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Redefining local government

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Edited by Claudio Morales Oyarce

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Foreword

Faith Boardman

PMPA, London

The PMPA is passionate about actively supporting excellent public services through enabling learning to take place across the ‘boundaries’ between different sectors and disciplines. So we are very pleased to partner with Accenture—as a leading private sector exemplar—in drawing together this report on what seem destined to be some of the most important challenges and changes facing the public sector for a generation. The report contains important original research into the current thinking of local authority chief executives who are charged with delivering that change.

As the contributions from leading academics and practitioners show, there can be no doubt that the scale and speed of the cuts which local government faces over the next three years are unprecedented; and can only be achieved through severe and radical changes, and outstanding leadership. Redefinition—not salami-slicing—will be required to stand any chance of achieving positive outcomes. Contributors argue that not only will the relationship between central and local government need to be redrawn, but many of the old public sector models of localism, managerial leadership, community engagement, information technology, and service delivery will need to be redefined.

Yet (as I know from leading Lambeth Council’s turnaround from a long entrenched 40% budget deficit and a £1.1 billion debt burden), large-scale and unarguable problems can be remarkably liberating. And they undoubtedly provide ‘once in a generation’ opportunities for public service leaders to deliver public good. So it is heartening—but not surprising—to find that this report includes many local examples of energy, and of genuine focus on local citizens and communities, and of creativity being brought to bear. It would indeed be a pity to waste a good crisis, even though this one was not of local government’s making. ■

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Introduction

Claudio Morales Oyarce

Accenture, London

The end of the party

The morning after the night before is the time to pay for any excess or poor decisions. As a nation we now have to pay, and it has been such an expensive party that even those who didn't enjoy it will have to foot some of the bill. The economic reality now is that public sector organizations have to provide services with significantly reduced funding and resources. The scale of this has led, in the case of local government, to a fundamental question: what is the purpose of a local authority? This is not merely a philosophical point but a pragmatic one—what services should a council deliver, stop delivering or get someone else to deliver? The next few months and years will see councils across the UK meeting this challenge and, as a consequence, will redefine local government.

This joint Accenture and PMPA report looks at how the wider public sector is responding and reshaping local government in light of the recent spending cuts. The following contributions provide a mix of views and examples of how councils, the third sector, social entrepreneurs and other public bodies, such as the Royal Navy, are responding to the spending cuts. All of these organizations have had to adapt to the new economic reality of delivering services with significantly less cash.

Back to the future

In a recent interview, Eric Hobsbawm (*Observer*, 16 January 2011) noted that Marx was being rediscovered by a new audience. One reason for the re-emergence of Marx is that, as far back as the 1840s, he was asking the right questions about capitalism and predicting its inherent instability. Why is this relevant? The evocation of Marx has little to do with his critique of capitalism; it is about the need for a framework to help make sense of the current economic crisis.

Inevitably a political and economic environment such as the one that the public sector is operating in leads to a strong desire to try and deconstruct what has happened. Knowledge and understanding are considered to be crucial to informing the first steps towards recovery. Critically, understanding allows chief executives and senior managers in local authorities to take ownership of the changes required to reshape services for their staff, users and citizens.

George Jones, John Stewart and Tony Travers set the scene in our report by providing perspective on the scale and severity of the reduced funding facing local government. They remind us that there is no comparison since 1900, outside of the context of war-time recovery, to what the coalition government is attempting. More than this, local government will bear a disproportionate share of the spending cuts in comparison with other public sector organizations. In light of this, Jones *et al.* pose an interesting question: if local government had been free to determine its own funding, would councils have experienced the type of boom-and-bust cycle which has been a feature of Treasury-led spending? The answer, they hypothesize, is no. They move on to look at how local authorities will respond to the dual challenge of reducing expenditure while maintaining their contributions to community well-being. Options considered include reducing back office functions, sharing staff, community budgeting, service delivery through other organizations and the Big Society. To be successful, they propose, local authorities must take the opportunity to redefine the relationship between local and central government. Only then can local government convert the localism rhetoric into action, becoming the lifeblood of their local communities and not merely the delivery arm of central government.

The next contribution, by **Claudio Morales Oyarce and Elspeth Kirkman**, reports on interviews with chief executives from across the local government sector, which were conducted in late 2010 and early 2011. The central theme of the of interviews is the breadth and depth of the consequences of the budgetary cuts. These chief executives are engaged in the ultimate plate-spinning exercise—attempting to meet the medium-term financial demands, while safeguarding the well-being of citizens in the future. Interestingly, for many of the chief executives interviewed, this difficult process is a welcome one, providing councils with a great opportunity to develop innovative solutions by collaborating with their communities and different

delivery partners.

The idea of opportunity is taken up by **Dominic Campbell**, who views the current economic pressures as a catalyst for the inevitable revolution in how we use technology to reshape both local government operations and its interactions with citizens. The impact of new technology has implications for senior managers in local government, demanding a new leadership focus on openness, collaboration, inclusion, transparency, authenticity, personalization and choice. Campbell ties this into the central government shift towards transparency and openness, and the ways in which technology is already enabling citizens to take up the role of armchair auditors and hold government to account.

It is this ability to access and interrogate data that fuels **Faith Boardman**'s case study of web-enabled mapping in London's Metropolitan Police Service. The Met now posts information on crime levels and trends each month. This level of data provides public access to police performance at sub-ward level, building trust and confidence through greater and improved communication. The blur between the social and digital worlds is being exploited to close the gap between those delivering and those receiving services.

This increasing sophistication in the relationship between provider and user is discussed by **David Robinson**, in particular the transition from response to prevention of social issues. The contribution posits trust as something which cannot be solely built on a transactional relationship, but requires the flexibility for frontline staff to develop positive relationships with their users. Robinson acknowledges that deep cuts in public expenditure mean that local authorities must redefine their operating models, introducing the very real danger that reduced early engagement will lead to increased demand for more acute provision in the future.

Gill Bull and Daniel Ratchford use the London Borough of Sutton as an example of how a local authority can work with its citizens to galvanize behavioural change in the context of reducing budgets. Key to their approach is the focus on six guiding principles: personalization, meeting customer needs, partnerships, affordable management overhead, risk management and leadership behaviours. What is striking about this list is its similarities to those issues raised by Campbell and by different chief executives during the interview series. At the core of Sutton's success is the ability to engage honestly and openly with both residents and

staff. Inevitably, spending cuts will lead to headcount reduction, and it is in this climate of low morale and job insecurity that councils must get the very best from their employees.

In this spirit, **Richard Thomas**, a Royal Navy captain, reflects how his organization will need to engage with its people in light of the Strategic Defence and Security Review. A smaller, leaner, more efficient Navy represents an enormous challenge to an organization with an established hierarchy and career progression. This raises a question which is as pertinent to local government as it is to the Navy: how do you get an organization's senior leadership team to work with its employees as part of an holistic strategy? While the answers will vary across organizations, the key ingredients are broadly agreed upon: communication, honesty and transparency, aligned to a clear vision of the future.

Colin R. Talbot and Carole L. Talbot consider what strategies local authorities can adopt in meeting the financial challenges in the context of the unprecedented nature of the cuts facing local government. Earlier spending cuts, notably during the late 1970s and 1980s, were generally considered to be temporary. This is not the view now. The expectation is that the spending cuts herald a period that will redefine local government.

Finally, **Athena Peppes, Matthew Robinson and Kuangyi Wei** look at the broader economy and whether the UK's recovery is sustainable. They identify four new waves of growth for the UK economy. From a local government perspective, while the financial pressures may force councils to stop delivering services, it may also lead to a new public-private-third sector paradigm. To borrow from Schumpeter, while the fiscal crisis can be seen as a destructive force, it can also be seen as a catalyst for innovative, entrepreneurial ideas. If harnessed, it can help shape and the future of not only local government but of local public service delivery. ■

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Genuine localism—the way out of the impasse

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The Comprehensive Spending Review (CSR) of 2010 and the consequent Revenue Support Grant Settlement of 2011 instituted the most drastic cuts in public expenditure in modern times. Decisions were taken in elaborate negotiations between central government departments, and between their ministers in cabinet committee and the cabinet. Ministers protected the spending of their own departments at the expense of local government. In response to this centralized process, local authorities have to consider a number of ways of meeting central government's reductions without the ability to raise more in local taxation. To cope with the demands of austerity, while ensuring organizational effectiveness and community well-being, local authorities need to involve their citizens and communities, their staff, and the private and voluntary sectors. An alternative way of tackling the public finance deficit is the localist approach. Seven reforms to the operations of central government are outlined here to rebalance the relationship between central and local government. Above all, central government should give up its 100% control over all tax sources.

The cuts in perspective

The banking crisis which started in Britain with the collapse of

Northern Rock in the late summer of 2007 led to the sharpest recession since 1945. The United Kingdom's economic output dropped by over 6% in 2008 and 2009, which, coupled with the government's decision to maintain levels of planned public expenditure, created a large budget deficit. Net borrowing was £96.5 billion in 2008/09, £156 billion in 2009/10 and around £150 billion in 2010/11 adding sharply to the national debt (Office for Budget Responsibility, 2010). During the 2010 general election all the major parties committed themselves to reducing this deficit. The coalition government which took office in May 2010 decided to reduce the deficit to close to zero by 2014/15, largely to be achieved by cutting public expenditure.

As a consequence, a major programme of public spending reductions was planned in the chancellor's Spending Review (HM Treasury, 2010). Much comment was generated about the scale of the promised reductions, begging the question of how radical these cuts will, if fully implemented, turn out to be. The Institute for Fiscal Studies, in its report *Long Term Trends in British Taxation and Spending*, showed trends in public spending as a proportion of GDP from 1900 to 2000 (Clark and Dilnot, 2002).

There were two huge spikes in spending during the two world wars, followed by sharp contraction, though in each case the reduction after the war ended was to a level above the starting point at the outbreak of war. At other times, there have been sharp falls in public expenditure as a proportion of GDP, notably in the mid 1950s, the late 1970s, for much of the 1980s and during the later 1990s. Through the whole period, public spending grew from about 11% of GDP in the period 1900 to 1914, to between 39% and 49% in the period after 1970.

Chancellor George Osborne's 2010 spending plans envisage UK public spending falling from about 47.7% of GDP in 2009/10 to 42.6% by 2014/15. Such a sharp fall over such a relatively short period also occurred in the late 1970s, following the infamous IMF visit. On that occasion, a Labour government found itself cutting public expenditure very fast after the Heath-Barber boom in the early 1970s. But there is no other parallel to what the Cameron government is attempting (apart from at the end of world wars) since 1900. Moreover, the cuts in the late 1970s and the ones planned for

2011/12 to 2014/15 took place, or appear likely to take place, against the backdrop of—at best—relatively slow GDP growth.

The picture is more complex because some government departments and services are planned to be affected very differently from others. Table 1 summarises the real-terms impacts on expenditure, by department, of the Spending Review plans set out in October 2010.

Table 1 suggests that Department for Communities and Local Government programmes will bear a disproportionate share of the overall burden of deficit reduction in the years 2011/12 to 2014/15. Public expenditure cuts will account for between 75 and 80% of the reduction in the deficit, with increased taxes making up the other 20 to 25%. Central funding for councils will be cut by 27% in real terms

Table 1. Real terms change in selected departmental resource budgets, 2010/11 to 2014/15.

	<i>Percentage change</i>
Education	+1.3
Department for Communities and Local Government:	
Communities	-51
Local government	-27
Department for Business, Innovation & Skills	-25
Home Office	-23
Ministry of Justice	-23
Foreign & Commonwealth Office	-24
Ministry of Defence	-7.5
Department for Environment, Food and Rural Affairs	-29
Department for International Development	+37
Department for Culture, Media and Sport	-24
Department for Work and Pensions	+2.3
<i>Total</i>	-8.3

Source: HM Treasury (2010), table 1.

over four years. However, this overall cut is will be shared unevenly between years, with a relatively big reduction in 2011/12 and 2012/13, with over a third of the reduction in the first year.

Local government income from council tax (which accounts for broadly half of local tax and grant-borne expenditure) will be frozen in 2011/12 and then be subject to local referenda if an authority proposes to increase it above a centrally-imposed norm. Overall council spending power, funded by council tax and grants, will fall by 14% over four years. Capital spending will fall significantly more sharply. Although it is possible that some fees and charges may be raised to reduce the impact of grant reductions, ministers have been quick to criticize councils that have proposed doing so (*Evening Standard*, 2010).

The revenue support grant settlement for 2011/12 and 2012/13 was complex and redistributive. The government rolled over 80 small specific grants into the formula grant, though the dedicated schools grant (which is many times bigger than the small ones added together) was left ring-fenced. For councils that had been in receipt of a relatively large share of the specific grants, the decision to merge them into general funding was almost certain to disadvantage them. In addition to this merger of grants, the government reduced the overall level of grant funding by an average of 9.9% on a like-for-like basis. For a number of metropolitan districts and inner London boroughs, the cuts were well above this average, while in more rural areas the cuts were, in most cases, smaller.

Thus local government faces a sharp reduction in its grants and expenditure, following a decade in which overall current and capital spending rose by about 50% (CIPFA/SOLACE, 2010). This switchback is extraordinary. For the period from 2000/01 to 2010/11, central government encouraged councils to push up their spending in real terms. For the years 2011/12 to at least 2014/15 (but probably longer), the centre will be enforcing cuts. Something very similar happened during the 1970s, when huge centrally-stoked growth in public spending between 1972/73 and 1974/75 was followed by 'crisis' spending cuts in 1976/77 and 1977/78. It is hard to believe local authorities would have followed such a zig-zag path if they had been free to determine their own funding. Treasury control has led to a boom-and-bust approach to council spending.

Looking to the future, there are lessons to be learned by central and local government from the extraordinary boom-and-bust problem created by changing Whitehall economic and spending policies. Central government needs to understand that it is its policies that cause such spending difficulties for councils. Local government may need to resist central government's desire for spending booms so as to avoid the busts that inevitably follow. However, the risk with such a strategy is that the cuts would be made anyway. One thing that is clear from the pattern of spending changes shown in table 1 is that councils are being required to make far deeper cuts than the NHS or education even though official measures show falling productivity in the latter services during the 2000s (see, for example, ONS, 2009). Local government is evidently believed as more able to manage sharp and deep spending reductions. Perversely, councils' flexibility and competence appear to be rewarded by deeper cuts than those required of other public service providers.

How the cuts were made

The government's public expenditure cuts provoked aggrieved responses from those who regard themselves as affected. Before the cuts and the local government financial settlement were announced, the customary ritual was played out. The government leaked alarmist predictions of what was likely to happen and the various sectional lobbies spread gloom over bleeding stumps of popular programmes amid images of 'axes' and 'slashing'. Expectations were deliberately made pessimistic.

The way the programme of cuts was concocted revealed the dysfunctional nature of central–local government relationships. It showed that despite its rhetoric of localism the world of Whitehall was operating as it has for decades, and is going to continue unless radical reform reorganizes central government and rebalances the central–local relationship.

The two main principles of the British constitution, collective cabinet responsibility and individual ministerial responsibility, were shown to be alive and kicking. The cuts were devised in negotiations between the department of departments, HM Treasury, and the silo spending departments. Those who settled earliest, like the Department for Communities and Local Government, were given a

place on the cabinet committee (PEX Public Expenditure Committee, often called the 'Star Chamber') overseeing the games.

After the committee had done its work, the final package of the Comprehensive Spending Review (CSR) was taken to cabinet. The outcome was determined by the participants and reflected their interests. They were concerned to protect and promote the spending of their own departments. In the interplay between them around the cabinet table, it was not surprising that the spending of other parts of the public sector, above all local government, would suffer deeper cuts than those planned for the departments the ministers controlled directly. Their own departmental expenditure, for which they would be held responsible and accountable to the House of Commons, was cut less harshly than that of local government. Eric Pickles, Secretary of State for Communities and Local Government, had been able to settle first because he had made the deepest cuts of any department, which were offloaded onto local government.

An ironic twist in the saga arose when the implications for local authorities of Eric Pickles' cuts became apparent. He recognized the consequences for local government of what he had done, and was reported as trying to persuade the Treasury to increase his departmental allocation or to apply damping to cushion their impact. But the chancellor was not prepared to unravel the CSR package at a late stage. The secretary of state had then to announce in the revenue support grant settlement the details of what grant each local authority would receive in the coming year, sparking protests of outrage from local authorities about unfairness and harshness.

The Department for Communities and Local Government was well prepared for this eventuality. On the same day (13 December 2010) as it announced the grant settlement it introduced the Localism Bill, which gave local authorities some new but limited freedoms and flexibilities, but kept local government still dependent on a high level of central support. The advantage for central government of these twin announcements was that local authorities could be blamed for reductions in service provision, while central government could claim it was not responsible because local authorities had more discretion to decide how resources were to be deployed locally. Local authorities, however,

while welcoming the genuine freedoms, complained with some justification they amounted essentially to more scope to wield the axe.

Both central and local government were now well-placed to blame each other: central government could say local authorities were responsible for their spending, and that therefore any shortfall in performance was the result of local government's inefficiency, waste, incompetence and choice, whereas local authorities could castigate central government for not giving them enough grant and imposing drastic cuts. Each side shuffled responsibility onto the other.

Local government was trapped, without an escape route, because central government had already offered them additional short-term grant to accept a freeze on its only tax, the council tax. Councils could not appeal to their own voters for tax revenue to finance the expenditure voters may or may not have wanted to go ahead. Centralism, not localism, was the dominant theme of how the cuts were made.

The local authority response: possibilities for action

Local authorities are, in the light of the harsh local government funding settlement, now seeking to meet the dual challenge of expenditure reduction while maintaining the effectiveness of their contributions to community well-being. Cuts are inevitable. Councils have already been making plans to implement them, and will be doing so for some years to come. They are considering a number of familiar methods:

Reducing 'backroom' staff

This approach implies that the work carried out by backroom staff is unnecessary. Some may be, but that assumption should be demonstrated not unthinkingly accepted. So-called 'backroom staff' may carry out frontline work, and frontline staff backroom work. What is required is not an examination of backroom staff, but of backroom work, to establish both what is necessary and what is unnecessary.

Eliminating bureaucracy

It is a mistake to assume, as do some government ministers and local councillors, that backroom staff are carrying out unnecessary

bureaucratic procedures. Such procedures cover financial control, performance management and policy development, which are just as important in the era of austerity as in times of affluence. Rules, records and procedures are essential in any complex organization. Unnecessary bureaucracy should be eliminated, but care is required to distinguish the unnecessary from the necessary. An irony of the government's approach is that its new requirements may increase bureaucracy. Authorities have been asked to publish details of all expenditures of over £500 online—a more stringent requirement than placed on central government departments. This imposition means detailed records have to be maintained to respond to queries raised by the 'citizen auditors', as anticipated by the secretary of state, and require backroom staff to deal with the correspondence and emails he hopes will proliferate.

Increasing efficiency

Proposals for increasing efficiency must be subject to the hard tests of whether they really increase efficiency and whether any increase in efficiency diminishes the effectiveness of the service and community well-being. Efficiency savings can be illusory, and not all the savings claimed reduce actual expenditure. It is difficult to measure efficiency in public services, as the National Audit Office has reported. Increases in social workers' case loads or in class sizes in schools are not automatically increases in efficiency. The pay of social workers and teachers constitute a large share of the expenditure on social work and in schools, limiting the scope for efficiency-savings. While the scope for efficiency-savings remains, it cannot go far in meeting the scale of the reductions required.

Fees and charges

An increase in fees and charges will not reduce expenditure but will increase income, replacing at least a small part of the reduction in grant. Increasingly local authorities have been regularly reviewing fees and charges, leaving little room for large increases. Charges cannot be imposed on certain services and in some services people on low incomes are exempted from any charges. While it is right for authorities to consider further increases, the scope for raising income is limited.

Sharing staff

Local authorities are considering sharing staff, including chief executives. Savings can be made, but there are difficulties to be considered before going ahead, lest they arise later and sharing produces controversy and conflict. Sharing can lead to disputes over time, with each partner pressing for more time from the shared staff. Differences between the policies pursued by the authorities can place strains on shared staff. Political differences can occur between and within political groups in the sharing authorities. Problems anticipated can be problems overcome or, as some authorities have found, decisions not to proceed. Moreover, the savings that can plausibly be made by such ‘sharing’ initiatives are modest compared with the scale of grant cuts imposed by Whitehall.

Community budgeting

‘Community budgeting’ is the latest term used to describe developments from the total place initiative. These approaches review the extent to which the resources spent locally by separate public bodies could be more effectively deployed to meet shared problems, leading to the joined-up use of staff, assets and information, and identifying how resources can be coordinated between different organizations. Community budgets have significant potential, provided local public bodies are not constrained by central departmental controls and the leadership role of local authorities is recognized. Major government spending departments, such as the Department of Health and the Department for Education, have predictably proved unwilling to pool significant resources for community budgeting exercises—localism does not pervade these Whitehall baronies to any great extent.

Service delivery through other organizations

Some approaches are well established—contracting out to the private and voluntary sectors and the use of partnerships. Realism is needed about whether they will produce significantly reduced costs. The case for and against them is well rehearsed. The extent of savings and the impact on quality is both claimed and disputed.

Big Society

New possibilities being put forward include mutuals and co-operatives formed by users or staff and/or both. Particular importance is being given to community volunteers providing services such as libraries which might otherwise be closed. These new possibilities raise important issues, including the requirements of public accountability. Financial and other controls will be necessary if the use of public resources is involved. Also, the enthusiasm to sustain these initiatives may be short-lived if there is little public money. Realism suggests the scope for these developments is limited.

Most of the above methods of reducing local authority spending leave a significant gap to be filled. The size of the gap will be greater if pay restraint cannot be held in place for at least four years. The proposal with the greatest potential is community budgeting by enabling resource-sharing. But it will have a limited impact in the short term since it requires major changes in central government's operations, and the government seems prepared to take only tentative steps through a few pilots on the specific theme of problem families. Local authorities and their partners must explore what can be achieved on their own initiative.

Most local authorities face the prospect of significant real reductions in expenditure on their services, in part achieved by leaving vacancies unfilled and voluntary redundancies, but these possible reductions will be random. Following that path means not choices made by the authority but by the happenstance of where vacancies occur.

Getting the perspective right

Local authorities face a difficult and dangerous task because of the scale of cuts required. It is too early to assess whether the difficulties will be reduced, as claimed by the government, by the freedoms given by the Localism Bill, but major difficulties have still to be faced. Dangerous unknowns lie in the possible effects of the cuts on organizational effectiveness and on the well-being of the community.

The cumulative effect of these changes could have unintended effects that reduce the effectiveness of the organization. The cuts could create new organizational structures and processes not by

design but by the cumulative impact of a series of separate changes and their often unintended effects. There is an alternative approach that focuses first on the organizations and processes aimed at and only later on working out the cuts that should be made in the immediate future. That approach is being adopted by some authorities but is made more difficult by the pressures created by the immediacy of the cuts and the front-loading they impose. The local government funding settlement for 2011/12 took place on 13 December 2010, just 14 working weeks before the start of the next financial year.

Actions taken now will have a long-term impact on community well-being. Community well-being depends in part on services provided and regulation enforced by local authorities, providing bulwarks for society whose importance would be appreciated only if they disappeared. Expenditure on services will be reduced, some activities eliminated and grants to community groups reduced. The cumulative impact of these cuts is difficult to anticipate since the interactions between the reductions are critical. The new 'localism' will occur organically (some would say anarchically) and thus, by definition, cannot be predicted. As services are reduced or reformed, it may not be possible for community groups to take the strain, particularly if their grants are being reduced as well.

A local authority needs to be sensitive to what is happening to local people and community well-being. It needs to monitor the local society as public-sector austerity has its impact, so that both local and central government can appreciate the impact of changes and can explore more flexible possibilities. Austerity may provoke public protests, even direct action. Local authorities will be at the frontline where such events occur. They must be prepared to meet new pressures and at times to speak for their communities, because they understand what is happening locally.

Balancing objectives

In making cuts, local authorities have to balance service against service and activity against activity. The choice is not between good and bad activities. Nearly all their activities have value. Because no one can expect public expenditure to rise as a share of the economy continuously and forever, the choice is between relative values—determining the balance of activities. The problem in budgeting is

often argued to be setting objectives, yet that is easily done. The real problem is finding a balance between objectives. Even to make one objective a priority does not mean no resources are given to other objectives. It means the weight given to one objective is greater than that given to another. That objective gains in the balance, but only to a degree.

Balancing objectives is at the heart of all government, including local, as are balancing needs and interests, and both require effective political processes. An effective political process gains from having a clear point of decision. In local authorities the formal point is the council meeting that must approve the budget, but many councils and councillors have not recognized their power and have accepted too readily the cabinet as the decision-maker even on the budget. In authorities with a clear party majority, the leadership of the cabinet will normally prevail, but it need not go unchallenged in the council or in the majority group. The pressures of time, aggravated by frontloading, may lead to centralization not merely of decision-making but of discussion. In the short term, making 'cuts' has already centralized power. The guiding principle, as authorities decide budgets that have deep effects on organizational effectiveness and community well-being, should be to maximize discussion involving citizens and communities, staff and trades unions, private and third sectors and councillors of all parties. Better decisions are made where cabinets and councils are informed by interactions with their citizens and those who represent them. On that basis, effective political processes can be built.

The way out of the impasse

Genuine localism is the way ahead. It involves rebalancing the relationship between central and local government in such a way as to remove the defects of the process. Nothing in the government's existing proposals either create a formal near-constitutional relationship between central and local government, or suggest a reform of the country's highly-centralized public-finance system in which all taxes are set by central government:

- First, there must be a commitment by central government and parliament to the opposite of centralism, which is localism—that is,

decentralization to local government.

- Second, to reinforce this switch the system of local-government finance must be rebalanced so that local authorities, instead of receiving the bulk of their revenue from central grant, obtain it from taxes levied on their local voters and where the rate of tax is determined by the council. Without this fundamental rebalancing, local government will remain dependent on central government.
- Third, the allocation of the smaller grant, still needed for equalization, should be carried out according to a comprehensible and transparent formula determined by the Department for Communities and Local Government.
- Fourth, since unfortunately we cannot rely on the current governmental or Whitehall culture, attitudes and laws to protect the relationship between local and central government, more permanence in the relationship is needed to stop the creep of centralization. There needs to be statutory protection for local government in a law which codifies the central–local government relationship. This statutory codification, laying down the key principles that should govern central–local relationships, should include the allocation of central grant and the raising of local taxation.
- Fifth, adherence to the codified rules should be monitored by a joint committee of the Commons and Lords, reporting on specific government proposals and activities that breached the codified principles, and producing an annual review of trends, as proposed by the Communities and Local Government Committee (2009) in *The Balance of Power: Central and Local Government*. Such a statutory code would ensure the legislature considered the effects of all government policies and activities, including financial, on local government and their cumulative impact and tendencies. It would make explicit for parliament and the public if there were a breach of the codified provisions, thus enhancing the accountability of the government to parliament.
- Sixth, alongside this strengthening of parliamentary scrutiny, the UK executive should create within itself a capability and incentives to ensure that departmental policy proposals impinging on local government conformed to the codified rules. Local government is too important a part of the British constitution to be tucked under a

peripheral department like the Department for Communities and Local Government which can have little impact on the major spending departments. A powerful cabinet committee chaired by the prime minister or chancellor of the exchequer, determining incentives to affect Whitehall behaviour, would have more authority over other departments than would the Department for Communities and Local Government alone. Any interfering actions by the centre in local government, including financial, would have to be considered before being made law. The statutory codification would do much to challenge the current mindset of Whitehall that local government is simply the delivery agency of central government. The codified rules would state that local government is not a division of central government, but a major independent element of the British constitution—the government of the local community, primarily responsible to local voters.

- Seventh, through the proposals outlined above, central government would be less interventionist in local government and have a means of reining in the departments. The approach of total place, that in principle brought together the budgets of all public bodies operating in a locality, could be more effective, certainly more so than the limited shadows of total place envisaged in the government's community budgets.

Allocation of funding to local authorities, and within them, would no longer emerge from contorted games played in Whitehall but from dialogues between elected councils, their local public sector collaborators, and their voters. It would be a bottom-up process, not a top-down imposition.

Conclusion

Local government has been targeted for the large cuts, heavily loaded into 2011/12 and 2012/13. It is hard not to believe that this is because the government knows local councils are relatively well run compared with other major services. Reductions in spending on the scale envisaged for councils would, if imposed on the NHS, almost certainly destroy it.

Against this extraordinary backdrop councillors and officers taking the key decisions should follow two precepts:

- They should take the initiative, making their own plans, and not wait to be told what to do by central government. Now is the time for local authorities to show they are not merely the delivery arm of central government but the government of their local communities.
- They should involve their citizens, community associations, and voluntary bodies in considering the consequences of cuts: where they should be made; where the pain should fall; and how its effects can be mitigated.

When resources were more plentiful, many local authorities used the methods of participatory budgeting to allocate extra pots of money in projects worked out in close discussions with people and associations in parts of their localities. Now in the era of restraint and cutbacks the same methods should be used, to assist councillors in making hard decisions. Local people know better than can central government about where cuts should be made in their local areas, and they are better placed to recognize where there is real hardship and how it can be relieved.

The government's Big Society agenda can be made a reality on the ground as councils engage with their localities in handling the cuts. This process can win support for difficult decisions more than can central imposition, since the people themselves in their own areas will be taking the decisions. Managing the cuts could be the way to revitalize local politics and local democracy. Central government must let go and trust local people and their elected representatives.

Localism can never be real until and unless central government gives up its 100% control over all tax sources in the UK. Any number of 'localist' policies is unlikely to generate a new or 'big' society in a country with such a unique level of centralization. The temporary need to reduce grants and expenditure will not disguise the underlying intellectual inconsistency in a pro-local stance that cannot deliver local tax-raising for the majority of non-central spending. Britain is, and under current policies, will remain one of the most centralized developed democracies in the world. ■

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Leadership and the courage to change in local government: interviews with local authority chief executives

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Over the months since the publication of the UK government's Spending Review, we have been interviewing chief executives from local authorities across England (single tier and unitaries, rural and urban) to explore the challenges facing local government and the options for tackling these effectively from the top down. The interviews were structured under three cross-cutting questions:

- What do you see as the future for local government?
- How radical will your organization have to be to adapt to the new reality?
- How do you see your role as a leader in this new reality?

Our conversations revealed a number of themes and common concerns, such as the need to take risks in order to see results and the level of support and empowerment required to enable tough decisions. Apart from the thread of commonality, there was a striking and encouraging diversity of approaches and views at work. There was also, of course, a firm point of agreement on the value of localism. As the public sector begins, and in many cases continues, to shrink under the pressure of reduced resources, the importance of local context is greater than ever. With the prosperity of many local areas

on the brink of collapse, the concepts of place-making and civic leadership have broadened and deepened. It is clear that the crisis has precipitated a new examination of the role of government and its future at the local level.

Beyond the balance sheet

As the water rises the boat also rises (Japanese proverb).

The recession is no longer confined to the realm of abstract financial statistics; it is very real and it is impacting the lives of every citizen. In the minds of local authority leadership, to treat the next few years solely as an exercise in balancing books would be the ultimate blow to communities and local economies, leading to untold cost—both financial and human—many years down the line. Furthermore, with the political spotlight on the localism agenda, the sector has been publicly lauded as having one foot in the future, while also retaining the local knowledge required to fix those complex root causes that have led to fragmentation and inequality within our communities. Such coverage inevitably sets a citizen expectation that this is what will be achieved despite the inevitable impact of budget cuts on services. Far from seeing this additional pressure as a bad thing, our chief executive group believe that this represents an opportunity to develop an open dialogue, thereby gaining traction for change by working with constituents to clarify the respective roles that citizens and the state must play in securing the prosperity of local communities. This enables local authorities to be frank with their stakeholders, instilling an understanding of the necessary balancing act of shrinking the existing suite of services while creating a new social infrastructure to empower citizens to build their skills and manage their local destinies. For the chief executives, the true cost and the true value of local government will be proven if it can be a catalyst and empower these behavioural changes, steering those born in the age of austerity away from the services that their parents have found themselves dependent on.

Of course, there will be no easy decisions, but one of the favourite phrases on chief executives' lips reveals an improbably cheery outlook: 'there's no point in wasting a good crisis'. It would seem that

this sentiment has been taken to heart as the interviews revealed a wealth of innovation and a sense of confidence that was both energizing and encouraging.

Redefining local government

Local government is currently sacrificing its sacred cows to ensure that the organizations emerging over the next few years will be optimally suited to the needs of the communities they serve. For instance, caution and uncertainty have left the social services departments of many councils untouched in previous efficiency drives. Now, however, we are seeing moves to fundamentally rebuild social services by returning to the driving principles, asking tough and often controversial questions; why should we provide all this? Is it really valuable? Are we the best people for this job? As a result, this 'new reality' is likely to look very different from today's world.

We used our time with the chief executives to explore various different elements behind these new incarnations of their councils, from strategy and vision to systems and information technology to people and skills. The clarity and diversity of thinking with regard to how the change will come about is both surprising and reassuring. What seems to be clear in all minds is the need for decisive and bold action, whether that is played out very publicly as a kind of rebranding exercise or whether transformational actions are taken outside of the political arena, for instance where radical back office changes, such as a move to cloud computing, significantly renovate ways of working.

This is resulting in a number of new operating models, all of which work on the common principle that they are designed with the locality being served in mind. The selection is broad with some authorities opting for pure commissioning hub models, some recasting the organization in the role of a social enterprise and some taking a 'no-frills' approach with a heavily reduced service offer. This is exciting. While councils have never looked the same across the country, the kind of language being used to describe this future landscape, as well as the differences in vision, by each of the chief executives does feel as though it is a sense of place and not of blind panic which has taken the reins following the Spending Review. There are some great examples of initiatives that are already changing the landscape of local

government. One authority is enjoying great success and reduced operating costs with citizen-run libraries, while another is running a programme to bridge inter-generational gaps, improving social cohesion and behaviours and confronting negative stereotypes. Technology is being used in powerful ways, often in partnership with organizations such as FutureGov who can apply the power of innovation to existing data sets, for instance to improve customer insight. Social media, too, is increasingly seen as a cost-effective means of tackling social problems such as loneliness, as well as boosting citizen engagement.

While the variations in vision are significant, the points of commonality between councils are reassuringly consistent, meaning that the benefits of sharing best practice will still be relevant. Notably, there is agreement that the introduction of systemic changes and the subsequent adoption of this altered paradigm require a shift in the role of the leadership, the role of the organization and its relationship with partners. Our chief executive interviewees are already working on optimising their own roles, ensuring that the boundaries of their institutions are not inhibiting their understanding of the root causes of costly services. This is just the beginning and the ripple effect of such transformation impacts the entire workforce.

Power to the people

Leaders across the sector have rated their people as their number one asset and agree that they are on an organizational journey that will only be successful if their workforce is brought along with them. One of the key concerns for executive leadership teams is the readiness of their workforce for such wholesale change. It is clear that what has worked well for local government in the past—a culture of stability, low staff turnover, strong personal relationships within long-standing teams and organic growth—may not reflect the core characteristics of a local authority working in the future. This maps directly to the skill-sets of individuals working within these environments. In the past, risk aversion has been encouraged, while entrepreneurialism and action without explicit approval have not. It is likely that future operating environments will require a more commercial mindset, with staff undertaking more commissioning activity and services taking on market competition to generate income. As such, the

existing culture and skills mix may slow the progression of organizations to their new realities because it simply won't fit into the planned way of working. Cultivating a new organizational ethos and encouraging the use of new sets of skills can be facilitated through building advocacy throughout the organization.

This links into a key success factor for our chief executive group: the development of leaders at all levels through a robust and rigorous performance management culture. For many, breeding a culture of competition, targeted development (for strong, middling and weak performers alike) and, where necessary, selective redundancy represents a radical shift from the *status quo* and will require significant investment of time and money. While this may seem impossible in the current climate, as the chief executive of Gloucestershire County Council, noted in a recent article, 'in tough times, a good employer will put even more efforts into developing its people' (Bungard, 2011).

Partnerships

The subject of in-house skills inevitably touches on aspects of partnership, one of the core themes of our conversations. There is a strong feeling that mitigating the risk of change must involve finding ways of holding others to account over outcomes, either contractually or by devolving responsibility and ownership of some services. This is an agenda already under way, with an increasing number of procurement notices citing desired results in terms of well-being and economic prosperity. Councils are better equipped to leverage the power of partnerships, balancing risk and benefit fairly to create mutual interest in local transformation and sustained savings.

Working out an effective mechanism for balancing the core elements—investment (both money and time), risk and return—for each stakeholder group is seen as a means of overcoming some of the initial challenges associated with working more closely with partners. It is vital to realize that local authorities are not alone in the need to find arrangements that provide mutual benefit to all involved. Prospective partners are also under pressure and are responding to the need for change by developing new support mechanisms that councils can choose to tap into. Crucially, many of these organizations are able to focus their efforts on impacting well-being and economic

regeneration in a way that councils, on account of having to demonstrate a linear relationship between investment and results, cannot.

Kids Company, for instance, is a third sector organization providing practical, emotional and educational support to vulnerable inner-city children. In contrast to the traditional care models used within local authorities, Kids Company takes a multidisciplinary approach which addresses all of a child's issues using one team in one place, without the need for referrals or waiting periods. As this approach combines health, housing, emotional well-being, mental health, arts, sports, youth justice, education and employment, these interventions make a significant difference in the cost to government of dealing with these children in the long term while also providing the stability required to improve child well-being.

Our chief executives agree that their organizations must become more permeable, allowing for more sophisticated integration with the local third sector. While this is also applicable to relationships with other public bodies, it is important to note that getting this right is not a solution in itself. Our chief executives were clear that there is a need for empowerment of local areas through an improved dialogue with central government. Equitable and effective partnership is particularly important—not least given the allocation of shared funds in the Spending Review—when considering joint working with local health institutions, a vital ingredient for mastery of preventive action. Interestingly, when discussing collaboration with other local authorities, there was a view that location is less important than almost everything else. In other words, successful partnership between neighbours was viewed as unlikely in many cases owing to disparities of population, politics and organizational progress. Most chief executives viewed collaboration with non-neighbouring authorities with similar circumstances as a more viable and attractive alternative for realizing efficiency gains and improving services. This was also seen as a means of generating pace by easing the process of splitting ownership of shared functions. Where there is no practical option for co-locating shared teams, pragmatic decisions can be taken quickly to split the functions equally between the two locations.

The commonality of fundamental principles around roles, people and partnership, despite the difference in organizational designs for

the future, reduces the sense of risk involved in the inevitable trial-and-error process of developing completely new ways of working. It is as though there is an evolutionary framework in which all councils have a universal common ancestor, enabling them to work as a group to overcome the issues posed by failure or false-starts without losing sight of local needs. There is, however, the political dimension and failure has never been forgiven easily in this arena.

The importance of failing successfully

In Paris, during the summer of 1925, a man named Victor Lustig made a curious dent in history by fraudulently selling the Eiffel Tower. His buyer, André Poisson, was a proud man whose desire to build a power-base within the Parisian business community clouded his judgement. Indeed, when Lustig disappeared on the train to Vienna, leaving his victim to come to the slow realization that he had been well and truly duped, Poisson found himself unable to report the crime for fear of ridicule. Lustig, laying low and watching the French newspapers for a month, wasted no time in returning to the city and offering the opportunity to another willing bidder. Doubling his contribution to con-artistry, Victor Lustig sealed his legacy and became ‘the man who sold the Eiffel Tower, twice’.

While the element of criminality involved in this story is hopefully not overtly relevant, the value of rising above barriers (in this case, personal pride) and sharing experiences of failure as readily as experiences of success is enormously important to today’s leaders. For local government in the UK, the price of not providing a forum in which chief executives, their senior management teams and their partners locally can discuss issues of failure openly and without fear of retribution is too high; no one can afford to be the person who bought the Eiffel tower the second time. Accordingly, our chief executive participants have expressed a need to be allowed to fail in order to reap a net success. This involves managed risk-taking, a practice that is, it must be noted, entirely divorced from irresponsibly gambling with public money. This may mean, for example, having the ability to run a portfolio of projects with a mixed risk profile so that the overall return is positive (with potential for extremely strong results) while the tolerance for project losses is consistent with a pre-agreed expected failure rate. Where managed risk has long fuelled

profitability within the private sector, owing to political drivers as well as the need to demonstrate consistent value for public money, it has rarely been embraced by the UK public sector. However, in today's financial climate, it is necessary to embrace—within reason—the practice of taking risks. While looking to private sector approaches to taking risks across a mixed portfolio may have some uncomfortable connotations given the root of much of the financial crisis, it has been acknowledged time and again in these interviews that, by definition, 'transformation' necessitates a level of risk which is out of kilter with the usual allowances afforded to local government. At a time of crisis, it is vital that the expectation on leaders in the sector—namely to pioneer the way through an unprecedented scarcity of resource and transform—is supported by enabling them to introduce risk management practices effectively.

There are, of course, a host of inconvenient practicalities and blockers to sharing failure and embracing risk openly. Aside from the need to demonstrate responsible treatment of the public purse and to retain accountability, local authorities are also at significant risk of tipping the delicate balance with the media. It is important to factor into any judgements, the cost, both political and operational, that unfortunate spin might add to the noblest efforts to be open and honest. It is the media and political relationships locally that constrain and drive the chief executive group's views on what is a viable expectation with regard to risk and failure. Again, while there is unanimous buy-in to the notion that these are necessary components where return is sought, each of the chief executives that we talked to about this had a different view of how things might look operationally. As one would expect, authorities with no dominant political control see less tolerance for radical action than those with an historical prevalence of a single party. There was also variation in terms of how radical councils could be (both publicly and privately) in their endeavours and with regards to whether risk should be hot-boxed within dedicated teams or built into the culture and encouraged across the organization. Indeed, the very notion of being radical is a relative one in this context. For some, the aspiration went so far as to build a culture where employees believe it is better to ask for forgiveness than

permission in risk-taking. This was predicated on the organization having a clear mission which all employees would be able to rationalize and prioritize their workload and test decisions against.

Local solutions, for local people

Ultimately, although guided by politics, the views of those interviewed depended wholly on the needs of their locality and the resultant strategic direction of the council, not on any philosophical preference for government in one guise or another. While probing areas such as risk made for an excellent way of gleaning an insight, it is, of course, artificial to consider any such concept in isolation. Risk is just one of the many elements needed to develop policies, practices and a 'brand' which will enable councils to make and communicate decisions quickly and effectively and play the role required to get the best for the communities they serve. Getting the brand-blend right will help the leadership team to navigate and control the complex political, social and operational needs impacting their organizations as well as providing a logical (and highly local) framework against which members of the workforce at all levels can test their ideas for improved ways of working. Crucially, this will also provide a means of dealing with those elements outside of the council's control effectively and appropriately. For instance, where legislative changes are concerned then the structure will already be in place to mobilize quickly and send the right messages to citizens—where did the order come from? What does it mean? Does it fit with the local political outlook? This pace is vital as there is no longer any time to be lost; the future we are discussing has already arrived and our interviewees are already working on it. ■

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Augmenting reality: public services 2.0 and the power of the web

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For some time now, it has been clear that a shift in the way that citizens and the state interrelate was on the cards, regardless of which political party (or parties) were going to be at the helm. Words like ‘personalization’, ‘empowerment’ and ‘choice’ are increasingly being used by both politicians and service users and those responsible for delivering our public services. Coupled with this has been the unprecedented rise of the social web in our everyday lives, building on the strong foundations laid during the e-government era and now creeping into government in the form of Gov 2.0.

Technology never has been and never will be the magic bullet of change in government, or any organization for that matter. Technology (the web included) should only ever be used for a clearly identified purpose—making and hardwiring a change. If the web is not the right tool, it should not be used. However, rarely now can the web be ruled out because it has a unique ability to bring people together to set out and shape the kind of government we want to see. Technology can make social action and institutional reform happen. It is really just a matter of how much technology to use—not if it should or shouldn’t be used at all.

Whether coming to it through transparency, democratic engagement, public service transformation or social innovation (Big Society by another name), senior politicians, officers and citizens alike are beginning to grasp the opportunities for a shift in the way government works and the trust and relationships it is able to form with its citizens. And it is this shift in ways of working, and the

rebalancing of power relationships that comes with it, that is key to this new web-powered world.

Creating a new system of local government

For too long, local government has been fixing the system it is trapped in. No doubt there are efficiencies and improvements that have been made, but there is now an opportunity to reinvent the system and create a new one. This new system will allow local government and the creative experts within it to focus solely on what matters—public value rather than public institutions *per se* or restrictive performance measures.

Now is the time for ‘militant optimists’, to borrow David Barrie’s (2010) description. Under immense social and economic pressure, local government is faced with an opportunity to try out entirely new ways of working powered by the web. But are our institutional structures just too hard to fix *in situ*? Should we instead look to overcome this by developing ‘parallel structures’, to prototype and test new ways of working to transition to a new world rebuilding government from the bottom up (Bishop, 2010)?

In an age of unprecedented cuts to the public purse and the rise of the Big Society, the time is right to look to new ways of doing things, reaching out to staff, service users and innovators on the edge of government organizations to inject new ideas. This requires a new approach to the web as a way of supporting a new set of behaviours, and a even a new role for local government. Virtues such as openness, collaboration, inclusion, transparency, authenticity, honesty, personalization and choice should form the backbone of a revitalized approach to government and public services, emulating the best of web culture. And, in doing so, we have the potential to fundamentally rewire the way government is delivered.

Local democracy

A new kind of politics requires a new kind of politician. Leadership 2.0 values trust over control, prototyping testing and trialling over risk aversion, no longer takes pride in techno ignorance and puts social outcomes ahead of public institutions and classic perceptions of power. Networked leaders listen, learn and adapt, working with

Take Cory Booker, Mayor of Newark, New Jersey (<http://>

twitter.com/corybooker). Newark is a city of 300,000 people, yet Mayor Booker has over a million followers on Twitter and his videos have received prime time viewing numbers of hits on YouTube. He engages, he inspires, he is open and he is using the web to connect with the people who put him in office. Relaxed in his role as a networked leader, he listens to and works with the people of Newark acting as a node in a network supporting others to work with him to make change happen.

Open government and transparency

It's about cutting waste; it's about driving improvement and accountability in public services; and it's about boosting the economy by enabling entrepreneurs to use public data to create new applications. Above all, it is about a shift of power from the state and a fundamental trust in the ability of people to work together to transform our society. (Francis Maude, Minister for the Cabinet Office.)

A defining feature of the UK's coalition government is that transparency and openness is now central to all aspects of government, with the web playing a binding role in making true transparency possible. From London (see <http://data.london.gov.uk>) to Lichfield (<http://www2.lichfielddc.gov.uk/data>), councils are freeing their data, once the preserve of internal process and performance management regimes. Supported by sites like City Forward (<http://www.cityforward.org>) and Openly Local (<http://openlylocal.com>), citizens and businesses are able to interrogate data as armchair auditors, building trust and guiding decision-making in ways previously unthinkable.

While (perhaps unsurprisingly) overly focused on cost-cutting at the moment, rather than performance and outcomes, the rate of adoption of the transparency agenda both by government and (to a lesser degree) citizens has been nothing less than remarkable. Real improvements in public service provision are being seen on the ground as a result of freed data, from live underground and bus maps to apps aimed at nudging citizens into healthier lifestyles. The best is still to come.

Participative public services

Above all, the web has proven itself to excel in its ability to provide a

means by which opinions can be gathered at scale. On a minute-by-minute basis, users of the web have their sentiment and views tracked and analysed by commercial sites, with savvy organizations using that data to feed into systematic improvements in the way services are delivered. However, unlike commercial enterprises, government often still finds asking questions easy, but making changes hard, as the government's Spending Challenge showed (http://www.hm-treasury.gov.uk/spend_index.htm). An straight-forward enough question to ask, a far harder job to filter responses and justify and exemplify decisions made based on those responses.

The web has a lot more to give to government in terms of participation, but it needs the right rules put around it and leadership to support it to flourish before we will see real change happen here.

However, government may not have the time to wait to get it right, as citizens talk behind the government's back online on community blogs and forums, taking action for themselves and seeking change with or without the support of government.

Social innovation and a bigger society

Change is here and the line is being rapidly redrawn between citizen and state. The web is one way of empowering individuals, families and communities to take on responsibility to determine and deliver on their own needs in a big society.

Social web entrepreneurs are booming, developing tools like 'SeeClickFix', 'School of Everything' and 'Ushahidi' to provide platforms for social change. Beyond the boundaries of government, technologists are empowering individuals to come together and create the kind of communities they want to be a part of, reporting issues to government (<http://www.seeclickfix.com/washington>) or helping each other get on and clear the snow off the streets (<http://specials.washingtonpost.com/snow-cleanup>).

Where that role remains with the government, the web is providing a means by which service users can co-produce services, participating in shaping change. For example our Safeguarding 2.0 project (<http://safeguarding2point0.com>) is using technology to enable a better connected, collaborative and trusting relationship across government agencies, as well as supporting a shift in how recipients of child protection services are engaged with. While

enabled by a new kind of user-friendly and intuitive technology, this project will sink or swim based on whether the wider change programme can stick, technology creating the space for higher quality, enduring human relationships.

Conclusion

Making change happen (and stick) in government is almost always painful, but no more so than when it is happening at the speed of the web with a newly-empowered breed of savvy citizen able to come together and act—with or without government. But more than it is a threat, it is a once-in-a-lifetime opportunity for significant and lasting change in government. A new mindset, a new way thinking and a new way of acting. This won't come easy. Old habits die hard. But the opportunities before us, powered in part by the web, mustn't be passed by. It is for politicians and officials alike to open up, relax and embrace this new world. ■

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Web-enabled mapping: a police case study

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If you ask a local authority chief executive to list their three key partners, most will include the police. And if you ask most public sector chief executives what are the obstacles to improving community engagement and support, most will include the costs of providing sufficient up-to-date information that is meaningful to individuals and neighbourhood communities. This case study describes a British application of web-enabled mapping to improve a service (in this case policing) while cutting spending. The tools and ideas are very relevant to creating the Big Society; and could be used by other police forces and by other public services.

Background

It has long been accepted that maintaining law and order is one of the primary societal roles of government (as a fundamental prerequisite for individuals' security and prosperity); but that, in practice, the state's ability to deliver law and order over the longer term depends enormously on successfully engaging the public's hearts and minds in that enterprise. The manner in which 'policing by consent' is obtained can vary hugely between different societies, eras and political regimes but, ultimately, it is vital to maintaining law and order. And nowhere is it more vital than in London. The capital's Metropolitan Police Service (the 'Met') has 33,000 (largely unarmed) officers policing a world city with over 7.5 million residents (speaking over 160 languages), that draws in over 2 million more people as commuters, visitors and tourists. London is also the national (and international) arena for big business and for the great public events (whether they be royal weddings, the Olympic games or student protests) that television brings directly into people's homes across the UK and the world. All of

these are policed by those same 33,000 officers.

Over the past few years, senior police officers have increasingly seen ‘public confidence in the police’ combined with ‘value for money’ as the nearest approximations to overarching key performance indicators (KPIs) that can measure the overall success of policing as a public service. Neither of these KPIs always sit easily with the police’s inherent professional culture. That (necessarily) combines strong elements of command and control and political independence, with a focus on developing managers who have the highly specialized skills required to manage operational incidents and complex crime cases, rather than the outstanding generic general management skills needed to manage large organizations. However, in the UK, those cultural traits are balanced by a strong ‘professional’ adherence to maintaining unarmed policing by consent as the standard British model—and recognition of what that necessitates in terms of community engagement.

One of the first acts of the new home secretary was to announce the abolition of the formal national target which had measured confidence in the police (to the June 2010 conference of the Association of Chief Police Officers). She got a round of applause for ‘setting the professionals free’. But all the signs are that the professional and practical drivers which underlay that target will continue to have a huge practical influence under the coalition government’s new emphasis on localism and professionalism. And in the same speech last June, the home secretary underlined her commitment to early (mandatory) nationwide action to introduce crime mapping. So why make that requirement an exception to the new national rule of freedom for professionals? Some of the answers can be found in the crime mapping initiative which the Met began after the 2008 London mayoral elections.

A strategic approach to ‘confidence-building’

There is a lot of evidence that, over the past decade, the police have become much more open to (and skilled in) partnering and engaging with other public services, the private and voluntary sectors, and community groups. This has led to a dual professional emphasis on rebuilding the historical ‘visible police presence’ and personalized links at the neighbourhood level on the one hand; and on exploiting

the mass communication opportunities provided by modern technology on the other. In both cases, the aim is to better reassure and communicate with concerned citizens and to reinforce a climate of self-policing. The Met's website explains the approach to confidence building and provides borough by borough results of its annual public attitude survey, which measures confidence (see www.met.police.uk/about/performance/confidence.htm)

The use of information as a key enabler

Better communication is one of the keys to confidence building and, in the past few years, there has been a massive increase in the amount of accessible information on UK policing made available on the web. The Met has been at the forefront of this. The Met now posts information on crime levels and trends each month at the London-wide, individual borough, ward and sub-ward levels. These are mapped onto interactive satellite maps which allow you to look at named side streets; and are broken down between the most frequent types of crime (see <http://maps.met.police.uk>).

Anyone can now access accurate information on what has happened in the streets around their homes, and compare that with crime levels and police performance in other areas (and in previous months and years). They can check whether the house they want to buy—or the school they intend to send their children to—is in a high crime neighbourhood. They can present up-to-date information to the licensing authorities to support their local residents' petition to refuse an extension of a pub's opening hours. They can be alerted to local issues—like a sharp increase in the number of burglaries in their neighbourhood—so they can take additional precautions. They can access related information, for example on prevention, victim support and community activities. And they can also access information on how the Met is working with other government bodies (such as Transport for London) to tackle 'hot-spots' of anti-social behaviour around stations and after-school buses. Anyone can see how well their ward's police team is performing compared with others—so that the team can be personally questioned at advertised neighbourhood forums from a basis of fact.

Equally, the police can refer to a common basis of fact to explain the reasons for prioritizing certain types of crime over others. The

Met can begin to tackle persistent anomalies between reality and public perceptions—which over many years have seen the highest level of public concerns about policing in those same ‘leafy outer suburbs’ that have the lowest incidence of actual crime and are least directly affected by the great public events, but pay the most taxes. These leafy outer suburbs often have more stable—and articulate—middle-class community capacity potentially available to actively create their own local Big Society, but consistently ‘believe’ that the crime rate in their areas is high, and press for more state-funded resources.

The underlying challenges

At the conceptual and technological levels, web-enabled crime mapping may seem a simple and straightforward enabler to help address a range of attitudinal and empathetic issues. But that belies the internal technical and cultural challenges which the Met have had to tackle in order to be able to present consistent and coherent information of this type.

The Metropolitan Police Authority (which provides independent non-executive support and governance to the Service) published a formal report—*Crime Data Recording Scrutiny*—in the Met in February 2008 (just before the crime maps were launched). This identified a series of challenges to be addressed to ensure that the Met’s data was ‘fit for purpose’ including:

- Crime recording seems to be focused more towards meeting Home Office Counting Rules (HOCRs) than the needs of policing.
- Interviewees highlighted the often problematic disparity between National Crime Reporting Standards, HOCRs and Crown Prosecution Service charging standards.
- The Met needs to prioritize the focus on data quality at a very basic level, for example ensuring the correct address or house number is recorded.
- Concerns were highlighted around call-handling targets focusing on time to answer calls rather than quality.
- The failure of the Met’s IT systems to fully integrate is not a result of lack of work by Met officers and staff, but a consequence of outdated IT on which the systems rely.

- The MPA and the Met need to prioritize their focus on the improvement of basic data quality and ensure that officer and staff training adequately address the needs of the system. The need for data accuracy should not focus solely on compliance with external standards.
- The supervision of crime-recording processes should be strengthened.
- The Met should expedite the pilots into the centralization of crime recording (compared with the historically ‘independent’ 32 local borough commands) in order to ensure that local performance can be compared (and managed) robustly across unit boundaries.

It remains to be seen how far these problems are replicated in other police forces as they implement crime mapping. And how soon and how far any successor to the (doomed) National Policing Improvement Agency will be called on to try to find a national ‘technical’ solution—to ensure that the performance of different forces can be compared.

Conclusions: Can mapping help operational effectiveness and save money?

It is always difficult to isolate the impact of any one factor, and the Met continues to take many other steps to improve its engagement with communities and individuals, but confidence in the Met has risen significantly over the past two years (to be among the highest in the country). I am sure that crime mapping has played a major part in this improvement having seen at first hand how useful the police find it as a basis for engaging partners, local residents and voluntary groups in practical problem-solving and crime-prevention activities at the neighbourhood level. The Met’s experience suggests that technology is more likely to help operational effectiveness (and save money) if it is firmly linked to the local needs of individuals’ hearts and minds.

I am also sure that web-enabled mapping could be useful to many other public services. At the day-to-day level, for example, motorists could see for themselves where and when road repairs are likely to cause disruption. At the more strategic level, it could provide a practical solution to meeting the coalition government’s requirements

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for (1) greater transparency about public spending, and (2) more active community engagement in problem-solving and service delivery. Rather than having to plough their way through what are potentially unscalable mountains of published information on individual items of expenditure, individuals and groups could be presented with a much more accessible way of seeing where state-funded resources are being spent; and where their own efforts might be best directed. ■

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Focusing on people and prevention to do more with less

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In a recent compendium of learning after 30 years' experience of social regeneration in east London, we teased out seven insights (see Robinson, 2010). Two in particular stand out as the principles on which we might both improve our public services and ultimately achieve more for less:

- People change lives. Practical knowledge and resources are necessary to succeed, but it is the 'deep value' qualities of an appropriate relationship that have the power to transform.
- A fence at the top of the cliff is always preferable to an ambulance at the bottom.

This article develops the arguments for focusing on the relationship between those delivering and those receiving public services and for driving a transition from responding to social problems and towards preventing them.

Focusing on relationships

In work that Community Links did for the Prime Minister's Council on Social Action in 2009, we coined the term 'deep value' to capture the value of strong relationships*. We argued that such relationships were not just a 'nice to have' add on, to be discarded when times got

*For more information about the deep value research, please contact Kate.Bell@community-links.org

tough, but vital to achieving both better service outcomes and value for money. In this earlier work, we focused on services providing legal advice, provoked by Lord Carter's (2006) comment in his review of legal aid that advisers were spending longer with clients than was 'strictly necessary'. We found that not only was the relationship with their adviser one of the key things valued by clients, but it was also central to achieving better outcomes (Council on Social Action, 2009).

Developing relationships of trust, where clients felt respected and listened to, enabled advisers to get to the heart of problems quicker. It also meant that clients were more likely to be willing to accept 'bad' news, for example when their case was not resolved in the way they had hoped. In one pilot in Solihull, providing early intensive advice in asylum cases, the rate of conclusion of such cases significantly increased, appeal rates fell, and the evaluation identified 'considerable potential savings' (Aspden, 2008). This pilot demonstrated not only the importance of effective relationships, but also the value of early action.

Community Links is currently conducting a literature review of research across other public services; a strong consensus seems to be emerging that in services which involve a substantial element of face-to-face interaction, these relationships are vital. We've looked specifically at employment services, drawing on a range of research from the Department for Work and Pensions. Not only do clients place the relationship between themselves and the adviser top of the list of their priorities for a quality service (Campbell-Hall *et al.*, 2010), the quality of this relationship is instrumental to the effectiveness of the outcome. As a review of 'what works for whom' in employment services, also for the Department for Work and Pensions, concluded, cultivating good relationships is central to success:

Friendly staff, welcoming accommodation and a sense of shared purpose are not just desirable rather cosmetic aspects of provision but may be essential elements in the effectiveness or otherwise of provision...a key to effective provision would appear to be for Jobcentre Plus and programme providers to engage effectively with customers and to 'buy in' to any provision to which they are referred (Hasluck and Green, 2007).

What are the situations in which such relationships flourish, and what

are the blocks to achieving them? Pressure on budgets and staff time may make investing in relationships harder, but at a time when public services are stretched, ensuring that clients understand and accept decisions about provision is likely to be all the more important. One key finding emerging from the literature is that staff need to be given flexibility in order to develop positive relationships. A comparison of advisers in Jobcentre Plus, who needed to follow a strict set of processes, with those in private sector employment zones who had much more freedom, found that the latter were better able to tailor their approach to the client, and respond to their individual circumstances (Drew *et al.*, 2010). Trusting those on the front line appears to lead to a situation in which they can build relationships of trust with their clients.

We are clear that effective relationships can lead to better service outcomes, but we think that their impact may be broader. We have commissioned the Centre for Applied Positive Psychology to investigate the psychological benefits of effective relationships—we believe that they can help build a sense of confidence that will enable clients to operate more effectively across many areas of their life. With an increasing government focus on well-being, combined with the drive to save costs, such outcomes are likely to be increasingly important. A focus on relationships can lead not only to more effective (and hence more efficient) services, but also services which maximize the effects of interactions between citizens and the state.

Developing the strengths to prevent

Working with a 10 year old who is struggling at primary school is cheaper and more effective than working with a 13 year old who has been excluded from secondary school. Supporting the early stage chaotic family is cheaper and more effective than managing the consequences of delayed intervention. Not only is this common sense, it should be common practice.

Managers in the public sector, and particularly in the third sector, are accustomed to channel hopping from one funding stream to another as new governments abolish old programmes and invent new ones. This year it is different. Deep cuts in public expenditure necessitate a resetting of the business model. Decisions made now will determine the direction of travel for years to come. They could begin

a cycle of diminishing support for early action resulting in increased demand for more and more acute provision; or they could drive forward the vision of a society that tackles causes not consequences.

Community Links launched an Early Action Task Force in January 2011 to address the question ‘How do we become a society that prevents social problems from arising rather than one that deals with their consequences?’ The task force is working on five priorities:

- Establishing the case for early action and, in particular, the case for the early action economy.
- Developing and promoting practical mechanisms for transition from acute services to prevention.
- Embedding the approach among funders and delivery agencies.
- Building the capacity for delivering earlier action across the third sector and particularly focusing on ‘networked delivery’ because systems can expand faster and further than individual agencies.
- Maintaining momentum on the development of appropriate funding.

We cannot become an early action society without becoming an early action economy. This may challenge Treasury orthodoxy, but without appropriate economic intervention we will always be tinkering at the margins.

The Stern Review, which led to a series of radical policies in the last government and influenced policy globally, was originally conceived by the chancellor to explore the economic rationale for government action on climate change. Making the case for the Treasury is critical. Early action is not just one more demand on the public purse. It is *the* way of reducing the deficit that effects positive change and contributes to long-term growth.

To be useful and influential the framing discourse must be positive—‘less bad’ is not an inspiring battle cry. We know that social change is driven by leaders and early adopters rallying behind a motivating vision. There is always a challenge with presenting the counterfactual (what would happen if we didn’t...) but we do need to capture the essence of a big goal, to share it and to build behind it a real sense of possibility and excitement. It must offer tangible solutions to current problems—‘payment by results’ rather than

‘invest to save’ – and it must be practical enough to engender confidence but still focus on developing an early action mindset rather than a single blue print.

Above all it must be ambitious. Public health shows the way: in the late 19th century there was a gathering belief that public health was a proper concern for government. At first, this was a minority view widely considered to be naïve and idealistic, then a gradual recognition that the issues were of economic as well as moral and social importance and that their implications touched the whole community and all its interests. Legislation was enacted and investment committed over a wide range of concerns from sewage systems to housing but all underpinned by a recognition that was novel at the time and would have seemed peculiar to previous generations, a recognition that this was essentially the right thing to do, a shared responsibility in pursuit of a common goal. Within a generation, concern for public health had moved from minority fad to common practice.

Current health policy shows the spectrum of possibility—emergency heart surgery sits at one end, blood pressure medication for those displaying specific risk indicators sits in the middle, health education on diet and exercise sits close to the near end, alongside decent housing, safety provision at work and clean streets.

Just as we can see that the health of the nation isn’t only shaped by heart surgery, we must also recognize that ‘public well-being’ which government are now committed to measuring, isn’t only dependent on secure prisons and effective policing.

Importantly this is not just about the organization of the market economy, but also about the workings of the core economy—the family and community relationships which Neva Goodwin characterizes as the ‘hard drive’ in the structure of our society. We know that stable and fulfilling relationships are at least as important to our resilience, our self-confidence and our sense of well-being as a decent standard of living and a regular job. These are the building blocks of a society with not just the resources to respond but also the strengths to prevent.

A swift and radical switch of resources from acute services to prevention is impractical, particularly now, but a steady, incremental migration could be achieved. Indeed, incorporating such transition

planning in the implementation of the Comprehensive Spending Review will be essential if the coalition is to honour ministerial promises about fairness and protecting the most vulnerable.

The government's gradual approach to the reduction of carbon emissions is not dissimilar. Absolute proportions will vary from service to service but, if the aspiration is to gradually shift the balance, government departments and local authorities might consider establishing and publishing Early Action Milestones. For example: 'We spend 5% of our budget on prevention and early action. We aim to increase that proportion by 5% each year for the next three years'.

Commissioners, charitable trusts, the Big Lottery, the new Big Society Bank could incentivize and sustain the transition in the third sector with milestones of their own; for example 'we invest 8% of our grants in early action. We aim to increase that proportion by 4% each year for the next three years'. And, of course, if we expect open and ambitious milestones from the funders we should expect them also of the funded—the organizations delivering the services from community groups to council departments. For example '60% of our income is spent on early action. We aim to increase that proportion by 8% for the next three years'.

Publicising and promoting this good practice would frame it as the expected behaviour of a progressive, forward-thinking organization. The best examples might be recognized with awards or accreditation.

Establishing the primacy of relationships in the delivery of a service and unpeeling the onion to intervene at the right point would radically transform public provision. Neither are an add-on or a 'nice to have' and both should be advanced by policy-makers and practitioners, nationally and locally. Even in this time of public expenditure cuts? Precisely because this is a time of public expenditure cuts. ■

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Forthcoming PMPA report

Developing effective policy in an era of austerity

The PMPA, the National School of Government and the PAC held a series of events on the theme 'Developing effective policy in an era of austerity' in 2010/11. These sessions addressed the existing challenges for policy-makers and decision-makers at national level when delivering policy that impacts and informs local government—set to intensify with the current cuts to public spending. Speakers and participants looked at the strategic options for dealing with the cuts in public spending and also ways in which the skills and approaches of policy-makers will need to develop given the coalition government's approach to Big Society, and to devolving responsibility to the local level and to professionals.

A forthcoming PMPA report, based on these events, will focus on reviewing and redefining the relationship between the individual and the state, devolving decision-making to local and regional government and creating better horizontal collaboration across government and public services. The report will also address how the skills and capacity agenda will need to develop, as more traditional approaches, like evidence-based policy-making, statistical and behavioural research will need to co-exist or perhaps be supplanted by collaboration, innovation and creativity, consultation and engagement, change management and leadership skills.

For more information about this report and other PMPA events and publications, email info.pmpa@cipfa.org.uk or visit www.cipfa.org.uk/pmpa/

Using behaviour change and Big Society in budget reduction

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The London Borough of Sutton is a small, highly-performing council in south west London, with a reputation for pulling off that most elusive of local government tricks—doing more with less. Since June 2010, Sutton has been one of four ‘vanguard areas’ for the coalition government’s Big Society initiative; and, like all other UK local authorities at the moment, is in the midst of a major transformation programme (in our case, called ‘Smarter Services Sutton’) aimed at significantly reducing our cost base. This article describes Sutton’s approach to behaviour change, and our work on the Big Society; and explains how these are integral to our overall transformation programme allowing us to reduce our costs while at the same time protecting those services that our residents value the most.

‘Smarter choices’—Sutton’s approach to behaviour change

Like the rest of the public sector, local authorities are focusing much attention on behaviour change. Changing people’s behaviour and habits has for many years been seen as an essential social policy tool. While regulation and fiscal measures provide the ‘stick’ and can produce immediate changes, they are often unpopular and can lead to resentment. Equally, providing the ‘carrot’ through incentives and rewards is often considered only a sweetener to ease the pain. In Sutton, we have found that significant behaviour change is best achieved by combining the two. Our approach is based upon encouraging people to make ‘smarter choices’ for themselves—with more carrot and less stick. Certainly, we use behavioural insights to

understand our communities and how they act; and our interventions may seek to ‘nudge’ people to make certain choices; but it’s not about preaching, or compulsion, or any form of trickery. Rather, the engagement with our residents about ‘smarter choices’ takes place in a very straightforward, open and honest way—see figure 1.

In Sutton, we are using this approach to influence lifestyles and change behaviour across many different services—in social care; in our approach to physical activity; in how we run our libraries, youth centres and community facilities. We are encouraging our residents to take more responsibility for the physical environment around them, with some really interesting work on street cleaning, and on winter maintenance (see figure 2). But our most successful ‘smarter choices’ initiative is Smarter Travel Sutton, which was delivered in partnership with Transport for London (see Ratchford and Parker, 2011).

Smarter Travel Sutton was launched in September 2006. Its key aim was to test whether social marketing and travel planning techniques could reduce car use—with the benefits of less congestion, lower carbon emissions, cheaper transport, and better health. Since then, we have tried a wide range of initiatives to enable our residents to make better choices about their travel: encouraging them to walk, cycle and use public transport more. Some of these include personal travel planning with individual households in their own homes; direct marketing; roadshows; and cycle training (adults and children). The results have been even better than we could have expected; most significantly: a 75% increase in cycling in the borough; a 15% increase in public transport; and a 6% decrease in car use.

Building the bigger society in Sutton

Sutton is a ‘vanguard area’ for the coalition government’s Big Society initiative. The emerging themes of the Big Society are not new to us—indeed, our Big Society credentials are so deep that the council’s vision for the past 24 years has been about building a community in which all can ‘take part and take pride’. The Big Society is also evident in many of our other areas of work. Four signature projects that we are talking to government about are around:

- Traffic and transport—giving people greater power over traffic and

Figure 1. Ten lessons for behaviour change from Smarter Travel Sutton.

- 1 Be clear about the **objectives** for the work, and about how they fit into the council's wider aims and objectives.
- 2 Be **transparent** with residents about what you are trying to achieve: our approaches are fundamentally about **education and awareness-raising**.
- 3 **Segment** your audience, and develop different initiatives with different groups. A one-size-fits-all approach won't work.
- 4 Use a **wide range** of approaches and initiatives at the same time.
- 5 Find the **movers and shakers** in the population, to influence their peers.
- 6 Ensure you have the **resources**, time and commitment to deliver a comprehensive programme.
- 7 **Measure** what works, and what doesn't. And learn from others' successes—and mistakes.
- 8 Programmes delivered in **partnership** with others, at a **local** level, work best.
- 9 Find ways of **mainstreaming** behaviour change into your day-to-day work.
- 10 The most successful behaviour change campaigns are not about 'tricking' residents into doing things differently—they are about working with them to enable them to make **smarter choices**.

Figure 2. Free grit in Sutton's Big Society.

Our Big Society approach is typified in the way we are tackling winter maintenance this year. We consulted our residents after last year's extreme weather, and the overwhelming response was that they wanted to be able to do more to help. So this winter we have doubled the number of grit bins around the borough, and made it very clear to residents that the grit is for them to use, as much as for us. We have also given out free bags of grit to over 10,000 households who wanted to be able to clear side roads and pavements themselves. The results? Clearer pavements, and fewer complaints about gritting because our residents are better informed and better equipped.

transport schemes in their communities—from bus services and trains to speed bumps and yellow lines.

- The Sutton Life Centre—using our recently opened citizenship centre to encourage our younger people to take a lead role in their local community.
- Community champions—working with our residents in Hackbridge to develop the first UK eco-suburb.
- Local health—making health services truly local in Sutton, through the early adoption of key elements of the White Paper on *Equity and Excellence* (Department of Health, 2010).

So what are the common themes around these, and what does the Big Society mean to Sutton? There are six elements to our approach:

- Enabling our residents to make better choices for themselves, through our behaviour change work.
- Devolving decision-making as close as possible to local communities and individuals.
- Even closer collaboration with, and between, the local authority, voluntary sector and private sector.
- Cutting red tape—ours, and encouraging national government to cut theirs. And we have been talking to our community to agree what barriers should be dismantled to enable those groups and individuals who want to help build a stronger society.
- Rethinking our work to support new models of service delivery. Sutton has had a small, but effective, track record of successful social enterprise and we want to do more to be clear about how we can create the conditions for social entrepreneurs to thrive.
- Openness and transparency. We want to be an open council—and that means openness about our data (where we have been leading the way—see www.sutton.gov.uk/index.aspx?articleid=10077), our decision-making, spending, delivery and performance.

None of these, of course, is about starting from scratch, or about delivering brand new sets of services. Rather, our approach to the Big Society is about looking at what we do, and how we do it, through a new lens—which is the same approach we are taking to our council-wide Smarter Services Sutton transformation programme.

Smarter Services Sutton—a principled approach to budget reduction

Like all other local authorities at the moment, Sutton is facing serious financial challenges. In our case, we estimate that we will need to reduce our net budget by around 25% over the next few years. Our transformation programme to tackle this, which we call Smarter Services Sutton, began nearly 18 months ago. So unlike many more knee-jerk reactions to recent spending announcements, this has enabled us to think more strategically about what we need to do, when we need to do it and how we can make a step change in involving our residents in these kinds of decisions.

Smarter Services Sutton has never been just about service cuts. In Sutton, the leader of the council and the chief executive made it very clear right from the start that it is about transforming services, cutting our costs and maintaining or improving resident satisfaction. The key thing that has made a difference for us is doing all this within a very specific framework that has been clearly led from the very top—politically and managerially.

In practice, the Smarter Services Sutton programme is a series of service-based reviews, covering the whole council over a three-year period. There are six principles that form the structure for each of them:

- *Personalization, choice and behaviour change*: making this a cornerstone of our reviews, as we are clear that there are efficiency gains to be made by enabling our residents to make smarter choices about their lives.
- *Meeting customer needs*: rethinking from first principles what we should deliver, and how.
- *Partnerships*: working on the basis that many services can be better delivered through the pooling of people, money or other resources (see figure 3).
- *Affordable management overhead*: making sure that our management overhead is affordable and effective.
- *Risk management*: taking a more considered, and less risk-averse approach, to some of our services.
- *Leadership behaviours*: ensuring that our managers and leaders have the right capabilities, and employ the right behaviours, to enable the degree of change that we require.

Figure 3. The Safer Sutton Partnership Service.

The Safer Sutton Partnership Service is a unique partnership set up to tackle crime and the fear of crime in the borough—and a great example of the approach to partnership thinking that we’re exploring through Smarter Services Sutton. Formed in 2005, it is a collaboration between the council and the police. It has a jointly funded, single point of line management, reporting to both the borough commander and council chief executive, and brings together a host of council and police services. Last year, we gave evidence to the Home Affairs Select Committee on how this approach could be replicated throughout the UK—delivering real and sustainable budget cuts at the same time as improved services. The real key to the partnership’s success has been sharing strategy, resources and information between the council and the police—enabling us to develop innovative new practices which deliver tangible results. Five years after its formation, total crime in Sutton is down 11%, criminal damage offences down more than 36%, fear of crime is dropping, and the service has delivered annual savings of almost £450,000.

What makes Smarter Services Sutton different to the transformation approaches we have seen in many other councils is that this is primarily a bottom-up, service-driven approach. We are not looking first at back office, or searching for common transactions across the authority.

Rather, we are looking at each service in turn, considering the needs and experiences of our customers; looking in detail at performance and financial data; engaging directly with residents and staff affected; and entering a productive dialogue with local private and voluntary sectors. And we are not racking up a huge consultancy bill to achieve any of this either. We have used a small amount of external support to set the programme up, and to train our own staff, and we continue to use external challenge for many of our reviews; but primarily, we are implementing the Smarter Services Sutton programme using our own resources.

So how is it going? So far, so good. We are nearly half way through our programme of reviews. Overall, those that we have completed have exceeded the savings targets set for them (by a long way in some

cases). Some services we have cut; others we have maintained by doing things differently; and others transformed in more radical ways.

The important thing is that this has given us an opportunity to rethink what is being done and why. Our elected members have shown very clear political leadership for the programme, and for the difficult decisions that it brings; and we have wide and positive staff engagement across the council. But we still have a long way to go, and no doubt much more to learn as we progress.

Conclusion

What is our advice to senior managers in local government leading their own transformation and change programmes in these times of severe budget cuts? In essence, it is about being true to your local principles and local political priorities. In Sutton, this means building on our sound foundations of engagement and empowerment, of devolution, and of honest and frank communication with our residents. Looking at our services through the new lenses of behaviour change and Big Society enables us to retain these principles, but at the same time to think outside the normal box of service delivery. We are already finding that this is enabling us to rethink many of our services, to make some difficult decisions and some radical transformations, and to engage positively and productively with our residents and communities along the way. ■

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Using a human capital strategy to address the challenges of budget cuts: the case of the Royal Navy

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Rationale

As this case study from the Royal Navy shows, changes can be embedded into a long-term strategy and culture. Employees will then understand change as an opportunity, rather than a threat. In this way, organizations can avoid the motivation malaise that so often results from tighter budgets and the perception of cuts.

Communication—of both the ‘how’ and the ‘why’—is fundamental to implementing the outcomes of the change. One way to do this is through a human capital strategy. This case study focuses on the Royal Navy’s human capital strategy and its communication in the hope that the ideas will find application in other public services.

Why do we need a human capital strategy?

The UK’s Strategic Defence and Security Review (SDSR), published in autumn 2010, set out how the government will deliver the priorities defined in the wider National Security Strategy to counter both current and future threats. The SDSR attempts to reconcile the need to cut defence spending, while continuing to keep the UK secure, by establishing a transformative programme to work more efficiently.

The Royal Navy is subject to the initiatives and drive for savings we have already started to see across the public sector. Indeed, as an outcome of the SDSR, there has been a well-publicised focus on total armed forces personnel to be deployed/redeployed. The SDSR

requires that the Royal Navy reduces its personnel by around 5,000 to a total of *c.* 30,000 by 2015, while still providing:

- Maritime defence of the UK and our overseas territories.
- Continuous at-sea nuclear deterrence.
- A credible and capable presence within priority regions of the world that contributes to conventional deterrence, coercion and containment.

The objective is to have a smaller, leaner, more efficient navy in the future. Clearly this impacts the Royal Navy as both a government organization providing a service and as an employer.

As people are key to the success of any public or private sector organization, the successful implementation of the SDSR needs public bodies to focus on the people that they employ and how they are managed. This is best achieved through a timely communication of a human capital strategy. Any transformational change and the challenges that go alongside, whether due to the SDSR or to the comprehensive spending review, will require a carefully controlled programme with a set of core principles to manage those affected during the period of change.

What is a human capital strategy?

A human capital strategy articulates an integrated approach to the 'human capital elements' (staff and personnel) that underpin the Royal Navy's overall post-SDSR strategy: to produce a 'world class navy ready to fight and win'. These elements can be brigaded under the areas of leadership, talent, culture and operating model.

By setting the context for the capabilities that need to be delivered by the broader human resources strategy, the human capital strategy provides a clear link between an organization's goals and the human capital requirements that underpin them. In order for an organization to provide holistic human capital, HR and business strategies, the following must be provided:

- Clear definition of the capabilities within each of the areas and their interdependency with each other.
- Direction for all downstream HR planning.

- Facilitation for collaboration between functions and across different locations
- A human capital journey plan (with timeline) for how the organization will enact the strategy

Starting the human capital strategy conversation

The SDSR report started many conversations among the Royal Navy’s personnel and the wider stakeholder community, and it has raised many questions for all stakeholders, from junior sailor to defence industry consultant. These questions fall into at least one of the human capital strategy areas and act as drivers for the provision of a human capital strategy. See figure 1 for some of the questions posed in

Figure 1. Question posed in light of the SDSR (by human capital strategy area).

Leadership

What will the demands be for leadership capabilities of the future? What are the retention and recruitment implications? Has the leadership team retained the confidence of the ‘rank and file’ through the CSR process—how do we know? What can we do to bolster confidence?

Talent

What skills and capabilities are required to deliver our contribution to defence? What are the gaps and how do we close them? Should graduate recruitment be supported by an enhanced apprenticeship scheme?

Culture

What is our key cultural attribute/ethos today? What needs to change to deliver the strategy of tomorrow? How do we foster a culture of collaboration with the other two military services following the media portrayal of SDSR winners and losers? Is there still widespread pride in the service—how do we reignite it if needs be?

Operating model

What options are available to support the strategy of tomorrow? How do we transition from where we are now? What are the implications of the change?

response to the SDSR.

The human capital strategy journey

So why do we need a human capital strategy? Why can't we address only these questions that our employees and leadership are asking? In order to enhance employee engagement, a clear story needs to be told of the journey that needs to be taken, complete with indicative timelines, expected outcomes and a vision of 'success'. With a clear understanding of the 'why' and the 'what' of the government's vision, our intelligent workforce will be better placed to assist in answering and delivering the detailed 'how' of the supporting human capital strategy.

Indeed, as the detail of the restructuring and active cost management to deliver the 'strategy for austerity' takes form, it will shape the answers to the questions in figure 1. As an iterative process, any programme should be influenced by the implications of these answers: it is through understanding these questions, and *why* their people are asking them, that leadership will be able to win back the hearts and minds of their workforce. In turn, negative perceptions of the programme of change that comes out of the SDSR will be allayed, pride will be reignited in the new 'focused' organization and personnel will have an increased confidence in the leadership taking the Royal Navy forward into the future.

Implementation of the human capital strategy: key elements

A human capital strategy will help leadership and personnel to work together holistically, to understand their concerns around the changes that are taking place and how to work with each other to reduce these anxieties and get the best out of their people. In order to successfully implement a human capital strategy, in a way which transforms an organization, an accompanying change management programme will be necessary to help the journey and manage the human reaction to the change.

Table 1 shows the key elements needed to bring about successful change, alongside questions and concerns that much be considered as part of the implementation process. The first two elements define the change journey—what the change will be, what the outcomes should be, and the remaining elements detail how this change 'journey' can be made to happen: the tools and processes required for a successful

Table 1. Human capital strategy: key elements for success.

Element	Considerations/actions
Transformation story	Is SDSR a transition point? What does success look like? Era analysis: lessons from transition between Cold War and Global War on Terrorism eras. What is the next era: austerity, security? How can excitement and personal ownership for the transformation be created and sustained?
Resource management	What resources (quantity, quality and skills profile) are required to support the new strategy? What resources are required to drive the transformation?
Readiness for change profile	Assess readiness for change: conduct surveys and workshops to monitor the preparedness for change among subordinate commands Track effectiveness of interventions made to increase readiness for change among those areas found to be reticent Track acceptance from 'awareness' to 'commitment'
Leadership development	Create high-performing leadership team for transformation Coach leaders throughout organization in management of change Understand requirement for, and nurture next generation's leadership team
Risk management	Identify risks to realizing new strategy Ensure appropriate mitigation plans are developed and executed to address risks
Journey map/ programme methodology	Maintain oversight of progress along journey plan for key projects Adopt 'programme' approach to clarify interdependencies, eliminate overlaps and smooth overall implementation
Communication management	Develop co-ordinated internal and external stakeholder communication plans Segment the audience and use most appropriate channel Co-develop communications plans for key changes.

change. High-level sponsorship of the human capital strategy and associated change programme will also be required to enable success.

The importance of communication

Communication is integral to the success of a human capital

strategy and associated change management programme. The communications strategy *must* be defined and enacted as soon as the need for change has been identified.

It is important to recognize that not all people are the same and thus different types of people respond best to different communication channels, tailored to their specific needs. To enable communications to be ‘bespoke’ and aimed at a specific group of people, the workforce can be ‘segmented’ and described in various ways; perhaps most usefully by motivational drivers and by age profile.

As an example, various labels can be used in the case of motivational drivers to categorize the ‘careerist’ (drivers include promotion and self-development), the ‘bill-payer’ (financial needs), ‘honest sailor’ (job satisfaction and security) and the ‘migrant’ (pay and opportunities, but short-term interest). Traditional generation segments (for example ‘baby boomer’, ‘generation X’, ‘internet generation’) will be overlaid, each with their own preferences for information exchange and communication channels. The human capital strategy and accompanying communications strategy must take into account and embrace these differences within the workforce, while tailoring the message and channel of communication for each of these workforce groups.

Various studies have shown that poor communication is a major contributing factor to a high failure rate among big change programmes. To understand the reasons why *communications* fail takes us a step closer to understanding why *change programmes* fail. Reasons for communications strategy failure include:

- Communications begin too late due to top-level management delaying until plans are definite, which allows rumours to spread and employee resistance to build against unpopular changes.
- Technology or large informal presentations are used as a communication channel, whereas employees prefer informal face-to-face conversations with their managers in order to explore individual implications of the changes.
- The early communication message refers to values and embracing change, rather than talking about outcomes; empty or ‘spun’ messages reduce employee confidence in their leaders, which makes it harder communicate the message when outcomes need to be communicated.

The Royal Navy began communication with staff on SDSR with face-to-face meetings between all employees and their managers to discuss the review's career implications. These meetings provided feedback to the top team of key concerns. Employees were all emailed by a member of the top team checking that they had received a 'change' briefing and reinforcing the message that their feedback was important. In addition, the intranet had a summary of information and details of where to find more advice. Pamphlets were also available for employees to pass on to family and concerned relatives.

Next Steps: After the SDSR

The SDSR and comprehensive spending review are driving the new overall strategy and therefore shaping the Royal Navy of the future. For this strategy to be implemented successfully, it needs to be supported by a human capital strategy that is fully integrated with the overall aim of the organization: a world-class navy ready to fight and win. This can only be achieved by the retention and recruitment of the very best of the available talent; this same talent will be wondering 'what does the SDSR mean for my personal ambition and goals?' Similarly, external stakeholders—military coalition partners and partners in industry—will be forming their own views of what the future holds for the Royal Navy, and thus their relationship with it. There is an imperative therefore to clearly articulate the Royal Navy's new strategy for transitioning through the forthcoming period of austerity, map out a journey for implementing it and communicate it early to all stakeholders. It is through these actions that leadership will win and retain hearts and minds while delivering the strategy that it *wants* to, rather than the strategy its ill-informed stakeholder mistakenly *thinks* that it is going to deliver. ■

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Local government strategies in an age of austerity

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Local government in England is faced with probably the biggest challenges it has had since at least the end of the Second World War. Not only is it facing front-loaded cuts to its income of an unprecedented scale, but the demand for services, especially for the elderly, continues to rise. In addition, in many areas, the return of mass unemployment, especially among young people, threatens new problems.

Lessons from the past

What can history and experience teach us about how to cope in what seem to be unprecedented circumstances? While history cannot ever be a total guide, especially when there is no exact historical precedent, experience can help to guide us about what may be possible and what has worked, and what has not, in the past.

The nearest equivalent to the current crisis was the wave of fiscal austerity that engulfed many local governments across the developed world in the early 1980s. While the scale of the cuts in the UK in the late 1970s and early 1980s does not match the current situation, in some other countries they did. Between 1978 and 1985—a seven-year period—central government grants to local government declined by 15% in the UK and 18.5% in the USA. This compares to proposed cuts in England of about 12% in year one (2011/12) and 27% by the end of year four (2014/15). That is over triple the rate of decline—6.75% a year average now compared to 2.1% a year average then, and with this round of cuts significantly ‘front-loaded’ generating its own set of

problems.

Some of the responses to the previous local government crises in the 1970s and 1980s were documented in a major research effort across 10 Western countries that studied 2,500 local governments (Mouritzen, 1992) and we draw on some of those experiences here—although we have developed our own interpretation that includes much other work.

In the previous studies, about a third of local governments responded to the (much smaller) 1970s and 1980s fiscal crises by trying to ‘get’ more by raising taxes and slightly more by raising additional revenue in other ways—for example raising user charges, using up reserves, getting additional grants, selling assets, and borrowing.

When it came to spending, the most popular strategy was across-the-board incremental cuts (about two fifths of local governments chose this strategy), whereas making strategic cuts to programmes was much less popular (only less than one fifth chose this strategy).

One thing it is worth noting is that, in most cases, local government saw the late 1970s/early 1980s crisis as just that—a temporary crisis caused by economic conditions that would pass. And generally local government finances did return to levels close to what they had previously been once the crisis was over. It seems to be the intention of the coalition government that the current (much larger) cuts will be permanent. This has big implications for how local government deals with the cuts.

Finding more money

The first and most obvious way of trying to deal with the problem is to raise more money. Some of the options here might include:

- Challenging central government allocations.
- Community charge.
- User charges.
- Asset sales.
- Borrowing.

One strategy that might be tried by some is to challenge the way in which central government funding streams are allocated. With

substantial changes to the ways in which this is done—including reducing the number of funding streams and concentrating much more through the central funding stream—some obvious anomalies have been thrown up. These changes and anomalies may be sufficient to allow for challenges, even legal ones, to the funding allocations. The rushed way in which many of the changes have been conducted probably makes this more possible and some councils are apparently considering seeking judicial review (others are already seeking judicial review of cuts in the ‘Building schools for the future’ programme).

Scope for varying the community charge is, in practice, very limited and is going to be limited still further by the introduction of compulsory referenda if councils want to put the charge up. User charges will probably be a favourite for many councils, including car-parking. Ironically the government have just announced they are ‘freeing up’ councils to allow reductions in them in order to ‘end the war on the motorist’. However, not much chance of that—most local governments will use their new freedom to move parking charges up, not down. Of course user charges also raise major values issues about what councils are for—and they are in any case limited to non-statutory services, as well as political limits about what the public will see as acceptable.

Selling assets and/or borrowing money are other obvious avenues, but the former have often already been exhausted in previous efficiency drives and the latter only makes sense if the current cuts in central government support are seen as temporary. This seems unlikely—these cuts are meant to be permanent.

Spending cuts—the size of the problem

If getting additional revenues to off-set centrally-imposed cuts has limited possibilities, the only alternative is to reduce spending in some way.

Here there are only really two big options:

- Make cuts—do less with less.
- Improve efficiency—do the same with less.

These are, of course, not mutually exclusive. There are two further broad options within the cuts and efficiencies routes:

- Incremental or strategic cuts.
- Operational or radical efficiencies.

We have set out the broad choices in a matrix (see figure 1). The ‘size of cuts’ estimates applied to each ‘box’ are obviously heuristic rules of thumb, but from the evidence of past experience with cuts and efficiency programs these seem to be realistic. Where do councils fit on this matrix?

The Department for Communities and Local Government (DCLG) has published detailed figures for each council for at least the first two years, so we can get some idea of which councils face which choices.

DCLG based their figures on its new preferred measure of councils’ ‘estimated revenue spending’, which includes changes to council tax and about £1 billion of NHS support for social care. We have used these figures, not because we believe them to be correct but because even on these ‘watered down’ estimates of the cuts the size and scope of the options facing councils starts to emerge clearly.

Figure 1. Cuts and efficiencies matrix.

		Cuts	
		Incremental	Strategic
Efficiencies	Operational	1. Salami-slicing cuts plus operational efficiencies Up to 9.9%	2. Strategic cuts plus operational efficiencies 10%–19.9%
	Radical	3. Salami-slicing cuts plus radical change 10%–19.9%	4. Strategic cuts plus radical change 20%+

Using these DCLG figures, we have broken down the councils into those facing differing scales of cuts in the first two years alone (see table 1). We have excluded the ‘transitional funding’ that some councils are getting, because this only lowers the size of cuts for one year and disappears after that. So the size of the strategic problem is the total cut after two years.

These cuts have been front-loaded, but we estimate that, over the full four years, dozens of councils will move from category A to B and from B to C. Councils like Manchester, Liverpool, South Tyneside and Hackney will move up into the 20% plus category. Of the top group (category C), nine of the 12 councils actually face cuts of more than 30%; two are facing cuts over 40% (Barrow-in-Furness and Hastings); and one is looking at a staggering 50.9% (Great Yarmouth).

These estimates are based on the DCLG’s preferred measures, which have been sharply criticised. They are distorted because of the inclusion of estimated council tax revenue increases and especially because of the inclusion of NHS social care funding. This disguises the probable real impact of central government funding cuts, which are much larger. If these were discounted then many more councils would move into categories B and C.

By 2014/15, then, we estimate that most councils, including most of the biggest ones, will probably be facing category C scales of cuts and most of the rest category B. This gives some idea of the scale of the challenge facing local government. From a citizens’ perspective, most people will probably be living in council areas facing category C levels of cuts.

Table 1. Differing scales of cuts being faced by local councils (calculated from DCLG figures).

	<i>Size of cuts over two years</i>	<i>Number of councils</i>
Category A	Up to 9.9%	160
Category B	10% to 19.9%	188
Category C	20% plus	12

Incremental versus strategic cuts

Cuts have historically most often been carried out as limited, incremental, ‘salami-slicing’ across all budgets—‘let’s just slice 5% off across the board’. This ‘reverse incrementalism’ has obvious advantages—it appears to be even-handed or fair (‘we’re all in this together’); it doesn’t involve any hard political choices over priorities; and it is simple.

While this strategy may ‘work’ for relatively small levels of cuts (say around 5%), history suggests that as the ‘slices’ get larger so the disadvantages also become manifest. Some services may be more vulnerable to larger cuts than others—some may simply start to become unviable or violate statutory rights. In other cases, it may soon become apparent that some services represent real priorities for politicians or the public and this level of cuts is simply unacceptable and they would rather see other things cut more (or even entirely). And, from a managerial/organizational perspective, experience suggests some cuts on this scale may have unintended consequences that induce bigger problems elsewhere. Without some time-consuming ‘whole systems’ analysis these problems are hard to predict.

When incremental cuts won’t deliver, strategic cuts become more urgent. By ‘strategic cuts’ we mean making big choices about what to fund and what not. It is the latter, deciding not to fund something that up until now has been deemed worthy of support, which often causes the biggest political difficulties. On the other hand, closure of some services can be managerially much simpler than large-scale salami-slicing. Although, again, the costs of closure need to be considered—central government has encountered problems with its ‘bonfire of the quangos’, which in the short term is probably going to cost more than it saves because of redundancy and other costs (see Public Administration Committee, 2010).

Operational versus radical efficiencies

According to the Confederation of British Industry (CBI): ‘over a ten year average (1998–2008), the UK’s productivity growth rate [was] 4%’. But this disguises big differences between sectors: ‘manufacturing productivity gains have...outpaced those in other parts of the economy. From 2000–2009, the average annual percentage increase in productivity output per hour was 3.1% [in manufacturing], against an

increase of 1.3% for both the services sector and the entire UK economy’.

This is because services—especially ‘human’ or ‘personal’ services which includes most public sector activity—are much more difficult areas in which to achieve big productivity or efficiency gains because of the nature of the work being done. Big gains come mostly from technological improvements—like replacing a lot of men with shovels by a mechanical digger—which are hard to do in human services.

The productivity gains for the economy as a whole include both operational efficiency gains and more radical investment and transformational change initiatives (Talbot, 2010). So it seems reasonable to assume that possible productivity or efficiency gains in service sectors would be hard to push beyond 1–2% a year.

Evidence from past central government efficiency drives (for example the Rayner scrutinies of 1979/85; the Gershon programme of 2004/07 and the operational efficiency programme 2007/10) that claimed higher gains are very suspect. But, even if they were not, at best they claimed about 3% a year from efficiency changes, some of which were more radical than operational.

By radical efficiencies we mean ‘whole systems’ or transformational change that alters fundamentally what is done or the way in which it is done—for example by radically increasing the contribution of ‘co-production’ by users of services. These changes are much more difficult to obtain than operational efficiencies, they take time to plan and implement and often require ‘front-end’ investment. They are also not ‘frictionless’ and can lead to short-term drops in performance, requiring even more (short-term) resources to avoid. There is evidence that they can, in some cases, lead to bigger savings but these are often based on isolated examples or from very different contexts and are not entirely reliable (Gillinson *et al.*, 2010).

Choices

Most councils, on our analysis, are already faced with choices (2) or (3) in our matrix, which essentially means they have to answer the question—do they place most emphasis on strategic cuts or radical efficiencies?

Strategic cuts, which mean closing down or severely curtailing things that have hitherto been done by councils, have been avoided in the past because the ‘losers’ tend to complain—loudly—while the ‘winners’ do not reward councillors.

On the other hand, radical efficiencies are much more organizationally and managerially challenging, and risky, than strategic cuts. Radical efficiencies are, of course, politically easier than strategic cuts. They mean that councils should be able to continue—over the medium term—to provide reasonably similar or slightly reduced levels of services without the need to completely abandon whole areas of activity. But, as discussed above, they are neither costless nor frictionless and take time to implement.

For a large group of councils—and maybe for most councils in the next four years—this dilemma does not exist because they are faced with cuts of such a magnitude that they will have to do both—achieve strategic cuts and radical efficiencies. Some will opt for a ‘smaller but more flexible’ strategy of the type being pursued by Manchester City Council. They aim to slim down their workforce, but at the same time undertake major reorganization and retraining to radically boost productivity. Others, such as Essex County Council, are going further down the outsourcing and Big Society route to divest themselves of some services partially or entirely.

Whatever the strategic choices made, it is clear that English local government faces the biggest upheaval since at least the travails of the Poll Tax and probably for many years before that. ■

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The UK's quest for growth in an era of fiscal austerity

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Where could the UK seek growth?

A key question facing UK policy-makers and business is whether the UK economic recovery is sustainable. The picture is mixed. We hear of optimism in the manufacturing sector on the back of booming demand from emerging markets, and research suggests that the restructuring and productivity improvements undertaken in the past decade is helping the UK to cope better than in previous recessions. But a key element of a sustainable recovery will be the rebalancing of public finances. By the end of 2010, the UK's public sector net debt (excluding financial interventions) had accumulated to almost £900 billion, equivalent to 60% of GDP. To control the rising public sector costs, the coalition government announced a fiscal consolidation plan of £80 billion by 2014/15.

It is clear that, as the public sector rebalances, the private sector will have to pick up the baton from government and become the engine of the UK's economic growth and employment. In their quest for growth opportunities, businesses can also help governments make efficiency savings and deliver higher quality public services.

New growth areas for the UK

If we look beyond the present uncertainty we can find opportunities in durable, long-term trends affecting us all, many of which are currently perceived as challenges: the UK's population is getting older; natural resources are becoming scarcer; technology is marching onwards with more applications and more users; and economic demand is gravitating towards the emerging world. In a study entitled *New Waves of Growth* (see www.accenture.com/mpw), Accenture examined the future of the UK economy over the next decade. The study identified

four new waves of growth for the UK economy: the silver economy, the resource economy, the multi-technology future and the emerging markets surge. These demand-side opportunities can be unlocked if we put in place the right supply-side interventions, such as the right quantity and types of skills, underlying infrastructure, technology standards, and innovation systems. This will not only help to keep the UK economic recovery on the rails but, as our research finds, it could also accelerate growth to 3.1% per annum between 2010 and 2020, from the 2.5% per annum expected on the current path.

The silver economy

The first important growth area is the UK's ageing population. A combination of falling birth rates and longer lives will shift the young-old age balance. By 2020, the number of people aged 60 and above is projected to increase by 17%, from 14 million to 16.4 million, while the number of under 16s is expected to increase by just 7%. Conventional wisdom dictates that an aging population will be a burden on economic growth. However, the UK economy can spur economic growth by retaining older workers and catalysing their consumption power.

Various sectors could benefit from the needs of an older population. Third age education is set to grow as older age groups seek to refresh skills and gain mental stimulation over a longer working life. Financial products that cater to the needs of a longer lifespan also hold potential, such as tailored equity release products, health insurance and biometric ATMs. Demand will also grow for consumer goods that are designed to adapt to the changing physiological condition of older people.

To unlock this potential growth, labour force participation and productivity will need to increase. These conditions can be introduced through the use of technology to enable knowledge creation, incentives for people to stay employed longer and restructuring of the work environment to enhance the productivity of older workers. Growing awareness of an ageing population and the consequences of ageing can enable the UK to proactively shape its future.

The resource economy

The second area that holds significant opportunity is the UK's

transition to a resource-efficient economy. The world's resources are getting scarcer. The UK will be impacted by this scramble for resources—at the end of 2009 net resource imports were valued by the Office for National Statistics at over £10 billion. One of the growth opportunities that can be found in the resolution and management of resource scarcity is in intelligent energy solutions, such as smart grids, carbon capture and storage, smart buildings, remote sensors and meters. Demand for green capital goods and infrastructure, such as photovoltaic systems and wind turbines, will also grow. But the business opportunities will extend beyond energy. As consumers, businesses and investors become increasingly aware of the environmental impact of their actions, numerous opportunities will arise in waste, water and land management (such as desalination technology, accessible low cost solutions to land access), eco-consultancy and carbon finance. How can the UK prepare for these opportunities? Building the green skills of the workforce, such as carbon accounting and energy auditing, will be essential, and this must be combined with investment in complementary infrastructure to upgrade and expand existing grids.

The multi-technology future

Technology is now an essential part of how we live and work. Improvements in cost, reliability, standards, openness and ease of use of both hardware and communication capabilities have had powerful effects in business, government and social settings. Just as important are internet usage habits, with Facebook's meteoric rise highlighting the shift toward the web as a community and social forum. Scientific research has also continued to march onward, with major advances in biotechnology, nanotechnology and robotics. UK businesses are well-placed globally to benefit from this trend, data from the Department for Business, Innovation and Skills puts UK the 2009 R&D spend at over £25 billion, making the country the fifth largest investor in research globally.

A variety of business opportunities will arise as technologies mature and are brought to market. These include superfast broadband, cyber-security, robotics and mobile and remote sensors.

The multi-technology future will transform government and enable it to achieve its vision of a 'Digital Britain':

- The use of technologies such as cloud computing can create shared services thus introducing efficiency savings and enabling the public sector to do ‘more with less’.
- Technology will be essential in meeting rising demand for high-quality and transparent public service delivery. The UK has made significant progress in this area with e-government tools, such as online town halls and the use of social networking platforms.
- The most under-explored potential lies in the power of an intelligent e-government strategy to spur private sector activity and new business models. For example, the increasing digitization of public data provides raw material that can be exploited for new business models.

The full potential of the multi-technology future can be unlocked if the UK equips the workforce of tomorrow with the skills and connectivity to fully embrace the digital world. A pro-growth approach to regulation will provide stability for businesses and public services along with assurances of data privacy for consumers. And strengthening links between research and business can boost innovation by giving budding entrepreneurs the funding and other support they need to bring technologies to market anywhere in the world.

The emerging markets surge

The emerging markets surge is being driven by the twin dynamics of a burgeoning middle class of consumers and rapid rates of urbanization. The global middle class is set to increase from 1.8 billion people in 2010 to 3.2 billion by 2020 and to 4.9 billion by 2030. These trends have already created a wealth of opportunities for the UK’s exports of consumer goods and services, and this has been reinforced by Sterling’s devaluation since 2007. UK exports to emerging markets were worth over £90 billion in 2009, with commercial services accounting for £40 billion. Opportunities presented by the surge include areas of excellence for the UK such as financial services and consumer goods. There are also opportunities around the transfer of education and human-capital services, for example through distance learning or the establishment of satellite campuses. While emerging

markets represent a tantalizing opportunity, growth can be undermined by trade and investment barriers and complex and unfamiliar operating environments. The UK government can build new bridges to the emerging world, through trade liberalization and economic diplomacy. UK businesses for their part can use new technologies—such as cloud computing and social networking media—to reach customers, talent and investors in the emerging world more effectively.

Government has a critical role to play

There is a common set of factors that can unlock the potential of these four areas of opportunity. These include building new bridges to emerging markets, enabling widespread take-up of technology, upgrading and expanding complementary infrastructure and engaging in future workforce planning. With these conditions in place the UK has real potential to move onto an alternative trajectory of higher growth.

But beyond this, an important catalyst will be the ability of the UK's private, public and non-profit sectors to collaborate and coordinate their responses in putting these conditions in place. Each sector has a part to play, individually and collectively. The private sector brings commercial acumen, technical know-how and entrepreneurial flair. It can take a far-sighted view, spotting 'big enough market insights' that have long-term growth and investment value. The public sector can provide enabling infrastructure, a supportive policy context and the right regulatory incentives. The non-profit sector brings important expertise as well as innovation in delivery models (such as cross-sector partnerships and social enterprises) and is also uniquely positioned to raise public awareness about the possibilities of new growth sectors.

Cross-sector collaboration is by no means limited to the domain of national government. As local councils become increasingly important nodes of economic activity and decision-making, they will become the starting point for stakeholders that seek to execute a national strategy. IT and social network platforms can also provide important tools to deepen such collaboration.

A key conclusion of our study is that opportunities do exist for UK business and that faster economic growth is possible for the UK

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economy in the decade ahead. By how much? By shifting the average annual growth rate from 2.5% to 3.1% over the next decade, the UK economy would generate an additional £134 billion of annual economic output by 2020. Seen another way, GDP per capita would grow from £23,372 in 2010 to £30,176 in 2020 (constant prices), which is £2,000 per capita more than would otherwise be the case. The opportunity is there to act now and make this happen. ■

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