

June 2018

The local state we're in PwC's annual local government survey 2018





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Executive summary

There is a sense in this year's survey that, while there has long been a 'cliff edge' approaching for council finances, expectations of crisis and failure are close to a tipping point.

Our latest 'Local State We're In' survey of Local Authority Chief Executives and Leaders shows that while councils have coped well in the face of continuing austerity and the uncertainty of Brexit, there are now real fears of failure looking ahead.

The scale of the challenge is indeed significant but also with every threat comes an opportunity. Digital disruption, Artificial Intelligence (AI) and robotics have the potential to transform local public services even if they equally also pose threats such as from cyber attacks.

In response, councils need not only greater organisational resilience and agility, but also enhanced capabilities to exploit the potential of data and analytics and a focus on partnership working in order to deliver place based growth and public service reform.

Key findings

Fears of failure rising: a need for organisational resilience and commercial acumen

Austerity continues but seven in ten (72%) of council respondents to our survey remain confident of delivering savings next year without impacting on quality of service or outcomes. However, a **cliff edge** remains in sight in the medium term as confidence plunges to one third (33%) when considering the three year outlook, and one fifth (19%) when considering the next five years.

There is also a much increased **fear of failure**, with almost three quarters (74%) of respondents expecting that some councils will get into serious financial crisis in the next year (54% last year).

Given these pressures, there is a greater than ever need to build **organisational resilience**: respondents pinpoint particular gaps in supply chain management and **commercial acumen**. With further closures or service reductions likely in many areas, **engaging the public** on the reasons, and addressing their concerns, is another pressing issue. Over half (56%) of the public we surveyed were concerned about the impact that service reductions and closures will have on them personally and 61% were concerned about the impact on their local community.

Making the most of new technologies: digital disruption and data analytics

There is a strongly felt opportunity of an **intelligent digital dividend**, which extends beyond saving costs: nine in ten survey respondents expect digital will enable them to engage communities in new ways and 80% expect digital to enable improvements to service delivery.

But there are challenges to deliver this dividend with a new realism from councils on their capability to make the most of new digital technology. Only 3 in 10 survey respondents feel that their council is confidently embracing **new technologies** like AI and robotics (similar to the public's view). There is a particular **gap in data and analytics** with only half of our survey respondents confident in their councils' capabilities in this area. The pace of technological change and the complexity of implementation means that the potential of new technologies is not being maximised.

In addition, more needs to be done to shift behaviour to enable people to get the most from the technology available. This includes moving more of the public online: almost two thirds (62%) of the public polled had not interacted with their council digitally in the past month and 20% were not aware of any council services being available digitally. These proportions have hardly changed from last year suggesting a major challenge for councils to encourage their service users to make the digital shift.

There is also work to be done to make council staff more **cyber savvy**, with only 41% of our survey respondents confident that council employees exhibit robust cyber security behaviours at work. This highlights a continuing potential area of vulnerability for councils.



Reforming and transforming local public services

Beyond technology, **place based transformation** is seen to involve collaboration across a place with a need to focus on, and measure, **outcomes** and the related costs. Councils feel they are making progress in this area. Six out of ten survey respondents agree that councils should be more responsible for facilitating outcomes rather than delivering services, and a similar proportion now feel able to measure outcomes and assess impact which is key to delivering place based transformation.

However, taking the example of health and social care integration, while appetite for reform remains, barriers to integration are apparent when seeking to deliver joined up public services across a place with mixed views on engagement e.g. on the Sustainability and Transformation Partnership (STP) process. The barriers to further integration centre on institutional, strategic and cultural differences between the NHS and councils.

Delivering good, place based growth with Brexit around the corner

Collaboration is also a feature of **place based growth**, especially with Local Enterprise Partnerships (LEPs). Council priorities for place based growth focus on the key enablers – skills, infrastructure (housing and transport) as well as inward investment. However, significant barriers remain in each of these areas, with 72% of our respondents identifying lack of investment in infrastructure as a key barrier, 61% a lack of influence over skills and 60% a lack of affordable or suitable housing.

With **Brexit** next year, respondents see high impacts on their councils for trade, Foreign Direct Investment (FDI) and funding. Yet only 12% of respondents see their council proactively promoting city-to-city links overseas to find investment and promote trade for their local economies. In addition, 74% are not confident that central government will engage with cities and local government in reshaping regional investment and regeneration funds beyond Brexit.

The impact of Brexit is also a source of uncertainty for the public: almost half (46%) of the public neither agree nor disagree that their local area will benefit from leaving the EU.

The new local government landscape: is devolution stalling?

With so much dealmaking in government focused out towards the EU, it may seem that there has been too little focus and capacity to deliver the next stage of the much promised ‘devolution revolution’.

This appears to be confirmed in our survey where there is a perception that devolution has stalled, with only 13% of respondents agreeing that their council will have more powers and responsibilities in 2022, similar to 12% last year and well down from 33% in May 2015 when the Conservative government led by David Cameron came into power.

Expectations of further devolution have hit rock bottom, with only one in ten respondents expecting to be part of a Combined Authority by 2021. Barriers to further devolution are seen to be jointly the mayoral model and local political relationships as well as a lack of potential powers to be gained.

The new cohort of metro mayors may yet give devolution a jump start as their collective impact starts to be felt but this will take time as the public increasingly understands the role of a mayor and can see the impact that they can have.

Key areas of focus for the future

As councils look to the next Spending Review in 2019 and beyond, there are new opportunities, such as AI and digital, as well as risks to manage, from cyber to the shift away from grant funding. Councils have proved their ability to deal with significant challenges in the past and will need to continue to adapt and innovate as they enter a post-Brexit world.

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

Defining, developing and delivering sustainable, inclusive **place based growth** strategies and securing a clearer economic identity to attract, and retain, talent and investment.

Working across places and securing the right **public service reforms to underpin place based transformation** and the delivery of key outcomes by redesigning services and building new partnerships.

Focusing on building the skills, capabilities and processes to secure **organisational resilience**, being prepared to manage key risks but also being agile to respond to, and recover from, unforeseen events and challenges.

Developing **commercial skills and business acumen**, being prepared to work outside council organisational boundaries and seamlessly across the public and private sectors in order to achieve better returns on investments and better value from public/private sector arrangements.

Embracing the value of data as an asset and investing in **data analytics** capabilities to inform decision-making and generate insight, drive smarter, earlier interventions and influence behaviours, manage demand and reduce cost.

Harnessing **digital disruption and new technologies** such as AI to change traditional ways of working, creating new value and better serve the needs of communities.



Introduction

In early 2018, we conducted our eighth annual survey of local authority Chief Executives and Leaders across the UK. We also commissioned online polling of a representative sample of over 2,000 members of the UK public to find out their views on their council's performance, role and purpose.

Our aim with these surveys is to explore how councils are dealing with the changing circumstances in which they find themselves. This includes continuing financial pressures and an ever evolving political and economic landscape but also new opportunities – tapping into the power of data and analytics, riding the digital wave and embracing place based growth and transformation.

Context

Our annual local government surveys have tracked the remarkable transformation of local government over the past eight 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 financial sustainability of councils is under real pressure. As the National Audit Office (NAO) highlights,¹ councils face continuing acute pressures. There has been a near halving in real terms of central government funding between 2010/11 and 2017/18 and a real term reduction of nearly a third (28.6%) in local authority spending power over the same period (when including Council Tax). With a fundamental shift also forthcoming in the way local government is financed, councils must continue to be resilient and more commercial to be fit for the future.

There are also uncertain economic times ahead, not least due to Brexit which will impact on regions to varying degrees depending on the nature of the future UK-EU relationship. Yet there are also grounds for optimism. The UK economy has not stalled and indeed is projected to continue to grow across all regions over the next year.²

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

- **Continued austerity and the need for resilience and greater commercial acumen:** What is the scale of the challenge for the next year and into the next decade? Do councils have the capabilities they need for the future?
- **Digital and data:** To what extent are councils embracing digital to engage citizens and/or make savings? Will AI and robotics offer a route to transforming services and lowering costs? Do councils have the skills they need to make the most of data, and to keep it secure? Is cyber a growing worry?
- **Public service reform and transformation:** What progress is being 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? What impact is Brexit having on local economies? What will be the impact of the shift to business rate retention?
- **The new local government landscape:** Where next for mayors and Combined Authorities? What are the prospects for further devolution, including fiscal powers?

1 'Financial sustainability of local authorities 2018', NAO, 8 March 2018

2 'UK Economic Outlook', PwC, March 2018 <https://www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook.html>

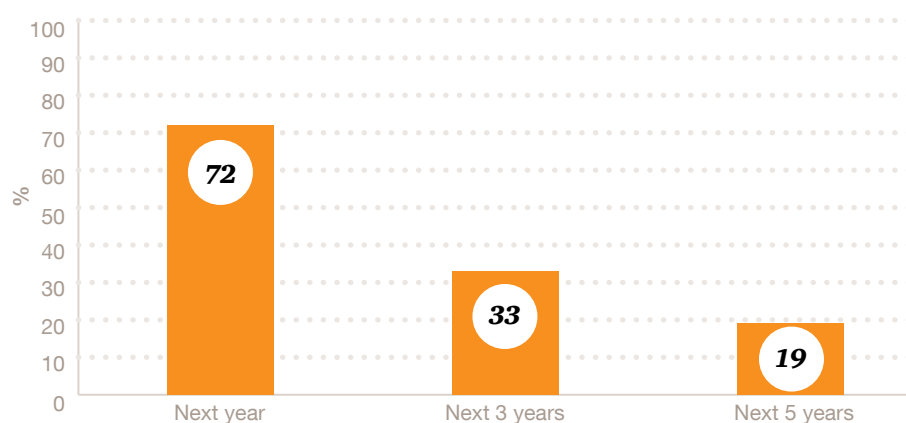
Continued austerity: council resilience and commercial acumen

Fiscal austerity continues but local authorities remain relatively confident in the short term. Indeed, 72% of respondents agree 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 (a slight increase compared to 68% last year).

However, a **cliff edge** remains in sight in the medium term, as confidence plunges to one third (33%) when considering the three year outlook, and one fifth (19%) when considering the next five years. There is also a much increased **fear of failure**, with three quarters (74%) of respondents expecting that some councils will get into serious financial crisis in the next year (54% last year).

Given these pressures, there is a greater than ever need to build **organisational resilience**: respondents pinpoint particular gaps in supply chain management and **commercial acumen**. With further closures or service reductions likely in many areas, **engaging the public** on the reasons, and addressing their concerns, is another pressing issue. Over half (56%) of the public we surveyed were concerned about the impact that service reductions and closures will have on them personally (similar to last year, at 53%) and 61% were concerned about the impact on their local community (consistent with 60% last year).

Figure 1: Confidence in making savings without impacting quality of services delivered or outcomes



Over a quarter of councils lack confidence about the year ahead

While the majority of all respondents to our survey remain confident about the year ahead, over a quarter (28%) lack confidence 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 slightly lower than last year (32%), it is still a concern that such a significant proportion have fears about their ability to continue to deliver services in the next year without impacting on quality of services or outcomes.

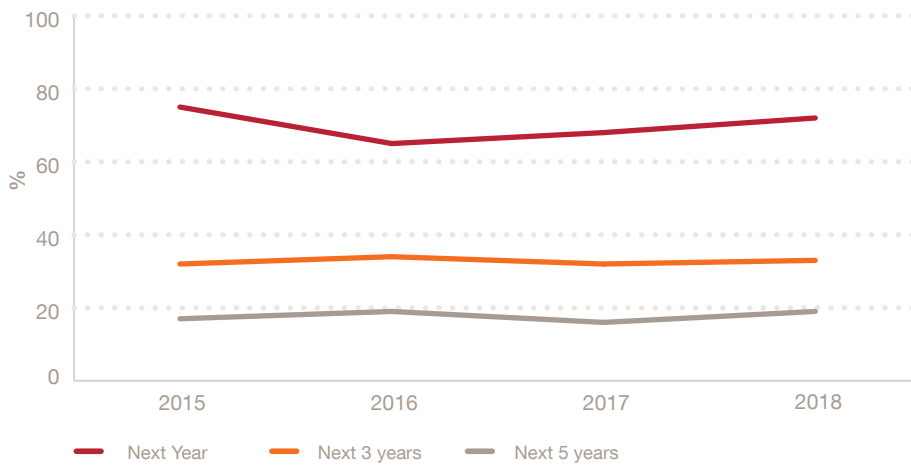
Longer term, the outlook is more challenging with only 33% of respondents feeling confident about the next three years and, in the next five years, only 19% confident that they will be able to make the necessary savings without seriously impacting the quality of service delivery and outcomes.

This follows a similar pattern to our surveys in recent years, where the 'cliff edge' always seems to be three to five years away (*see Figure 2*).



Figure 2: 'Cliff edge' constant over time

We are confident that we will be able to make the necessary financial savings without seriously impacting the quality of services delivery and outcomes in the (% agree)



Financial failure is anticipated by most in the next year

To date, councils have managed to find a way through the challenges they face, although there now seem to be growing concerns when it comes to considering the sector as a whole rather than their own council.

The proportion of all respondents who believe that some councils will get into serious financial difficulty in the next year has leapt from just over half last year to almost three quarters (74%) this year (Figure 3). Meanwhile over half (53%) think that some councils will fail to deliver the essential services residents require over the next year (Figure 4).

Following a similar pattern to before, confidence in the sector over the next three and five years falls notably, with almost all of our respondents fearing that some councils will get into serious financial crisis in the next three to five years, and 84% believing that some councils will fail to deliver essential services in the next five years (similar to last year).

Taken together, this is a stark reminder of the significant challenges ahead for councils, with austerity still casting a long shadow over the sector.

Figure 3: Confidence in the sector

Some councils will get into serious financial crisis in the...(% agree)

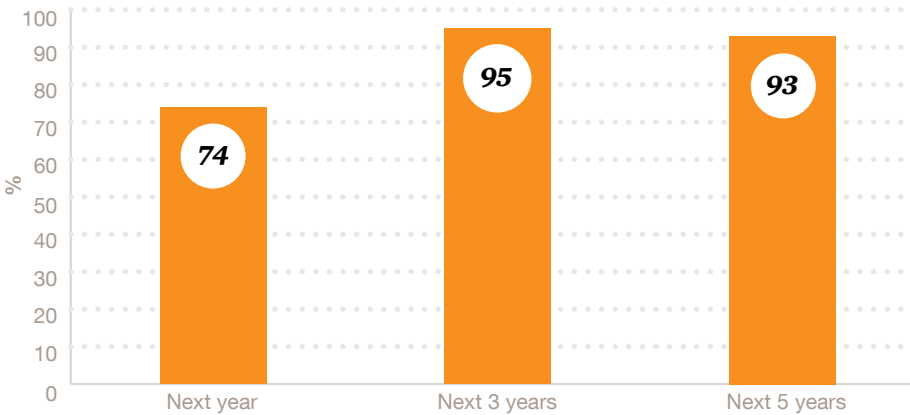
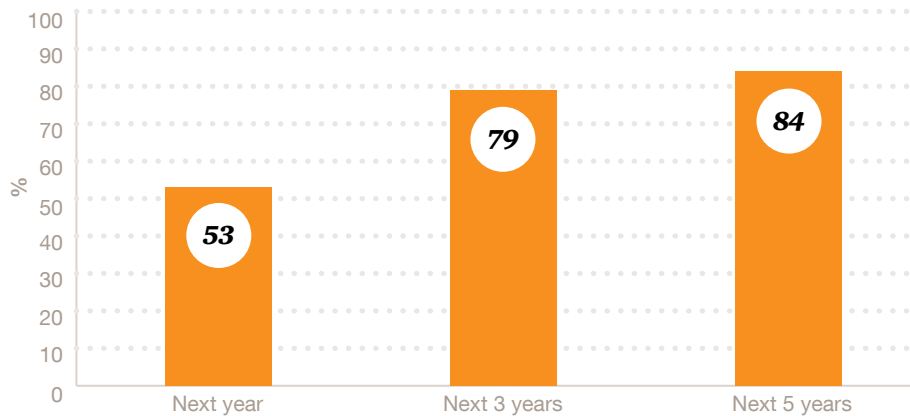


Figure 4: A fear of failure

Some councils will fail to deliver essential services in the...(% agree)



The view of the public

Our public polling indicates that there is also continuing opposition to cuts with almost half (48%) of those surveyed opposing the idea that their local council needs to reduce or close services or facilities (compared to 45% last year). A similar proportion (49%) feel that their council has not kept them well informed about the reasons for closures or service reductions over the past 12 months.

Despite low levels of awareness, there are concerns about the impact of council closures or reductions. Over half (56%) of the public surveyed were concerned about the impact that reductions and closures will have on them personally (similar to last year, at 53%) and 61% were concerned about the impact on their local community (consistent with 60% last year). With further closures or reductions still likely in many areas, engaging the public on the reasons for these changes and addressing their concerns remains an ongoing issue.

Furthermore, less than a fifth (19%) of the public surveyed think that their council has become more efficient over the past five years – the same proportion as last year. A similar proportion (16%) think that their council has become more effective over the same time period.

Building organisational resilience and commercial acumen

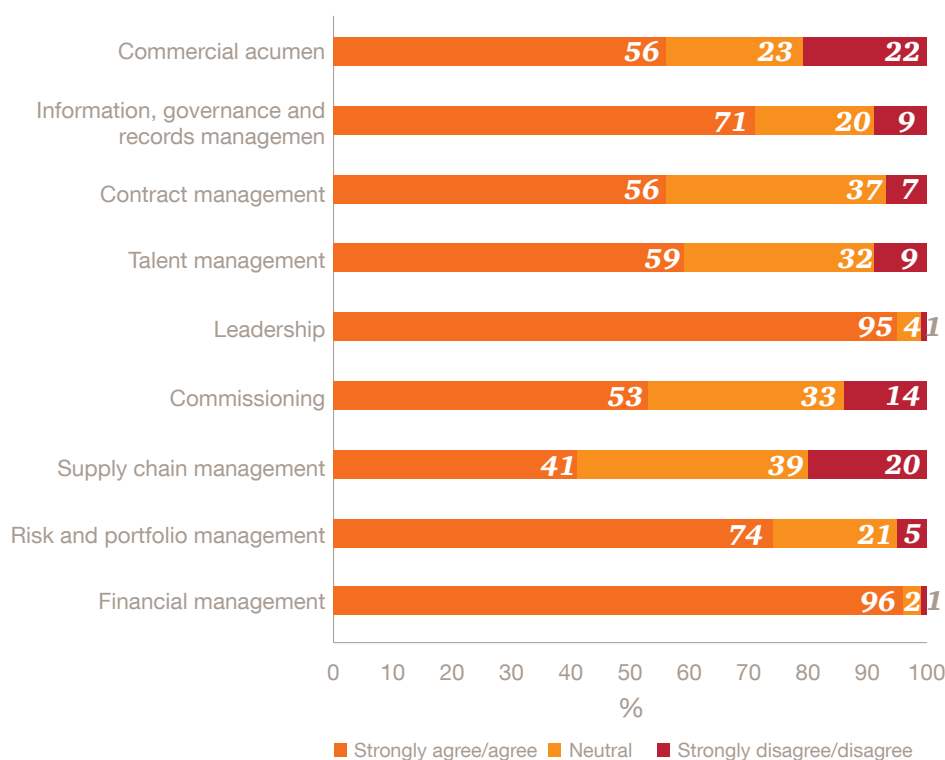
With significant challenges ahead, councils need to build organisational resilience and develop new skills and commercial acumen in order to be effective. While council survey respondents are confident of their capabilities in areas such as leadership (95%) and strategic financial management (96%), they appear to feel under-equipped in a number of significant areas that will be essential for their effective operation in the future (Figure 5).

In particular, only 41% of respondents feel that their council is well equipped with supply chain management capabilities (although this is higher than last year's 33%), while just over half feel they are well equipped with commissioning and contract management capabilities and commercial acumen (e.g. driving commercial income and realising the full value of owned assets).

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 5: Commercial capabilities

My council is well equipped with the following capabilities



Tough questions on organisational resilience

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

Making the most of new technologies: digital disruption and the use of data

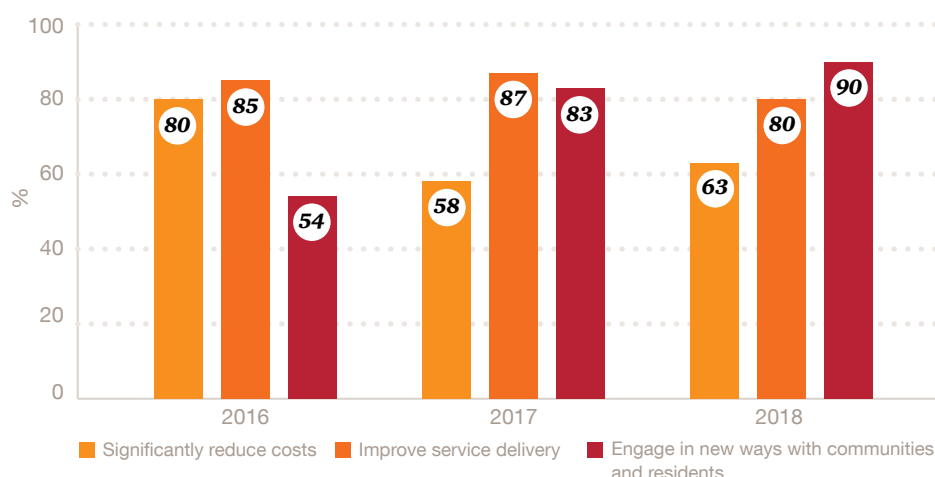
There is a strongly felt opportunity in this year's survey of an **intelligent digital dividend**, which extends beyond saving costs: nine in ten survey respondents expect digital will enable them to engage communities in new ways and 80% expect digital to enable improvements to service delivery.

But there are challenges to deliver this dividend with a new realism from councils on their capability to make the most of new digital technology. Only 3 in 10 survey respondents feel that their council is confidently embracing **new technologies** like AI and robotics (similar to the public's view). There is a particular **gap in data and analytics** with only half of survey respondents confident in their councils' capabilities in this area. The pace of technological change and the complexity of implementation means that the potential of new technologies is not being maximised.

In addition, more needs to be done to shift behaviour to enable people to get the most from the technology available. This includes moving more of the public online: almost two thirds (62%) of the public polled had not interacted with their council digitally in the past month and 20% were not aware of any council services being available digitally. These proportions have hardly changed from last year suggesting a major challenge for councils to encourage their service users to make the digital shift.

There is also work to be done to make council staff more **cyber savvy**, with only 41% of our survey respondents confident that council employees exhibit robust cyber security behaviours at work. This highlights a continuing potential area of vulnerability for councils.

Figure 6: The digital dividend – engagement and service delivery
Digital will enable us to (% agree)



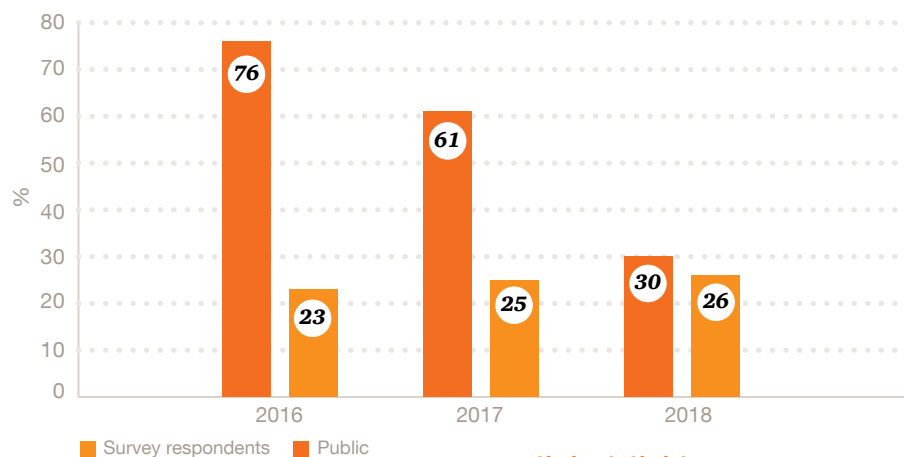
Delivering the intelligent digital dividend

This year we are seeing the continuation of a trend that has been notable over recent years with a further shift in the expectations of what digital can deliver. While council respondents still agree that digital will enable them to reduce costs (63%) and improve service delivery (80%), there is growing recognition that digital will enable them to engage in new ways with communities and residents, up from 54% in 2016 and 83% in 2017 to 90% in 2018 (Figure 6).

There is also an opportunity to use digital to engage staff, suppliers and residents in new ways, as we've found in our work with the London Borough of Waltham Forest (see Box). However, whether we are at a tipping point in the delivery of the vision of smart cities is less clear, with only 25% of respondents planning to become a smart city.

Figure 7: Embracing new technologies³

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



A digital divide?

Digital disruption and new technologies like AI and robotics are enabling local government to transform everything from the back office to how they engage with residents and communities. This year, it appears that council leaders are recognising this and, as a consequence, are also much less confident that they are fully embracing the potential to improve local services using new technology.

Indeed, for the first time, there is alignment between the confidence of council respondents and that of the public, with only about a quarter in both cases agreeing that their council is 'confidently embracing' the opportunities that new technologies offer (Figure 7). This may also reflect a growing realisation by councils that digital embraces many challenges such as AI and robotics which have increasingly come to the forefront when the potential of new technologies is discussed (see Box).

Intelligent Digital: an innovation challenge

As part of their new digital strategy Waltham Forest Council is planning to enhance their use of digital to work smarter and improve residents' lives.

To help, the council utilised PwC's Innovation Crowdsourcing service to ask their people, 'How can digital improve our ways of working and enhance our residents' lives?'. In the space of a three week competition, one fifth of their workforce submitted 90 ideas and voted on which they thought were the best ones.

This insight and ideation not only enhanced the content of the strategy – it empowered their people to have a say on the council's plans for digital.

Robotics in Haringey

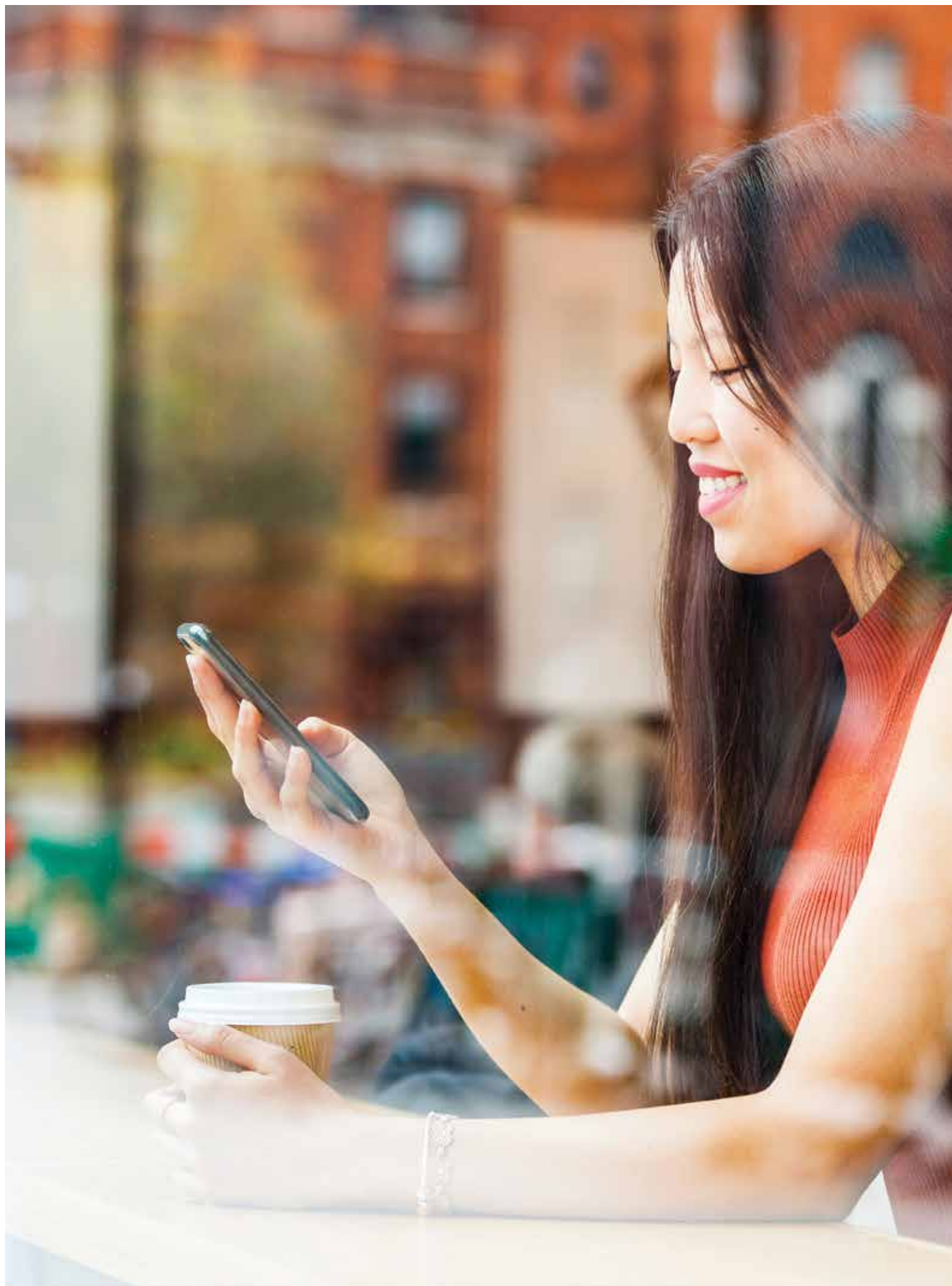
Like all Councils, the London Borough of Haringey needs to make savings. The Council was therefore looking for a solution where staff would be freed up from the basic tasks to focus on the increasingly complex cases that were causing a backlog across the Council.

We helped the Council identify where it was possible for Robotic Process Automation (RPA) to make a difference e.g. by reducing error rates and increasing staff productivity. This included designing and implementing an automated robotic solution for the Council's Housing Association Rent

Adjustment process and adding capacity to the Benefits Department by freeing up the staff from the repetitive, time consuming Rent Adjustments process.

The results included processing time reduced from over 10 minutes per previous staff interaction to a robot that processes the claims in less than a minute, 24 hours a day and an equivalent saving of c5 Full-Time Equivalents over a period of 4 months which is now re-allocated to more complex assessments.

³ This year the question was changed from recent years with the italicised text added in the following statement: "My council is confidently embracing the opportunities new technologies like Artificial Intelligence (AI) and robotics offer for better local public services." As such, results are not directly comparable to previous years.



Digital interaction with the public

We also asked the public about the ways in which they currently engage with their council (Figure 8). Over a fifth accessed information on services online (up slightly from 18% last year) while 10% have used digital platforms to pay for services (9% last year).

However, almost two thirds (62%) had not interacted with their council digitally in the past month and a fifth (20%) are not aware of any council services being available digitally. These proportions have hardly changed from last year suggesting a major challenge for councils to encourage their service users to make the digital shift.

There is still, however, a growing public appetite to have more council services available online, particularly among those who already use digital services (Figure 9). Almost half (48%) say they would prefer more online services, with a clear preference among younger people (59% of 18-34 year olds) compared to older generations (39% of 55+ years).

A notable proportion of respondents to our public poll also still prefer to interact with their council in person (31%) or by telephone (28%) although both are lower than last year (35% and 30% respectively).

Figure 9: Channel shift

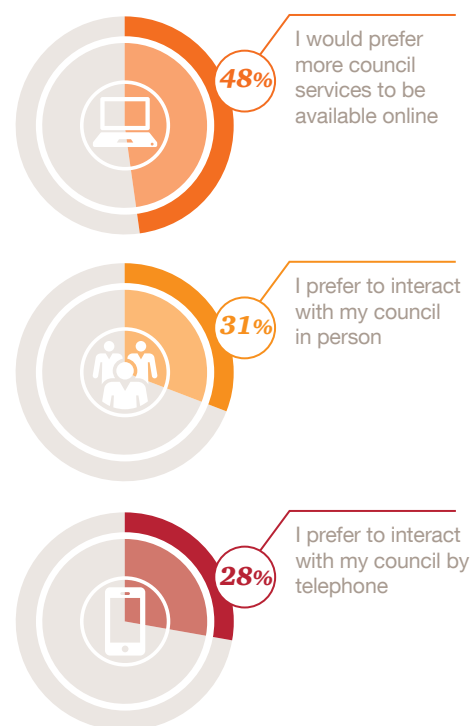
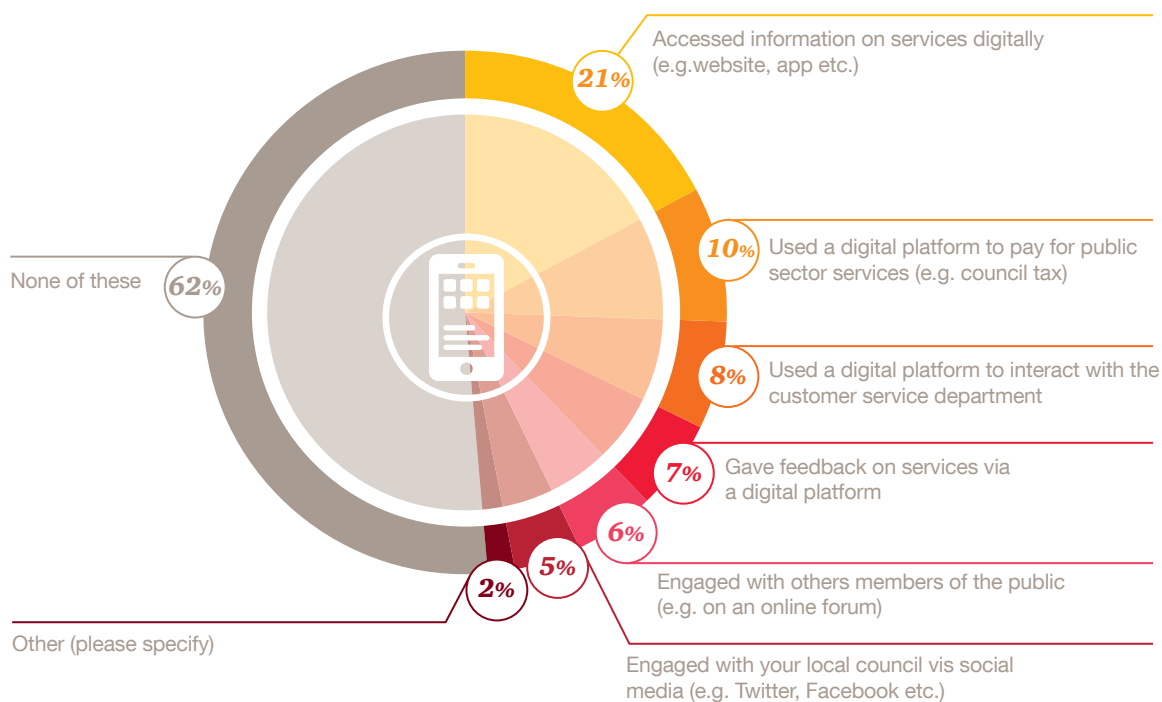


Figure 8: Digital interaction with the public



Respondents were able to select multiple responses for their use of online services

Doing more with data

Transformation of public services requires not only new digital processes but also the ability to create new insights from data generated. It is therefore significant to note that data and analytics is another key area that councils are beginning to tap into and one where there is growing use (Figure 10).

Almost half of all council survey respondents (46%) agree that their council uses data analytics effectively to inform decision-making and strategy, up from a third (33%) last year. However, this also highlights that there is still significant scope for councils to interpret and use data more effectively in areas such as anticipating and managing demand.

Indeed, our 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 64% and 71% respectively, only 48% are confident of their capabilities when it comes to data analytics, although this has increased from 32% last year (Figure 11).

Of course, the new General Data Protection Regulation (GDPR) also poses additional challenges for councils, although only one in twenty (5%) of the respondents surveyed felt unprepared for its introduction.

Figure 10: Data and analytics

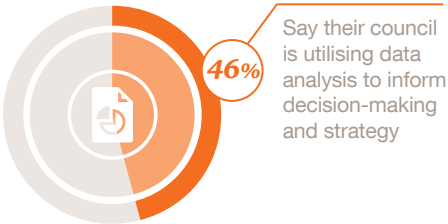
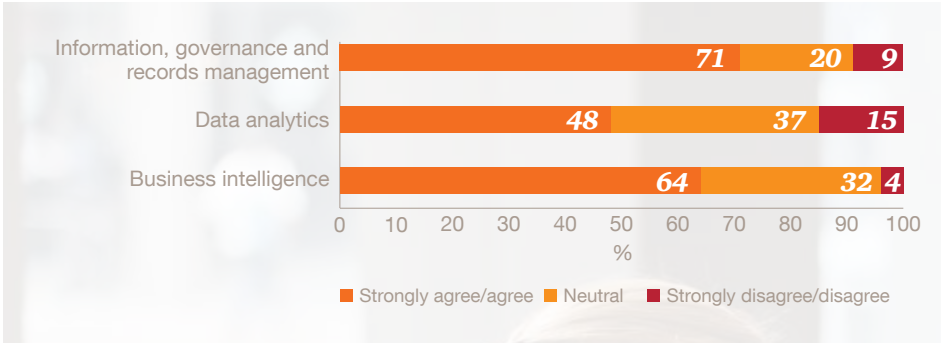


Figure 11: Data and information capabilities
My council is well equipped with the following capabilities



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 for privacy and also to ensure cyber and information security.

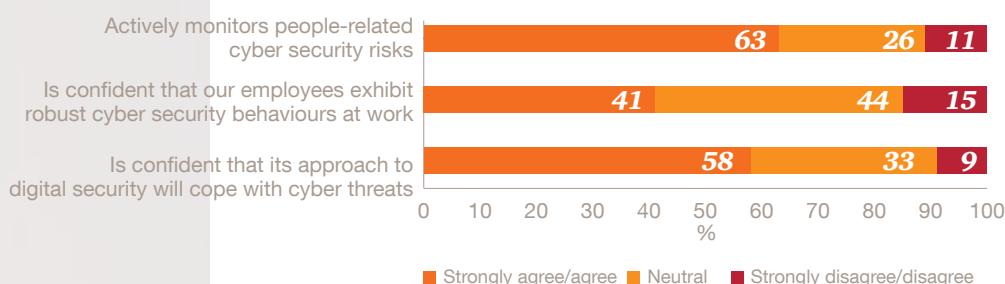
This is a concern for the public, with only around a third of our public polling respondents trusting their council to manage and share their data and information appropriately (35%) and to protect their personal data and information from cyber attacks (37%). This is perhaps unsurprising given recent high profile examples such as the NHS ransomware attacks in 2017.

In response to cyber threats, over half (58%) of council respondents to our survey are confident that their approach to digital security will cope with cyber threats (Figure 12). Almost two thirds (63%) say they actively monitor people-related cyber security risks, but only 41% are confident that their employees exhibit robust cyber security behaviours at work, highlighting a continuing potential area of vulnerability for the majority of councils.

Tough questions on digital disruption and data

1. Do you have a clear vision of how new digital technologies can engage residents and communities and enable the delivery of outcomes (including becoming a 'smart city')?
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?

Figure 12: Cyber security
Considering cyber security, my council...



Reforming and transforming local public services

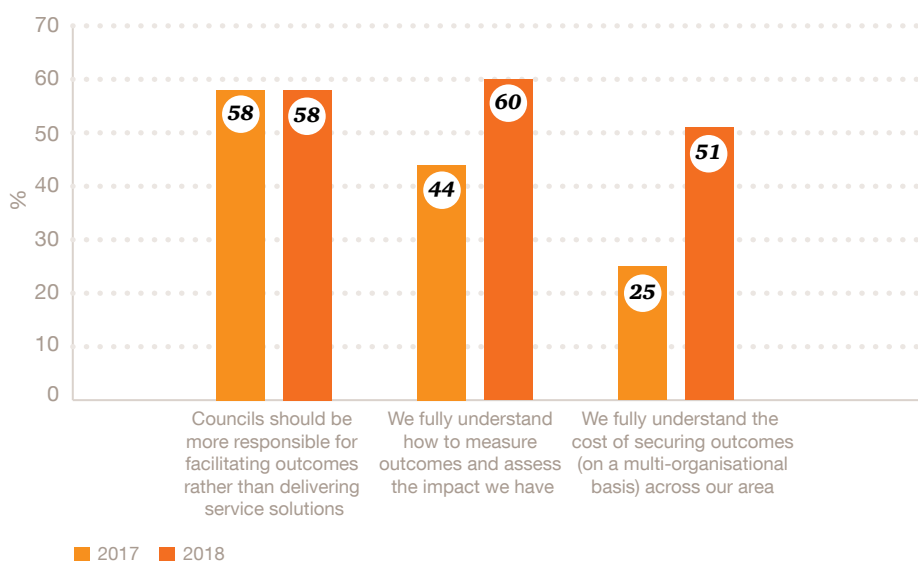
Beyond technology, **place based transformation** is seen to involve collaboration across a place with a need to focus on, and measure, **outcomes** and the related costs. Councils feel they are making progress in this area. Six out of ten survey respondents agree that councils should be more responsible for facilitating outcomes rather than delivering services, and a similar proportion now feel able to measure outcomes and assess impact which is key to delivering place based transformation.

However, taking the example of health and social care integration, while the appetite for reform remains, barriers to integration are apparent when seeking to deliver joined up public services across a place with mixed views on engagement e.g. on the STP process. The barriers to further integration centre on institutional, strategic and cultural differences between the NHS and councils.

Delivering and measuring outcomes

Councils recognise their role in facilitating outcomes, and feel they are becoming better at measuring them and the related costs. The same proportion of respondents (58%) agree that councils should be more responsible for facilitating outcomes rather than delivering service solutions as last year (Figure 13).

Figure 13: Delivering outcomes



In terms of delivering public service reform, a similar proportion (60%) feel they now understand how to measure outcomes and assess the impact they have while a half (51%) feel their council fully understands the cost of securing outcomes on a multi-organisational basis across their area.

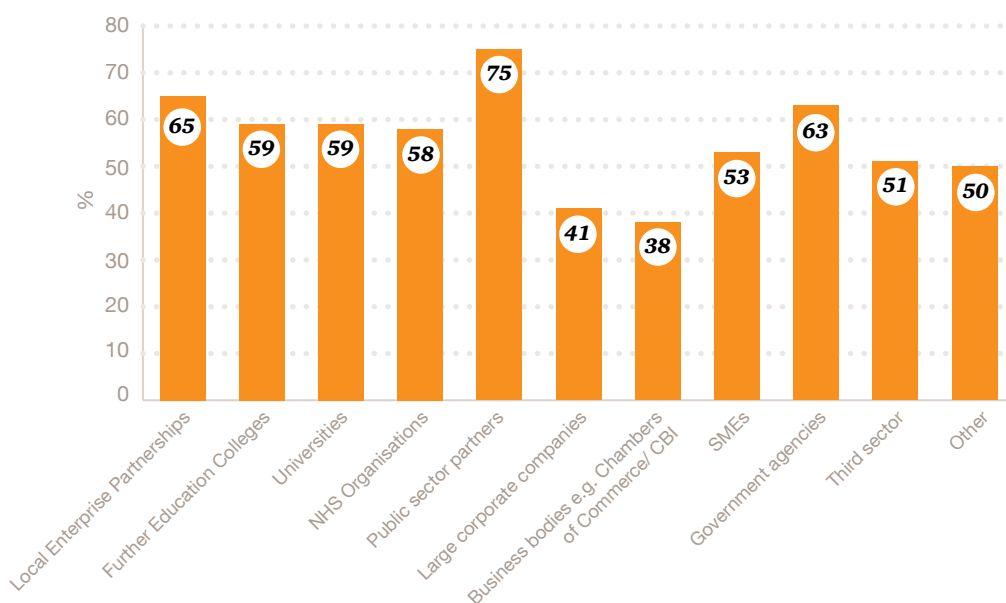
It's worth noting that there is less expectation that structural change will drive the reform agenda. Only about a third (35%) of respondents expect that significant reorganisation of two tier local government will happen by 2020 (compared to 43% in last year's survey) although since we completed this survey the Minister has stated that "there is a clear space and scope for unitary authorities."

In terms of delivering place based transformation, perhaps unsurprisingly the key partners are predominantly seen to come from the public sector, including other local public service providers in education and health (see Figure 14).

However, over half of respondents also see Small and Medium-sized Enterprises (SMEs) and third sector organisations as part of the approach, perhaps building on the so-called Preston model supporting procurement from locally based organisations. In contrast, fewer respondents see their councils looking to collaborate with big business or trade bodies.

Figure 14: Key partners in transformation

The following are key partners to collaborate with the council and deliver place based transformation



Health and social care integration

The transformation of public services locally can be seen in the case of health and social care integration. Four fifths (81%) of our survey respondents agree that integration will have a positive impact on health outcomes, but only 28% think it will support economic growth or generate council savings (Figure 15).

In terms of moving the health and social care agenda forward, in this year's survey only 19% of respondents (compared to 25% last year and 60% in 2016) said that a devolution deal is part of their strategy for health and social care integration. This perhaps reflects how the pipeline of devolution deals has stalled over the past year.

In terms of the future of integration, a much higher proportion of respondents this year feel confident that the extension of the social care precept will help address the social care funding challenge (38% compared with 13% last year), 32% believe their council will be part of an accountable care organisation within the next three years (same as last year), while 39% (up from 32% last year) agree that their council has been fully engaged in the STP process (Figure 16).

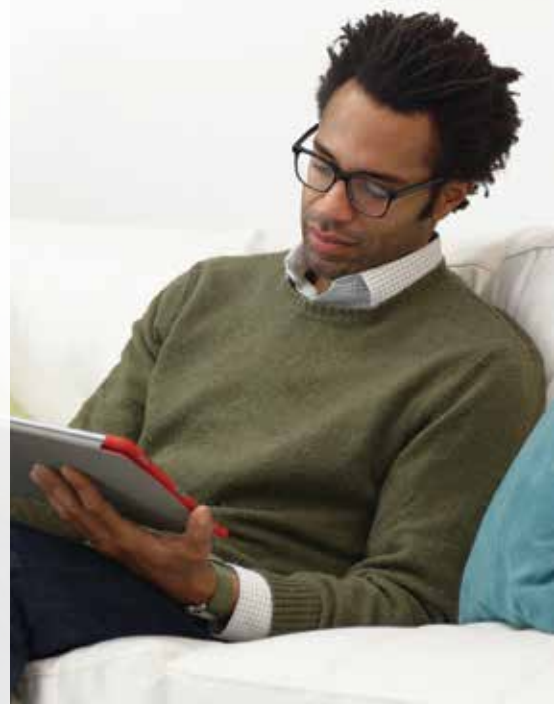


Figure 15: Integrating care – a case study in reforming local public services

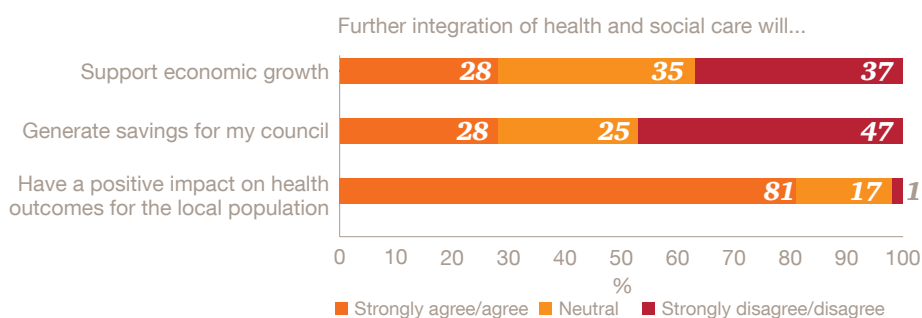
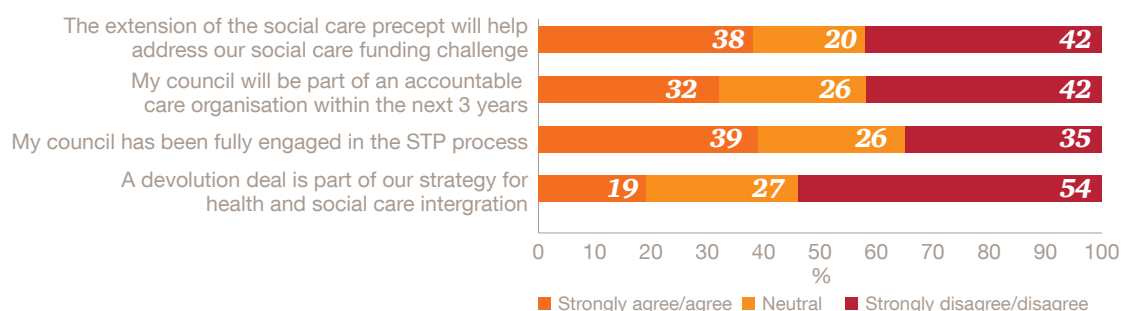


Figure 16: The future health and care integration



Views on barriers to integrating care, however, highlight the ongoing conflict of approaches to strategy and delivery in the health and adult social care systems and a perceived lack of focus within the NHS system on outcomes and prevention (*see Box*).

Making money work better in the NHS

PwC recently worked with the Healthcare Financial Management Association (HFMA) to consider future financial flows within the health and care system in England. We spoke to NHS finance professionals, non-executive directors and NHS leaders across the country and, with the help of the HFMA, we surveyed over 200 finance professionals to understand what they think about the way money works in the healthcare system and how it could be improved. 76% felt the current funding structures in the NHS are not fit for purpose.

We found an integrated model of care is undoubtedly the right direction for the UK healthcare service and made several recommendations, aimed at re-aligning financial flows with the emerging place based architecture of the system, giving systems better long term line of sight over their funding envelope, and ensuring that money is directed towards incentivising better patient outcomes. *For more information, visit www.pwc.co.uk/healthcare*

<i>“Institutional parochialism and a lack of focus on outcomes in the NHS”</i>	<i>“A realistic view on need not one assessed on the basis of available finance”</i>	<i>“The STP Footprint does not relate to the local communities it should be there to serve”</i>	<i>“The focus of discussions continues to be about acute health and social care issues rather than preventative policies such as better housing, improved leisure offer”</i>
<i>“Self-interest of individual CCGs and NHS Trusts”</i>	<i>“Lack of a strategic approach by NHS partners who can only plan forward for a year at most”</i>	<i>“I am not convinced it's structural integration that's needed. We need to reset the objectives of our health and care systems and incentivise radical shifts to keep people well and at home in vibrant communities”</i>	<i>“The continuing focus on funding the acute part of NHS healthcare, at the expense of community based/preventative services”</i>

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 in your place?
2. Is your council fully engaged in health and social care integration?
3. To what extent do you need to consider reorganisation, for example, creating new unitary authorities or combined authorities?
4. Are your delivery models fit for purpose, including being tax efficient?
5. How well are you collaborating with other public sector partners to manage, rationalise and share your property and other assets across a place?

Place based growth: collaboration, barriers and the impact of Brexit

Collaboration is also a feature of **place based growth**, especially with Local Enterprise Partnerships (LEPs). Council priorities for place based growth focus on the key enablers – skills, infrastructure (housing and transport) as well as inward investment. However, significant barriers remain in each of these areas, with 72% of our respondents identifying lack of investment in infrastructure as a key barrier, 61% a lack of influence over skills and 60% a lack of affordable or suitable housing.

With **Brexit** next year, respondents see high impacts on their councils for trade, FDI and funding. Yet only 12% of respondents see their council proactively promoting city-to-city links overseas to find investment and promote trade for their local economies. In addition, 74% are not confident that central government will engage with cities and local government in reshaping regional investment and regeneration funds beyond Brexit.

The impact of Brexit is also a source of uncertainty for the public: almost half (46%) of the public neither agree nor disagree that their local area will benefit from leaving the EU.

Collaboration for growth

Delivering growth requires the interaction of councils with many local partners. In terms of working with others to deliver place based growth, LEPs and other public sector agencies are both identified as key partners by just over three quarters of survey respondents.

Indeed, for the first time LEPs are marginally the most important, perhaps reflecting their now central role in formulating Local Industrial Strategies in non-mayoral areas. A large majority of those surveyed (84%) see their council working with their local LEP(s) to develop a local industrial strategy (spanning skills, infrastructure, innovation and business growth) and deliver a joined up approach to local growth (see Box).

What should a good local industrial strategy comprise?⁴

A successful local industrial strategy, like the national one, needs to be based on a consistent long term approach to policy aimed at improving the local economic conditions affecting businesses across all sectors – a so called ‘horizontal’ approach. It also needs to set out how places will choose their priorities for investment to deliver local economic success.

In addition, the outcomes from key policies need to be delivered efficiently and effectively so that economic benefits are realised in a timely fashion, particularly when it comes to infrastructure (given the long lead times). This means identifying interventions and making sound evidence-based investment decisions which deliver value, realise economic and social impacts and outcomes as well as manage risks.

Drawing on PwC’s submission on the Industrial Strategy Green Paper,⁵ any local industrial strategy needs to span at least three key dimensions: skills and education; infrastructure; and innovation and business growth.

4 Drawn from ‘Good Growth for Cities 2017’, PwC/Demos, November 2017 <https://www.pwc.co.uk/industries/government-public-sector/good-growth.html>

5 A modern industrial strategy to underpin UK economic success’, PwC, 2018 www.pwc.co.uk/industries/governmentpublic-sector/insights/modern-industrial-strategyfor-economic-success.html

In addition, about two thirds of our respondents view universities further education (FE) colleges and SMEs as key partners (Figure 17).

Barriers to growth

In terms of specific barriers to economic growth, lack of investment in infrastructure (72%), lack of influence over skills policy (61%) and lack of affordable or suitable housing (60%) continue to be the top three concerns (Figure 18). Noticeably, however, all of these concerns are lower than for last year.

Figure 17: Key partners for growth

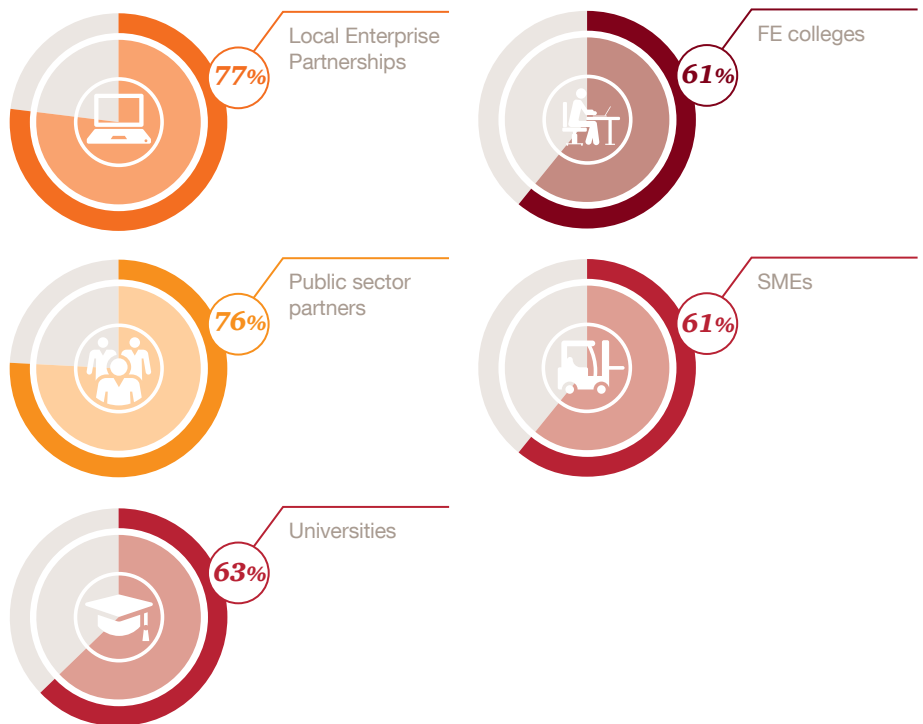
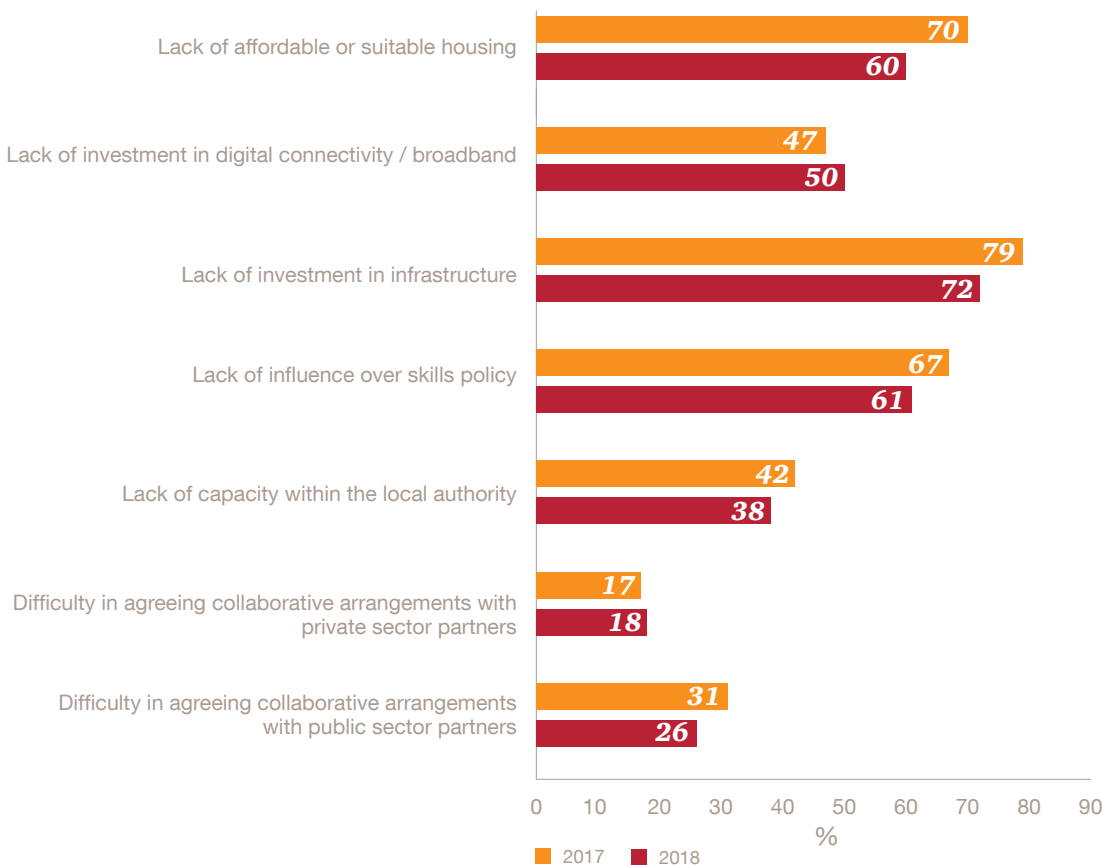


Figure 18: Barriers to economic growth



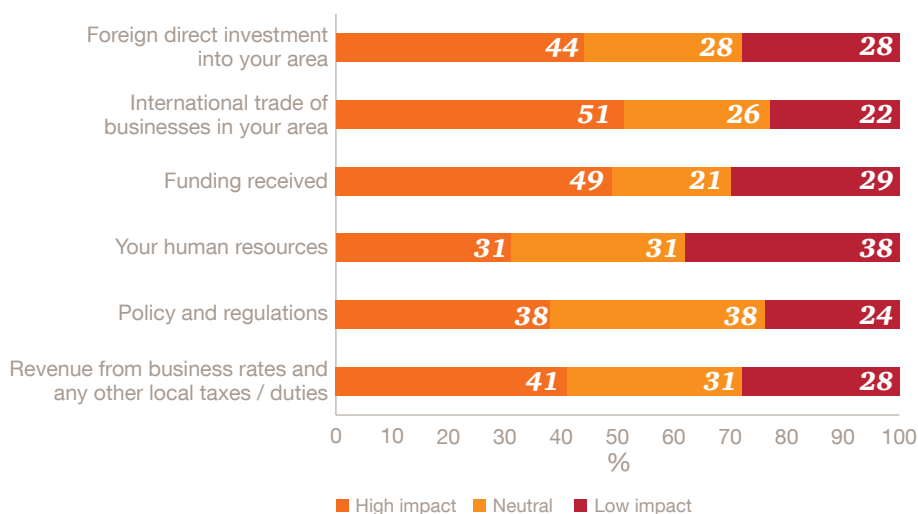
The impact of Brexit

With growing clarity on the parameters of a likely future Brexit deal, particularly with the transitional agreement, there has been an increase in the respondents to our survey who felt that the areas of greatest impact on their councils would be on trade, foreign direct investment (FDI) and funding (Figure 19).

But only 12% of respondents say their councils are proactively going abroad on a city-to-city basis to find investment, develop trading links and promote exports. In addition, 74% are not confident that central government will engage with cities and local government in reshaping regional investment and regeneration funds beyond Brexit. These are both important areas for action.

Figure 19: The impact of Brexit

Thinking about the potential consequences of leaving the EU, to what extent will the following factors impact on our council?



The public view on the impact of Brexit on the local economy

In terms of the impact on local economies, the impact of Brexit is also a source of uncertainty for the public: almost half (46%) of the public neither agree nor disagree that their local area will benefit from leaving the EU.

Tough questions on place based growth

1. How 'investor ready' are you in terms of having stakeholders aligned behind a shared vision and identity for your area and the 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 well are you engaging with the private sector to boost productivity and meet local employers' needs?
4. How will your local economy fare in terms of trade, FDI and investment on leaving the EU?
5. Can you do more to help local businesses by proactively going abroad on a city-to-city basis to find investment, develop trading links and promote exports?



The new local government landscape: is devolution stalling?

With so much dealmaking in government focused out towards the EU, it may seem that there has been too little focus and capacity to deliver the next stage of the much promised ‘devolution revolution’.

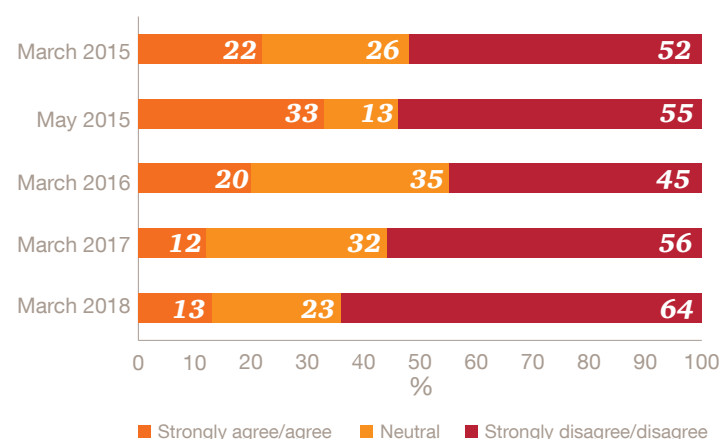
This appears to be confirmed in our survey where there is a perception that devolution has stalled, with only 13% of respondents agreeing that their council will have more powers and responsibilities in 2022, similar to 12% last year and well down from 33% in May 2015 when the Conservative government led by David Cameron came into power.

Expectations of further devolution have hit rock bottom, with only one in ten respondents expecting to be part of a combined authority by 2021. Barriers to further devolution are seen to be jointly the mayoral model and local political relationships as well as a lack of potential powers to be gained.

The new cohort of metro mayors may yet give devolution a jump start as their collective impact starts to be felt but this will take time as the public increasingly understands the role of a mayor and can see the impact that they can have.

Figure 20: Prospects for further devolution

By the end of the parliament, my council will have significantly more powers and responsibilities



Where next for devolution?

Our polling shortly after the 2015 General Election showed that 33% of survey respondents believed that their council would have greater powers and responsibilities by 2022, which fell to only 12% in last year's Survey.

This year shows a continuing low level of expectation for increased devolution (Figure 20). Only 13% of respondents think their council will have more powers and responsibilities by the end of this Parliament, similar to last year but with a hardening of the undecided and with two thirds disagreeing or strongly disagreeing.

Since 2015 our survey has charted the rise and, until last year, slight decline in those who believe that their council will be part of a combined authority by the end of this Parliament, peaking at 69% in March 2016 and down to 47% last year. Our survey this year, however, shows how dramatically opinion has change with a sharp decline to only one in ten (11%) of those surveyed who think they would be part of a combined authority by the end of this Parliament. It appears that confidence in further devolution has hit rock bottom.

Why has devolution stalled?

It is little surprise that the mayoral model is still identified as a key barrier to devolution, with 74% of respondents citing this as an issue. However, local political relationships are now of almost equal importance at 73% (up from 62% last year) with concerns on the lack of potential powers to be gained not that far behind (Figure 21).

Fiscal devolution: shifting to business rates and more radical options

On the subject of being prepared for the shift from grant funding to business rate income, there has been a step jump from last year (when just over half of respondents said they were prepared): almost three quarters (73%) of respondents say their council is ready (Figure 22).

Figure 21: Barriers to devolution

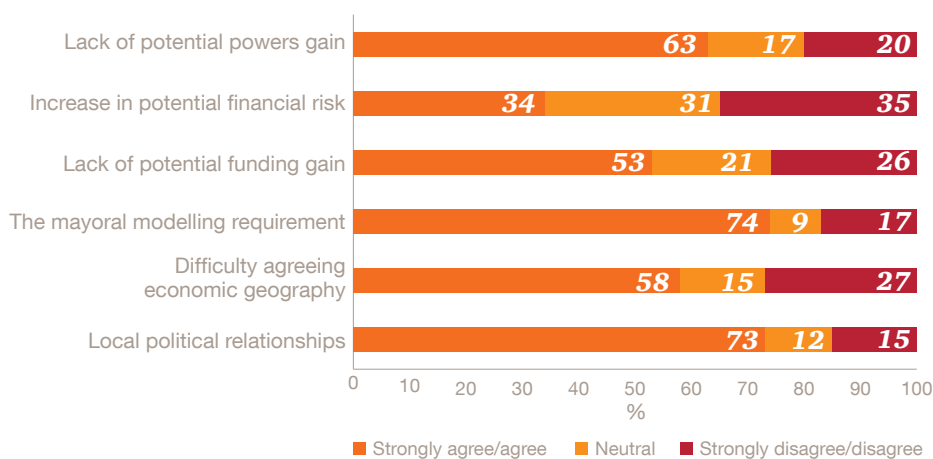
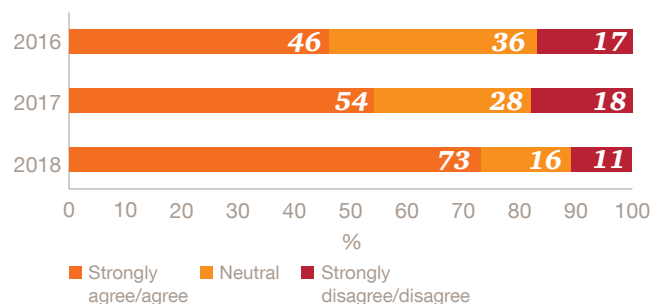


Figure 22: Readiness for business rates

My council is prepared for the shift from grant funding to business rate income





IFS on business rates retention fiscal devolution

The Institute of Fiscal Studies (IFS) used recent surveys from the Local Government Intelligence Unit (LGIU) and last year's Local State We're In survey to examine council decisionmakers' views on the impact of business rates retention scheme (BRRS) on revenues and incentives across England. Key findings included:

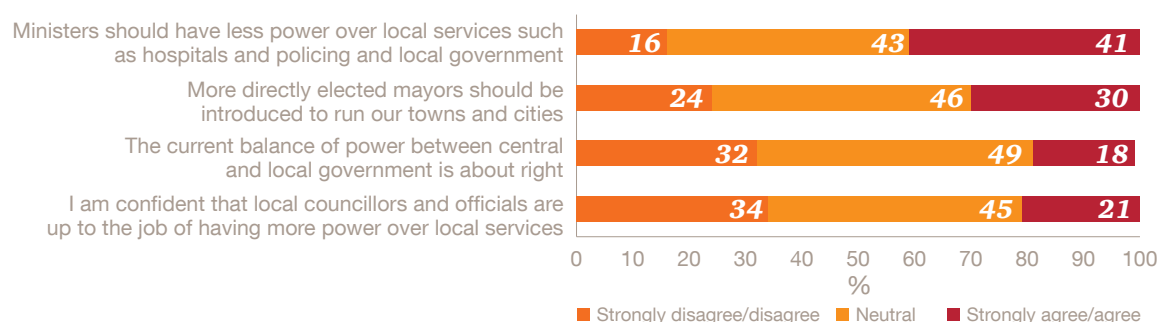
- Two-thirds of survey respondents say that it is impossible to work out whether their council has gained financially from the current BRRS. This may be because they are unsure what the funding system would otherwise have looked like.
- Respondents from councils that have been relative gainers from the existing BRRS are more optimistic about the local impact of a 100% BRRS. Those from areas where recent economic growth is higher are also more optimistic, although this optimism may be misplaced: other research suggests there is little relationship between economic growth and business rates revenue growth, at least during the period between 2010 and 2015.
- Those expecting to gain from a 100% BRRS are also more likely to say that such a scheme would provide an incentive to councils more generally to promote economic growth.

However, like last year there remains a divide over how funds should be redistributed, with a third (36%) agreeing that the incentive for growth should have precedence while two thirds (64%) agreeing 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 and received very similar responses to last year: 26% 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.

Looking at other options for greater fiscal devolution, almost all of our council respondents (96%) want greater freedom over the structure and level of Council Tax while nine in ten want to have greater freedom over the structure and level of business rates and to be able to retain 100% of right to buy receipts. In comparison, more radical options had less support including being assigned a proportion of income tax (58%) and having control over a locally variable income tax (54%).

Figure 23: The public's view on devolution



The public's 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 (the same as last year) and 41% (similar to 43% last year) agreeing or strongly agreeing that Ministers should have less power over local services and local government should have more power (*Figure 23*).

There also seems to be an appetite for more local accountability and control through the mayoral model with nearly a third (30%) of the respondents to our public poll believing that more directly elected mayors should be introduced to run our towns and cities.

However, only 21% of the public polled are confident that local councillors and officials are up to the job of having more powers (the same as last year's poll). In addition, in areas with directly elected mayors only a fifth (20%) of the respondents to our public polling feel that their mayor has had a positive impact on their local area in the past year.

Does this mean a bleak future for mayors? Not in our view. For instance in London, where the Mayor has been established for some time, there is a more positive view with 30% of our polling respondents agreeing that the Mayor of London has had a positive impact and only 22% disagreeing. Our local authority survey respondents in councils with elected mayors also on balance see a positive impact (although the numbers who responded to this question are too low to be statistically representative).

This confirms our wider research that once the public understands the role of a mayor and can see the impact that they can have, they generally become more in favour of the mayoral model. So if the metro mayors elected last year can make their mark and prove their worth to their electorates, over time their collective impact can have a wider impact.

Tough questions on devolution

1. How can local leaders in public, private and third sector organisations work better together across your place to deliver a devolution dividend?
2. How prepared are you for the shift to business rates and the financial freedoms and incentives you will need to deliver place based growth?
3. Can you provide evidence to central government of the case for further devolution or for setting up a combined authority?
4. Do you have the governance arrangements in place to be held account for the delivery of outcomes?
5. Do you understand the risks inherent in taking on additional powers, services or funding and how are you managing these?

Agenda for action

This year's survey has demonstrated the continuing challenge for local government leadership of securing the future and being financially sustainable while redefining a sense of purpose and identity for both themselves and their places.

With another Spending Review next year, as well as the UK's formal exit from the EU, the landscape for local government will continue to evolve. Local government has an essential role to play in the renewal of public services locally, looking beyond organisational boundaries to deliver on the promise of place based transformation and growth by:

- Defining, developing and delivering sustainable, inclusive **place based growth** strategies and securing a clearer economic identity to attract, and retain, talent and investment.
- Working across places and securing the right **public service reforms to underpin place based transformation** and the delivery of key outcomes by redesigning services and building new partnerships.
- Focusing on building the skills, capabilities and processes to secure **organisational resilience**, being prepared to manage key risks but also being agile to respond to, and recover from, unforeseen events and challenges.
- Developing **commercial skills and business acumen**, being prepared to work outside council organisational boundaries and seamlessly across the public and private sectors in order to achieve better returns on investments and better value from public/private sector arrangements.
- Embracing the value of data as an asset and investing in **data analytics** capabilities to inform decision-making and generate insight, drive smarter, earlier interventions and influence behaviours, manage demand and reduce cost.
- Harnessing **digital disruption and new technologies** such as AI to change traditional ways of working, creating new value and better serve the needs of communities.

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 – April 2018. 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 2,001 UK adults aged 18+ was carried out from 13 to 15 March, 2018. The results of the public opinion poll have been weighted to nationally representative criteria. Note that in some charts in the report, the figures do not always add up precisely to 100% due to rounding.

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

Acknowledgements

We would like to thank the Chief Executives and Leaders from across the UK who shared their views with us for the Local State We're In. We are grateful for their contribution and valuable insights.

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.

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Notes

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