational resilience and in particular develop new skills and commercial acumen in order to be effective. However, councils are notably under-equipped in terms of capabilities in a number of significant areas that will be essential for the effective operation of councils in the future. In particular, only 33% of respondents feel that their council is well equipped with supply chain management capabilities, 51% feel they are well equipped with contract management capabilities and 53% are confident in their capabilities around the management of outsourced services to ensure value for money. Overall, less than half (48%) feel confident in their talent management capabilities. Investing in these capabilities will be important in building council resilience and developing the commercial acumen that will be essential for success in future.

### **Managing data and driving insight is a particular gap**

There are also specific gaps around data and analytics capabilities, with only a third (33%) of respondents confident that their council uses data analytics effectively to inform decision-making and strategy. While councils are confident of their capabilities in the more traditional areas of information governance (65%) and business intelligence (55%), only 32% are confident of their abilities when it comes to data analytics. Furthermore, with new regulatory requirements including the General Data Protection Regulation (GDPR), councils will need to ensure they have the capabilities to respond to new demands when it comes to information governance.

A related area of concern is around cyber security. Whereas recent focus has been on the ‘ransomware’ attacks on the NHS, only half (53%) of our respondents are confident in their approach to cyber security and a third (35%) are confident that their employees are well equipped to deal with cyber threats. Councils urgently need to address their cyber vulnerabilities.

### ***A mixed picture on digital impact***

In terms of dealing with digital disruption, over the past year there has been a notable drop in confidence when it comes to embracing digital, from 76% of respondents being confident in their approach in 2016 to 61% in 2017. Most notable has been the pivot in what councils think digital can deliver. Whereas in 2016 we found that 80% of respondents thought digital would enable them to significantly reduce costs, this has now fallen to 58%. However, at the same time the proportion who believe that digital will allow them to engage in new ways with communities and residents has grown from 54% in 2016 to 83% in 2017. However, if councils are to engage in new ways with the public, they need to find ways to do so on the public’s terms.

### ***Councils are at the heart of public service reform, but it is a challenge***

As councils shift their thinking towards driving public service reform across their place, six out of ten respondents agree that councils should be more responsible for facilitating outcomes rather than delivering services, yet only four in ten fully understand how to measure outcomes while only a quarter know the cost of securing outcomes across a place. Taking the example of health and social care integration, while appetite for reform remains with 77% believing that integration will have a positive impact on health outcomes, barriers to integration are becoming apparent, with over half (54%) of respondents feeling that their council has not been fully engaged in the Sustainability and Transformation Plans (STP) process.

### ***Good growth continues to climb the agenda, but ‘devolution’ needs a reboot***

Place based growth has also risen up the agenda with councils’ priorities for growth largely reflecting those of the public with skills, housing and transport topping the agenda. However, significant barriers remain in each of these areas, with 79% of respondents identifying lack of investment in infrastructure as a key barrier to growth, 70% lack of affordable or suitable housing and 67% lack of influence over skills. The consequences of Brexit on local economies is also a concern, with over half (52%) of respondents feeling the area of greatest impact would be on revenue generated from business rates and other local taxes, followed by the impact on policy and regulation and funding received changes. In terms of business rates, 54% of respondents feel prepared for the shift away from grant funding.

While the ‘devolution revolution’ has been a significant feature of our survey over the last few years, there is a sense that the revolution has stalled, with only 12% of respondents agreeing that their council will have more powers and responsibilities in 2020, down from 33% in May 2015 when the Cameron government came into power. However, with a new cohort of Metro Mayors now in place, devolution may get a jump start as their collective impact starts to be felt.

### ***Key areas of focus for the future***

As councils look to 2020 and beyond, there are new risks to manage, from cyber threats to the shift away from grant funding, to an ever more demanding public. Councils have proved before their ability to deal with significant challenges. As they look to the future, they will need to find new ways to adapt and be innovative in the face of uncertainty.

It is crucial that councils now respond to six key challenges:

- Developing strategies to drive **place based growth** and securing a clearer economic identity and inclusive approach for their areas;
- Working across places and securing the right **public service reforms** to underpin the delivery of key economic and social objectives and outcomes;
- Focusing on building the right skills, capabilities and processes to secure **organisational resilience** and managing key organisational risks;
- Developing **commercial skills and business acumen** to secure key economic and social interventions and investments and being prepared to work outside council organisational boundaries and seamlessly across the public and private sectors;
- Embracing the **value of data** as an asset and investing in an **analytics capability** to inform decision-making, drive smarter, earlier interventions and to influence behaviours, and as a result reducing risk and cost;
- Harnessing emergent **digital technologies to change** traditional ways of working and create new value, experience and insight.

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## 2. Introduction

*In early 2017, we conducted our seventh annual survey of local authority Chief Executives and Leaders across the UK. Our aim with these surveys is to explore how councils are dealing with the changing circumstances they find themselves in, with no let-up in financial pressures and a changing political and economic landscape.*

*Looking to the future, new opportunities are also on the agenda from digital disruption, tapping into the power of data and analytics and embracing place based growth and public service reform.*

*We also commissioned online polling of a representative sample of over 2,000 members of the public across the UK to find out their views on their council's performance, role and purpose.*

Our annual local government surveys have tracked the remarkable transformation of local government over the past seven years. Whereas in our first Local State We're In survey confidence in the future was at a low, over the years councils have demonstrated their resilience in the face of deep austerity and their ability to innovate and transform in the face of their changing circumstances.

However, the age of uncertainty is far from over. From economic uncertainty in the aftermath of the Brexit vote, to changes in the national government and its agenda and the emergence of a new cohort of Metro Mayors, the local government landscape continues to shift. These changes are taking place against a backdrop of continued and acute financial pressures and a fundamental shift forthcoming in the way local government is financed. With the sector in flux, councils must continue to evolve to be fit for the future.

This report presents the survey findings and focusses on a number of key themes for local government over the next year:

- **Continued austerity and council resilience:** What is the scale of the challenge for the next year and to 2020 and beyond? Do councils have the capabilities they need for the future?
- **Digital & data:** To what extent are councils embracing digital to engage citizens and make savings? Do councils have the skills they need to make the most of data, and to keep it secure?
- **Public service reform:** What progress has been made on health and social care integration? What are the barriers to wider public service reform?
- **Place based growth:** What are the key priorities for local growth, for councils and for the public? What impact is Brexit having on local economies? What impact will the shift to business rate retention have?
- **Devolution:** Where next for Mayors and Combined Authorities? What are the prospects for further devolution?

### 3. Continued austerity and council resilience

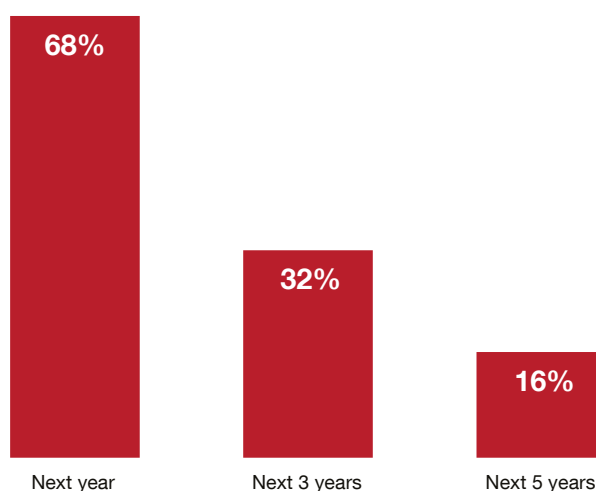
*Local authorities remain relatively confident in the short term, with 68% of respondents agreeing that they will be able to make the necessary financial savings without seriously impacting the quality of service delivery and outcomes over the next year. However, this does leave almost a third (32%) who are not confident in their abilities to deliver in the year ahead.*

*Furthermore, confidence more than halves when considering the three year outlook, and halves again when considering the next five years. This is a similar pattern to what we have seen in the last few years, with the 'cliff edge' always three to five years away, showing how councils have built resilience. However, significant gaps remain in terms of the capabilities councils need to thrive in future.*

#### **A third of councils have concerns about the year ahead**

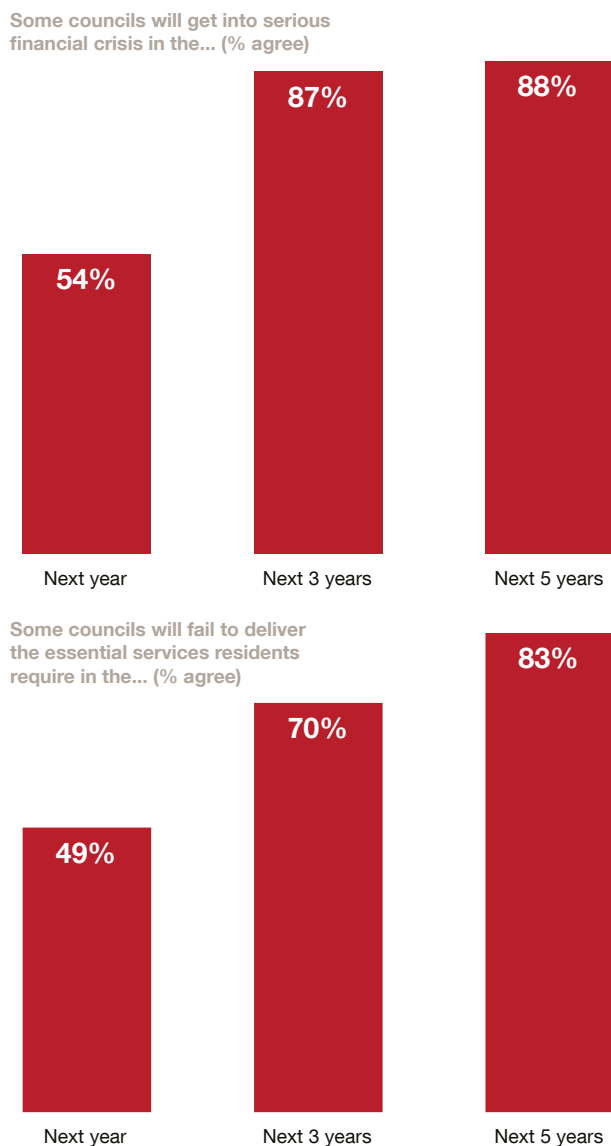
While the majority of all respondents to our survey remain confident about the year ahead, almost a third (32%) are not confident that they will be able to make the necessary savings while delivering quality services and outcomes over the next year (Figure 1). While this is not a significant change from recent years, it is a sign of the times in which councils find themselves when such a significant proportion have fears about their fundamental ability to continue to deliver services in the next year.

**Figure 1: Confidence in making savings without impacting quality or outcomes**



Furthermore, the longer term outlook is even more challenging, with only 32% of respondents feeling confident about the three year outlook to 2020. Looking to the next five years, the challenge is stark, with only 16% confident that they will be able to make the necessary savings without seriously impacting the quality of service delivery and outcomes. This also follows a similar pattern to recent years, where the 'cliff edge' is always three to five years away and councils somehow find a way through the challenges they face. However, there is little sense that councils are becoming complacent about their ability to deliver in future, despite the significant transformation they have achieved over the past seven years.

**Figure 2: Confidence in the sector**



***Half of respondents fear councils will get into serious financial crisis in the next year***

When it comes to considering the sector as a whole rather than their own council, over half (54%) of all respondents believe that some councils will get into serious financial difficulty in the next year while 49% think that some councils will fail to deliver the essential services residents require over the next year (Figure 2).

Following a similar pattern to before, confidence in the sector over the next three and five years falls notably, with 87% of all respondents fearing that some councils will get into serious financial crisis in the next five years, and 83% believing that some councils will fail to deliver essential services.

Taken together, this is a stark reminder of the significant challenges ahead for councils as they look to 2020 and beyond, with austerity still casting a long shadow over the sector.

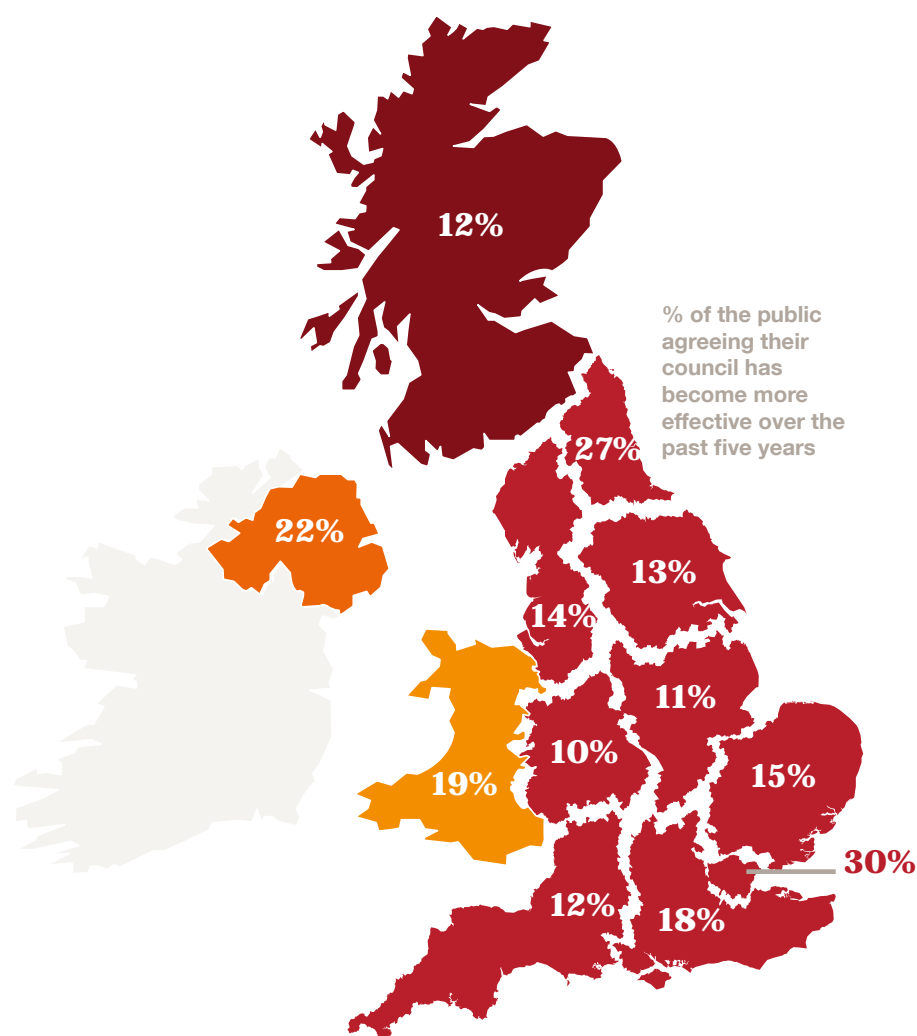
### The view of the public

Our public polling indicates that the a third of the public (33%) accept that their local council needs to reduce or close services or facilities, although slightly fewer (27%) feel well informed about the need for closures or service reductions. Concerns remain about the impact of council closures or reductions, with 53% of the public surveyed concerned about the impact that reductions and closures will have on them personally and 60% concerned about the impact on their local community. With further closures or reductions likely in many areas, engaging the public in the reasons for these changes and addressing any concerns continues to be key.

Furthermore, less than a fifth (19%) of the public surveyed think that their council has become more efficient over the past five years while a similar proportion (17%) think that their council has become more effective. The regional variation in the public's views on effectiveness is also notable, with London leading the way with 30% of the public agreeing that their council has become more effective (Figure 3).

To explore the public's views further, in our polling we asked respondents about the purpose of their council. There was a strong sense from responses of the council playing a key role in place-making and the wider quality of life of residents. Comments ranged from "conducting the daily admin of local life" to "ensuring the local population is happy, healthy and responsible" and "enhancing life for those living in its area and enable people to participate in communities".

Figure 3: Council effectiveness in the public's eyes



## The purpose of my council is...

...to achieve the best standard of living for local residents.	...to enhance life for those living in its area and enable people to participate in communities.	...conducting the daily admin of local life: collecting rubbish, parking, keeping street lamps working.	...dealing with all the unsexy things that make the borough a decent place to live.
...to effectively & efficiently provide necessary local services to the benefit of the residents.	...to run the area as best as possible, provide support where necessary, spend income sensibly – and much better than is done at the moment.	...to ensure the local population is happy, healthy and responsible.	...have overview and control of all matters relating to the community, and how they interact and engage with central government.

## Building organisational resilience and commercial acumen

With significant challenges ahead, councils need to build organisational resilience and in particular develop new skills and commercial acumen in order to be effective. While survey respondents are confident of their capabilities in areas such as leadership (86%) and strategic financial management (86%), they appear to feel under-equipped in a number of significant areas that will be essential for their effective operation in the future.

In particular, only 33% of respondents feel that their council is well equipped with supply chain management capabilities, 51% feel they are well equipped with contract management capabilities and 53% are confident in their capabilities around the management of outsourced services to ensure value for money. Overall, less than half (48%) feel confident in their talent management capabilities. Investing in capabilities in these areas will be important in building council resilience and developing the commercial acumen that will be essential for success in future.

**Figure 4: Commercial capabilities**



### Tough questions on organisational resilience

1. Are you building the right skills, capabilities and processes to secure organisational resilience and manage key organisational risks?
2. Does your council have the commercial skills and business acumen needed to deliver the changes required?
3. Is your council confident in its approach to reducing costs, developing innovative solutions to commissioning and supply chain management?
4. Do you have a plan for attracting, developing and retaining the workforce with the skills and capabilities you will need in future?
5. How well is your council engaging with residents and communities on the shape of the future council?

## 4. Digital disruption and data

*Over the past year there has been a notable drop in confidence when it comes to embracing digital, from 76% of respondents being confident in their approach in 2016 to 61% in 2017. Most notable has been the pivot in what councils think digital can deliver. Whereas in 2016 80% thought digital would enable them to significantly reduce costs, this has now fallen to 58%. However, at the same time the proportion of respondents who believe that digital will allow them to engage in new ways with communities and residents has grown from 54% in 2016 to 83% in 2017.*

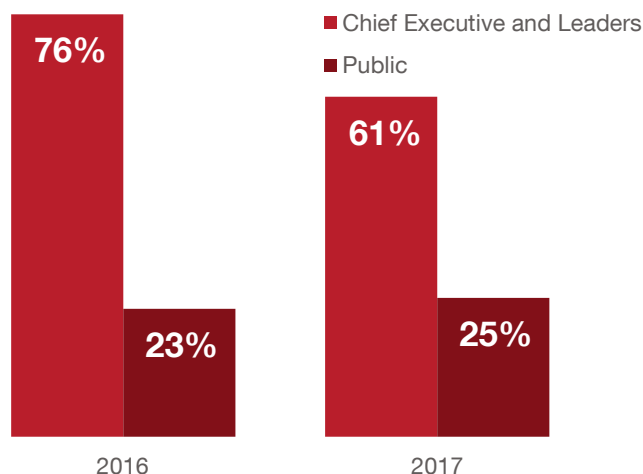
### The digital divide

Digital technology is enabling local government to transform everything from the back office to how they engage with residents and communities. There are two notable trends emerging from this year's survey. Firstly, we've seen a drop off in the confidence of both officers and leaders in terms of how well they feel that their council is embracing the opportunities that new technologies offer for better local public services, down from 76% feeling confident in 2016 to 61% in 2017 (Figure 5). This perhaps reflects something of a reality check for councils who, as they embark on embracing digital, are beginning to notice the scale of the gap between the extent of potential digital opportunities and their ability to deliver.

However, a significant gap still remains between the confidence of councils and that of the public, with only a quarter of the public agreeing that their council is embracing the opportunities that new technologies offer.

**Figure 5: Embracing the digital agenda**

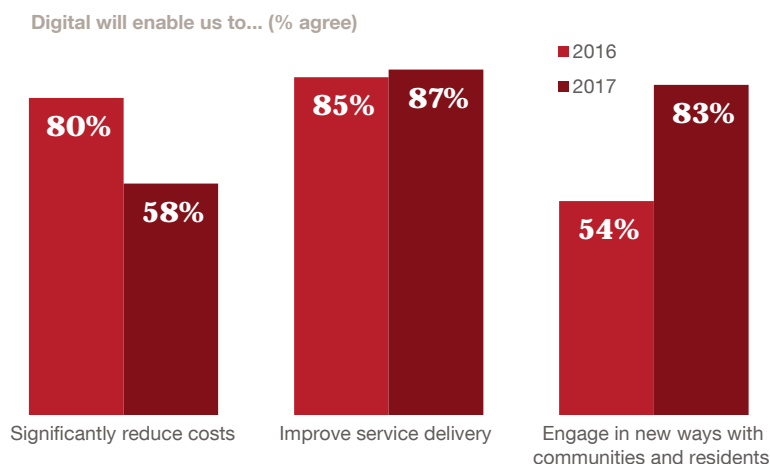
My council is confidently embracing the opportunities new technologies offer for better local public services (% agree)



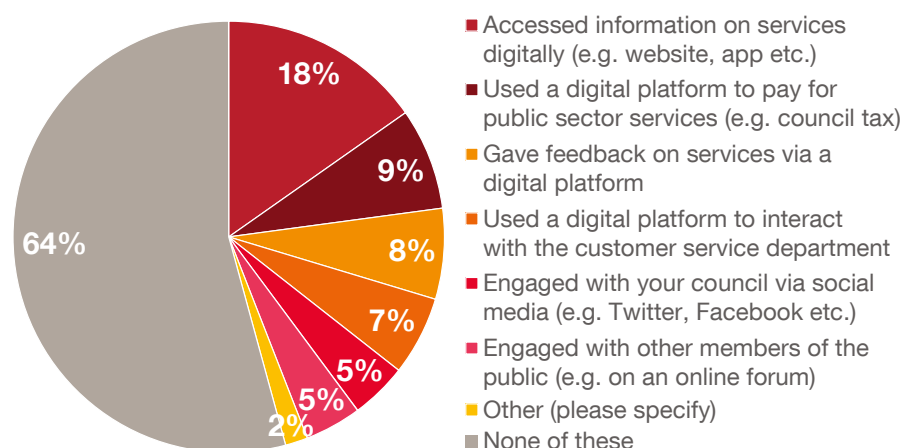
The second trend that has been notable over the past year is a shift in expectations of what digital can deliver. While councils are still agreed that digital will enable them to improve service delivery (85% of respondents in 2016 and 87% in 2017), there has been a significant decline in those that believe digital will significantly reduce costs (80% in 2016 to 58% in 2017) (Figure 6). At the same time, there is growing recognition that digital will enable them to engage in new ways with communities and residents, up from 54% in 2016 to 83% in 2017.

This is the core message of our report, *Beyond control* (Box 1), which argued that councils needed to embrace the potential of digital to enable new forms of engagement and participation. However, given this recognition, finding ways to engage with the public on their terms will be essential.

**Figure 6: What digital delivers**



**Figure 7: Digital interactions**

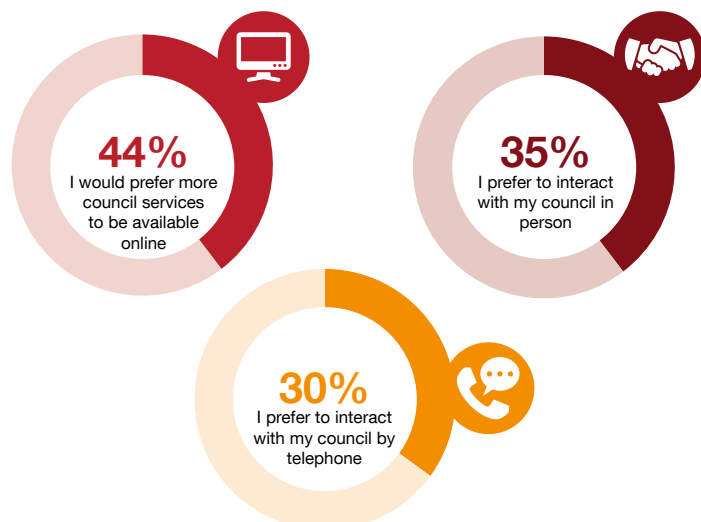


### Digital interactions

We asked the public in what ways they currently engage with their council (Figure 7). Almost two thirds (64%) had not interacted with their council digitally in the past month and 21% are not aware of any council services being available digitally. In terms of how people engage with their council, 18% have accessed information on services digitally, 9% have used digital platforms to pay for services and 8% have given feedback digitally.

There is, however, public appetite to have more council services available online, particularly among those who already use digital services (Figure 8). Four in ten (44%) say they would like more online services overall, with a clear preference among younger people (56% of 18-34 year olds) compared to older generations (34% of 55+ years). This reflects a similar age pattern in terms of interactions, with 43% of 18-34 year olds having interacted with their council in the last month compared to 28% of 55+ years. However, a notable proportion of respondents to our public poll still prefer to interact with their council in person (35%) or by telephone (30%).

**Figure 8: Channel shift**



### **Box 1: Beyond control: harnessing the power of participation**

#### **Tough questions on organisational resilience**

For many years, local authorities have sought to improve outcomes for citizens primarily by managing the delivery of services, taking tough decisions and exerting control over the services provided in their areas. However, we believe the councils that will be most successful in the future will be those that let go of traditional approaches to control and instead lead by influencing and facilitating, and by developing the digital enablers that will encourage greater community participation and resilience.

Our report, 'Beyond control: local government in the age of participation', outlines how councils can harness the power of participation, including actively championing digital participation and developing an empowered, networked and agile workforce. Councils need to go further with digital and use it to empower both their workforces and their communities.

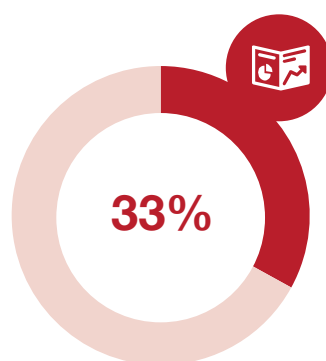
Councils that do not shift quickly to an effective model of participation, will lose the ability to make a positive impact in their areas. The councils at the forefront of this agenda are beginning to realise the true value of actively championing digital participation, using digital technology and platforms to enable people and communities to participate more to improve their local areas and help local people.

### **Doing more with data**

Data and analytics is another key area that councils are beginning to tap into (Figure 9). A third of all respondents (33%) agree that their council uses data analytics effectively to inform decision-making and strategy. However, 26% disagree and 41% are neutral on the issue, suggesting that there is still significant scope for councils to interpret and use data more effectively in areas such as anticipating and managing demand.

**Figure 9: Data and analytics**

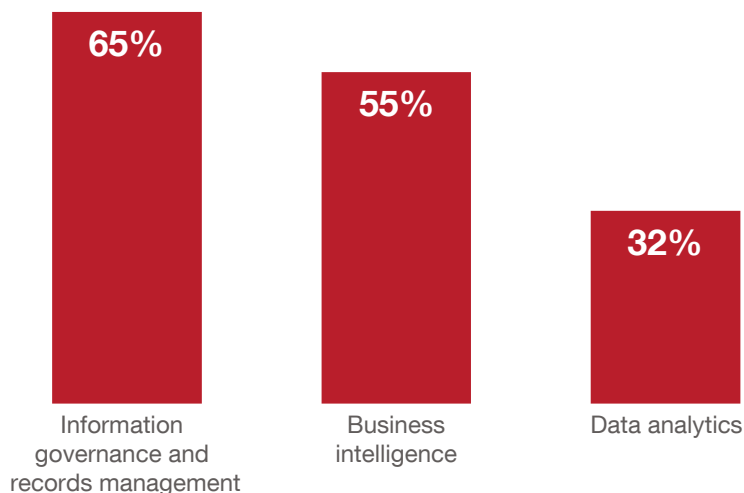
A third say their council is utilising data analytics to inform decision-making and strategy



The survey also suggests that there is a capability gap in terms of data analytics. While councils feel relatively confident in their business intelligence and information governance capabilities, at 55% and 65% respectively, only 32% are confident of their capabilities when it comes to data analytics (Figure 10).

**Figure 10: Data and information capabilities**

My council is well equipped with the following capabilities (% agree)

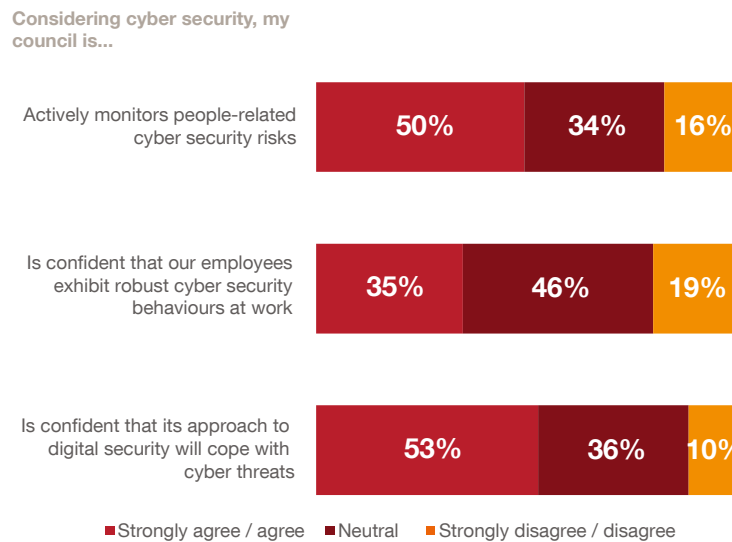


Cyber risks

Clearly, new digital and data approaches offer great opportunities for local authorities, but it is important to put in place the relevant safeguards both for privacy but also to ensure cyber and information security. This is a concern for the public, with only around a third (34%) of our polling respondents trusting their council to manage and share their data and information appropriately.

In response to cyber threats, over half (53%) of council respondents to our survey are confident that their approach to digital security will cope with cyber threats (Figure 11). With cyber threats growing and coming from a range of potential sources, from hactivists to insiders either acting accidentally or maliciously, perhaps more worrying is the fact that 36% of respondents are neutral on the issue and 10% are not confident. Furthermore, while 50% say they actively monitor people-related cyber security risks, only 35% are confident that their employees exhibit robust cyber security behaviours at work, highlighting a potential area of vulnerability for the majority of councils.

Figure 11: Cyber security



Tough questions on digital disruption and data

1. Do you have a clear vision of how digital technologies can engage residents and communities and enable the delivery of outcomes?
2. Are you harnessing emergent digital technologies to create new value, experience and insight?
3. Are you investing in your capability around data, insight and predictive analysis and using this to drive smarter, earlier interventions?
4. Have you the business intelligence and real time information you need to manage demand and resource deployment?
5. Do you have the appropriate governance and controls in place to safeguard data and respond to cyber risks?

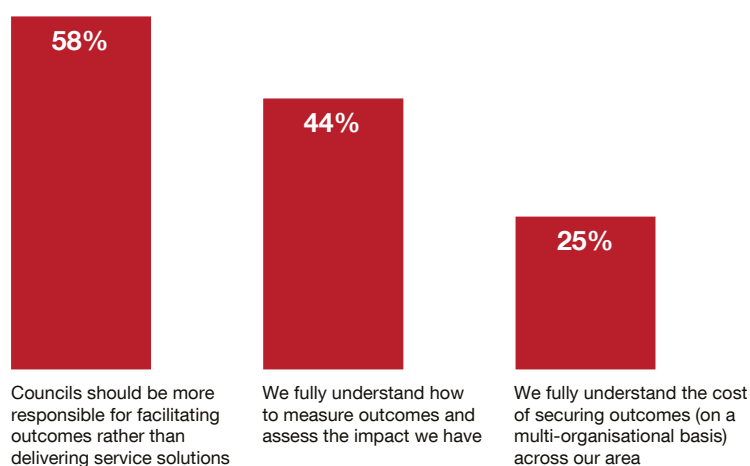
## 5. Public service reform

*Six out of ten survey respondents agree that councils should be more responsible for facilitating outcomes rather than delivering services, yet only just over four in ten fully understand how to measure outcomes while a quarter know the cost of securing outcomes across a place. Taking the example of health and social care integration, while appetite for reform remains, barriers to integration are apparent.*

### **Delivering and measuring outcomes**

Councils recognise their role in facilitating outcomes, with 58% of all respondents agreeing that councils should be more responsible for facilitating outcomes rather than delivering service solutions (Figure 12). However, in terms of delivering the public service reform needed to achieve better outcomes, only 44% understand how to measure outcomes and assess the impact they have while a quarter (25%) fully understand the cost of securing outcomes on a multi-organisational basis across their area. Bridging this gap between aspiration and reality will be key to delivering successful public service reform across a place.

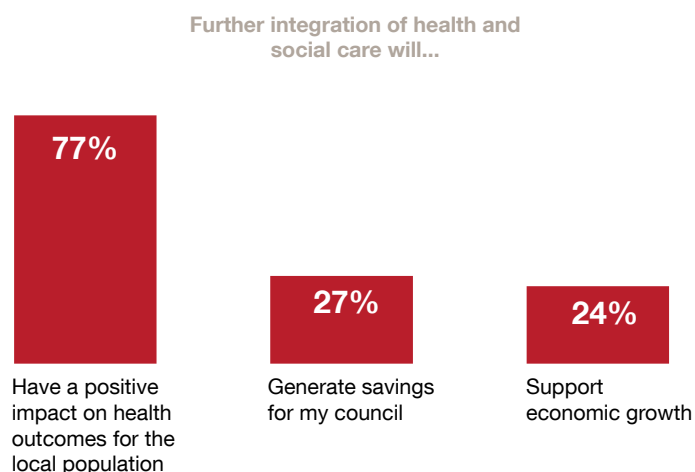
**Figure 12: Delivering outcomes**



### **Health and social care integration**

A prime example of public service reform is health and social care integration which shows a similar pattern. Whereas 77% of all respondents agree that further health and social care integration will have a positive impact on health outcomes for the local population, only 27% think it will generate savings for their council, while 24% think it will support economic growth (Figure 13).

**Figure 13: Integrating care**

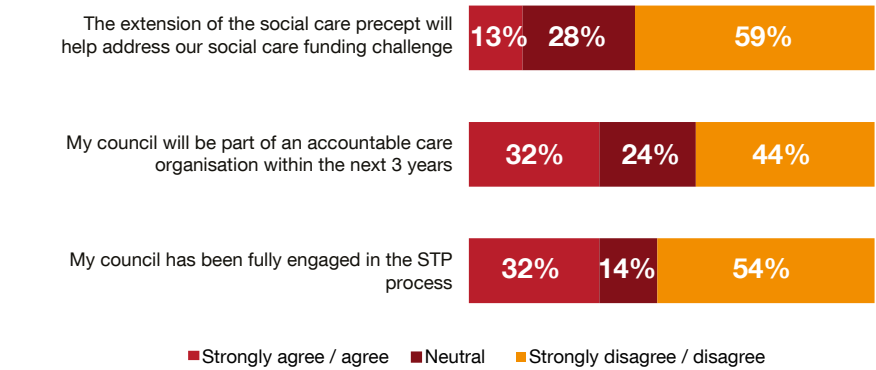


In terms of moving the health and social care agenda forward, in this year's survey 25% of respondents said that a devolution deal is part of their strategy for health and social care integration, down from 60% in 2016, reflecting how the integration and devolution agendas have developed over the past year.

In terms of the future of integration, 13% feel confident that the extension of the social care precept will help address the social care funding challenge, 32% believe their council will be part of an accountable care organisation within the next three years, while only 32% agree that their council has been fully engaged in the STP process (Figure 14). From a public perspective, 35% of poll respondents are supportive of paying an additional local tax if the money is specifically allocated to improve social care services, while 37% neither agree nor disagree.

Views on barriers to integrating care ranged from difficulties in forming local partnerships to recognition of the lack of incentives from central bodies, an issue echoed in our research on health and care system architecture (Box 2).

Figure 14: The future of integration



Contrasting culture and attitudes in the NHS to partnership working with local authorities - we are treated as junior partners so plans are not genuinely owned jointly.

We say the same words but often mean different things.

The NHS struggles to work in a politically transparent way.

Lack of ability to disinvest in hospital services to develop community based alternatives.

Lack of compelling evidence of how to avoid non-elective admissions by investing in social care.

Fragmentation within the health system: incentives are not aligned and no-one has a meaningful grip on GPs.

Top down policy making often focusses on short term targets, significantly hindering longer term planning and opportunities for more transformational change. There remains too much focus on acute care and too little on developing community based solutions to prevent demand.

### **Box 2: Redrawing the health and care system architecture**

While there has been much focus on how health and social care systems can work together at a local level, there has been less attention on the role that national structures and bodies should play in enabling local integrated care systems. This was an issue we addressed through our report 'Redrawing the health and care system architecture'.

Our research, including a survey of over 1,000 people working across the health service, unearthed a widespread feeling that the current national structure is ill-designed for the vision which the service has set itself. Respondents highlighted a persistent underlying sense of confusion about the roles of national bodies in the NHS, coupled with frustration over the division between health and social care. What we also found is a growing appetite for reform.

In response to this, our recommendations included, in the short term:

- Creating a new Care Management Board or merging NHS Improvement and NHS England - to simplify the structure of the current health and care system.
- Delegating responsibility for managing the health and care system in their areas to Sustainability and Transformation Plans (STPs).
- Clarifying the role of the Department for Health and the Department of Communities and Local Government in healthcare.

In the longer term:

- Shifting accountability to the local level by allowing Regional Care Groups to evolve into democratically accountable bodies and have responsibility for commissioning health and social care.
- Giving local democratically accountable leaders powers to raise additional funds through taxation.
- Shifting control of healthcare to local areas.

Download the full report at [www.pwc.co.uk/healtharchitecture](http://www.pwc.co.uk/healtharchitecture)

### **Tough questions on public service reform**

1. Do you have a good understanding of the business and operating models needed to deliver key economic and social objectives and outcomes across organisational boundaries across your place?
2. To what extent do you need to be considering reorganisation, for example, creating new unitary authorities or combined authorities?
3. Are your delivery models fit for purpose, including being tax efficient?
4. How well are you managing and rationalising your property and assets across a place?
5. Is your council fully engaged in health and social care integration?

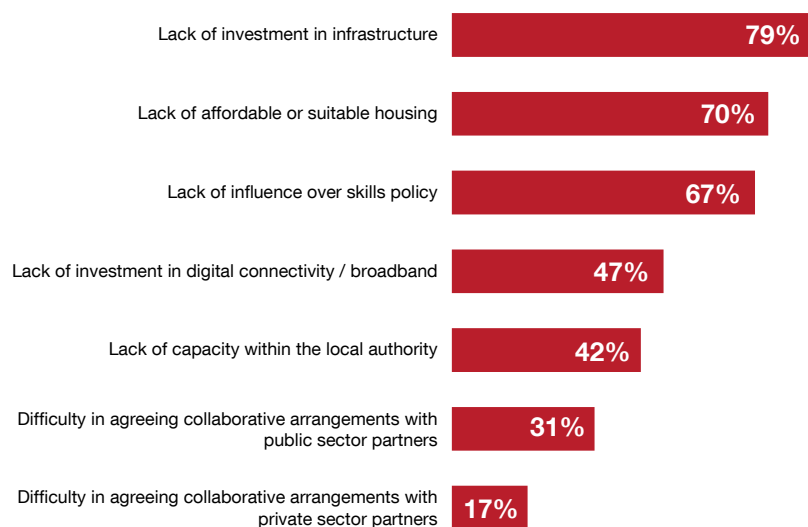
## 6. Place based growth

*Councils' priorities for growth largely reflect those of the public, with skills, housing and transport topping the agenda. However, significant barriers remain in each of these areas, with 79% identifying lack of investment in infrastructure as a key barrier, 70% lack of affordable or suitable housing and 67% lack of influence over skills. The impact of Brexit is also a concern. In terms of business rates, 54% of councils feel prepared for the shift away from grant funding.*

### Barriers to growth

In terms of specific barriers to economic growth, lack of investment in infrastructure (79%), lack of affordable or suitable housing (70%) and lack of influence over skills policy (67%) continue to be the top three concerns (Figure 15), with concerns over these three barriers growing over the past year. This reflects the need to take an inclusive approach to growth and invest in both social and physical infrastructure in order to be 'investor ready' (Box 3).

**Figure 15: Key barriers to growth**



### Box 3: Inclusive growth

Inclusive growth has been a key priority for the Government, with its stated ambition to deliver an “economy that works for all”.

Over the course of 2016/17, PwC supported the RSA Inclusive Growth Commission, set up to explore the question of how we can enable as many people as possible to contribute to, and benefit from, growth.

What is clear from the Commission's final report, and from our work, is that a place based approach is needed to address the issue of productivity. Local leaders need to draw on their unique convening power to bring together organisations and communities to create places where people can live, work and prosper. This will require empowered and enterprising public sector leaders working with an enlightened and civic-minded private sector, as well as with citizens themselves.

This means that success needs to be judged in new ways, something we have long recognised through our work, 'Good Growth for Cities'. If the Government is to deliver growth that benefits everyone, health, housing and quality of life need to be put alongside jobs, skills and incomes, when we measure good growth.

See our submission to the Inclusive Growth Commission at: [www.pwc.co.uk/industries/government-public-sector/local-government/devolution/engaging-government-citizens-business-good-growth.html](http://www.pwc.co.uk/industries/government-public-sector/local-government/devolution/engaging-government-citizens-business-good-growth.html)

### Collaboration for growth

In terms of working with others to deliver place based growth, other public sector partners and small and medium sized enterprises (SMEs) are both identified as key partners by 74% of respondents, encapsulating the range of different relationships local authority have to foster in order to deliver growth (Figure 16). Following close behind are Local Enterprise Partnerships (71%) and universities (70%), who are increasingly playing a more proactive role in terms of seeking to make links to their local economies.

### Shifting to business rates

On the subject of being prepared for the shift from grant funding to business rate income, just over half of respondents (54%) say they are prepared, up from 46% in 2016 (Figure 17). However, with the detail of how the policy will work yet to fully emerge, there remains a divide over how funds should be redistributed, with 38% agreeing that the incentive for growth should have precedence while 62% agree that revenues should be largely redistributed to ensure that all areas can provide services to a reasonable standard.

We asked a similar question of the public: 27% agreed that councils should be able to keep all of the revenue raised by local taxes regardless of need, 36% thought there should be a balance between being able to keep revenue while ensuring that every area had enough to meet their needs, and 19% agreed that local taxes should be allocated to whichever areas need them most.

Figure 16: Key partners for growth

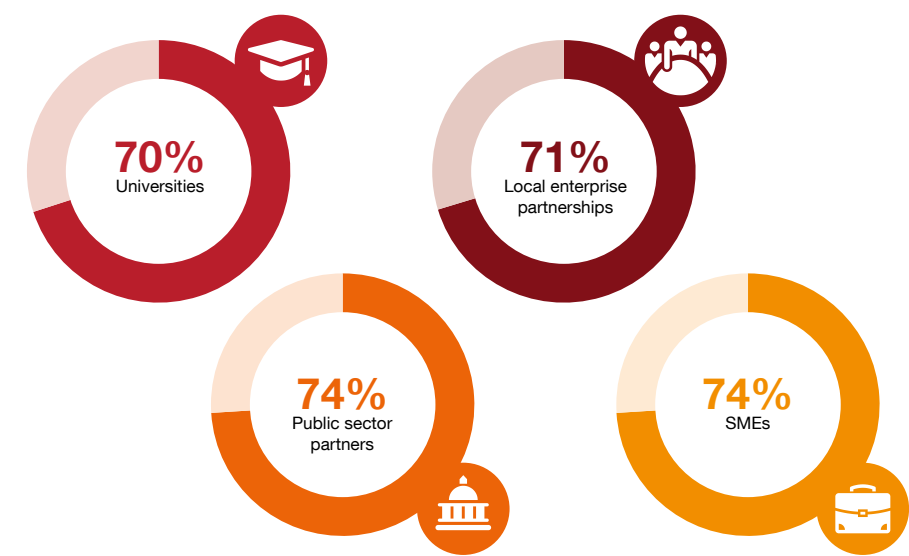
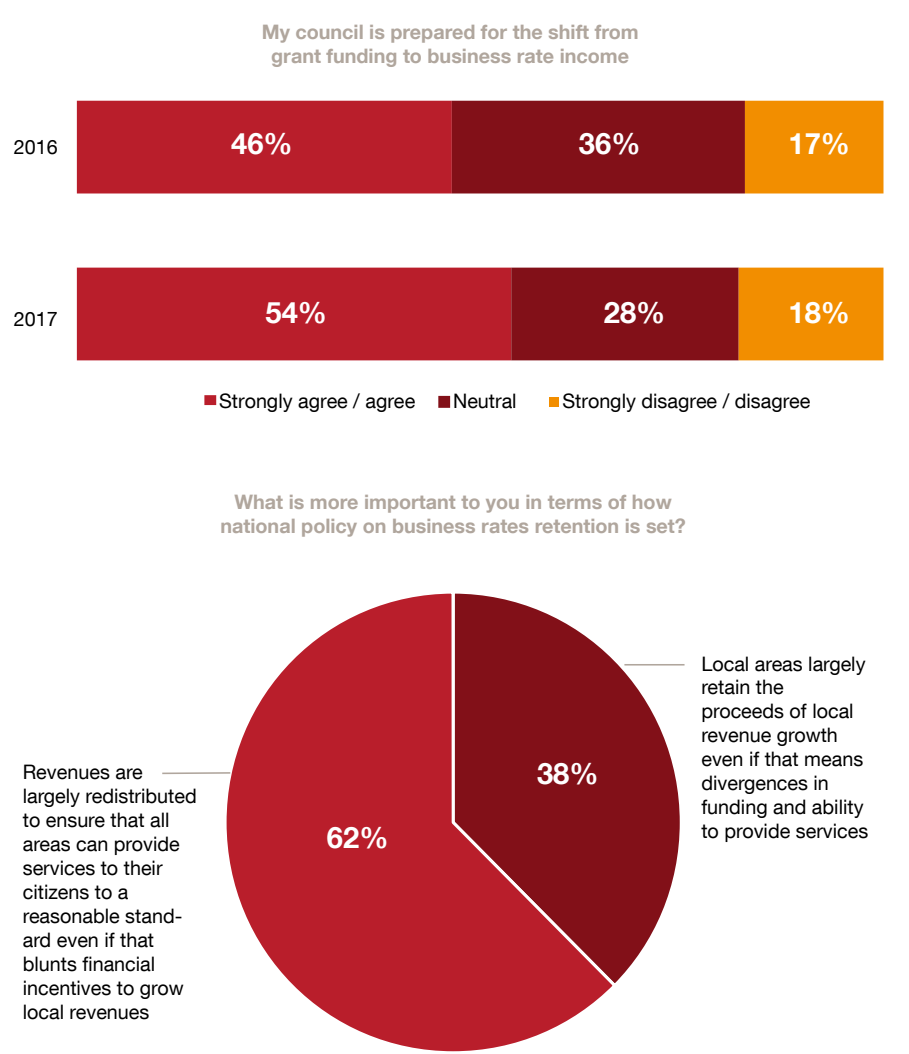


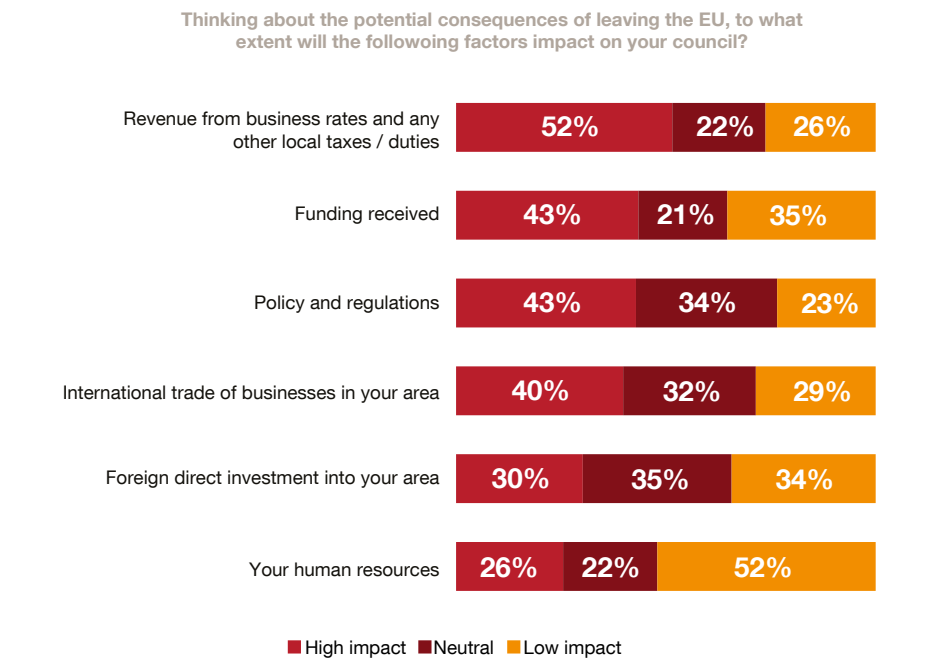
Figure 17: Readiness for business rates



**The impact of Brexit**

While there is still uncertainty over the outcomes of the Brexit negotiations and their impact on local government, respondents to our survey felt that the area of greatest impact would be on the revenue from business rates and other local taxes and duties, indicating the expected wider economic impact of leaving the EU (Figure 18). In addition, 43% also felt that a high impact would be felt in terms of policy and regulations, 43% cited funding received and 40% felt that there would be high impact on the international trade of businesses in their areas.

**Figure 18: The impact of Brexit**



**Tough questions on place based growth**

1. How ‘investor ready’ are you in terms of having stakeholders aligned behind a clear economic identity for your area and priorities for good growth?
2. Do you have a deliverable strategy and feasible plans to meet your infrastructure needs, including housing, transport and skills?
3. How prepared are you for the shift to business rates?
4. How developed is your thinking around the financial freedoms and incentives you will need to deliver place based growth?
5. Have you considered the implications of leaving the EU on your organisation and on your local economy?

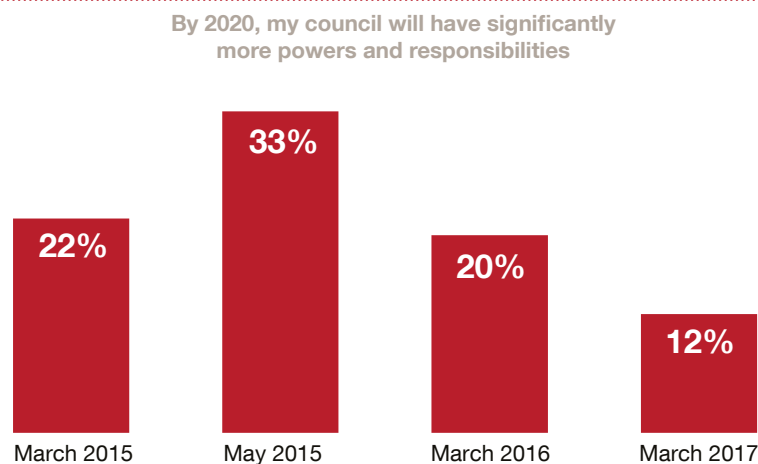
# 7. Where next for devolution?

While the ‘devolution revolution’ has been a significant feature of our survey over the last few years, there is a sense from our survey that the revolution is perceived to have stalled, with only 12% agreeing that their council will have more powers and responsibilities in 2020, down from 33% in May 2015 when the Conservative government led by David Cameron came into power. However, with a new cohort of Metro Mayors now in place, devolution may get a jump start as their collective impact starts to be felt.

## Where next for devolution?

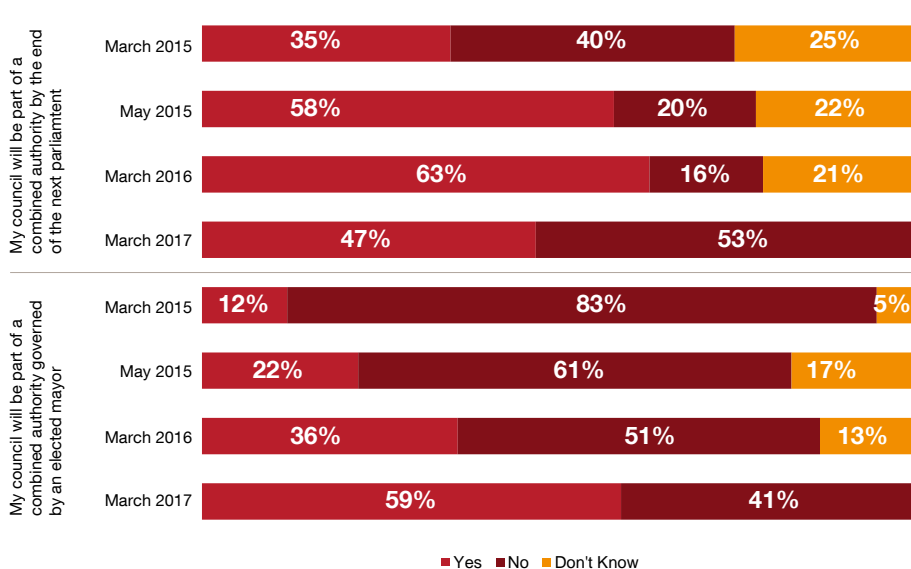
While our survey was conducted before the snap General Election was called, the sense early in 2017 was that the devolution revolution had stalled. Whereas our polling shortly after the 2015 General Election showed that 33% of respondents believed that their council would have greater powers and responsibilities by 2020, this has now fallen to only 12% (Figure 19).

Figure 19: Prospects for devolution



Following a similar pattern, since 2015 our survey has charted the rise and now slight decline in those who believe their council will be part of a combined authority by 2020, peaking at 69% in March 2016 and now back down to 47% (Figure 20). Over the same period, for those who did think they would be part of a combined authority, there is growing acceptance that it would be governed by a mayor, up from 12% in March 2015 to 59% in March 2017.

Figure 20: Combined authorities and mayors



Barriers to devolution

It is therefore little surprise that it is the mayoral model that is identified as the key barrier to devolution, with 76% of respondents citing this as an issue, followed by local political relationships (62%) and the lack of potential powers gain (58%) and funding gain (54%) (Figure 21).

The public view on devolution

Our public polling suggests that public appetite for devolution remains, with only 18% agreeing or strongly agreeing that the current balance of power between central and local government is right and 43% agreeing or strongly agreeing that Ministers should have less power over local services and local government should have more power (Figure 22).

However, only 21% of the public polled are confident that local councillors and officials are up to the job of having more powers and 29% agree that more directly elected Mayors should be introduced. But as we’ve seen with the case of London Mayor and our wider devolution polling, once the public understand the role of the Mayor and can see the impact that they can have, they generally become more in favour of the Mayoral model. It will therefore be up to the newly elected Metro Mayors to make their mark and prove their worth to the electorate.

Figure 21: Barriers to devolution

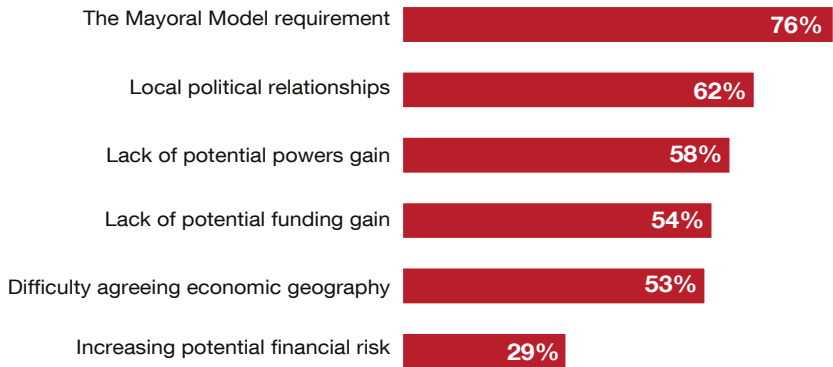
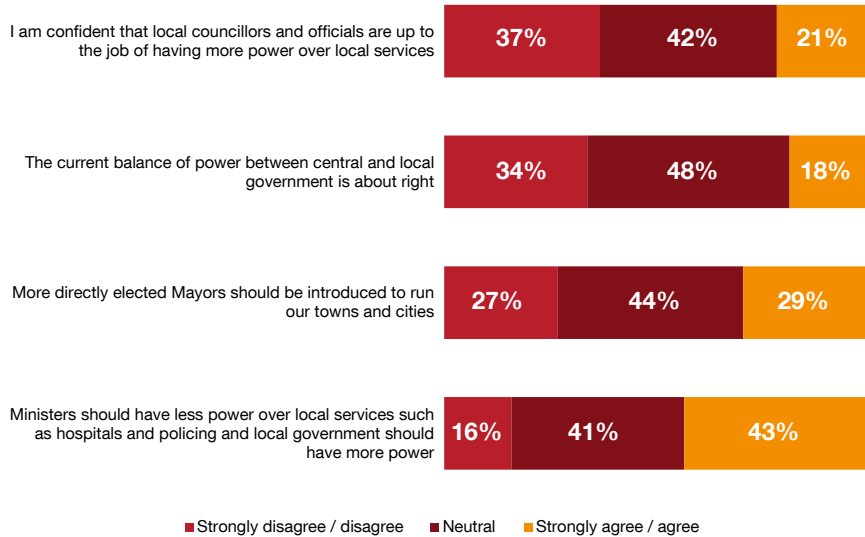


Figure 22: The public view on devolution



Tough questions on place based growth

1. How can local leaders in different public, private and third sector organisations work better together across your place?
2. Can you provide evidence to central government of the case for further devolution or for setting up a combined authority?
3. Do you have the governance arrangements in place to be held account for the delivery of outcomes?
4. Do you understand the risks inherent in taking on additional powers, services or funding and how are you managing these?
5. How well are you engaging with the private sector to boost productivity and meet employers’ needs?

## 8. Agenda for action

*This year's survey has demonstrated that in the face of continued financial challenges and increasing political and economic uncertainty, councils need to forge a constructive identity and purpose for both themselves and their places. While austerity looks set to continue and will challenge the internal operations of councils, local government also needs to look beyond organisational boundaries and embrace the challenges and opportunities around securing whole place public service reform and enabling place based growth.*

As they look to the future, councils need to respond to six key challenges:

- Developing strategies to drive **place based growth** and securing a clearer economic identity and inclusive approach for their areas;
- Working across places and securing the right **public service reforms** to underpin the delivery of key economic and social objectives and outcomes;
- Focusing on building the right skills, capabilities and processes to secure **organisational resilience** and managing key organisational risks;
- Developing **commercial skills and business acumen** to secure key economic and social interventions and investments and being prepared to work outside council organisational boundaries and seamlessly across the public and private sectors;
- Embracing the **value of data** as an asset and investing in an **analytics capability** to inform decision-making, drive smarter, earlier interventions and to influence behaviours, and as a result reducing risk and cost;
- Harnessing emergent **digital technologies to change** traditional ways of working and create new value, experience and insight.



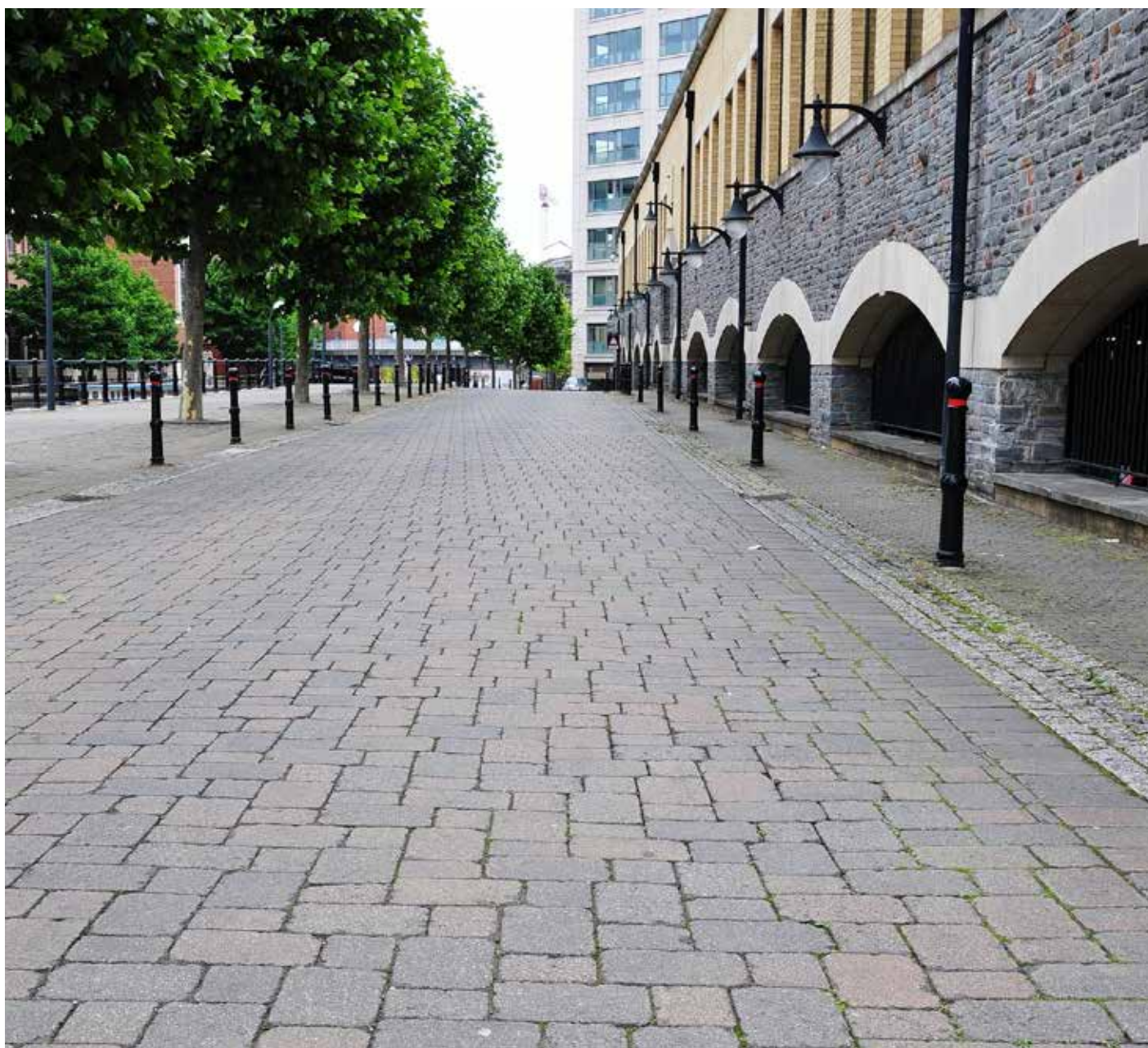
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## 9. Methodology

*Our research covered local authority Chief Executives, Finance Directors and elected Council Leaders across the United Kingdom. These surveys were conducted online during January – March 2017. The responses from different types of council and the geographical spread gave us confidence that the results were a broad representation of views from across the sector as a whole.*

An online survey of 2,007 UK adults aged 18+ was carried out from 7 to 11 April 2017. The results of the public opinion poll have been weighted to nationally representative criteria.

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



## 10. About us

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

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

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Chris leads our devolved and local government team. Chris joined the firm 15 years ago and specialises in local government advisory work. Chris has considerable experience in performance improvement, options appraisal, service evaluation, change management and procurement within local government. He has worked across government and the public sector and has extensive knowledge of a wide range of service areas. Chris manages relationships with a number of our key public sector clients and regularly operates with senior civil servants and politicians on sensitive strategic policy and change management issues.



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Jonathan joined PwC's government and public sector practice in 2013. He concentrates on business model redesign, public services reform and the growth agenda. He helps public sector bodies with a range of solutions particularly focusing upon 'digital by design' and health and care integration. Previously, Jonathan was the Chief Executive of Cardiff City Council, leading the £1.1bn organisation delivering services to 346,000 residents. Prior to this, he was the Deputy Chief Executive at Bristol City Council.



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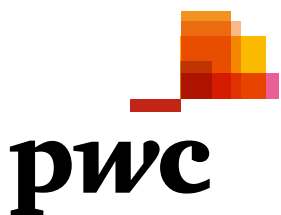
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Nick is Director of PwC's Public Sector Research Centre and has contributed to reports on a wide range of public service reform and growth issues. In particular, he leads on our Good Growth for Cities series with Demos and works closely with our Global Cities & Local Government Network, leading research surveys such as iUrban and Investor Ready Cities and contributes to our Cities of Opportunity reports. Linked to his work on public engagement, he is also a member of the Independent Advisory Group for the Royal Society of Art's Citizens' Economic Council.

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