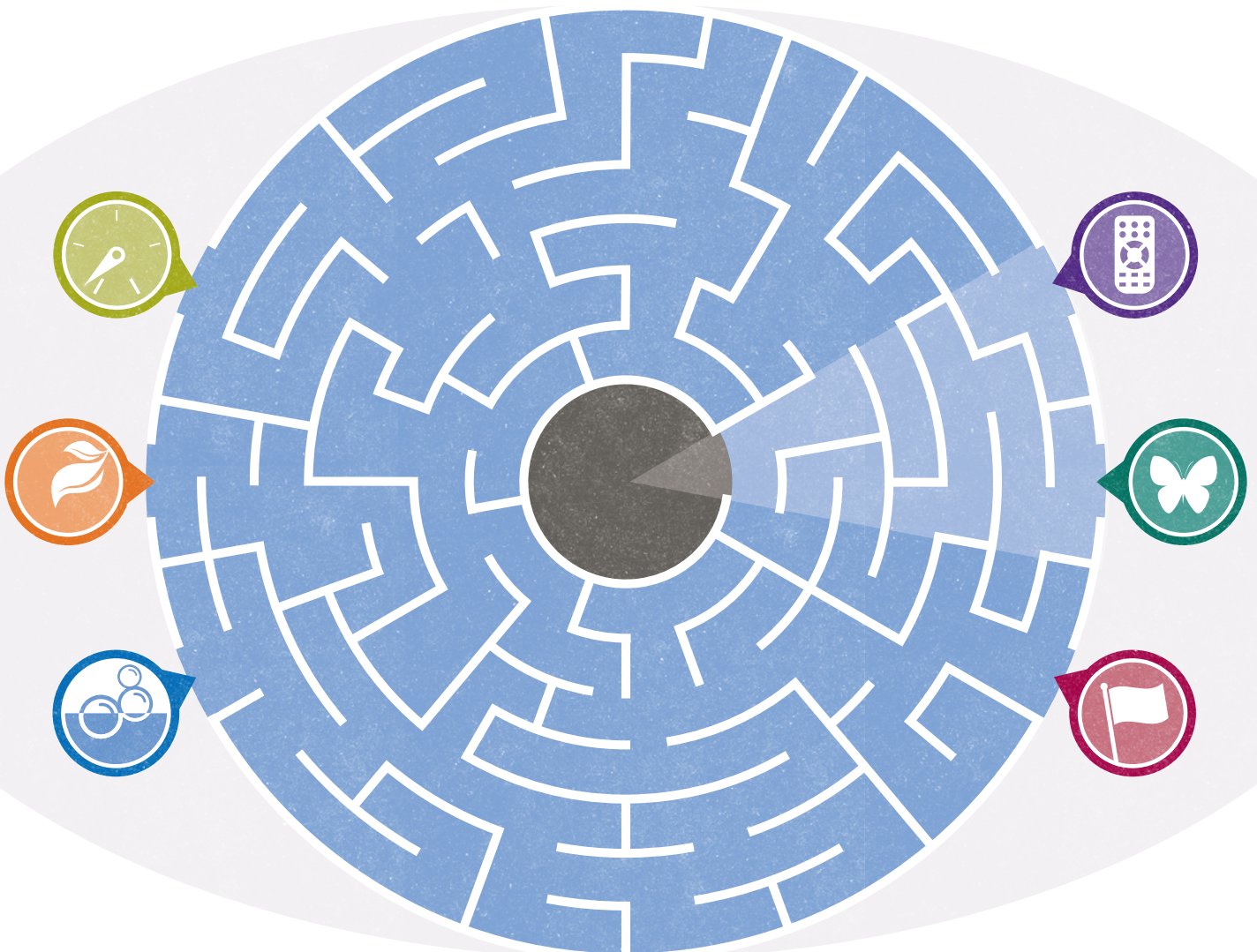


2020 Vision

Exploring finance and policy futures for English local government as a starting point for discussion

October 2014



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Methodology

Our research approach included the following key stages:

- A desk-top review of relevant literature on the future of local government and development of an initial discussion paper
- Discussions and semi-structured interviews based on the discussion paper with a broad range of politicians and chief executives and senior managers from local government
- International comparisons drawn from literature and discussions where possible with academics on the ground in those countries
- Development of a further paper to develop analysis and scenarios
- Testing of the analysis and scenarios at a round-table consisting of a broad range of local government chief executives

Where we refer to 'our research' in this report, this could reflect one or more of these stages.



Foreword

Local authorities are facing unprecedented challenges over the medium term, including those relating to austerity and central government funding reductions, demographic pressures and technological change.

The starting point of our work is that local government has continued to deliver and withstand these challenges, but there are growing concerns that the current approach may not ensure the long term sustainability of some local authorities.

We believe that the report's recommendations will help and support the debate on the future of place and the role of local government in England, and how local authorities need to respond to these on-going and significant challenges with the potential for enhanced devolution for both England and Scotland following the outcome of the referendum.



Paul Dossett
Partner and Head of
Local Government
Grant Thornton UK LLP



Catherine Staite
Director of INLOGOV
University of Birmingham

Executive summary

This is a time of significant political flux for the UK. Despite our heavily centralised system, English local government has been developing innovative approaches and new strategic alliances. Local public services and leadership are slowly being considered in the round, through mechanisms such as the Better Care Fund and community budgets. It is clear that local government is changing fast and has a leadership role to play, both locally and nationally. However it cannot do so alone or in a vacuum but needs to engage and be supported by key stakeholders. Our research has explored what that future might look like.

The Scottish referendum ‘No’ vote will have a significant impact, with much debate, involving all the main political parties, about extended devolved powers across the UK. Our research found that some form of national change is now both functionally necessary and constitutionally inevitable. The economic and financial situation remains extremely challenging, with an increasing North/South divide arising from the pattern of funding reductions and economic growth. We are only half-way through fiscal consolidation and there are uncertain prospects for the future. The Local Government Association (LGA) anticipates a £14.4bn shortfall in the funding required in 2019/20 and asserts that 60% of councils are no longer able to meet the budget challenge through efficiency improvements. While the Department of Communities and Local Government (DCLG) does not accept the scale of this shortfall, all stakeholders recognise the scale of the financial challenge.

Whole place budgets are regarded as best practice, but are not yet proven in practice, and economic growth is just about the only mechanism that offers flexibility, but won’t happen evenly. The greatest benefit of growth may not be from short-term income from business rates retention, but from better local skills, housing, jobs and infrastructure and their long-term impact on the state of the community. Changes in this wide range of factors

are resulting in a highly variable impact, depending on type of council, location and local politics. The ‘Where growth happens’ report identified the concept of key growth corridors that demonstrate a local authority’s potential to influence growth in different parts of the country.

We believe that it is self-evident that things are not going to get easier in the next ten years. Rather the reverse. It is vital for the sector to consider what more it needs to do to manage its destiny.

All of this is happening against a background of rapid social and technological change. Demographic change is having a very strong impact, combining an ageing population and rising school rolls. Social capital within communities is becoming increasingly important and councils are often seen as peripheral to the community leadership that is exercised by formal and informal voluntary action (although local politicians may well be involved as individuals). Meanwhile it is uncertain whether local government will be able to keep up with technological developments because of a lack of investment in new systems, sector skills and appreciation of strategic impact. Its institutional shape is looking increasingly out of step and the people-based nature of many services makes efficiency gains a challenge, particularly where there are skills-gaps.

It is clear that the fundamental change faced by the sector will require its mind-set to flex constantly to keep up. We can expect the population in 2020 to be more digitised and more mobile, and the extent to which place and community will figure large in people's lives is in question. In some places councils are keeping up with this change. But the speed of change will test their ability to adapt their culture and invest in the people skills required to use standard technology and work in different ways with a 'tech savvy' population. It is clear from our research that this is not consistent, and a different mind-set from local government and all public services will be needed in the future.

It is therefore vital that the local government sector thinks hard about how it will cope in the future. To help with this, we have developed a set of six possible scenarios based on the broad analysis above. These were tested with senior local government figures and also considered in the light of international case studies.

The scenarios in brief



Adaptive innovation

Councils creatively redefine their role and are able actively to affect their operating environment, often working in close partnership with other authorities



Running to stand still

Councils are led and managed well and can see a positive future, provided that they can keep up the current pace and that there are no major shocks



Nostril above the waterline

Councils are only able to act with a short-term view, their existence is hand to mouth and even a small external change might seriously challenge their viability



Wither on the vine

Councils have moved from action to reaction. Their finances and capacity are not sufficient to the task and they are retreating into statutory services run at the minimum



Just local administration

Councils have lost the capacity to deliver services, either because they have 'handed back the keys' or because responsibility for significant services has been taken from them



Imposed disruption

Councils are subject to some form of externally imposed change, such as local government reorganisation

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Councils are struggling against a surging tide, needing to maintain momentum just to stand still, as pointed out in ‘Tipping point 2016? Challenging the current’. However although the sector faces an enormous challenge, it is often operating with one hand tied behind its back. Consequently, while competent operation of the traditional model may work for a while, it is unlikely to be a good long-term strategy. Working with their communities and partners, councils need to become innovative and adaptive, and work in very different ways.

During the development of this report and the scenarios, there has been an increasing sense that local government in England is at a decisive point. There is the will and potential in some places to develop highly effective models for economic growth and infrastructure, but perhaps less ability and willingness to arrive at similar models for adults’ and children’s social care. However, local government’s constitutional position and the diversity within the sector is too broad to enable it to take decisive action on its own. So, while five of the scenarios have been developed bearing in mind what local government itself can do, significant, externally-imposed change has increasingly been part of our conversations, and forms the basis of the sixth.



The governance of England as a whole is in question. National sector membership bodies, think tanks and commissions have produced rafts of evidence for a need for change, with most recently a flurry of reports on powers and devolution in England. The health service is predicted to continue to overspend and faces yet another round of changes.

The case studies (pages 27–33) from Finland and Northern Ireland show where this is happening right now and what is possible given the right environment, but perhaps even more significant are the case studies from Canada and Denmark. Denmark, for instance, went through wholesale change and the development of

a completely new settlement between local and central government as late as 2007. The history and the context are different, but seven years on the new arrangements have clearly bedded-in and are stable. It raises the question of where might England be seven years after grasping the nettle, compared with leaving things as they are?

Based on our research into the current position in England, the state of the sector and particularly these international examples, we believe that imposed disruption of the current system is probably key to the future. The people we spoke to felt strongly that now is the time for such a discussion and that incremental change is not the answer.

We have been delighted with the response from local government stakeholders during our research, pleased that our analysis, the international comparisons and the scenarios have had resonance, and interested that this work seems to have provided a language and permission for open discussion. There is a clear wish to set out a new settlement for the future based on an extremely open agenda. This has helped us to form four clear recommendations, to:

- 1 Political parties** – to consider wholesale change, so that whichever forms the next government is ready for a serious discussion with the sector directly after the 2015 general election about what the local/national deal should be
- 2 Whitehall and the rest of the public sector** – to participate in constructive dialogue about what the future could look like, leading to real change
- 3 Local government and its private and voluntary sector partners** – to agree that fundamental change is needed and to begin to plan for a transition to a more sustainable long-term framework
- 4 Individual councils** – to understand which scenario they would currently place themselves in, the context in which they are working and what they need to do next

Many local authorities in the UK have demonstrated that local government has the potential to innovate and really add value nationally. Such innovation depends on there being a good framework in which to do it. Some places have created that dynamic for themselves working closely with other councils and partners across the sectors, others think it is only a question of time before we need to face up to a major change because, for whatever reasons some places and their councils are finding it hard to cope and where a sustainable future may be in doubt. Clearly local government needs to keep up the momentum of improvement, innovation and close work with partners, but we have found mounting evidence of a general desire for a major change which the sector cannot generate on its own, despite the best endeavours of the LGA and others.

Those we have spoken to consider that it is not possible for that major change to be self-generated across the sector, because of structure, history and politics. Yet the international comparisons show that local government is thriving, or has greater potential where there has been a fundamental rethink of the whole system. This validates our view that dialogue is needed urgently, to address the future of the whole system of English government, and particularly at the local level, by 2020.



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Context

This is a time of unprecedented change and challenge for the UK. Government at the local level in England in particular is at a crossroads, and developments within the sector are happening extremely rapidly. This paper uses research, discussion and scenarios to look forward to 2020 and beyond to consider how the local government world might develop. It is clear that local government is changing fast and has a leadership role to play, both locally and nationally. However it cannot do so alone or in a vacuum, but needs to engage and be supported by key stakeholders. The position in Scotland, Wales and Northern Ireland is not in scope for this particular study. However we touch on the wider UK situation along with comparisons with the approach taken in a range of other countries.

The Scottish ‘No’ vote, the new settlement and further devolution which is likely to arise as a result, has resulted in a decisive moment in English local and regional politics. Prior to the referendum, statements by the Mayor of London and others asserted that there needed to be a significant shift in tax and spend powers away from Westminster and towards London and the metropolitan areas. Simultaneously, there were discussions on the possibility of an English Parliament which would make such devolution less likely.

However, the introduction of an English Parliament beneath the UK Government could risk simply replicating a centralised and siloed government, probably with an even more byzantine arrangement for the civil service. The option of devolution to a system based around London and the core cities would also carry considerable risks if it becomes an exercise which bolts-on powers without thinking through the systemic change that is needed. No one yet has started to discuss how the government departments would be arranged in such a settlement.

It is clear that local government is changing fast and has a leadership role to play, both locally and nationally. However it cannot do so alone or in a vacuum, but needs to engage and be supported by key stakeholders.

What is needed is therefore a governance structure for England which does not just chunk up centralised power and devolve it. We need to resolve the question of responsibilities of citizens, communities, cities and regions, before the reallocation of powers. For example outside London, up until the creation of the combined local authorities, England has had no means to determine strategic infrastructure at the right level other than through DCLG.

Much depends on the approach adopted by individual councils and the overall picture that results from these discrete positions. The general challenges faced by the sector and this specific challenge make this a decisive moment for councils, and this paper explores how individual local authorities are responding. It analyses this in the light of international comparisons and presents some possible scenarios for the future.

This is a once in a lifetime opportunity for it to set out its stall in a way which reflects its communities’ concerns about real

life issues that affect them, including how they contribute to a new national settlement. Local government’s future is likely to be defined as much by the stance that it takes in the next year or two as it is by its current formal position. Will it be regarded as a credible player in the national picture or something to be ‘managed out’ of the mainstream?

The challenge of the next ten years

Political doldrums?

This is a time of significant political flux for the UK. Despite our heavily centralised system, English local government has been developing innovative developments and new strategic alliances. Local public services and leadership are more often being considered in the round, through mechanisms such as the Better Care Fund. The fallout from the Scottish referendum 'No' vote will have a significant impact, and it is very hard to guess what the 2015 national government will look like.

The UK – A centralised state

In March 2014 the Council of Europe issued a report on the quality of UK local government set against the benchmark of the European Charter of Local Self-Government. With reference to England it noted the limitations of its “powers without money” position and recommended that the UK Government take a number of steps to improve its position, including:

- recognising that local government is about more than councils being “merely one among many local service providers” and that they have important civic leadership and regulatory roles
- taking steps to diversify the local revenue base away from a dependence on central government funding and centrally-determined tax rates and towards accountability to the local tax payer
- recognising the role of politicians, promoting their work and the importance of democratically elected institutions.

The report is a useful starting point because it draws on perspectives from outside the UK system. It was heavily influenced by input from many UK local politicians and local government member bodies but was largely dismissed by central government. It describes the current English position of localism being supported in theory by central and local government. However it observes that the ways in which localism is being implemented by different players reflects a range of differing definitions.

English local government itself is clearly developing its localist policy and practice, and the Local Government Association (LGA) has been more vociferous in its campaigning, based on its 2013 Rewiring Public Services initiative. Localist policy is being developed by think tanks such as the RSA, New Local Government Network (NLGN), the Local Government Information Unit (LGIU) and Localis. Groupings such as the ‘core cities’ and ‘key cities’ are organising themselves to develop a clear voice and to co-ordinate sub-regional collaboration, often on a cross-party basis and without the need of legislative change and outside the auspices of member organisations. Greater Manchester is a particularly sharply defined example.



Some policies, such as the introduction of the Better Care Fund, have required local providers to use existing mechanisms, such as health and well being boards, to develop local integration of health and social care services. At inception they appeared to be localist in intent and significantly more money has been offered up in local pools, a total of around £5.6bn nationally as against a target of £3.8bn, arguably demonstrating the strength of a devolved approach. However the initiative has been contentious because it is largely based on existing health budgets, and it appears that the Department of Health is going to increase the level of financial scrutiny of the fund. Consequently there is nervousness that the local room for manoeuvre that was promised at early stages will evaporate as a result of central caution over departmental budgets.

The political dimension

Following the 2014 local elections the political balance of local government has moved to the left with Labour councillors now the majority group on the LGA. The sector's relationship with the coalition government has already been tense at times and this could increase as the LGA takes the lead from a Labour Chair.

Nationally, the framework of varying local election patterns and forms of local administration remains complex. Council elections are held on the basis of 'all-out', in halves and by thirds depending on type of

As they start to prepare [for the general election], the political parties differ widely in their consideration of issues relating to local government.

council and local preference. Local administrations are variously mainly leader and cabinet and mayor and council, with some return to committee systems.

In 2015 we will see the first national election following a fixed-term parliament. It is already clear that the five year fixed-term has changed the political culture and sense of anticipation. However, as they start to prepare, the political parties differ widely in their consideration of issues relating to local government.

From a review of web-based activity, the Labour party instituted a 'Local Innovation Task Force' which is feeding ideas into its manifesto. This contrasts with both the Conservatives and Liberal Democrats who as yet appear to have worked mainly within their own circles and think tanks. At the time of writing it was not yet clear what the plans might be of UKIP or the Green Party.

It is therefore unclear what the post 2015 attitude of central government might be towards local government, and at present it is extremely unclear what that government itself might

look like. However, whatever happens, further political change is highly likely. The Scottish referendum result has significant implications for the future of English local politics as the recent flurry of reports from Centre for Cities, IPPR and others show. Right now, England's communities have the least local autonomy of any current UK country. Also, UKIP's rise continued in the 2014 election and post 2014 UKIP will have to be taken seriously as a party, sometimes holding the balance of power.

At both national and local level party politics sees itself being out-run by the development of often web-based single issue policy activism on the one hand and non-party and non-governmental organisations working practically on the ground on civic projects. Meanwhile serious discussion of local government structure has largely been absent for much of the last five years. However the change to fewer councils in Wales and Northern Ireland and the confidence of the unitary counties makes the two tier network in the remaining shire counties look increasingly out of step. Yet the UK already has the largest local authorities in Europe and there are questions as to whether this increased scale will actually serve local communities effectively.

So while there may be winds of change blowing, they are not combining towards a clear direction but perhaps cancelling each other out. Is local government becalmed? At the national level it is struggling to gain traction, when compared to the NHS or foreign policy, while at the local level some are forging a way regardless. Are others in denial or have they been panicked into paralysis? Is any movement dangerous given the difficult financial environment?

Experience elsewhere

Our review of the international context showed that several countries have recently reallocated tasks and competencies between levels of governments either towards or away from devolution of powers, and many local authorities have experimented with new forms of delivery. For example some have split-out their operating units, becoming ‘conglomerates’ of sometimes dozens of semi-autonomous ‘results centres’, utilities or corporations. Others have collaborated more intensely with networks of private companies and non-profit organisations, have contracted services out and/or introduced more business-like concepts and instruments. There has been technological change too, with the development of e-government and information management techniques which have helped to streamline service processes and workflows. Much of this change reflects the ‘adaptive innovation’ that is being deployed in some UK councils. One of our correspondents observed that the local government sector has become ‘less uniform and remarkably fragmented’ both nationally and internationally.

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We know that the funding reductions faced in the UK have been more significant than in some other European countries, such as Germany or Denmark. It is clear that financial circumstances have driven much of this change. It is also clear that ‘new public management’ thinking, which was a 1990s trend in the UK but continues internationally relating to commissioning and contractual provision of services, has been a dominant force in this change. However, some change conforms more to what academics call ‘new public governance’. This can be summarised as encompassing new forms of empowerment in addition to voting, increased collaboration across sectors and tiers, and engagement of the private sector in problem solving rather than provision of defined services, and is therefore an approach based on multiple accountabilities. The new public governance approach presents a familiar picture because it reflects the approach of many councils in England. It is significantly more complex than a devolution of responsibilities, because it aims to build and exploit strong networks across a community.

The recent development of local government in Scotland and Wales provides an interesting contrast to England. Both have purely unitary local government, with community councils at the more local level.

In Scotland, a number of local government policies have moved in very different directions from the English experience. Whereas the coalition government removed the ‘duty to involve’, the Scottish Government is currently finalising the passage of the Community Empowerment (Scotland) Bill, which will give extra powers to local government. While Local Strategic Partnerships and Local Area Agreements have been made discretionary in England, the Community Planning system and Neighbourhood Partnerships have been maintained. Issues of multiple accountabilities have been partly addressed by the Single Outcome Agreement, which potentially encourages much more joining up of central government departments and more co-ordination and integration of local public services than in England since 2010.

This has not been achieved by tinkering with local government structures, although the recent report ‘Effective Democracy: Reconnecting with Communities’ from the Commission on the Strengthening of Local Democracy in Scotland has called for a wide-ranging review to see how much more devolution to neighbourhood and community level will be possible in the future, as well as more devolution of powers from the Scottish Government to local authorities.

In Wales, the Welsh Government’s response to a recent report of the Commission on Public Service Governance and Delivery commits it to a programme of mergers of existing unitary authorities to:

- improve transparency and developing stronger links between local authorities and their communities
- rationalise and develop stronger, more focused partnerships with other public services
- realign existing partnerships and collaborations with the boundaries of the new local authorities and other delivery partners.

The English question

Against the international and UK picture, the ‘English question’ becomes ever more stark. Based on our research, stakeholders from local government considered that there is a major opportunity to re-organise local government structures to achieve real devolution and efficiency, where the benefits clearly outweigh the costs, and many of them see an urgent need for debate on this. They also had differing opinions on the possible extent of real devolution and considered it a distinct possibility that we will see a hollowed-out sector with little prospect of real devolution because central government does not really understand the concept (although following the Scottish referendum all three main parties have asserted that they take the concept seriously). They thought that it is extremely important that central government departments are joined up to support partnerships and/or integration at the local level. They were also fearful that localism might be abandoned after the 2015 general election.



However, some wondered whether the sector is too worried about the need for a different settlement with central government (and therefore should just get on with its own development). They also thought that the differences between local authorities may be more significant than the apparent similarities. Finally, because ‘churn’ in the system could well be highly dysfunctional, some thought that radical change to a system of local government may be unwise, unless benefits significantly outweigh costs.

There was strong support for the role of local government in community empowerment arising from its mandate. Stakeholders thought that there was a need to look at the kind of community leadership that is needed. For example maintaining a role in community cohesion is key and should be included, although at the same time this was an area most under threat because it is not statutory, and building politicians’ confidence in their political mandate is very important.

While structural change was not at the top of the list, there was speculation that the three tier structure in counties is longer sustainable. There was an expectation that eventually this will be simplified to unitary councils and parish councils, with the former based on sensible scale units for planning services such as social care. Whatever the eventual structure, there was a need to develop a framework that is conducive to a good balance between politicians and officials, and which builds local accountability.

Our research leads us to believe that we will see greater use of combined structures, including combined authorities. Stakeholders thought this should happen at a bigger scale and with a wider number of partners. This would not be about redrawing the formal boundaries, but incentivising co-operation and risk sharing across them. They saw limits to joint working given local particularities and place-sensitive identities but thought that there remains some

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unexplored potential. For example they thought it more sensible to share front line services across different parts of the public sector in one place, while back office services may be more open to sharing within local government. They also thought that there was scope for devolution of some national responsibilities to local partnerships, linked to structural re-organisation. There were differences in perspective too, with concern from some that a focus on the approach adopted by city regions will not work for all.

The financial and economic challenge – icebergs ahead?

The economic and financial situation remains extremely challenging, with an increasing North/South divide arising from a pattern of funding reductions and economic growth. We are only half-way through fiscal consolidation and there are uncertain prospects for the future. The LGA anticipates a £14.4bn shortfall in the funding required in 2019/20, and 60% of councils are no longer able to meet the budget challenge through efficiency improvements. While DCLG does not accept the scale of this shortfall, all stakeholders recognise the scale of the financial challenge. Whole place budgets are regarded as best practice but are not yet proven in practice and economic growth is just about the only mechanism that offers flexibility, but won't happen evenly. The greatest benefit may not be from short-term income from business rates retention but will arise from better local skills, housing, jobs and infrastructure, and their long-term impact on the state of the community. All of these are resulting in a highly variable impact, depending on type of council, location and local politics.

It is self-evident that things are not going to get easier in the next ten years. Rather the reverse. It is vital for the sector to consider what more it needs to do to manage its destiny.

Local government finance is skewed

The UK is around half-way through an extremely testing nine year fiscal consolidation. It is hoped that the national deficit will be permanently offset by 2017/18, or at least by 2020. However, the Institute for Fiscal Studies (IFS) has raised continued concern about uncertain prospects for the future, particularly arising from housing pressures (echoed by the IMF) and the ageing population profile.

The public expenditure environment adds to this uncertainty, with a distinction being made between 'protected' Departmental Expenditure Limits (health, education) and 'unprotected' (everything else). The IFS foresees continued tightening of unprotected DEL expenditure with budget reductions for departments beyond 2015/16 not yet allocated and considerable uncertainty over delivery.

The LGA's 2014 Funding Outlook analysis reviewed the pressures local government faces, such as the needs of the ageing population.

The model showed that the variation between councils is wide. The council in the worst position, a metropolitan district council in Yorkshire and Humberside, is 55% funded (as a matter of policy the LGA does not identify individual councils in comparative reports). The best funded are all district councils, largely in the East Midlands, East of England, South East and South West, where there are not anticipated to be any pressures at all. Looking at the averages for each category, deprived areas appear to face the highest level of funding pressure and less deprived councils have funding more closely matched to its anticipated spending pressures.

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Percentage anticipated funding against pressures for individual councils in 2019/20

	Council with lowest level of anticipated funding	Mean	Council with highest level of anticipated funding
Type of council			
London borough	57%	74%	89%
Metropolitan district	55%	71%	81%
English unitary	66%	79%	90%
Shire county	73%	82%	99%
Shire district	65%	94%	100%
Region			
East Midlands	66%	79%	100%
East of England	65%	83%	100%
London	57%	74%	89%
North East	65%	74%	80%
North West	62%	75%	100%
South East	71%	84%	100%
South West	65%	83%	100%
West Midlands	68%	76%	100%
Yorkshire & Humberside	55%	73%	100%
Deprivation			
Most deprived (Ranks 1–50)	55%	70%	99%
Ranks 51–100	64%	75%	100%
Ranks 101–150	65%	78%	100%
Ranks 151–200	76%	81%	100%
Ranks 201–250	77%	85%	100%
Ranks 251–300	80%	84%	100%
Least deprived (Ranks 301–353)	65%	91%	100%

Source: Local Government Association, 'Future funding outlook for councils 2014', p19–20

However there is no inevitability that a poorly-resourced council will always be more at risk than a comparatively wealthy one. Some of the worst off are highly focused on their financial position, while others that are better off may yet find their own projections have not been robust enough. The LGA found that councils were looking to ‘balance the books’ through a range of methods, which in order of popularity are:

- maximising income through investment, fees and charges: 40%
- using reserves to support revenue budget: 38%
- increasing the local tax base and New Homes Bonus receipt: 12%
- reviewing how assets can be used more effectively: 12%
- changes to council tax support: 6%.

We explored this issue in our research because it is difficult to see from this list whether councils are being bold and radical in their thinking. For example where reserves are plentiful, or there is a business case for borrowing, are councils investing in revenue-generating assets, or setting up companies to maximise income from other public sector bodies or elsewhere?

Other than identifying budget reductions and service efficiencies, there are a number of mechanisms that councils are using to meet their communities’ needs. Over the last 20 years there has been an increasing focus on effective commissioning of services from the private and voluntary sector, specifying required outcomes for communities rather than detailed input and process requirements describing existing services. A number of forms of guidance exist and in 2013 the Government set up the Commissioning Academy to help develop good practice. Commissioning may well be a way to take a long-term view about community outcomes and service provision, and/or saving money from the public purse. However it does not guarantee either long- or short-term savings against a specific budget heading, nor does it necessarily provide local flexibility or encourage innovative fleetness of foot when situations change.

Over the last 20 years there has been an increasing focus on effective commissioning of services from the private and voluntary sector, specifying required outcomes for communities rather than detailed input and process requirements describing existing services.

Possible tools for survival

More recently demand management has become a critical tool. It helps to reduce costs by addressing two types of demand: failure demand, caused by poor quality or inappropriate services, and demand for services which are intended to fulfil outcomes that might be realised in other ways. Both approaches are rooted in the idea of early preventative intervention. Demand management theory often relies on behaviour change of service users and service providers. Yet it could do more to consider the change needed in attitudes in society around them and the development of a rights and responsibilities approach. This would see a deal between citizens and the local state which takes some pressure off demand through a combination of self-help and exploitation of community capacity and organisation. Also, there is a risk that demand management could become demand shunting, unless all the players in a locality work closely together, including those under direct central government control, such as education, probation and the DWP.

Total place/community budgets for particular service lines that cross sector boundaries have been the subject for much discussion and a number of successful pilots and case studies. However this has not yet translated into being a default approach and

is currently best regarded as ‘best practice’ rather than the norm. Some areas, particularly based around the core cities, have developed combined authorities for specific functions (Greater Manchester) or are working on whole place accounts across the public sector (Cambridgeshire). Also, the Chartered Institute of Public Finance and Accounting (CIPFA) has started work on a whole place public accounting methodology, and some thinking has already started into the potential of some form of local treasury and/or Public Accounts Committee to provide scrutiny linked to the national mandate of parliament.

There is of course a question of scale because significant effort may be needed to effect such change. For example impact should be able to be achieved by the changes relating to the Better Care Fund (BCF), and yet there is significant risk and conjecture as to what exactly will result given the wide dispersal of the money. The funds remain in NHS budgets although the strategies are the responsibility of Health and Wellbeing Boards, and £3.8bn over two years is a tiny amount against the annual £150bn budget of local authorities. Arguably more needs to be done to ensure that the health and social care environment better reflects need nationally by engaging communities locally in meaningful change of the whole system.

Total place/community budgets for particular service lines that cross sector boundaries have been the subject for much discussion and a number of successful pilots and case studies. However this has not yet translated into being a default approach and is currently best regarded as ‘best practice’ rather than the norm.

‘Pulling together the Better Care Fund’ provides further analysis.

The Government has reduced grants overall, effectively capped council tax, and has set its face against income streams that return a surplus. Accordingly councils’ only flexibility, where possible, is to seek economic growth because of the financial returns that they can accrue from business rates retention and new homes bonus. Many of the areas that are seeing the largest cuts have the smallest potential at present for economic growth. However there may yet be room for manoeuvre. Grant Thornton’s 2014 report, ‘Where growth happens’, explored the relationship between the track record of growth and growth dynamism, and identified a number of key ‘growth corridors’. It found that there were three factors that combined to secure growth of different types, based on economic, demographic and environmental factors. The ideal would be to secure dynamic growth for a community. The difference perhaps between being at the forefront of a range of waves of economic growth or tied to just one industry or resource

which causes high growth but no long-term dynamism. The economic linkages between places, particularly in growth corridors, are key to securing combined strength and dynamism. The report concluded that there was scope for more local authority intervention to help marshal local strengths and dynamism in order to bolster the growth that had already occurred without its help.

DCLG considers some of the sector’s analysis to be overly pessimistic. However, DCLG’s spending power calculations are on a per-dwelling rather than per-capita basis, making it hard to reconcile differences between various types of local population.

Economic issues to consider

Local government does not habitually use economic thinking to inform its planning for the future. However there are a number of key concepts which we believe are useful and have informed our analysis and scenario development. In particular we have focused on technology, chargeability, productivity growth, types of elasticity of demand and price discrimination.

Technology and Moore's Law

New technology has had an increasing impact in almost every area of economic activity as its speed, capacity and ubiquity grows. Moore's Law attempted to provide an explanation of this phenomenon and stays relevant despite its origin in the 1960s. In its generally recognised form, it states that the number of transistors on a given chip can be doubled every two years – reducing cost dramatically and improving the effectiveness of computing, and allowing ever more sophisticated uses of 'big data' and improved human interfaces. Moore's Law has been seen to operate for the last 50 years, so it seems likely that it will continue to be important and have strong implications for local government. If the cost of an input is falling, economics indicates that it will be used more relative to other inputs.

So, the effect will be to make achieving a given outcome cheaper, and IT will be substituted for labour inputs. We therefore might expect local government to make constantly increasing use of information

technology and data analysis to develop services in new ways.

Information intensive techniques that had previously been ruled out on grounds of cost are becoming ever more affordable. Tailoring services to a resident's particular requirements and engaging them in managing needs through some form of device, formerly ruled out on grounds of cost, will become less expensive to achieve.

IT will be substituted for labour inputs. We therefore might expect local government to make constantly increasing use of information technology and data analysis to develop services in new ways.

This will make services more attractive to users which is an important benefit of such technological development. The falling cost of information will make one-size-fits-all a less important approach to service provision. Such a solution will be optimal, provided such use of information technology enables the development of tailored services at less cost. More cynically, one way of rationing limited resources is precisely through the unattractiveness of one-size-fits-all services, so resource constraints may work to limit this development.

It is also possible to see that very clever algorithms could be used in place of human judgement, say in planning or licensing services, or an Amazon-like solution to deliver entire library loan services using e-readers. The greatest limitation here might well be the imagination of public sector strategists, the skills of the workforce and the freedom to experiment and invest in

radically new solutions. Accordingly, without some form of local or national will to action, the opportunity of Moore's Law and other technological development will be lost except for isolated or incremental take-up.

The growth of social media plays into this. For example local authorities have been given a statutory responsibility to regulate taxis and licensed premises to provide the public

assurance and ensure safety, because users would not have the information to make such judgements themselves. People suffer from not knowing whether or not a taxi or restaurant is safe and of good quality. So licensing by local government is used to solve this market failure. However, technology has now developed to the stage where customers can book taxis through phone apps such as Uber, or check out restaurants using TripAdvisor – even Twitter can provide useful information on an issue.

Powerful information from customer feedback through such apps could provide a superior and a more timely solution to information failure than licensing affords. It could also be the foundation of a far superior, risk-based system. Triggers from the public's information could prompt in-depth investigations, but the standard form of regular inspection could be rendered redundant. Accordingly there

would be nothing other than legislation lag to prevent local government's full or partial withdrawal from the licensing regime. The politics of this is currently playing out in cities around the world such as Paris, Berlin and Los Angeles.

'Public goods' and market failures

In everyday language, a 'public good' is generally thought of as being something from which everyone benefits and derived from what is culturally accepted as such, for example free education to age 18. However in economics, 'public goods' are goods or services for which it is difficult to exclude non-payers, or which cost no more to provide for many than for few. National defence is the classic example: there is no possibility for charging the citizen for the advantage that they receive from it other than through some form of national taxation.

So market forces cannot operate to generate finance for such goods because non-payers still get the service. Returning to the example of education, it would be possible to charge for it, and therefore it is not a 'public good' in the pure economic sense.

Many public goods are local public goods which provide benefits over a limited geographical area. Thus local parks, street lighting and the city street scene are all examples of desirable local services which it would be difficult to charge for, and which are usually financed by local government funding. However, changing technology and costs may change some local public

goods in ways that solve the charging problem. Local streets are generally seen as local public goods – charging a toll for using local streets would until recently have been too costly to operate. But GPS technology and number plate recognition means that charging the users of local streets pro rata for their use is (or will soon be) no longer barred by cost. Local examples already exist, including the London Congestion Zone. Technological developments mean that finance of roads and streets through user charges is technically possible. It is still politically difficult, but with the removal of technical barriers to implementation, it may be important in future years and indeed desirable if a switch to public transport is prioritised for environmental reasons; why exactly should cyclists and train passengers finance motorways and city centre traffic systems?

Uneven productivity growth depending on the type of human input

In 1967, the economist Baumol pointed out that productivity growth would be likely to be slower in labour-intensive industries as gains in productivity tend to come from technological developments. Thus there are limitations to improvements in productivity in local government, particularly where human input is required in many services from personal adult social care to bin collection. Accordingly there will not be an even pattern of change in productivity, whether from IT, cultural

or systems change. Local government services which are labour intensive could fail to deliver even average levels of productivity growth.

Social care workers, for example, to the extent that their service is labour intensive, relying on face-to-face interaction or personal care of clients may be unable to deliver the level of productivity gains available in more technical areas. To an extent this problem may be mitigated by some move towards the greater use of IT in social care, but to some extent the relative cost of such services may be expected to rise over time, intensifying the problems that increased demand through demographic change is likely to impose. The only option in such services of reducing cost is to find some way of securing the outcome without local government itself being responsible for carrying out the activity, for example through some form of voluntary provision.

Income elasticity of demand

Over time average incomes are slowly rising as a result of economic growth. Though there can be interruptions, this long-term trend can be expected to continue. Income elasticity of demand can be used to make future projections of demand based on this trend. Economists distinguish between 'income elastic goods and services', where demand grows more than proportionately to income, for example housing in the South East, and 'income inelastic goods and services' where demand rises less than proportionately

to income, for example food. This is not new; Engels pointed out in the 1850s that as household income rose, a lower proportion of it would be spent on food. In the 1890s Adolph Wagner argued that the public sector would become increasingly important as income rose.

Luxuries are income elastic and so with growing average incomes these relatively high-end goods and services will become relatively more important. One reason for the growing demand for personalised services is the long-term rise in income. Unfortunately, estimates of income elasticity for various goods are scarce, but going forward it may be useful to consider which local government services are truly demand-led, and of those which will have demand increasing more than proportionately with national income and which services will have demand increasing less than proportionately.

Price elasticity of demand

Price elasticity of demand determines whether more or less revenue is raised by putting up prices. What is the price people are willing to pay? This can be variable even within one service. If a leisure centre's charges are half those of a local gym, then (provided quality is equal) demand and income could be expected to rise in line with charges up to the gym price. So a price hike of up to 100% might result in considerably more income, but a price hike of 150% might see all the income evaporate.

So, if an authority tries to bolster its finance by raising charges and demand is highly elastic, it could actually reduce its income. This could be relevant to highly subsidised services where demand management may be needed. If price has major impact on take-up then increased charges could reduce the net subsidised expenditure considerably.

Price discrimination

Price discrimination is the practice commonly used in the private sector of charging different prices to different customers, for example in some systems early bookers for plane seats pay less but cover the cost of the flight, late bookers pay more and more the later they book, thus hiking the profit, but the last seat is sold on the day at cost because it's better than nothing. Price discrimination is used to increase revenue in comparison to just having one single price.

Local government already uses price discrimination techniques including concessions to types of user, for example differential charges for pensioners and young people, or residents' parking concessions. However there is probably scope for local government to explore this further. For example, in personal social services, people currently excluded from free provision by need criteria might well be willing to pay the market rate for a safe, easily accessible service. This would help improve the cost base of the service offered to poorer more

needy people. On the basis that the service may well be commissioned from the private sector, including this opportunity in procurement specifications could fundamentally change the costs that local authorities have to pay.

Using this example, price discrimination may be a somewhat counter-intuitive way for public managers to increase finances as they may see giving discounts as a way to worsen the financial position rather than improve it. But this is not always the case.

Summary: relevance of economic forces to local government

Councils ignore the pressures and opportunities outlined above at their peril. They are operating in an economic environment and the issues set out above add to the complexity of the challenges being faced. However, careful consideration of these factors could pay dividends when setting out long-term plans or shorter-term tactical measures, and prevent unforeseen consequences. We consider that the level of consciousness that councils have of these factors will play directly into their long-term viability. Or if there is some greater change on the horizon, into the legacy that they leave their community and successors.

International comparisons

International comparisons show that local government in some countries has had even more serious financial cutbacks than in the UK (particularly in Greece, Spain, Italy, Portugal and Ireland). In other countries, particularly those with which the UK has traditionally compared itself, local government has not been hit financially as hard as in the UK, for example France, Denmark and the Netherlands. Indeed, local government in the Netherlands is due to see its funding doubled in 2015 as it takes over further devolved functions from central government, substantially increasing the financial capacity of the organisations.

Some of these differences may partly be a reflection of the fact that the UK has an unusually large level of central government funding of local government, so that cutbacks in central government grant have a particularly severe effect on the local government spending. However, it is also a reflection of the lack of priority given to local government by central government in the UK – after all, in the Netherlands, central government funding of local government is also at a high level (57% in municipalities, 69% in provinces), but here central government has not picked out local government for such large grant reductions as in the UK.

Tax set at each level of government as a percent of GDP

	Local govt	State/regional govt	Local and state/regional	Central govt	Social security	Total
Sweden	15.9	0	15.9	22.8	5.6	44.5
Italy	6.8	0	6.8	22.6	13.4	42.9
France	5.8	0	5.8	14.4	23.9	44.2
United States	3.9	5.2	9.1	10.3	5.7	25.1
OECD (2010)	3.9	5.0	8.9	20.2	8.3	33.8
Canada	3.1	12.2	15.3	12.8	2.9	31.0
Germany	3.0	7.9	10.9	11.8	14.3	37.1
Spain	3.0	7.3	10.3	9.5	11.7	31.6
United Kingdom	1.7	0	1.7	26.9	6.7	35.5

Note: All figures are for 2011, except the OECD totals, which are for 2010. Data for 2011. Table sorted by percentage of local taxation for this paper

Source: Travers, Tony (2012) Local government's role in promoting economic growth: removing unnecessary barriers to success. Local Government Association, London, UK. Also quoted in RSA City Growth Commission (2014)

In other countries, particularly those with which the UK has traditionally compared itself, local government has not been hit financially as hard as in the UK, for example France, Denmark and the Netherlands. Indeed, local government in the Netherlands is due to see its funding doubled in 2015 as it takes over further devolved functions from central government.

Furthermore, international comparisons made by Professor Tony Travers of the London School of Economics show that UK local government has little discretion to raise its own taxes compared to other countries.

Finally, in Germany, local government has so far only been mildly affected by the international recession and its aftermath. Local government in Germany has a more buoyant local tax base than in the UK, due to its unlimited ability to levy local business taxes, which are linked to business

profits. Consequently, this relatively favourable position has been more to do with the generally positive trend in the Germany economy in recent years, which has partly protected spending by all public sector organisations. Furthermore, while the impact of the ageing population is especially severe in Germany, this does not impact on the public sector as much as in the UK, since health services are provided through an insurance system and social care is largely provided by charities and third sector organisations.

Thoughts from the sector

Our research shows that the sector believes that local democratic control over funding is key. Politicians and senior managers want the flexibility to generate income by innovatively using the council’s existing assets, and responding to area-specific public demand. They considered this to be highly context-dependent and that it therefore needed to be non-prescriptive.

There were clear differences in the ways that councils of different types were seeking to maintain viability as shown in the following table:

The financial focus of councils

Type of council	Financial focus
Unitary	<ul style="list-style-type: none"> • Efficiency and rationalisation (including reductions in staff terms and conditions) • Service reductions • Charge increases
County	<ul style="list-style-type: none"> • Efficiency and cost reduction • Service re-design (including devolution to parishes and the community sector) • Income generation and application of technology
London borough	<ul style="list-style-type: none"> • Economic growth • Collaboration and partnerships • Seeking to help communities be more resilient to reduce demand
District	<ul style="list-style-type: none"> • Commercialisation • Income generation • Prioritisation (including changing service standards)

Source: Research conducted for this report

Our research shows that councils are taking varying approaches to financial survival because of their widely differing contexts. Stakeholders thought that the availability of better resources and higher levels of flexibility are likely to catapult well-off councils to a higher degree of autonomy than poorer councils. This contrast largely reflected the North/South split.

Our research shows that councils are taking varying approaches to financial survival because of their widely differing contexts. Stakeholders thought that the availability of better resources and higher levels of flexibility are likely to catapult well-off councils to a higher degree of autonomy than poorer councils. This contrast largely reflected the North/South split. Some of our interviewees thought they could be independent of central government funding within the next five to ten years, but at a very much lower level of spending in real terms than in 2010. Some are very much dependent on grants and not benefiting from the rewards of growth, and some considered that it would help if they were responsible for setting their own fees and charges rather than having them set nationally. They also would like to be able to see better forms of income generation being available, including cost recovery for services used by people who neither live nor work in the area.

Finally, some warned that ideas of independence in the current financial regime is utopian because of the overall balance of funding and cost and because legislative change (such as the Care Act) cements in new dependencies and financial structures.

Financial futures

Our research indicates twin possibilities (which might occur at the same time): increased financial autonomy for local government could forge a new culture that is less concerned with central government; and a tendency to focus mainly on delivering only statutory services, with any non-statutory services either delivered through partners in the voluntary and community sector or completely terminated.

Whatever the future relationships, interviewees considered that the next five years will hurt because all the ‘easy’ savings have been made already. And while the most visible examples will be the reductions in environmental services and street scene works, they felt real regret that the biggest impact would be felt by extremely vulnerable service users with the greatest individual need. This could happen at the same time as a consequence of demand management where the council becomes the provider of last resort for people who can’t afford to pay. Meanwhile they have seen an increase in lobby groups fighting service reductions, which reduces trust in the council by the local community and increases its workload. In addition, they had concerns both with the challenges of reducing services in affluent and articulate communities, and with regard to the reaction of councillors who may not be clear about the realities of particular services.

We received a clear message from our research that the whole public finance system is fundamentally flawed. For example one pointed out that some large international businesses have managed to escape UK corporation tax, but they have not escaped local business rates which have been collected at the local level. All were agreed that any national change would need to include a systemic review of local taxation. They also considered that there are likely to be tensions as the public see private sector growth and local government contractions, particularly on the services that they are most aware of. They were also concerned as to whether the Better Care Fund might stall if the NHS requires further funding to implement it. There was concern that this could occur despite the longer-term benefits that might accrue from more preventative local government spending.

Those we spoke to were also concerned that there should be a flexible financial foundation for councils. Much of the focus of local government finance is on long-term revenue viability of the organisation rather than investment in the place. What is the actual relevance of a council running a balanced and sustainable budget when around it there is a decline in local well-being? Accordingly there needs to be discussion about what ‘balanced and sustainable’ means for the community, with the flexibility to borrow and

invest to secure growth, infrastructure, skills and/or facilities which make it more sustainable for the future.

Local authorities are required to balance their budgets by law and to date have done so. This has resulted in some saying that the sector’s analysis is overly doom-laden, while the sector itself says it shows how responsible councils and communities have been. To help put such points in context and to inform the manifestos leading to the 2015 elections, the LGA and CIPFA have instigated an independent commission which will report on local finance later in 2014.

Economic theory relating to price and demand shows that there is probably scope to completely rethink service provision in some areas, based on new technological methods and well thought through business cases. We consider that the surface has been scratched a little, but possibly not much more. This may partly arise from the fact that local government is defined by legislation which reflects past needs rather than charged by a constitutional settlement to anticipate future requirements.

Our discussions with the sector show that a number of options are being pursued to close the financial gap and secure a good economic base for the future. Approaches differ slightly by council, but there was as yet no startling revelation or wildly entrepreneurial approach. Even in the most forward thinking councils ‘running to stand still’ seems like a victory against the odds.

There be dragons?

All of this is happening against a background of rapid social and technological change. Demographic change is having a very strong impact, combining an ageing population and rising school rolls. Social capital within communities is becoming increasingly important and the nature of community leadership is in question. Meanwhile, it is uncertain whether local government will be able to keep up with technological developments because of a lack of investment in new systems, sector skills and appreciation of strategic impact. Its institutional shape is looking increasingly out of step and the people-based nature of many services makes efficiency gains a challenge, particularly where there are skills-gaps.

While financial and economic issues are relatively firm ground, there are some softer, less tangible, factors which may have an impact on the development of the sector going forward.

Social and technological change

There are a number of social factors which are likely to impinge on the development of the local government sector. For example its relationship to the rest of the public sector and the value attached to any idea of a local democratic mandate, the loss of institutions, the development of electronic social networks and the impact of a transactional web-based approach to services. There is also the question whether it can be said that there is a public service ethos and what its strength is among the range of public, private and voluntary sector providers. There are a number of changes too within local government: to executive political arrangements and their impact on the relationship between politicians and officials; or the changing nature of identification with a locality and expectations of the public sector.

The ageing population changes the balance of services, yet there is contested ground around the funding of adult social care and the implementation of the Better Care Fund. Housing policy will increase in importance because the availability and quality of housing stock of various types relates directly to key long-term issues such as community stability, educational development, health, employment, disposable income and ability to function in old age. Also there are rising school rolls in many parts of the country. This indicates unanticipated pressure on schools,

health and children's social services which had hitherto been planned on the basis of static or falling numbers.

A further key factor for the future will be the impact of technological change and whether local government will be able to keep up. Mobile and assistive technologies, the use of mapping and Geographical Information Systems (GIS), and the public availability of open data and 'big data' are all having an impact on the conception of what a public service is and how it might work. People are developing new expectations about how they might interact with public bodies and receive services, and some councils are responding to this. Others struggle still to provide an accessible website. This would make it harder to think about how their business might change if they used big data and algorithms in a similar way to many private sector companies.

As discussed in the economic concepts section, technology is changing what is a 'public good' in both pure and cultural terms, as well as changing balances of power. For example in the future, the person most familiar with a user's whole social care record and plans may well be the user him or herself, at the heart of the care process. While Moore's Law seems to apply to technology that might be useful to the public sector, it seems to be making little headway in mainstream strategic thought, and is actually held back by the even slower progress of legislative development.

Capital and infrastructure, social and otherwise

All of the above will have an impact on, and be affected by, the extent of social capital within the community. Will the links between people be relatively widespread, shallow and transactional, but with the advantage of spanning boundaries between different groupings and building overall cohesiveness? Or will there be deep social capital and much closer interactions where people help each other out more and reduce the need for public service, but where there is a risk that this only occurs in well-connected silos within a wider community between ‘people like us’ and different community groups exist in parallel lives? There are similar questions about the extent of social capital that exists within and between the public, private and voluntary sectors in a community.

We have seen that many places need economic growth if they are to have a viable future. Such growth depends on planning, developing and maintaining a great environment and infrastructure, which helps the community to function and keeps it safe and healthy. Also the experience of the last few years has shown that we ignore environmental issues at our peril. Whether or not cost-cutting led to some of the most serious flooding in decades, it is clear that nationally we cannot afford to ignore the economic disruption it causes or its links to global warming, along with other associated impacts. And national environmental crises, along with most other emergencies, are

going to be addressed at the local level, with councils having a leading role in prevention and recovery.

Local government organisations and public expectations

However the downward pressure on environmental budgets caused by the increase in health, social care and children’s budgets means that many places will struggle to find the resources for good investment in strategic local planning, environmental services or effective management of crises.

Finally, there are some organisational considerations which local government has to contend with. The structure of local government itself varies widely, from two tier working and tiny districts, the smallest being West Somerset (population 34,700; gross expenditure £25m), through to the largest city council, Birmingham (population 1.074m; gross expenditure £3,600m). Reflecting on earlier points it is clear a case could be made for review.

There are some significant challenges ahead arising from skills-gaps, as noted above, and the productivity challenge. For however a service is structured, changed or outsourced in some way, most local government services are labour-intensive and do not lend themselves easily to radically re-engineered productivity growth. Disruptive technology does happen, for example telecare or innovations in waste management, but a person will still be needed to go round and help another

who has fallen, or to put the bin on the back of the truck. This restricts the scope for total redesign and extreme changes in efficiency. Accordingly, an appropriate organisational culture is likely to be key to making the most of inevitable change and achieving momentum in the future. Further, in a commissioning environment it is not sufficient to consider just the culture within the remaining council employees, but the culture of the system as a whole.

It is clear that the fundamental change faced by the sector will require its mind-set to flex constantly to keep up. We can expect the population in 2020 to be more digitised and more mobile, and the extent to which place and community will figure large in people’s lives is in question. In some places councils are keeping up with this change, so far. However, the speed of change will test their ability to change their culture and invest in the people skills required to use standard technology and work in different ways with a ‘tech-savvy’ population. It is clear from our research that this is not consistent and a different mind-set from local government and all public services will be needed in the future.

Alongside all these factors, councils must address rising expectations about the quality of services and perceptions of taxation. Managing citizen expectations and developing a culture change in communities is challenging, particularly as residents naturally compare their experience of services delivered by the public sector with the

standards they expect of private sector providers (even though they may not actually experience them). They have expectations regarding leisure, parks, waste and cleanliness, but these services will increasingly be reduced. Unless taxpayers have children of school age or are accessing social care there could be a growing disassociation between the tax payer and the receiver of services.

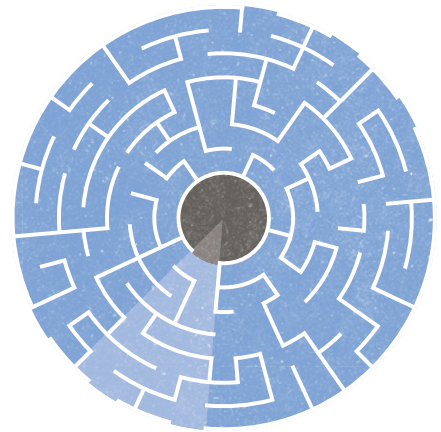
The wider context

Local government colleagues' concerns about the future included questioning whether an over-reliance on technology might alienate whole sections of the community, and whether past efforts to improve customer care and engagement could have now paradoxically embedded high and costly levels of interaction with local people and a resistance to using new channels.

Yet our international comparisons suggest that perhaps the sector is not in step with elsewhere. Social media has now grown to the point whereby over 50% of the population of the UK is on Facebook and nearly 25% on Twitter. Further, the ubiquity of the internet for standard transactions in public, private and third sectors suggests that it may be the local government which is dragging its feet in moving to a digital relationship with the public, rather than citizens.

The UK now lags behind other countries: the latest UN e-government survey ranks France as first in online service delivery, followed closely by Singapore and the Republic of Korea, with the UK coming in as 11th. It singles these countries out, among other things, for their integration of e-services, expanded roll-out of mobile applications and provision of opportunities for e-participation. In June 2014, the South Korean Government announced plans to develop an external open cloud platform to better connect systems across e-government, so that anyone could use and improve the open software.

Moreover, it may now be possible to build some very strong gains on the back of the strengthening of interactions with local people. For example through neighbourhood forums, even neighbourhood community budgeting, in a limited number of OurPlace! Pilot areas. This would suggest the potential for significant levels of community co-production of services. The extensive move to personalisation and individual budgets, particularly in social care, suggest that even service users with major disadvantages may be able to play a greater role in the co-commissioning, co-design, co-delivery and co-assessment of local public services than was the case even a decade ago. Technology may well help them to do so, rather than hinder.



Conclusion

We believe that the next five years will be critical for local government in England, even if there is no other constitutional change. Our research has led us to reflect upon what the sector's vision for 2020 might be, and to set out some possible scenarios showing both the possible impact on councils and the stance that they might need to adopt to protect and enhance their communities.

Analysis and possible scenarios

We consider that local government is working in an increasingly complex environment. It has an increasingly vague and byzantine legislative brief as to where it fits in the national picture, a declining funding base and little certainty. Yet its whole purpose, through good strategic planning and community-based services, is to help prevent some of the highest social costs to the public purse. Also greater criticism is likely as it withdraws some services and unit costs of others rise because they are only focused on the most needy.

Every one of the issues above will see change in the coming ten years, and the outcome of both the general election and the spending review that will surely follow very soon afterwards will play into this. The combination of all the possible outcomes makes for an extremely challenging environment for the sector. Economic growth is key to the future of local government because it will help to grow the tax base, but Business Rates Retention and New Homes Bonus are concessions to the sector rather than part of a carefully considered revision to the financial deal between central and local government. However the sector has an important shield in its armoury, its democratic mandate.

Clearly there needs to be some kind of reset of the whole system, as suggested by the LGA among others, both nationally and locally. Local government would do well to grasp control of this for the benefit of its

communities. In the following sections we will explore a range of existing and possible scenarios and how the sector might respond.

There is currently no broad agreement on a simplifying agent, unifying theory or school of thought which provides a direction of travel or certainty for the future. Perhaps because of this, local government itself is proving hugely resourceful in working through the issues it faces and liaising with public, private and voluntary sector partners to solve problems.

To help with this we have therefore developed a set of six possible scenarios based on the broad analysis above, tested them with senior local government figures and considered a number of international case studies.

The scenarios in brief



Adaptive innovation

Councils creatively redefine their role and are able actively to affect their operating environment, often working in close partnership with other authorities



Nostril above the waterline

Councils are only able to act with a short-term view, their existence is hand to mouth and even a small external change might seriously challenge their viability



Just local administration

Councils have lost the capacity to deliver services, either because they have 'handed back the keys' or because responsibility for significant services has been taken from them



Running to stand still

Councils are led and managed well and can see a positive future, provided that they can keep up the current pace and that there are no major shocks



Wither on the vine

Councils have moved from action to reaction. Their finances and capacity are not sufficient to the task and they are retreating into statutory services run at the minimum



Imposed disruption

Councils are subject to some form of externally imposed change, such as local government reorganisation

Clearly there needs to be some kind of reset of the whole system, as suggested by the LGA among others, both nationally and locally. Local government would do well to grasp control of this for the benefit of its communities. In the following sections we will explore a range of existing and possible scenarios and how the sector might respond.



We consider that all of these scenarios are possible outcomes for councils individually and in general over the next five years. Given that councils are large and complex organisations, we think it possible that an individual council could simultaneously incorporate aspects of more than one of these scenarios. However, we also think that, especially given the Scottish referendum fall-out, it is feasible to think of a sixth factor (if not scenario) where there is a major change or restructure imposed system-wide by national government between now and 2020. The following paragraphs present the scenarios in more detail.



Adaptive innovation?

In this scenario, local initiatives break the mould of leadership and service provision by creating a completely new way of working. This is then endorsed at all levels of government and across the public sector enabling councils to lead local communities to chart a new course. In particular, these adaptive councils have completely re-thought how they operate, based on a cool assessment of the application of an entrepreneurial approach and economic foresight.

In doing so the council has engaged the whole of the public sector locally and looked outside its borders in order to collaborate on issues such as infrastructure on the basis of functional economic areas. Increasingly such councils are looking towards combined authorities as a way of achieving requisite scale on key issues without foregoing local autonomy. Greater Manchester, the Merseyside councils, 'Greater Bristol' and some others are examples of this emerging approach.

Our respondents considered adaptive innovation to be highly desirable wherever possible, but were not certain that this would be open to all, given their underlying finances, capacity and local circumstances. There was a view that this must enable innovation at a strategic level, particularly with regard to economic development and infrastructure. This is more than just resiliently soaking up the shocks that come, it is then making positive steps of change which develop future capacity to rise above them. There was some concern where this was driven by rigid and wholesale long-term planning however, with one arguing for thoughtful and flexible 'tactical incrementalism'.

However the dynamism demonstrated by the core cities and others is not universal. The new combined authorities are the product of a long history of effective joint working rather than the catalyst for it. We consider that any would-be innovative solution will require careful thought and the assurance that the requisite underlying foundations are there, not just in financial and organisational terms, but in the quality of relationships and trust too.

Case study – Canada



In the Canadian federal system the provinces have exclusive responsibility for the local government system within their boundaries. In practice, in most provinces local government has similar roles as in the UK, with the addition of water and sewerage, fire, police, transportation and communications, but spending on health, education and social services is minimal.

British Columbia has introduced a range of Regional Districts (27 to date) for various areas and forms of service delivery, which provide a region-wide forum for strategic discussions; a range of services where different services have different boundaries within the RD, each service being independent and with no cross-subsidies; and democratic representation and local community services for populations who live outside the municipalities (for whom they therefore serve as the 'local authority'). This system is close to English joint authorities in nature, but with greater regional leadership capacity and a very powerful service delivery function.

The British Columbia experience demonstrates that exploiting 'variable geographies' through a self-organising system which is not imposed by 'central' fiat can be a viable solution. It does not require the disappointing results and unintended consequences that sometimes accompany centrally determined solutions.



Running to stand still?

In this scenario, good management, prioritisation and financial planning means that the council is likely to balance its budgets in the medium to long-term and considers it has a future as a viable organisation.

However this has been hard to achieve and while there have been widespread service improvements and innovation across the council, the council is not yet making full use of all the economic options available to it. Also, while it has good relationships with other public sector partners, joint working is limited to collaboration between services, rather than completely re-designed, integrated services.

We believe this scenario is most likely to apply to large counties, large unitaries, London boroughs and a few far-sighted districts.

From our discussions, 'running to stand still' is regarded by most local government figures as a good place to be in the current environment. They considered that at present most of their energy is focused on doing just this, largely arising from the need to completely refocus their organisations. We also gained an impression that there is an increasing feeling that the sector is waiting to see what will happen in the coming year, which might render local efforts to go beyond this point irrelevant.

We believe this scenario is most likely to apply to large counties, large unitaries, London boroughs and a few far-sighted districts.

Case study – Denmark



Denmark is a good example of a local government system which is stable and operating in a way which offers both effective and efficient local public services, within a strong democratic framework. It benefits from a balanced relationship between central and local government – not without its tensions, but with an underpinning relationship of mutual trust and respect. The sector itself divides up the central government money that it gets. Local authorities are responsible for the same services as in the UK plus primary care. Denmark has a strong commitment to its welfare state, based on reciprocity, and this has protected it to some extent from cuts.

Danish local government considers itself to be in crisis because it hasn't had its usual increase in funding this year. However the current local government situation appears highly enviable from the perspective of other European states. The lessons from Denmark are that the settlement between central and local government is part of a wider political and social settlement, that resistance to change is profound even in a forward looking technologically savvy society, and that the degree of stress in the system needs to be enormous before the need for disruptive change is recognised and acted on.



A nostril above the waterline?

Sector-led improvement and sharing helps these councils keep going. However the nature of incremental change does not enable them to do more than just about counter the gravitational pull of decline. Consequently they are at risk from even the slightest change.

Councils in this group are managing to balance their budgets year on year, and are doing some medium-term financial planning. They would understand some of the economic issues identified and mitigate some of them, but not be in a position to use them assertively. They have explored some back office or top-team sharing and get along with the rest of the public sector in their area but have closed down partnership working and/or are focusing on the absolute statutory necessities.

We consider that councils in this scenario may be small unitaries, districts in poorer areas and small counties.

We consider that the structural and legislative solutions adopted in Italy demonstrate that this type of de-institutionalisation carries with it the risk of diffusion and fragmentation. This case study may help highlight the potential downside of some of the changes adopted in England to date.

Those we spoke to were largely agreed that 'A nostril above the waterline' is an unpalatable scenario, but for a minority it was considered to be likely if not acceptable given the current lack of political will and managerial responsibility to grapple with tricky issues. However most felt that to be in this situation was to be avoided because it is likely to be the start of the slippery slope to decline.

Case study – Italy



We consider that Italian municipalities are largely in the 'nostril above the waterline' category. Many of the current austerity measures had already been experimented with in the recent past. However, the level at which they are now being implemented is unprecedented in its severity and intensity. Financial targets for local government have become more ambitious and hard to reach, while regulations have been progressively intensified.

Since summer 2011 regulations have changed at an extraordinary pace, with the aim of reassuring the financial markets and keeping the interest rates of the Italian public debt at sustainable levels. This caused a high degree of uncertainty for local government institutions exposed to continuous, and at times inconsistent, changes in the legislation. Furthermore the second tier of local government (provinces) has been reformed. Whereas their political leaders used to be directly elected by citizens, now provincial councillors are elected by the municipalities in the province. This includes proposals for a complete re-organisation, including the creation of 'metropolitan cities' (which has been temporarily suspended), and a significant trend towards municipal corporations for local public utilities and local public bodies, to which many public services have been delegated.

A survey in 2010 by the Italian Court of Auditors showed that local authorities held shares in nearly 6,000 decentralised entities. Around 35% of decentralised entities were active in the utility industries (such as waste, water, transport and energy), and around 65% in other services (such as cultural and recreational services, sports, business support activities, scientific and technical, agriculture and fisheries, health and social services, pharmacy, etc).

It is estimated that at least 40,000 people have been appointed to local public bodies in some role or another. There have been problems of accountability and of cross-organisational working created by such fragmentation. The central government has now imposed some limits to the creation of municipal corporations. This may provide a warning to the UK of how the 'creativity' of local government, when it is in danger of sinking, can have a downside.



Wither on the vine?

Increasing incremental irrelevance as powers are diminished, bit by bit, by legislative change and economic impotence. Significant service cuts have reduced public trust and confidence and the councils in this category are unable even to conceive of working differently. These councils have abandoned tentative moves towards long-term financial planning because there is too much change. They do not have the capacity in their leadership and top teams to think about constructing different operating models taking into account economic considerations, and would be unable to put together the business case for using reserves or borrowing to implement them.

We consider the most likely councils to fall in this category might be the smallest districts or unitaries, probably in the most deprived areas.

Many local government colleagues saw ‘wither on the vine’ as being a real possibility, arising partly from creeping centralisation, and considered this and ‘a nostril above the waterline’ as the scenarios that the sector must work hard to avoid. However, while a national government might allow an area’s environment to decline to unacceptable levels, would it allow the melt-down of adult’s and children’s social care simultaneously across a large number of councils? Recent cases suggest that one or two instances might not trigger a national reaction other than local intervention. However increasingly there are questions about whether some services have a long-term future within local government.

Many local government colleagues saw ‘wither on the vine’ as being a real possibility, arising partly from creeping centralisation, and considered this and ‘a nostril above the waterline’ as the scenarios that the sector must work hard to avoid.

Case study – Ireland



We consider that Irish local government is at risk of withering on the vine. It is weaker than in many countries, partly due to the electoral system, traditional centralising forces, and weak local political structures. Recent proposals to reform local government are unlikely to have the desired impact of strengthening local leadership or devolving powers and functions.

Also, the Irish experience shows that when local government becomes very weak and loses the confidence of its residents, local people turn to members of the Parliament to pursue their grievances. This makes the workload of national parliamentarians almost impossible to deliver, which in turn interferes with the efficiency and effectiveness of national government.



Just local administration?

We consider that there are two possible routes to this position: the most likely is ‘nationalisation’ where central government summarily judges local government to be incompetent across a range of policy areas and withdraws some or all powers. The second is ‘surrender to the centre’ where local government is unable to escape the gravitational pull of decline and, rather than withering on the vine, consciously throws in the towel.

At the time of writing there are no councils in this scenario, however in the recent past both Doncaster and West Somerset came very close and required intervention. There have been questions about whether ‘nationalisation’ of functions such as children’s services or adult social care might provide a solution to problems nationally, and some politicians and officials within the sector have wondered aloud why they bother with some responsibilities and would ideally like to ‘hand back the keys’.

We could find no international examples of local government willingly handing back power to central government or where that might likely to happen in the future. Perhaps this is because once politicians have fought to be elected, they are unlikely to give up their positions, however minimal their power or their effectiveness in ‘making a difference’. We consider that even dysfunctional political systems will only be removed by some form of top-down hierarchical control mechanisms based on a more powerful political mandate, which will inevitably be heavily criticised by any who are losing out.

However, the construction of an alternative does not necessarily need the same top-down hierarchical control mechanism and engaging politicians from lower levels of government, along with people deriving existing power from other local governance institutions, in its construction may well mitigate against their resistance.

Case study – Australia and Spain

At present we can find no countries where either facet of this scenario can be said to exist. However we consider that there are plausible trends towards this scenario in Australia and Spain.

In Australia the functional and financial position of Australian local government has always been weak by international standards, has been subject to ‘cost-dumping’ by central government without accompanying resources and has been a political bone of contention in the 2013 elections and subject to curtailment of federal grants. The progress towards amalgamations has been halted and reversed in some areas. It remains to be seen what the future holds, but national government intervention which weakens local government further may be a realistic scenario.

In Spain there are some strong signs that the Spanish Government aims to recentralise power by eliminating some local governmental and autonomia (state level) institutions by abolishing or weakening diputaciones and mancomunidades (multi-authority organisations), and this will significantly alter the power balance between elected local government and central government.

The Australian case has been widely interpreted as showing that local government needs some protection by having some explicit recognition of its role in the constitution. However many Australians do not value local government highly enough to see it as having a future at all, never mind one constitutionally backed.

The Spanish case demonstrates that federal interference in the local government affairs of autonomias (state-level governments) is likely to drive local and state level government into an unholy alliance against the centre, a risk which non-federal systems do not face.





Imposed disruption?

Final scenario points

As is always the case with the development of potential scenarios there was discussion about possible scenarios that we have not included, for example one colleague argued for an ‘anarcho-localist’ scenario. In this, the sector forges ahead and builds its own alternative without the centre, based on networks enabling new reserves of social power without having to wait for central permission. This might be a possibility in some cases, particularly in the exercise of discretionary powers rather than statutory responsibilities.

Another argued for ‘local government falls over’ as a highly undesirable but plausible scenario. In this scenario central government continues to heap ever more expectations and demands on to local government without any resources, and is almost surprised when ‘things go wrong’, like in the carer scandal. This is close to the Australia case study discussed earlier. Yet another argued for the need to think about scenarios as far ahead as 2050, and had tried to do so but had stopped because it proved to be an impossible task.

Comments from our interviewees were taken on board as the scenarios were developed. In particular, there was an initially quiet but increasingly strong voice which came through all the discussions: ‘if it’s looking this bad, would significant externally-imposed change provide a better future?’

During the development of this report there has been an increasing sense that local government in England is at a decisive point. This increased markedly following the Scottish referendum result. There is the will and potential in some places to develop a local public service system and corresponding local government arrangements which are likely to be much more effective. However local government’s constitutional position and the diversity within the sector is too broad to enable it to take decisive action on its own.

So while our scenarios have been developed bearing in mind what local government itself can do, significant externally-imposed change has increasingly been part of our conversations. This is not to suggest that local government should simply roll over and await a solution that central government imposes forcibly. However there was a clear feeling that England will need a much better settlement for the future than what is perceived as a 1972 fudge and subsequent piecemeal discussions. We think it is important to accept that parliament alone has the national mandate to fundamentally change the settlement. It should therefore work closely with local government and other local public services to develop something much more effective, and once set out, local government should accept the weight of the national decision that has been made. Similarly, Parliament needs to accept that any new system is likely to fail if it is imposed upon a local government sector which does not agree with its broad outline.

Local government’s constitutional position and the diversity within the sector is too broad to enable it to take decisive action on its own.

Case study – Finland and Northern Ireland

The Finnish local governance system is single tier with strong local autonomy in small municipalities, which have responsibility for health care, social welfare and education (up to university level), as well as the more conventional local government services. The level of municipal autonomy gives rise to major issues of cross-border service planning and delivery, as well as the strategic issues of regional development and transportation, especially in the rural areas with declining populations or the areas with fast growth in populations. Municipal mergers would therefore seem to be a sensible option.

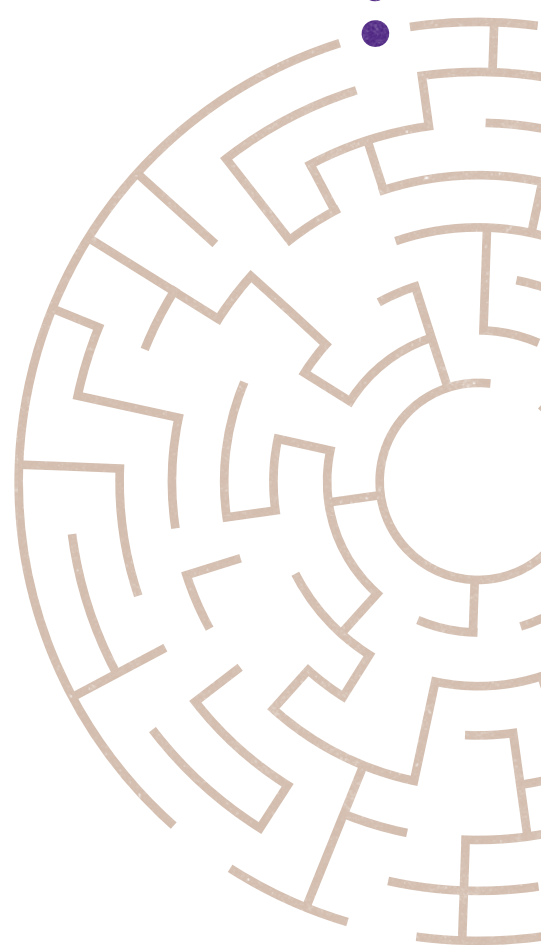
However municipal mergers have proved very difficult to implement in practice, so inter-municipal co-operation was the main method of state intervention up to 2005. More recently, an experiment to test regional self-government was abandoned because of resistance at the municipal level – however, this network model produced a lot of interaction and three out of five of the pilot regions subsequently planned a large district-wide amalgamation. Meanwhile, a nationally imposed set of experimental restructures had to be abandoned.

Subsequently a national municipality reform was launched by central government, moving towards bigger municipalities and five regional ‘commissioning’ units along with a transformation of the social and health care service system. There have already been many voluntary municipal mergers but the Government is now looking to force the so called ‘crisis municipalities’ to merge as well. This would mean geographically very large municipalities with low population density and increasing partnerships with NGOs and the private sector. However these proposals are controversial and may not survive a change in government in 2015.

The Finnish experiments show that structural reforms can fail when they are imposed by law but do not change the underlying institutions (particularly the commitment to the value of local autonomy). It also demonstrates that network-based initiatives which focus on fostering interactions which can change the perceptions (and loyalties) of the key actors can have a long-term positive effect on the willingness to compromise, even on cherished values such as local autonomy.

In Northern Ireland, local government has a limited range of mainly environmental functions and has been an arena for inter-communal strife in Northern Ireland since the 1960s. Reform has foundered since the 1990s, but implementation of the reduction of authorities from 26 to 11 is now under way, along with the transfer of some powers back to local government. This is the only example in Europe of local government moving out of ‘withering on the vine’ scenario into the ‘nostril above the waterline’ scenario.

The Northern Ireland experience shows that effective local government is most clearly seen to be needed when it is absent, and that democratic legitimacy is damaged not only by divisive and discriminatory behaviour on the part of councils, but also by over-centralisation and a perception of remoteness of decision makers.



Some we spoke to thought that some form of national change was now both functionally necessary and constitutionally inevitable in the light of the Scottish referendum result. The case studies from Finland and Northern Ireland show where this is happening right now, but even more significant are the case studies from Canada and Denmark mentioned earlier in the report. The former shows what is possible given the right environment, but the latter may be even more significant. Denmark went through wholesale change and the development of a completely new settlement between local and central

Some felt it would be better to perform a more limited range of functions effectively at the local level, rather than the very broad range with limited tax and spend powers as at present.

government as late as 2007. The history and the context are different, but seven years on the new arrangements have clearly bedded-in and are stable. If there was a national debate, followed by action to put in an agreed new framework of local governance, where might England be seven years after grasping the nettle, compared with leaving things as they are?

In our discussions there were additional concerns about the environment in which local government is working. Most fundamentally is local government still relevant? How many people think at all about the value offered by the council beyond the bin collection? There was general agreement that new powers would probably follow the Scottish referendum, with a lot of discussion since about precisely in what form and to what timetable.. However there was limited appetite for taking on anything more without a clear settlement on funding and the prospect of success. Some felt it would be better to perform

a more limited range of functions effectively at the local level, rather than the very broad range with limited tax and spend powers as at present. One colleague pointed out that the issues at Rotherham were at their worst at the point when local government finance was at its height. So the problems could not be ascribed to austerity but the failure of governance: sluggish and inappropriate decision making.

A second clear strand was that it is not just about local government, there is danger from disruptive innovation if it does not result in a new co-ordinated approach, and that may be outside local government's influence or mandate. Secondly, there was a strong feeling that all other parts of the local public sector need to understand the pressures too and work with each other to co-ordinate. Yet this does not happen on a universal basis and local government can end up spending a lot of time trying to co-ordinate various local bodies, for example in social care integration. This is about whole place change, and some areas have a greater sense of place than others, so there is a need for thinking about the local government of an area as a whole, not just reshaping councils. There was general agreement that we need sensible units and methods of administration, including learning from some of the international examples.

None of this can be done without engagement and change within and between Whitehall departments. There was a feeling that as long as each central government department gets a separate budget, there will be never be a culture of joining-up at local level.

Colleagues were wary of ascribing too much weight to councils' influence at the local level. For example one felt that most community innovation is in the community and that we delude ourselves as a sector if we think we have much control over it. Others thought that fundamental change often happens under the radar and outside formal planning. However, most agreed that inertia may well prevail unless there is a clear understanding that a council is close to a tipping point or 'burning platform'.

There was a feeling that as long as each central government department gets a separate budget, there will be never be a culture of joining-up at local level.

Many we spoke to talked of the importance of the growth agenda. In the absence of revenue flexibility a lot of councils have been looking at capital expenditure to assist this. However there was concern that they may not have thought through what is affordable in the long-term and may have also taken their eye off day-to-day service provision. There was also concern that different areas were ending up competing against each other for growth and that this was a zero sum game. Also the situation is different depending on local conditions and the locality. Growth is not the answer for all and some will lose out, wasting valuable resources by chasing it without a realistic prospect of success.

At the end of the day, all felt that the future depends on people and trust. The attitude, quality and culture of staff is key, yet many struggle to attract good people to the few public sector jobs that are being advertised on salaries that, in the South East at least, look unattractive. There has recently been a large intake of new councillors in many councils, but they are looking to survive to the next election and are not yet in a position to think much about innovation. Thirdly, whatever the eventual solution, the sector will depend on the willingness, ability and goodwill of others, particularly in government, Whitehall and across the public sector. How will local government make an appealing case which they can support and 'own'?

Conclusion and recommendations

The governance of England as a whole is in question. The Scottish referendum has prompted a rethink of UK arrangements at the national level by all the main parties. National sector membership bodies, think tanks and commissions have produced rafts of evidence for a need for change, with most recently a flurry of reports on powers and devolution in England. The health service is predicted to continue to overspend and faces yet another round of changes. Local government continues to face the financial challenges outlined in '2016 tipping point? Challenging the current' and elsewhere.

Against this background, the six scenarios with the question of external intervention are starting points for discussion, not an end in themselves. Accordingly we have not gone down the route of identifying councils by type such as 'commissioning councils', 'co-operative councils' or 'networked provider'. We do not believe that such terms provide any indication of the likely resilience of those categories' members. Nor have we explored the scenarios from the viewpoints of the LGA, SOLACE, ADASS, ADCS, DCLG or the rest of Whitehall; those are discussions which we hope will flow from this work.

The local government sector faces an enormous task, but often feels itself to be operating with one hand tied behind its back.

The local government sector faces an enormous task, but often feels itself to be operating with one hand tied behind its back. We assume that all councils will, at a minimum, want to see themselves as 'running to stand still'. However even in this instance councils are struggling against huge pressures and require considerable effort just to do so. Yet there will be local political pressures such as council tax levels and income levels where politicians might actually feel more comfortable with 'a nostril above the waterline'. We consider that competent operation of the traditional model may work for a while, but is unlikely to be a good long-term strategy and that councils therefore need to find ways, with their communities and partners, to adapt, innovate and work in very different ways. However, the sector does not set the agenda and there is a significant risk that the difficult bits of public sector work are left for councils to sort out.

We have been delighted with the response from local government stakeholders during our research, pleased that our analysis, the international comparisons and the scenarios have had resonance, and interested that this work seems to have provided a language and permission for open discussion. What has surprised us is the clear wish to set out a new settlement for the future based on an extremely open agenda. This has helped us to form four clear recommendations.

- 1 **Political parties** – to consider wholesale change, so that whichever forms the next government is ready for a serious discussion with the sector directly after the 2015 general election about what the local/national deal should be
- 2 **Whitehall and the rest of the public sector** – to participate in constructive dialogue about what the future could look like, leading to real change
- 3 **Local government and its private and voluntary sector partners** – to agree that fundamental change is needed and to begin to plan for a transition to a more sustainable long-term framework
- 4 **Individual councils** – to understand which scenario they would currently place themselves in, the context in which they are working and what they need to do next

Many local authorities in the UK have demonstrated that local government has the potential to innovate and really add value nationally. Such innovation depends on there being a good framework in which to do it.

Many local authorities in the UK have demonstrated that local government has the potential to innovate and really add value nationally. Such innovation depends on there being a good framework in which to do it. Some places have created that dynamic for themselves working closely with other councils and partners across the sectors, others think it is only a question of time before we need to face up to a major change because, for whatever reasons some places and their councils are finding it hard to cope and where a sustainable future may be in doubt. Clearly local government needs to keep up the momentum of improvement, innovation and close work with partners, but we have found mounting evidence of a general desire for a major change which the sector cannot generate on its own, despite the best endeavours of the LGA and others.

Those we have spoken to consider that it is not possible for that major change to be self-generated across the sector, because of structure, history and politics. Yet the international comparisons show that local government is thriving or has greater potential where there has been a fundamental rethink of the whole system. This validates our view that dialogue is needed urgently, to address the future of the whole system of English government, and particularly at the local level, by 2020.

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The project team

Grant Thornton UK LLP

Paul Dossett

Head of Local Government

Guy Clifton

Head of Local Government Advisory

Mark Stocks

Director

Lynne Parsons

Senior Manager

Tom Foster

Manager

INLOGOV

Catherine Staite

Director

Professor Tony Bovaird

Professor of Public Management and Policy

Daniel Goodwin

Senior Associate Fellow

Dr Peter Watt

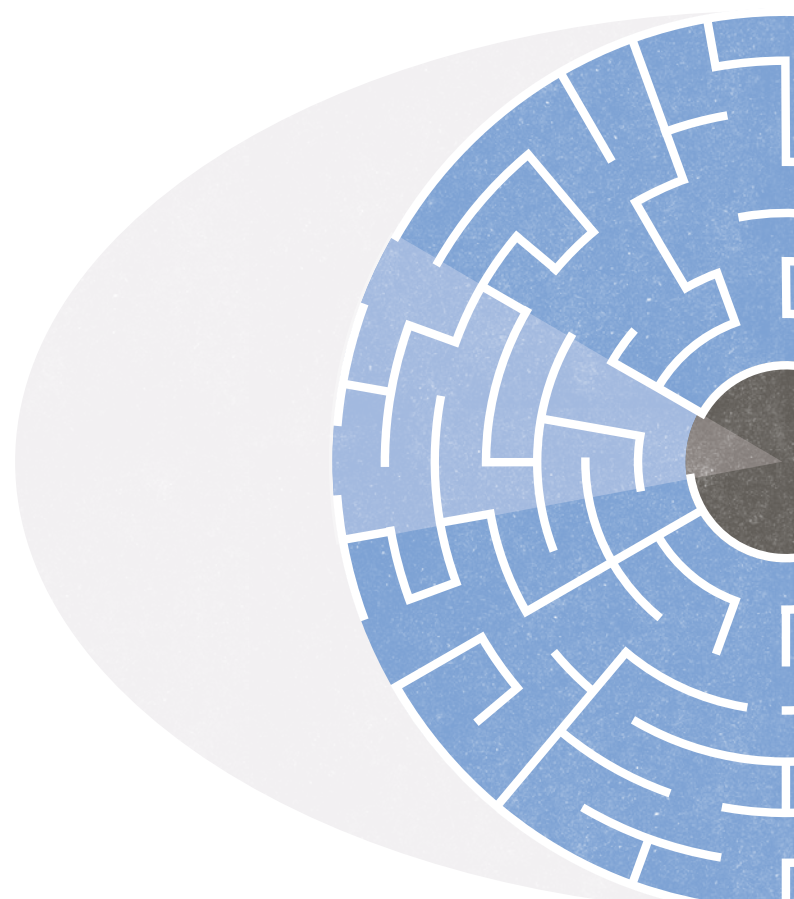
Reader in Public Sector Economics

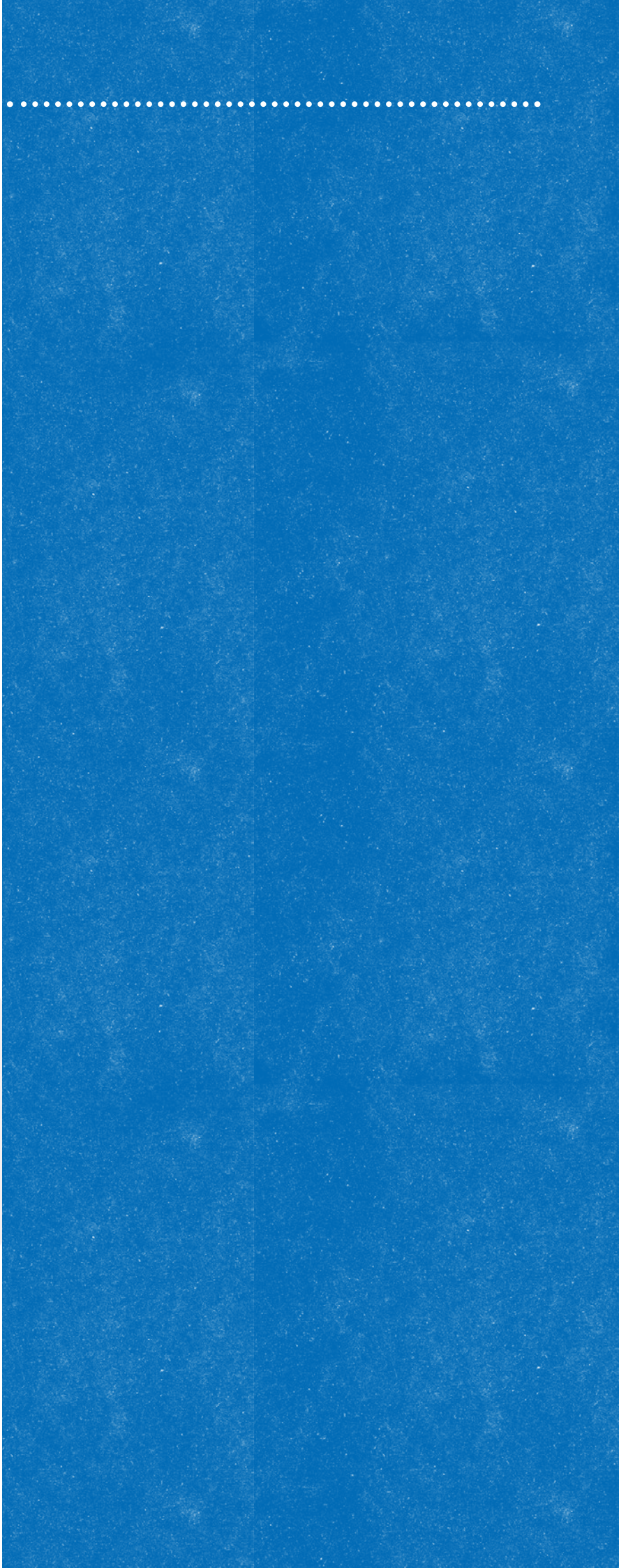
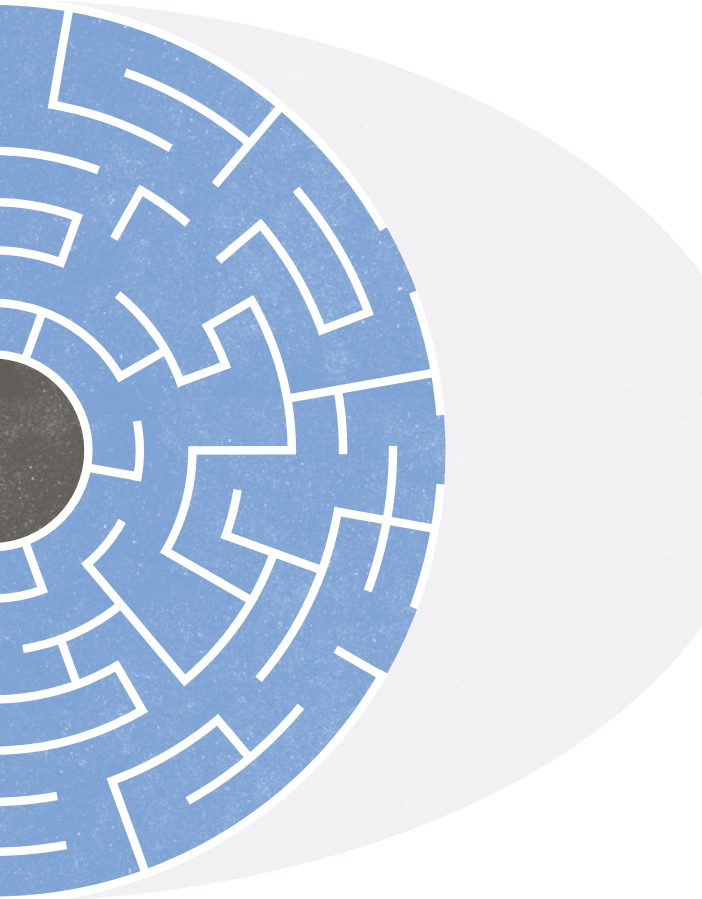
Abena Dadze-Arthur

Doctorate Researcher

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Contact us

If you have any specific questions on the report, please contact Paul Dossett or Guy Clifton.

Paul Dossett

Partner, Head of Local Government
T 020 7728 3180
E paul.dossett@uk.gt.com
Twitter [@paul_dossett](https://twitter.com/paul_dossett)

Guy Clifton

Head of Local Government Advisory
T 020 7728 2903
E guy.clifton@uk.gt.com
Twitter [@guy_clifton](https://twitter.com/guy_clifton)

Regional local government leads:

London, South East & Anglia

Darren Wells

T 01293 554120
E darren.j.wells@uk.gt.com

North

Mike Thomas

T 0161 214 6368
E mike.thomas@uk.gt.com

Midlands

Mark Stocks

T 0121 232 5437
E mark.c.stocks@uk.gt.com

South West

Liz Cave

T 0117 395 7885
E liz.a.cave@uk.gt.com

 [#LG2020vision](https://twitter.com/LG2020vision)



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