



In association with SOLACE



The Transformers

The 2014 Senior Managers' Risk Report



Forethought

One year wiser

In Zurich Municipal's 2013 report, Evolution to Revolution, senior managers told us what was on their minds. We heard how they were reacting to budget cuts and the need for changes to services. Last year it was about creative thinking, this year it is about inventive doing. Next year we will test how these actions are embedding, and how they are working for society and for local and central government.

The 2014 Senior Managers' Risk Report (in association with SOLACE) has moved on in style as well as content by introducing political leaders' views as a counterpoint to those of chief executives. Leader involvement is in direct response to feedback from Evolution to Revolution, bringing an additional perspective to this Report. We have also sampled more opinions than in 2013 and from a broader spectrum of councils.

Council chief executives are clear that it's too late for talk alone and it's time for action. Political Leaders concur. 'Transform to survive and thrive' is the overwhelming impetus. There is now more innovation in local government than since the rebuilding of public services post WWII.

Senior managers, along with Leaders, repeat findings from the 2014 Zurich Municipal Risk Ranking Report, New World of Risk: Change for Good, that if local government has felt financial pain over the last two years, the next two will be particularly hard, with over half the required cuts remaining.

'Survival' takes many guises: council fiscal survival; the survival of vital community services; surviving the political stresses of an election year and survival of local government as the foundation of society. What 'thriving' looks like takes as many forms as there are councils in England. What has been exciting about this year's interviews is that progressive action (not just ambition) is very evident.

Some citizens may believe that government (central and local) does not have a long-term view, but to thrive, council plans need to be dynamic and far-reaching. More than merely revising community services, many councils are re-shaping them, with some questioning their very purpose. **The Transformers are shaking up society with radical actions that take them beyond blue skies thinking.**



"Climbing this fiscal mountain needs to be seen in the context of the profound questions raised by longer-term challenges such as an ageing population, a fluid global economy, population movement, climate change, urbanisation and technological development."

Jonathan Carr-West, Chief Executive, LGiU in Municipal Futures, in May 2014.



The chief executive's perspective:

"Four years in we've taken all the low hanging fruit and the medium hanging fruit – we need to be giraffes to get to the rest!"

"Councils may go to the wall. There are opportunities for mergers."

"We need to focus on public outcomes not public services."

"It's about living the brand and about thinking and working in a lean way."

"I'd love to have combined authorities!"

"The thing that keeps me awake at night is the capacity to deliver change."

"There's real fragility in public services. The NHS is a real concern."

"One area of solution is a thrust towards integration. At some point we will have to have a mature public services governance model."

The political leader's perspective:

"We're pulling up the drains to find cost savings."

"Government tells me: 'you can do anything as long as it is legal.'"

"We are not run as a business but like a business."

"The local government family need to help each other – we are all impacted by failure."

"Reorganisation is back on the agenda. The two-tier system is under challenge."

"Understanding risk is a key part of our business strategy."

"We're getting rid of the sacred cows – there's no room for complacency."

"We still provide core services but all the non-statutory services have been reduced. Whenever we do that it's a political risk."

Transforming finances

Political Leader:

"We must assume we will lose most of our funding over the next few years so we must earn income to survive."

Chief Executive:

"Austerity continues for local government, even though the economy is improving. The big issue will be managing demand with the public."

In PwC's annual local government confidence report, 'The Local State We're In', June 2014: Nine out of ten Chief Executives and Leaders believe that, within the next five years, some local authorities will get into serious financial crisis, while nine out of ten Leaders and eight out of ten Chief Executives believe that some local authorities will fail to deliver the essential services that residents require.

<http://www.pwc.com/im/en/services/advisory/assets/the-local-state-2014.pdf>

Although many still feel times are austere, austerity adjustments have become the new reality. This is not a phase we are going through, this is how it is. The economy-induced challenges faced by public services and the consequent solutions have become the bedrock for present and future service provision. The skill now is in building on it.

Political Leader:

"Budget and Savings is my number one priority, followed by Adult and Child Social Care, then Economic Regeneration."

Chief Executive:

"We used to manage £1.5bn now we influence £7.2bn."



Transforming thinking

The character of service provision has changed to fit budgetary constraints that are so far reaching they have created a new normality. In the meantime local government still strives to improve peoples' lives as well as meet their basic needs. Solving this conundrum takes creativity, political courage and a willingness to challenge tradition that requires disruptive innovation and real influence. Those that have the appetite for this are The Transformers. This is

the vanguard with the impetus to not only nudge but elbow their way to moving councils out of their comfort zone into a new era that embraces cross country and cross sector alliances, commercialism and innovation. Some Transformers are visionary, some are tenacious, some are starting with smaller steps than others but all are intent on making the money go further, the opportunities appear more frequently and their communities thrive.

Chief Executive:

"The council has a role influencing how the NHS works and we are in discussions with them about Lean systems thinking. We believe no good organisation can survive without the concept of Lean thinking. Our way is the way we do things. Our way is integrated within the council and our staff understands it. Lean systems drive everything we do. The five overriding principles of Lean are: identify customers and specify value; identify and map the value stream; create flow by eliminating waste; respond to customer pull; and pursue perfection. Everything we do links back to the customer."



Transforming governance

Political Leader:

"My aim is to bring many more public services, literally under one roof. We can all work together better as one organisation."

Chief Executive:

"Don't keep polishing the old internal systems."

There are some differences between the transformation vision of smaller councils and how larger councils view the future. Because smaller councils are limited in what they can outsource, their ambitions are for more shared services and to become more commercially minded. Larger organisations have the economies of scale for a higher percentage of outsourcing and are also entering into commercialised work.

Chief Executive:

"Why not devolve the community budget work to us, let us do the bargaining with Central Government? Let's have a new public services governance model that would allow us to make our own decisions about spending. Treasury would get the benefits of that. There are benefits if we could integrate and align activity but massive and huge risks as well."

There is a buzz around locally integrated service delivery but what that means is still evolving. Our interviews show a split in the approach of larger councils: some see integrated service delivery models as a solution without the need for structural and governance change of the organisations involved. Others see current public service delivery

infrastructure as a barrier to integrated service delivery. These councils are looking for fundamental change in the way public services are delivered. This is the most radical and leading edge view expressed in our research and provides the impetus for disruptive innovation.

Chief Executive:

"We've done a lot of work to understand what the public want. We got partners together and identified the few things that can only be fixed if we have a different way of pooling our budgets and a new model of governance. We spent a huge amount of time with our partners developing business cases. We've translated lots of new stuff into business-as-usual projects. So, we have changed the way we do business, say, around vulnerable children. There is a lot of pressure on people here to deliver the plans, and it's fine when you can control it but when you are in a partnership environment (which is what I think the future requires) it's much more difficult."



Transforming health and social care

Chief Executive:

"All of our hospitals are struggling."

Health and social care is high on the list of this year's local government priorities. Making the costs affordable for an ageing population, a predicted upsurge in use of primary health care, along with an increasing need for health promotion for what is becoming a 'sicker' society living with longer, chronic, disabling health issues, is taxing all providers.

Chief Executives:

*"The CCG is underfunded and primary care needs radical change."
"Public health is proving hard to integrate."*

Local authorities have the genuine desire to not only provide, but to improve provision. However the Care Bill gives cause for concern: it is expected that if individuals cannot make provision for their future care, it will fall onto the council as 'provider of last resort'. Our interviewees see the proposed integration of health and social care as a great idea in principle but a huge risk for local government in practice.

Chief Executive:

"There are huge opportunities in integration but there is significant risk in being steamrollered."



In her interim report, 'A new settlement for health and social care', chair of the independent commission, Kate Barker asserts: "...England must move towards a single ring-fenced budget for health and social care, which is singly commissioned and within which entitlements are much more closely aligned." King's Fund, April 2014.

<http://www.kingsfund.org.uk/projects/commission-future-health-and-social-care-england>

Integrated commissioning will be the future model but at the time of writing, no decision has been made on the commissioning body. There are two competing models: NHS Clinical Commissioning and the local government Health and Wellbeing Boards. Local authorities are worried about being sucked into the maelstrom of NHS funding, management and politics at the extreme, and tinkering around the edges with little support or real integration at the very least. They foresee a culture clash between the democratic mandate of local authorities and the command and control model of the NHS.

Transforming commercialism and commissioning

In last year's report the word 'commercial' sneaked into the narrative timidly, for the majority of the senior managers with whom we spoke. This year, most political leaders and chief executives have approved strategies to lead service provision in a commercial environment. The way in which political leaders have adopted this approach is striking. In 2014, it is no longer just the early adopters that champion commerce. Our interviews show the majority of leaders are now immersed in these activities.

Political Leaders:

"We need to change our skills sets, we're dependent on a few key people to drive the commercial initiative."

"I'm eliminating silo thinking by exposing officers to commercial thinking."

"We're going to build and run a hotel to generate income."

One council is making sure capital is working for them. The aim is to convert capital to revenue. The council bought an office and has started renting it out to new tenants. It has a seven per cent return at present but it is not full. At full capacity the expected return is nine per cent.



Transforming commissioning

Outsourcing, a big subject in our first report, is now established as the way forward for many community services, with one council (with a turnover in excess of £1 billion) outsourcing 70 per cent of services. The appetite for taking sensitive services outside for some however, is limited.

Chief Executive:

"Overall more than 50 per cent of all services are outsourced. This includes; 90 per cent of adult residential care, 50 per cent of grounds maintenance and either most or all of theatres, and leisure and recreation centres."

Political Leader:

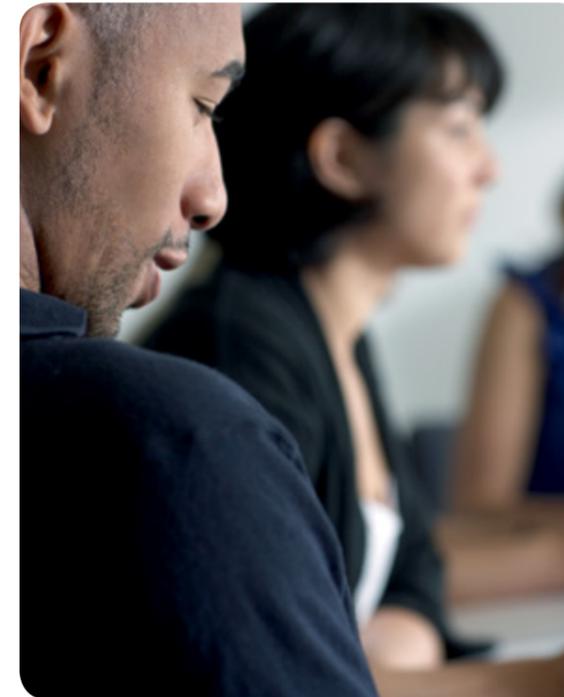
"I would not allow social services to go out of this office."

Outsourcing solely to bring budget cuts is seen as foolishly risky, further increasing the probability of service failure and reputation risk if a contractor is chosen on price alone. There are particular vulnerabilities in critical services, such as children and adult social care. Some changes to service delivery will result in long-term improvements but require short-term investment to set up.

Chief Executive:

"We're trying to move to a position where we're commissioning and procuring contracts that are outcome focussed."

Transforming partnerships



Chief Executives:

"Joint delivery is really hard to negotiate."

"Transfer responsibility, but don't lose accountability."

"We have a huge vulnerability around partnership working – it just needs a single point of failure."

A City Deal was agreed in 2014, with central government and local private sector funding financing it. Two councils, an LEP and local businesses will manage it. The motivation is to provide environmentally friendly, economically sustainable power for local industries and residents.

It is expected to:

- *Create thousands of jobs directly in the short term and in the supply chain, and support up to 23,000 jobs in the longer term.*
- *Reduce energy bills and cut CO2 emissions in the area.*
- *Make the area very attractive for business and inward investment.*

It will include:

- *Creation of a smart energy network demonstrator at a University.*
- *Harnessing energy from a waste plant and building a new power station to supply local business.*
- *Innovation and support programmes to aid SMEs.*
- *Pilot programmes and investment to create apprenticeships, traineeships and skills training for thousands of jobseekers.*
- *Future development of six industrial sites.*

Political Leader:

"Working across councils is essential – we haven't got barbed wires across our borders."

Chief Executive:

"Some of our partners are fragile – in chaos!"

The last few years has focused on efficiencies, reductions, re-prioritisations and re-negotiations. This year we see a step change in delivery models to access joint services and joint delivery. It is not always a smooth process however, as finding suitable partners is a challenge. Neighbours can be either too small or too large. It is evident that local government must build strong relationships with partners that extend beyond conversations about how to deliver services.

Communities in transformation



Councils have different priorities in creating sustainable communities. Changing demographics is a national issue and each area has its own challenging dynamic to deal with. How do you keep an ageing population out of health and social care? How do you keep the working age population in work? How do you provide relevant skills for young people to have working futures? How do you provide children's services and schools for the baby boom areas?

"We know that the future will be a smaller state and that councils will govern with less money. This means that councils will have to find a way for the local place – including business and communities – to solve and prevent its own problems. So in some ways, the next stage of public service reform isn't about services at all. It is about approach to place and relationships; and how this can support the delivery of better social and public outcomes." Laura Wilkes, Head of Policy and Research, June 2014

<http://www.nlgn.org.uk/public/2014/politics-people-and-place/>

Chief Executives:

"Our biggest community issue is the workforce; it's below the national average in terms of qualifications."

"Diversity and inclusion is very important to us as our population profile changes. In 2001 ethnic minorities accounted for 13 per cent of the local population, in 2011 this had doubled to 26.2 per cent and it is rising."

"There is an ongoing story about how you reduce demand for care, health and wellbeing, and how you stimulate the economy so people have got jobs to go to. It's a positive circle."

In one council there is a baby boom and they have to create and build capacity in the schools system to cope with increasing numbers of children, while still cutting budgets. "Currently there are double the number of children starting school as are leaving school. We have 56 schools in total, 12 are secondary schools. We have every type of school created, which are incredibly difficult to co-ordinate and manage."

Final thought

Local government senior managers are changing society. Each council is enacting ways to reposition, re-establish and in some instances, replace, historic local government. The Transformers are spearheading the way but each council is doing what it can to survive and thrive. Some are challenging the establishment, some are changing structures, while others are concentrating on unlocking local opportunities: all are looking for better outcomes for their communities.

Last year we reported on what senior managers were thinking, this year we have told the story of what they are doing. Their aims and concerns have also been echoed in the opinions of political leaders. Last year it was about creative thinking, this year it is about inventive doing. It is much harder to fulfil promises and plans than to make them, and in the next twelve months, the tumultuous challenge of the new health and social care changes, plus the political distraction of a general election may knock some ambitious projects off course.

Austerity has been the catalyst for progressive thinking. It is borne from a need to reduce and reboot after the withdrawal of traditional funding. The new funding regimes are here to stay and new models of local government are emerging now. Next year is time to test how they are embedding, and how they are working for society and for local and central government.

Chief Executives:

"We may lose part of a generation."

"Here we talk about opportunities, not risks."

Political Leaders:

"Some councils may go bust."

"We'll only do it if it makes money."



Zurich Municipal would like to thank the participating local authority Leaders, Chief Executives and Senior Managers, and SOLACE for their support in making this report possible.

We would welcome your feedback on the contents of this report. Please contact Julie Hannington, Research and Insight Manager, if you would like to share your views:

E: julie.hannington@uk.zurich.com

T: 01252 387742

W: www.zurichmunicipal.co.uk



Follow on Twitter @ZurichMunicipal

The information contained in this report is necessarily selective. It does not purport to contain all of the information relating to the subject matter of the report. While Zurich Municipal has taken reasonable steps to ensure, as at the date of this document, that the facts which are contained in this report are true and accurate in all material respects, Zurich Municipal does not make any representation or warranty as to the accuracy or completeness or otherwise of this report, or the reasonableness of any assumptions on which this document may be based. Zurich Municipal accepts no liability whatsoever, and however arising, resulting from the use of, or reliance on this report, or any omissions from or deficiencies in this document.

Zurich Municipal is a trading name of Zurich Insurance plc, a public limited company incorporated in Ireland. Registration No. 13460. Registered Office: Zurich House. Ballsbridge Park, Dublin 4, Ireland. UK Branch registered in England and Wales, Registration No. BR7985. UK Branch Head Office: The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire PO15 7JZ. Authorised by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. These details can be checked on the FCA's Financial Services Register via their website www.fca.org.uk or by contacting them on 0800 111 6768. Our FCA Firm Reference Number is 203093. © Copyright Zurich Insurance plc 2014. All rights reserved. Reproduction, adaptation or translation without prior written permission is prohibited except as allowed under copyright laws.