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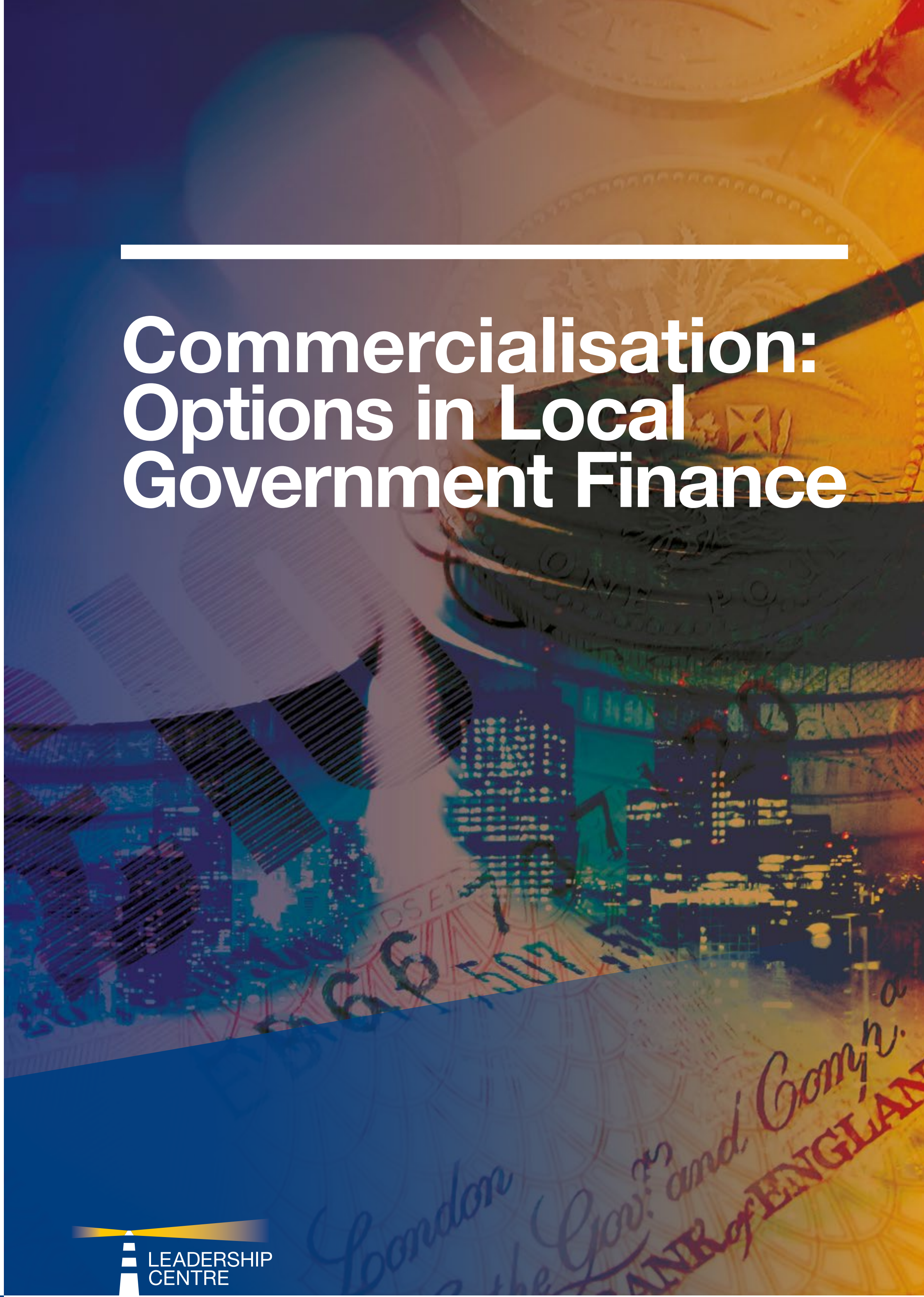

Commercialisation: Options in Local Government Finance

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Acknowledgements

Many people have generously given their time to support this work, and many thanks are due; particularly to my Leadership Centre colleagues John Jarvis, Joe Simpson and Debbie Sorkin; and to the considerable number of Leaders and Chief Executives of local authorities who have either directly or indirectly contributed to the development of this publication at several stages.

As ever, any errors or omissions are entirely my own.

An exploratory paper **by Dr Seth Thévoz**

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Introduction

Local government is an unprecedented stretching point. Leaders in the field are used to operating with limited budgets and difficult circumstances. But the "perfect storm" of unprecedented demand for services and crumbling revenues creates huge challenges.

Traditionally, the response has been for local government to look to "efficiency savings", and leaders in the sector are used to this process. But on the back of years of such efficiency savings, there is widespread concern that there is often little or nothing left to cut. If services are to be delivered at all – much less to thrive – then it is clear that alternative revenue streams will need to be opened in local government. The aim here is to present some options for leaders in local government.

Leaders are operating a new and very different local government environment compared to ten or even five years ago. Efficiency savings alone will no longer cut it. Leaders are now working in the world of place-based leadership, of collaboration, of pooled resources, and of a mindset and strategy embracing this, which recognises increased uncertainty. That involves a very different leadership approach, based around systems thinking, and systems leadership.

This publication gathers some options for such systems thinking, examining a range of future scenarios for local government – starting with the most likely, if the *status quo* continues, of financial collapse – and takes in various policy options. As well as repeating various instances of best practice – including in areas where the Leadership Centre has had direct experience – it also looks at different functions that local authorities could perform, particularly in the area of revenue generation. A large number of major developments affect local government: austerity, public sector reform, devolution. Yet local government need not have these things happen to it; as is argued here, there is scope for local authorities taking the initiative to deliver services differently, and more affordably.

The publication particularly benefits from the input of several dozen Leaders and Chief Executives who have spoken to the Leadership Centre at a recent local government finance summit on what we have termed the "Chatham House-Plus Rule", in promising to maintain their anonymity. In no way do we claim to speak on their behalf; but we have been fortunate in being able to share their full and frank thoughts based on their experience in balancing budgets against a challenging financial climate. Whilst the discussion contemplated a number of near-apocalyptic scenarios, the contributors were largely upbeat about how the level of honesty allowed a degree of focus on solutions rather than problems – one Leader remarked, "I don't think it's depressing, I think it's refreshing to have this level of honesty."[1] And so in preserving the anonymity of contributors, we have been able to preserve the candour of contributions. At the end of the event, there was a broad consensus that it would be desirable to be able to flag up many of these issues and initiatives more broadly, to encourage public debate. This publication represents an attempt at that. Given the particular challenges posed by the recent Budget, it is particularly timely for local government finance practitioners, for whom options, under the current arrangements, are rapidly running out.

Joe Simpson
Director, Leadership Centre

[1] Confidential information.

Scene-setting

The status quo

Scene-setting: The status quo

The last few years have seen numerous big changes to the finance of local government. Ever greater uncertainty prevails. The legacy of the global financial crash of 2008, and subsequent austerity measures undertaken by three parties in government, have all contributed to a serious under-resourcing of services controlled by local government, matched by an unprecedented rise in demand for those services.

One local council Chief Executive comments, "I doubt that politicians of *any* party have been totally honest with the public about the state of the state. And that affects decision-making…It has ramifications across the public sector. Children's services, for instance, have a 'perfect storm' of rising demand, rising expectations, and rising consumption, and that means we can't ask the more fundamental question of whether children's services always need to step in."[2]

Fundamentally, there are several meaningful choices which may be undertaken. Not all of these are palatable or politically do-able. Past options taken are not always a strong guide to how the local government sector may navigate the current set of challenges. By way of an example, the below two diagrams show how the choices after the 2015 Comprehensive Spending Review remain different from the choices taken in the 2010 review. In both cases, the same basic challenge remained: increased outputs using fewer resources. There have broadly speaking, been four ways in which this has been tackled:

(a) higher income, i.e. higher taxes or charges,

(b) cuts to services,

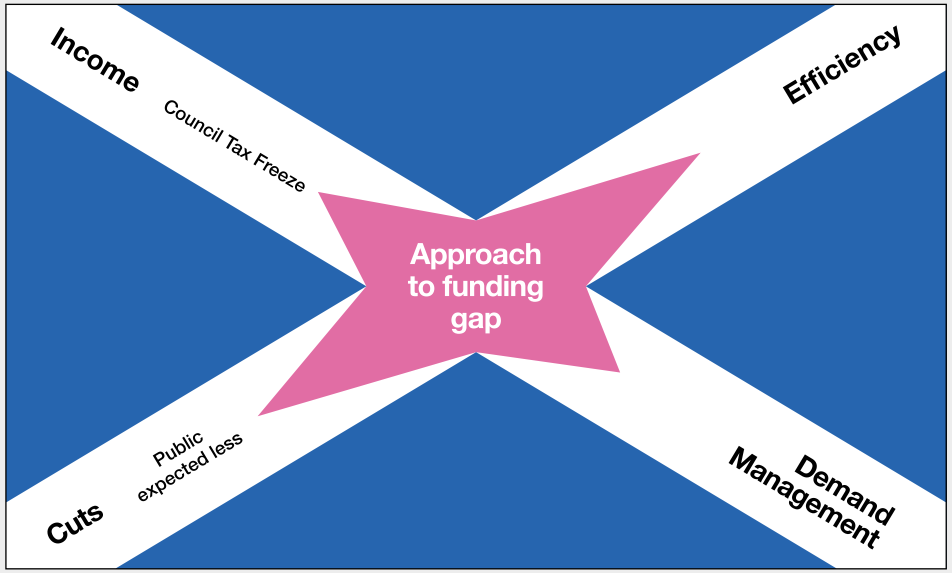
(c) savings brought about by improved efficiency,

(d) savings brought about through greater use made of demand management.

[2] Confidential information.

Scene-setting: The status quo

Local Government in 2010 Comprehensive Spending Review



It is interesting to note what is not included in such public policy options as what is: most notably, the quality of the service to the public. As one Council Leader confides, "In my experience, there is absolutely no correlation between quality of public service delivery, and public satisfaction at services, or public behaviour at the polling booth."[3] Consequently, quality of service does not necessarily always feature as the central concern in such decisions. As an inconvenient truth, many of the decisions arising from financial constraints place quality of service on a far lower priority than surviving until the next round of spending cuts.

In the event, most of the savings after the 2010 CSR were implemented through a combination of delivering cuts (option b) and efficiency savings (option c). After the 2010 CSR, increased income was not an option that was politically possible, given the rhetoric of the Coalition, so option a was never seriously entertained, whilst some promising pilot schemes were introduced in the field of demand management, these were never implemented at scale, and so option d was never explored in any meaningful way.

The 2015 Comprehensive Spending Review has a different environment, for several reasons.

Firstly, the extent of the cuts implemented over the last five years was greater than initially expected by the general public - even though the scale of the cuts has already been seriously mitigated in being spread out across the whole of the 2010-2020 period.

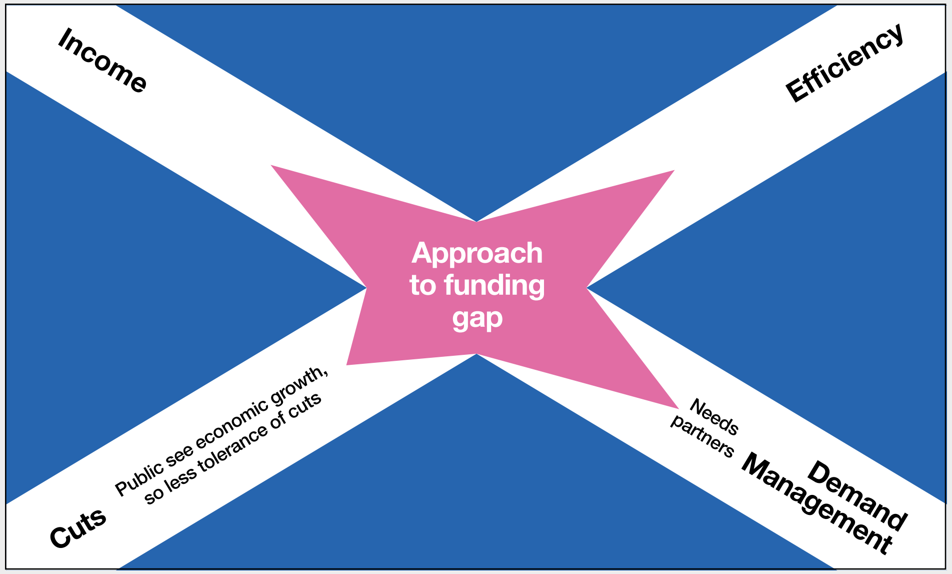
[3] Confidential information.

Consequently, public acceptance of further deep cuts is far from easy to take for granted. Additionally, further cuts are likely to pan out very differently. As one Council Leader asserts, "We've had cuts to services like high-profile library closures and leisure centre closures, and these are unpopular, but there is a way of explaining to people that these are imposed central government cuts which local government isn't to blame for. But we haven't yet had cuts to people, and we underestimate at our peril how politicians will react very differently to disabled people, and to people with severe learning difficulties, being camped out in their surgeries."[4]

Secondly, unlike the stagnant economic conditions early in the last Parliament, the public now sees that the UK economy is growing (albeit very slowly), therefore in the public mind, it is much more difficult for public policymakers to rationalise cuts when the economy is growing (and therefore, one would hope, tax receipts are rising).

There is still scope for further efficiency savings, and a number of local government practitioners have been forthcoming with ideas for additional ways in which this can be done; but it must be conceded that all of the "low-hanging fruit" in this area has already plucked, and that further efficiencies may be more problematic, and will involve greater political difficulties. It would be naïve to imagine that "efficiency savings" alone will deliver results.

Local Government in 2015 Comprehensive Spending Review: Different Game?



⁴ Confidential information.

Consequently, efficiency savings will continue to play a part in the post-CSR environment, but realistically, they will form only one part of a wider strategy.

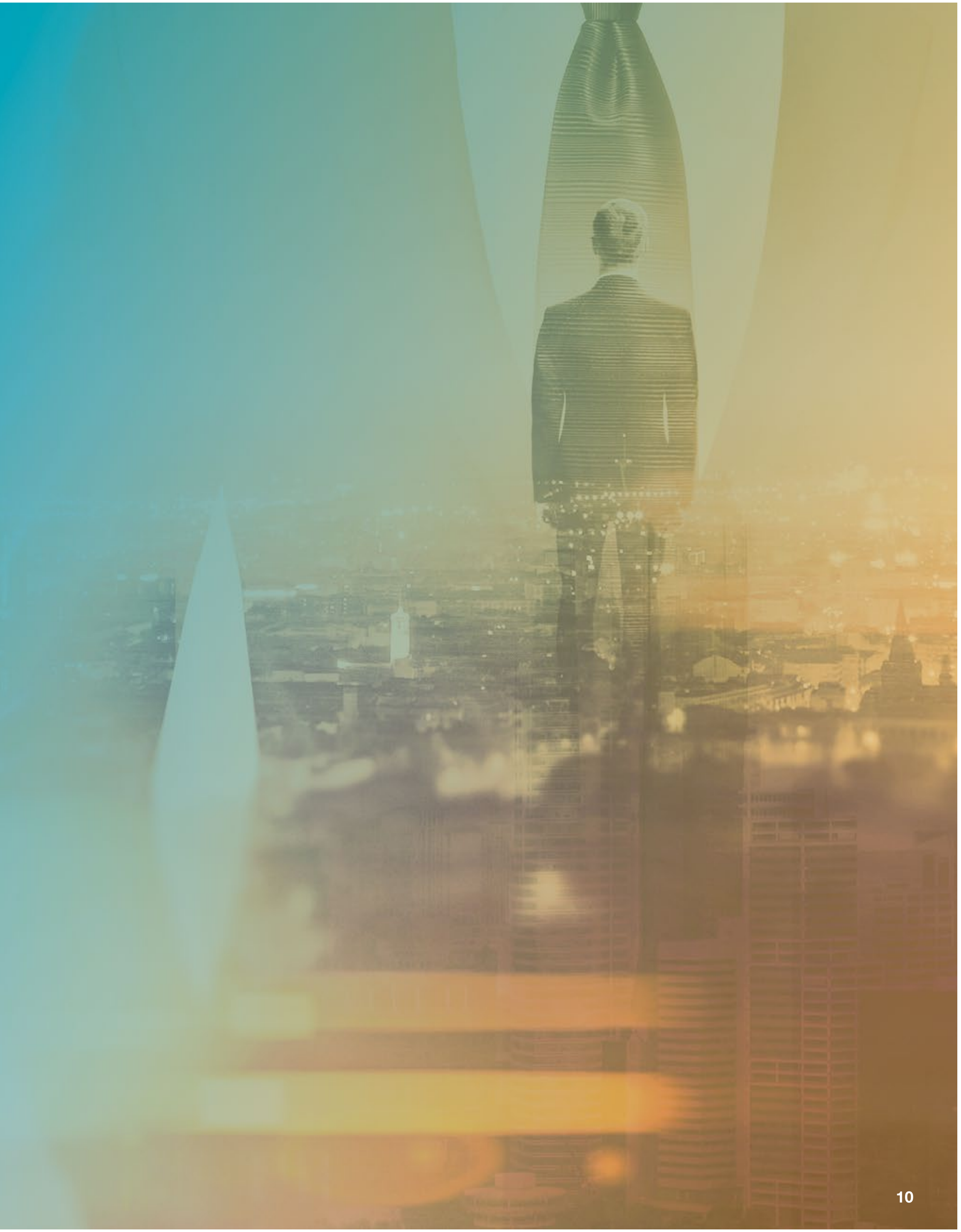
If government – locally, regionally and nationally – is serious about securing greater outcomes from fewer resources, and if further cuts are limited, then government will almost certainly have to look at delivering demand management at scale, and at an increase in income. Both of these are politically difficult.

Accordingly, this publication seeks to present a wider range of policy options and scenarios which go beyond the above rather rigid mould, and indeed beyond relatively straightforward ideological debates such as "privatise" versus "defend" (i.e. preserve the shape of) local services.

[We are grateful to Peter Bungard, Chief Executive of Gloucestershire County Council, for the appended diagram, which is reproduced from Henry Kippin, Anna Randle and Seth Thévoz, *Demand Management and Behaviour Change: A Manual Collaborative Practice* (London: Leadership Centre, 2015).]

The Role of Leadership

in Local Government Finance



The Role of Leadership in Local Government Finance

None of the strategies outlined in this publication have the slightest chance of success without effective leadership. Such leadership need not be centred on one individual; successful leadership is often collective, collaborative and place-based. But effective policy requires strong driving forces and communication if they are to achieve traction. Many of the problems arising from local government finance have long been considered intractable. For instance, in conversation with Leaders and Chief Executives, adult social care was identified as an area requiring particular leadership.

Representative of several similar comments was the following prediction: "There will be a crisis in adult social care within the next four years. It may not be next year, it may not be the year after, but it will break out this Parliament - before the 2020 general election."[5] As such, with the issue likely to be highly politically charged in the coming years, there is an added impetus for political as well as managerial leadership to take pre-emptive 'ownership' of the issue.

In considering the leadership dimension, there are three major implications for local government finance:

[5] Confidential information.
[6] See, for instance, *The Politics of Place* (London: Leadership Centre, 2006), www.localleadership.gov.uk/images/leaderofplace_brochure.pdf; John Gibney and Alan Murie (eds), *Towards a 'New' Strategic Leadership of Place for the Knowledge-Based Economy: A Report for the Academy for Sustainable Communities* (Birmingham: University of Birmingham School of Public Policy, 2008), http://www.download.bham.ac.uk/CURS/pdf/towards_strategic_leadership.pdf; *Leadership of Place: Light Tough Mapping* (London: Improvement and Development Agency, and Leadership Centre, 2009), http://www.localleadership.gov.uk/images/Light%20touch%20mapping.pdf; *Leadership of Place: Transforming Communities by Changing the Way We Lead* (Birmingham: University of Birmingham Homes & Communities Agency, 2011), http://www.goo.gl/BwQGuh.

The Role of Leadership in Local Government Finance

Leadership beyond organisations

Even in the most rigid organisations, people seldom follow purely hierarchical structures. Moreover, the remit of an individual organisation or authority is by its very nature limited. Recent years have seen an explosion of interest in the notion of "leadership of place", and the body of literature and practice around this can provide some guidance for leaders.[6] The importance of effective place-based leadership (both political and managerial) cannot be emphasised enough. Having a coherent vision deeply rooted in an area, and effectively articulating it, is essential in drawing up the local coalitions required.[7]

Several characteristics are apparent in a strong place-based leadership approach. Overarching, place-based goals need to unite different groups. The evolution of these goals will inevitably be part of an evolving, iterative, negotiated process, and the composition of the stakeholders will be diverse, ideally drawing on all the different aspects and talents found in a locality.[8]

It is important to ensure that the overarching goals are long-term in nature. There is of course a natural tension between the long-term stability required of this, and the inherent instability of the electoral cycle, posing a particular challenge for political leaders in reconciling this tension. Nonetheless, the *permanence* of local authorities gives them a legitimacy to raise the issue of long-term over short-term trajectories in goals. To put it another way, if the authority does not ask what the long-term plan is, who will?

Place-based leadership should aim at making a locality stronger than the sum of its parts. It should aim to coalesce and reconcile where there is overlap and common ground, eliminating duplication in the process. The mediating role of the local authority, legitimised through the democratic process, is particularly important in this respect. And it should embrace flexibility, taking into account the shifting (and sometimes unpredicted) needs of different stakeholders.

Finally, overarching goals should stem from, and play to, an area's strengths. There is little point, for instance, in an authority developing elaborate plans to build and operate, say, a conference centre, if the area does not have sufficient infrastructure and capacity to support conferences in the first place; nor, indeed, should a revenue-raising scheme be transplanted as a simple "device." Communities need to identify their own needs, goals, strengths and weaknesses. From an open, honest, far-reaching assessment of this across different stakeholders, revenue-raising solutions that best match the community can then emerge.

[7] The Leadership Centre produces a number of publications based upon its experiences in localities. See, for instance, John Atkinson, John Jarvis and Emma Loftus (eds), *The Art of Change Making* (London: Leadership Centre, 2015), http://www.localleadership.gov.uk/docs/The%20Art%20of%20Change%20Making.pdf, which summarises many aspects of the theory and practice of leadership across communities.
[8] More on the various aspects of making "leadership of place" work in this context can be found in Joe Simpson, *The Politics of Leadership: A Study of Political Leadership – Politics and Stories* (London: Leadership Centre, 2008), pp. 153-156.

The role for leaders in this context is very different – “steering rather than rowing”, in the analogy used by Osborne and Gaebler,[9] setting and clarifying the broader direction – but as part of a collaborative process, and in a heavily politicised context, working with communities rather than presiding over them.

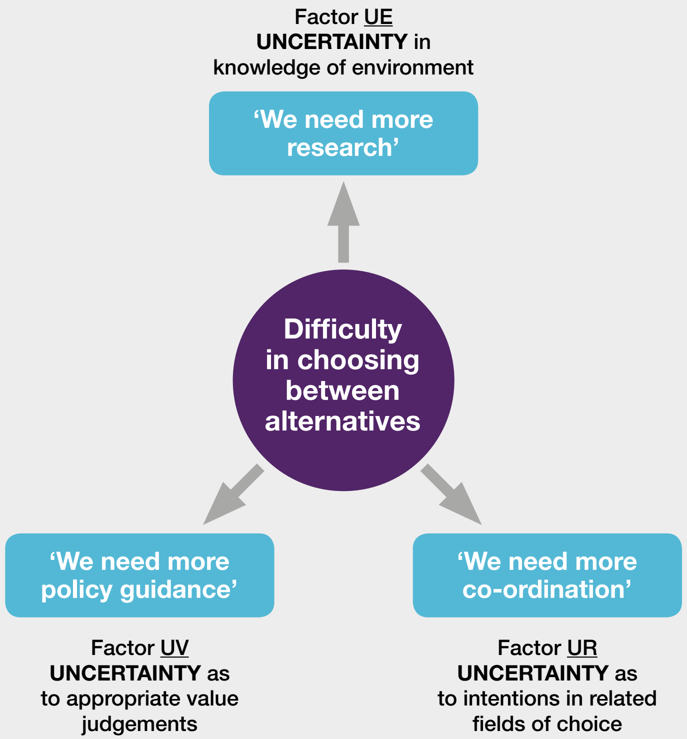
Dealing with Uncertainty

Readers might be forgiven for asking if opening up commercial revenue is so straightforward, and if the opportunities are so manifold, why this is not already widely done? A major constraint involves uncertainty.

Uncertainty has traditionally been relatively limited in local government - certainly by comparison to other areas, even within the public sector. Relative predictability in central government grant levels, in council tax yields, in business rate yields, and in income from other charges, has traditionally created a far less complex budgetary environment than today. By contrast, greater disparity from income yield forecasts, plus the gradual elimination (by 2020) of central government grants to local authorities, combined with ever-greater responsibilities, plus an increasing reliance on borrowing as a short-term solution to budgetary problems, creates an environment where local authorities have already been placed in a position of great uncertainty.[10] Yet whilst the *degree* of uncertainty is unprecedented in the sector, it was by no means previously unknown; a long-established framework by Friend and Jessop outlines principal types of local government uncertainty. Under their traditional model, uncertainty can be seen in one of three types: uncertainty about the environment, uncertainty about policy value judgements, and uncertainty about the intentions of potential collaborators. Friend and Jessop’s proposed remedies - greater research, greater policy guidance, and greater co-ordination - each have strong leadership dimensions to them, particularly in the field of political leadership.

[9] David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (New York: Perseus Books, 1992).
[10] Uncertainty theme for local government briefings. See, for instance, *Pre-Local Government Settlement Briefing: An Uncertain Future for Local Authorities* (London: Chartered Institute of Public Finance, December 2014); or the Office for Budget Responsibility verdict of “considerable uncertainty” in the wake of increased local government borrowing, Laura Sharman, ‘Increase in Local Government Borrowing Causing “Considerable Uncertainty”’, *LocalGov*, 15 October 2015, http://www.localgov.co.uk/Increase-in-local-government-borrowing-causing-considerable-uncertainty/39679; or the focus on “unsettled behaviour” caused by the financial climate, in Jim Graham, Chief Executive, Warwickshire County Council ‘This Was Not a “Good Settlement” for Local Government’, *Local Government Chronicle*, 15 January 2016, http://www.lgcplus.com/politics-and-policy/finance/this-was-not-a-good-settlement-for-local-government/7001566.article.

‘Different Types of Local Government Uncertainty’, from J.K. Friend and W.N. Jessop, *Local Government and Strategic Choice: An Operations Research Approach to the Processes of Public Planning*, Second Edition (Oxford: Pergamon Press, 1976), p. 95.



These approaches remain relevant to today’s market. In an increasingly data-driven and data-segmented age, councils possess more data on their users than many other organisations do, and so “research” is not in itself something councils lack. Using data effectively - particularly in combining/cross-referencing existing data sets and suitably analysing them to inform policy is, by contrast, a skill set which many local authorities have little experience of, with the skills needing to be imported from other sectors - as noted, some councils have had success in setting nearby universities to work on developing appropriately tailored data analysis.

Policy guidance requires clear leadership - and particular co-operation between an authority's political and managerial leadership, to ensure that policy goals are aligned. Speaking to Council Leaders and Chief Executives that have launched successful commercial ventures, they stressed that a shared political-managerial vision was important.[11]

Furthermore, with the fragmentation of work across different boundaries, collaborative leadership has assumed an ever-greater significance - across authorities, across agencies, across sectors, and across boundaries, with ever-increasing overlap and duplication inevitable in public policy. As shown with the Leadership Centre's "Total Place" in Birmingham, and with subsequent developments (most notably in Manchester's ongoing devolution bid), as well as through the pioneering work of the Systems Leadership Steering Group, the scope for collaborative leadership is considerable.

But there are other forms of uncertainty not covered by the above model. Risk of failure was one. After speaking about the various successful commercial endeavours of their council, one Chief Executive was asked whether they had had any unsuccessful ventures: "God, yes!" They pointed out that failure in some areas was not only inevitable, but invaluable, highlighting the lessons their authority has learned. "What's important is that we have had that scope to fail in the first place, and that we embedded that learning in what we do."[12] Diversification, and limited exposure to individual risks, are accordingly key to the effects of such failures being limited. Failure rates amongst new businesses are high, with 50% failing within five years, and estimates at longer-term failure rates varying between 70% and 90%.[13] Successful entrepreneurs commonly have multiple failed businesses before a success - the precedent of Henry Ford is just one of many. Whilst the sorts of commercial activities outlined here are not as risk-laden as most start-ups, leaders need to recognise that contingency planning around this sort of risk management is an essential component of success. This necessitates a very different approach to those currently found in local authorities, with a combination of new skills for existing staff, and new staff with new skills, being required. It also places a far greater onus among leaders to address the three previously-cited approaches to tackling uncertainty, with political leaders needing to forge electoral coalitions around these approaches, and managerial leaders needing to be confident that the structures are in place to deliver a potentially far more risk-laden revenue model.

[11] Confidential information.
[12] Confidential information.
[13] Elizabeth Anderson, 'Half of UK Start-Ups Fail Within Five Years', *Daily Telegraph*, 21 October 2014, http://www.telegraph.co.uk/finance/businessclub/11174584/Half-of-UK-start-ups-fail-within-five-years.html.

The Role of Leadership in Local Government Finance

An "Influencing" Style of Leadership

Many of the dimensions outlined in this publication, including culture change, behaviour change, and relationship management, do not respond to traditional command-control leadership models. Inward investment and additional revenue streams cannot be brought about through force, they need to be wooed and won. The role of public narrative and story-telling in framing these arguments is thus essential.

In recent years, much of the attention around the "influencing" debate has focussed on the concept of "nudge."[14] Yet although "nudge" undoubtedly has a role to play, questions remain around its wider applicability, particularly at scale and at pace, and the success of "nudge" applied to wider public policy-making has been greeted with some scepticism.[15]

"Nudge" itself is merely one small-scale aspect of the wider fields of behaviour change and behavioural economics, and there is evolving work within this field.[16] Yet when behaviour change is placed in terms of "influence", one finds plenty of examples of this skill set being deployed among elected politicians.[17] Political leaders influence their communities, and influence one another, frequently deploying 'soft power' as a means of influence.[18]

But influencing is a two-way process, which involves opening up dialogues - reconciling this with leadership is challenging at the best of times. In an increasingly complex, multipolar, and multi-stakeholder environment, "influencing" leaders use the uniqueness of their position to convene (and be convened), building bridges to develop shared goals.

[14] Highly influential in popularising "nudge" has been Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions About Health, Wealth and Happiness* (New Haven: Yale University Press, 2008).
[15] See, for instance, the intermittent coverage of the Behavioural Insights Team, aka the "Nudge Unit", which has become a frequent target of acerbic comments in the 'In the Back' section of Private Eye. See Eyes passim, most recently in 'Nudge Unit', *Private Eye*, No. 1414, 18 March 2016, p. 38.
[16] For more on behaviour change, see Henry Kippin, Anna Randle and Seth Thévoz, *Demand Management and Behaviour Change: A Manual Collaborative Practice* (London: Leadership Centre, 2015), http://www.localleadership.gov.uk/docs/Demand_Management_and_Behaviour_Change.pdf.
[17] The mechanics of winning elections inherently involve behaviour change. For an insight into the "influencing" argument of this in the media age, see Frank Luntz, *Words That Work: It's Not What You Say, it's What People Hear* (New York: Hyperion, 2007).
[18] The concept of 'soft power', first Joseph Nye, *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990), and subsequently fleshed out in Joseph Nye, *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2004), references foreign policy, but it is contended here that the underlying principles of 'soft power' are as applicable in local communities as on the global stage.

Futures

Possible scenarios and strategies for local government finance

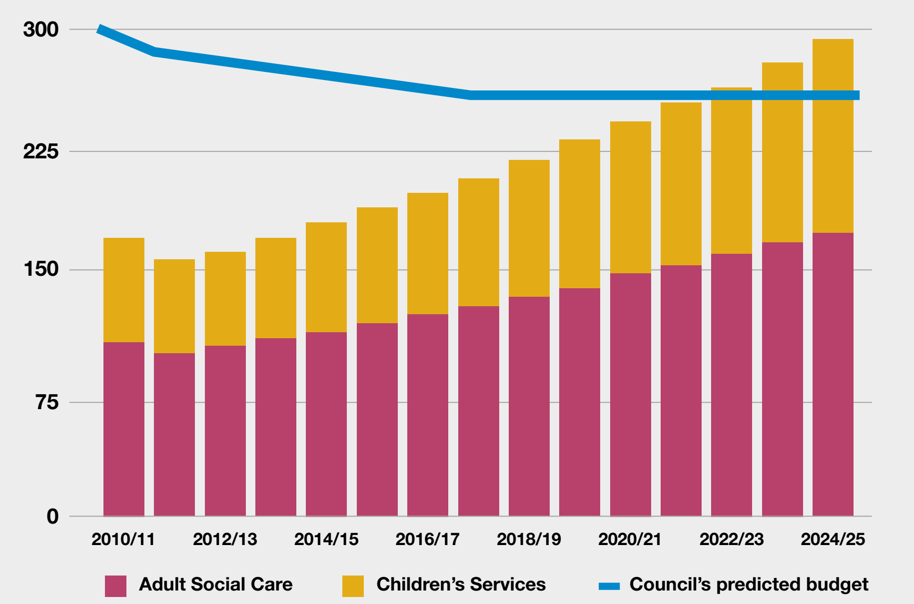
Scenario 1

Financial collapse

Even the most fatalistic of economists would be hard-pressed to defend "financial collapse" as a viable strategy. Yet it is the scenario raised by numerous economic forecasts. Accordingly, it does not seem overly alarmist to highlight it as a viable - and indeed likely - outcome of the *status quo*.

Much of the debate has been moulded by "the graph of doom" – a famous projection from a 2011 London Borough of Barnet presentation showing both rising demand for two specific services, adult and children's social care, which exceeds falling total projected revenues for the local authority.[19] Whilst the conclusions drawn from Barnet "graph of doom" have occupied a politically contested space – namely, Barnet's 'EasyCouncil' model as one possible response to this challenge – the underlying assumptions behind the graph and the dilemmas it represents have not been seriously contested, and indeed, are widely accepted. The graph, which in its original form focussed upon the spiralling bill for social care, has particularly spurred recent reforms in the amalgamation of health and social care.

The 'Graph of Doom'



[19] Andrew Travers, 'The One Barnet Transformation Plan', London Borough of Barnet slideshow presentation, November 29 2011, with archived slides accessible at http://www.scribd.com/doc/77279963/The-One-Barnet-Transformation-Programme-Presentation-29-Nov-11.

Futures: Possible scenarios and strategies for local government finance

Scenario 01

Variations upon the graph are to be found elsewhere, underlining a greater existential crisis to the continuation of public services. In itself, this is not an argument against public services; but it is evidence as to the unsustainability of the present funding arrangements, without either an increase in revenue or a decrease in services. As many council leaders (and former council leaders) know to their peril, this is a particularly sensitive area of public policy.

Yet as the "graph of doom" shows, a meek continuation of the *status quo* risks ploughing straight into bankruptcy and organisational collapse. Numerous Council Leaders and Chief Executives privately concede that previous rounds of council cuts prompted cases of "crying wolf" over the consequences - "The world didn't end in 2011"[20] concedes one Chief Executive - which has damaged the seriousness with which current predictions of financial doom are taken. Nonetheless, forecasts have seldom been more dire, or more credible, with the National Audit Office forecasting in late 2014 that on current trends, half of all local authorities would be in serious danger of collapse within the next five years.[21] One Chief Executive comments, "Going back, there have been spending reviews in the past where people have said, 'Oh, local government will manage.' And that isn't likely to happen again."[22] Another Chief Executive believes, "In adult social care, and in children's social care, we have already started falling over a fiscal cliff."[23] More recently, Conservative peer and Local Government Association Chairman Lord Porter of Spalding has described some authorities as being "On the edge of collapse."[24]

Furthermore, there are also signs that far from addressing many of these problems, the confusion arising from the amalgamation of health and social care are such that instead of generating savings, local government will be saddled with a further debt burden. Most notably, even with the Better Care Fund's additional £1.5 billion investment, a colossal gap remains. With the cost by 2020 mounting to an estimated £4.3 billion, even with every English local authority raising council tax by 2%, projected revenue would only amount to £3.2 billion - a shortfall of £1.1 billion.[25] As the spiralling debts of NHS trusts have shown, on current trends this scenario looks set to only degenerate even further.

As such, "Financial collapse" is not merely a doomsday scenario - it is where the *status quo* appears to be inescapably edging towards, unless serious changes are made to the structure of local government service delivery and funding.

[20] Confidential information.
[21] National Audit Office, *Report by the Comptroller General: Financial Sustainability of Local Authorities*, 2014 (London: Department for Communities and Local Government, 19 November 2014). https://www.nao.org.uk/wp-content/uploads/2014/11/Financial-sustainability-of-local-authorities-20141.pdf.
[22] Confidential information.
[23] Confidential information.
[24] Patrick Butler, 'Interview: Lord Porter', *The Guardian*, 25 November 2015, http://www.theguardian.com/society/2015/nov/25/gary-porter-cuts-spending-review-councils-edge-collapse.
[25] *Adult Social Care Funding: 2014 State of the Nation Report* (London: Local Government Association Association of Directors of Adult Social Services, 2014), http://www.local.gov.uk/documents/10180/5854661/Adult+social+care+funding+2014+state+of+the+nation+report/e32866fa-d512-4e77-9961-8861d2d93238, p. 25.

Futures: Possible scenarios and strategies for local government finance

Scenario 2

Greater efficiencies

Scenario 02

As noted, there is still some scope for greater efficiencies in local government, and a wealth of "best practice" examples is already in circulation, being of key interest to practitioners who have not already enacted. Department for Communities and Local Government has highlighted a number of "best practice" efficiency savings that can be made, including:

- Sharing back-office costs, as with the Tri-Borough arrangements of Westminster, Kensington & Chelsea and Hammersmith & Fulham. Similarly, initiatives around joint buying, and joint procurement, can yield substantial savings whilst benefitting from economies of scale.
- Integrated budgets - an approach trialled by the Leadership Centre through the Birmingham *Total Place* pilot.
- The link between greater transparency and encouraging reductions in waste.
- Eliminating duplicate payments which cost authorities £147 million a year.
- Stricter financial controls - for instance, around corporate credit cards, or reducing spending control thresholds.
- Initiatives on fraud, both internal (among council staff) and external (among benefits claimants).
- Improvements in council tax collection rates and business rate collection rates. In particular, shifts to direct debit and e-billing have shown markedly improved collection rates.
- Reductions in the amount of land and property used for council service delivery.
- Cuts to prestigious and/or expensive venues for conferences, away days and awards ceremonies; and ending the provision of free food and drink at meetings.
- Reductions in the senior staff bill, both in numbers, and in senior staff pay. At the most extreme end, this involves either sharing Chief Executives with other authorities, or else eliminating the Chief Executive post entirely.
- Freezes on recruitment, councillor allowances.
- Limitations on external consultants, agency staff, and headhunter fees.
- Reviews to absenteeism.
- Reductions to publication subscriptions and media monitoring.
- Switch from net spending on advertising to net income from advertising.
- Cuts to the transport budget, including the mileage allowance, and the amount of first-class travel, with greater use of video conferencing to discourage unnecessary travel.
- Cut printing costs, particularly in producing glossy brochures.
- Function hire at the town hall.
- Leasing out any council-owned works of art not on display.
- Switch to free, open-source software.
- Consult your staff for further saving ideas.[26]

[26] See *50 Ways to Save: Examples of Sensible Savings in Local Government* (London: Department for Communities and Local Government, 2014).

Speaking to local government practitioners, it is clear that a number of efficiency savings are markedly non-ideological. One Chief Executive of an authority trying to cut costs across the board illustrated the dilemmas: "In the past, we've asked ourselves, 'Should we just buy the software company?' We pay them so much in fees, it could actually buy the company, so is there any reason why we can't own that company? Would that save us money?"

But there are limits to efficiency savings. Major efficiencies were already undertaken after the 2010-15 round of cuts, and to imagine that they are renewable, and will be just as effective this time around, remains somewhat fanciful. And the turnaround time for the implementations of such efficiency savings is sufficiently rapid in many cases that yesterday's cutting-edge "best practice" quickly becomes tomorrow's *status quo* which a majority of authorities will already doing. As a recent Local Government Association survey of English authorities has found, 30% of local authorities believe there is "No scope for [further] efficiencies", whilst an additional 30% believe "Efficiencies are available but [are] not enough."[27]

Additionally, there are numerous policy u-turns over the years which have frequently been cited as heralding greater efficiencies, but which remain sufficiently disputed to invite a further u-turn in the name of efficiency: the merits (or otherwise) of directly-elected local community budgets versus the savings of centralised spending remains a case in point - plausible cases for either can be made in different localities.

Leaders also face difficulties in enacting efficiencies whilst maintain morale in any organisation, if the prevailing narrative is one of further cuts and thinning resources. As such, driving yet further efficiencies along can (and indeed does) yield results, but also increases the adversity in effectively running an organisation. If Leaders and Chief Executives are to make any kind of a positive narrative, it will be in some area other than efficiency savings.[28]

Accordingly, local government finance portfolio holders will in all probability have to look elsewhere, beyond "efficiency savings" to make any meaningful difference.

[27] *Under Pressure: How Councils Are Planning for Future Cuts* (London: Local Government Association, 2015), p. 7, http://www.local.gov.uk/documents/10180/5854661/Under+pressure.pdf/0c864f60-8e34-442a-8ed7-9037b9c59b46.
[28] The work of Chris Lawrence-Pietroni has been highly influential on the role of narrative in local government. See, for instance, Chris Lawrence-Pietroni, 'Chapter 2: A Relational Revolution in Public Services', Catherine Staite (ed.), *Making Sense of the Future* (Birmingham: Institute of Local Government Studies, 2013), http://www.birmingham.ac.uk/Documents/college-social-sciences/government-society/inlogov/publications/chapter-2-lawrence-pietroni.pdf.

Scenario 3

Managed decline

Futures: Possible scenarios and strategies for local government finance

The minute an option is headed "Managed decline", it tends to be automatically discounted as politically unpalatable – it is not hard to see why. One need only look at the Thatcher government's discounting of Geoffrey Howe's preferred adoption of a "managed decline" approach to Merseyside, in favour of Michael Heseltine's more entrepreneurial strategy of regeneration of the area, to see how such an approach is unappealing (and how the alternative regeneration strategy has broadly paid real dividends, socially and economically, three decades on)[29].

However, before discounting "managed decline" altogether, it is worth emphasising that managed decline has been a long-standing economic strategy in some circles,[30] and that it has enjoyed some limited support for its re-integration into public policy.[31] In particular, the perils of ***unmanaged*** decline should not be underestimated. Unmanaged decline is to be found wherever a body or an authority refuses to confront economic reality, and blithely forms plans based on over-optimistic or even wholly bogus projections of prosperity. Failure to take this into account in financial contingencies is a certain way to spiral into a financial oblivion. Accordingly, a detailed audit of financial prospects depends upon accurately assessing prospects for such factors as revenue-raising, growth, and stability of funding. If these are in doubt, then it may be prudent – at least, in the medium term – to arrange for some form of "managed decline", ideally in tandem with a longer-term turnaround plan.

[29] 'Thatcher Agreed Heseltine Could "Get Under the Skin" of the Liverpool Problem', *Daily Telegraph*, 30 December 2011.
[30] There is a sizeable literature on managing decline. See, for instance, Kim Cameron and Raymond Zammuto, 'Matching Managerial Strategies to Conditions of Decline', *Human Re-source Management*, Vol. 22, No. 4 (Winter 1983), pp. 359-75; Suzanne Culter, *Managing Decline : Japan's Coal Industry Restructuring and Community Response* (Honolulu: University of Hawaii Press, 1999); Carl Walker and M. Serdar, *Social and Psychological Dimensions of Personal Debt and the Debt Industry* (Basingstoke: Palgrave Macmillan, 2015).
[31] 'How to Shrink a City: Many Cities Are Losing Inhabitants. Better to Manage Decline Than Try to Stop It', *The Economist*, 30 May 2015, http://www.economist.com/news/leaders/21652343-many-cities-are-losing-inhabitants-better-manage-decline-try-stop-it-how-shrink.

Nor is the problem unique. As *The Economist* notes, one in ten American cities, and one in three Japanese cities, are currently in some form of de-cline, with the spectre of Detroit looming large as a "nightmare scenario" of economic decline not managed at all.[32]

Most readers will not regard themselves as being in the business of "managed decline". That may well be the case. If so, they may want to ask themselves why. The life cycle of any locality involves contraction as well as growth, and it is unrealistic to expect an area to grow in perfect harmony with the electoral cycle. Whilst "managed decline" is in its infancy in the UK, a number of examples abroad, from the East German city of Dessau-Rosslau, to the U.S. city of Pittsburgh, offer numerous solutions to the problem. One Council Chief Executive asks: "Should we take a 'managed decline' approach to public services? It's not an appealing idea, but if the answer is 'No', we should at least know why not."[33]

[32] *Ibid*.
[33] Confidential information.

Scenario 4

Business rates

Scenario 04

The government's November 2015 Comprehensive Spending Review drew significant attention for its novel scheme to enable local authorities to retain business rate revenue for economic growth.[34] This builds upon existing practice since April 2013, which allows local authorities to retain a portion of their business rate revenue, based on 2008 rental values.[35] A Local Government Association assessment of the system argues that it provides financial incentives for local authorities to grow their local economy; but also creates more risk and uncertainty than the previous grant-centred nature of local government funding.[36] There are also major ramifications for the distribution of funding to different parts of the country which have yet to become fully apparent.

In different quarters, the shift away from central government grants and towards localities generating their own revenue has been welcomed as a step towards greater devolution,[37] and condemned for widening the disparity of income for local authorities.[38] However, one must not lose sight of several facts about the sums of money involved:

(a) The sums involved are not actually that substantial. For instance, even with the new measures in place, the total cumulative yield for all business rates collected among all local authorities in England in 2016-7 has been forecast at £23.5 billion, an increase of £0.4 billion (or 1.7%) on 2015-6.[39] This compares with a total English yield of £23.1 billion, an increase of £0.7 billion (or 3.3%), on the previous year.[40] The continued trend upwards will no doubt be welcomed by most local authorities; but the modest size of this revenue should be put into context.

[34] See *Policy Paper: Spending Review and Autumn Statement 2015* (London: The Stationery Office, 2015), https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015.
[35] For a more detailed overview of the pre-existing system, see 'Chapter 11: *Business Rates', Budget Briefing 2014* (London: Institute for Fiscal Studies, 2014) http://www.ifs.org.uk/budgets/gb2014/gb2014_ch11.pdf.
[36] *Business Rate Retention: The Story So Far*, (London: Local Government Association, 2014), http://www.local.gov.uk/documents/10180/11531/The+story+so+far+-+business+rate+retention.pdf/2175c47c-6916-4b93-add8-c2201db60482.
[37] Gavin Thompson, 'Industry Welcomes Announcement Local Councils Will Take Control of Business Rates', *SouthWestBusiness*, October 5, 2015, http://www.southwestbusiness.co.uk/regions/bristol/05102015162152-industry-welcomes-announcement-local-councils-will-take-control-of-business-rates/.
[38] Patrick Wintour, 'Business Rates Plan Raises Fears of Greater Inequality Among Councils', *Guardian*, October 6, 2015, http://www.theguardian.com/politics/2015/oct/06/business-rates-plan-may-widen-inequality-among-councils.
[39] *Local Government Finance Statistical Release: National Non-Domestic Rates to be Collected by Local Authorities in England in 2016-17*, 17 February 2016 (London: Department of Communities and Local Government), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/500835/160216_NNDR1_2016-17_Stats_release.pdf.
[40] *Local Government Finance Statistical Release: National Non-Domestic Rates to be Collected by Local Authorities in England in 2015-16*, 18 February 2015 (London: Department of Communities and Local Government), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/500835/160216_NNDR1_2016-17_Stats_release.pdf.

(b) Business rates are subject to an appeals process; a greater emphasis on such rates for a funding base opens up the uncertainty of an unknown part of those rates subsequently being clawed back. The exposure of different local authorities to this risk varies wildly, but at the upper end, it reaches 45% of an authority's business rate revenues.[41]

(c) Even with a locality having exceptionally healthy economic growth, as a source of income, the revenues derived are not reliable if they depend on year-on-year sustained growth; they make for a good 'windfall' for individual years, but do not form a reliable base for funding further expansion.

(d) They are far from applicable in all parts of the United Kingdom, since not all parts of the UK will be able to count on such growth. Indeed, with a further push to regionalisation, there is growing evidence that different parts of the UK - even within the same region, or indeed, the same local authority boundaries - have economies which are growing (or shrinking) at dramatically differing rates. Accordingly, it is likely that any shift away from national redistributive mechanisms will at the very least require some form of regional redistributive mechanism - a point returned to in **Scenario 9**.

An added measure of uncertainty comes from business rates being due for revaluation in 2017. These, along with other factors like the probable increase of interest rates (it is difficult to see them going in any direction but up from their current position) could further prolong public-sector austerity.

Some measures can be taken to reduce the risk element in business rate revenue. Business rate pooling between authorities can ensure greater consistency across different tax years.[42] But fundamentally, a combination of high risk, high uncertainty, and limited local authority 'footprint' outside certain flagship councils, all combine to make this too unreliable a revenue base, and too small in size, to compensate alone for the loss of central government grant - which is due to be further phased out in the coming years.

[41] *Business Rate Retention: The Story So Far*, (London: Local Government Association, 2014), http://www.local.gov.uk/documents/10180/11531/The+story+so+far+-+business+rate+retention.pdf/2175c47c-6916-4b93-add8-c2201db60482, pp. 8-10.
[42] *Ibid*., pp. 10-1.

Scenario 5

Housebuilding

Futures: Possible scenarios and strategies for local government finance

Scenario 05

The state of the UK property market in some ways mirrors the plight of local government finance: there is unprecedented demand, and yet supply has never been shorter. Costs continue to spiral, exacerbated by a number of factors - demographic change, an increase in smaller households, economic growth being concentrated in the south-east of England, a shortage of skilled housebuilders, the popularity of buy-to-let properties affecting the pricing of the market, and the popularity of properties as an investment opportunity having a knock-on effect to the housing market. Housing demands are a key pressure on many local authorities.

Housing targets

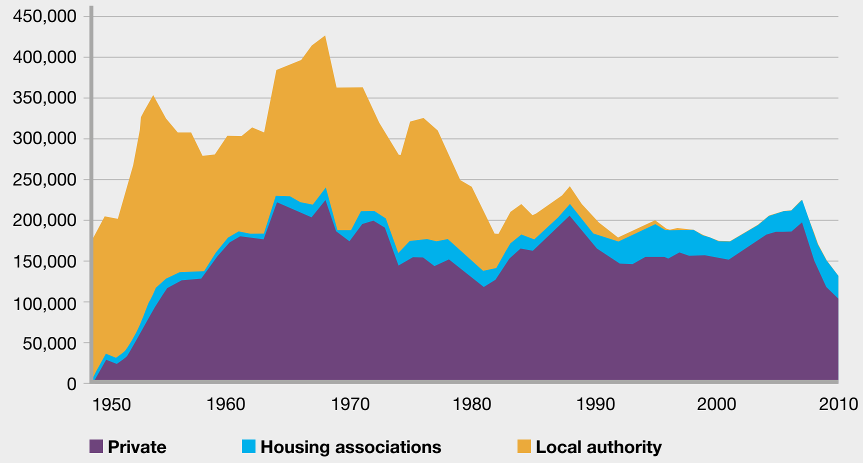
The government's election pledge to build one million homes during the course of this parliament is, to put it mildly, somewhat ambitious. At an average rate of 200,000 homes per year, this would represent a significant escalation of housebuilding. There are ample reasons to be sceptical this target will ever be reached, not least due to the limited construction capacity in the UK, which remains unaddressed. However, the failure of a government to meet its own housing targets would by no means be unusual; and indeed, it has been the norm amongst governments of all complexion over the last fifty years. When the Housing and Planning Bill was published, the government announced that it intended to transform "generation rent into generation buy." Yet the degree of subsidy remains limited, and it is unlikely such targets will be reached.

Interestingly, although much has been made of the dramatic fall in housing construction in recent years, the current levels of private-sector construction - where most work is done at present - aren't actually that small by historical standards. Instead, what has collapsed are the previous levels of state housing construction. There are numerous far-reaching shifts in the housing sector which make it financially unlikely that the near future will see any surge in council housebuilding to previous levels. (As one local authority Leader bluntly states, "I can build three Housing Association homes for every council home I build - so why would I build council homes when that's what the maths say?")[43] This has gone hand-in-hand with an increasing transfer of responsibility for the delivery of constructing affordable homes that were previously built directly by the state, with private developers now being tasked with a set proportion of affordable developments in exchange for being able to simultaneously build more profitable developments.

[43] Confidential information.

But such changes to the financial climate do not necessarily spell the end of a role for the state in housing. Not only is there a continued commissioning role, but the planning role of local government means that local authorities continue to play a central role in moulding and developing their areas. Housing policy continues to be a heavily contested area of public policy (though not in a historical context - looking back over seventy years of analysing elections, Sir David Butler singles out "housing" as the single area of policy which has declined the most as a feature of election platforms).[44] And governments - including the present one - have rolled out successive schemes to encourage housing construction and home ownership. Indeed, as one local authority Leader observes: "If you know where to look, there's never been so much money in housing and housing construction. So why not make local government a part of it?"[45]

Housing completions, UK, 1950-2010



Source: Housing Completions, 1950-2010, CLG.

[44] Sir David Butler, 'Past Elections' seminar with Vernon Bogdanor, David Butler and Robert Worcester, London School of Economics, 27 January 2015, http://y2u.be/7pBJ9pDOmBQ.
[45] Confidential information.

Futures: Possible scenarios and strategies for local government finance

Scenario 5

Housebuilding

Scenario 05

Commercial demand for housing remains high, and public expectations for councils to solve housing conundrums remains high, even though councils ceased being major house builders decades ago. The biggest obstacle to activity in this area is not lack of commercial demand, but lack of political will. As one Chief Executive notes, "Most local authorities don't have a trading company, because they lack the confidence to do so."[46]

Recently, Nathalie Elphicke and Keith House compiled the Elphicke-House report into local authority funding.[47] They concluded that there was considerable leeway for local authorities to play a far more proactive role in housebuilding, through forming collaborative companies. As the planning authority, councils are often uniquely placed to mastermind and approve such developments, whilst meeting their own goals. The Elphicke-House report draws extensively on the experiences of several dozen local authorities around construction, not to mention one of the author's own experiences as Leader of Eastleigh Borough Council, where hotel development has netted the local authority a significant annual income stream. There is therefor considerable scope for local authorities to heavily invest in development in housing, and to build up a considerable portfolio in this area.

There is, of course, a danger of "bubble" - housing as an area is particularly prone to property bubbles. Indeed, the entire UK is undoubtedly already in a bubble, and "bust" following the "boom" sooner or later a near-certainty. But it should be pointed out that the bubble could easily be sustained for many years, even decades, and the chances of recovery appear high - indeed, if one takes a long-term view of the UK property market, one finds a consistent recovery. So whilst housing development may not be ideal, it appears to be one of the most promising options on the table, whilst also allowing local authorities to address their own housing shortage within their areas.

Furthermore, one of the strongest defences against overexposure to a "bubble" is diversification. Consequently, it is worth looking to the examples of authorities which have successfully opened up multiple revenue streams in areas other than property development.

[46] Confidential information.
[47] Nathalie Elphicke and Keith House, *From Statutory Provider to Housing Delivery Enabler: Review into the Local Authority Role in Housing Supply* (London: Department of Communities and Local Government, 2015), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/398829/150126_LA_Housing_Review_Report_FINAL.pdf.

Scenario 6

Other marketisation? Look at what other places are doing…

Revenue-generating initiatives by local authorities need not be limited to housing; indeed, as noted, if one is to avoid overexposure to risk arising from a property bubble, then diversification of investments and initiatives is desirable. In considering successful commercial property endeavours, one local authority Leader reflects, "I'm not sure we as a sector are good enough at publicising the existing examples, because we're still caught up in just talking about efficiency and cuts, and not about these sorts of revenue-generating activity."[48] Accordingly, it is worth looking at how local authorities could build a diverse portfolio of initiatives. The Department for Communities and Local Government's own advice suggests, for instance:

> Open a coffee shop in the library: Lease some space in your local library to a coffee shop. This will generate revenue and encourage more readers into the library: coffee shops are increasingly the norm in commercial bookstores, but not in municipal libraries.[49]

To which one might ask why a local authority should stop at running a profitable community cafe? Why should its ambitions be so modest? Why should it not run other profitable, revenue-raising local businesses, with the revenue offsetting further council tax rises? Indeed, one might question whether the cafe industry is even particularly profitable. The last decade has seen a boom in high street coffee houses, and a massive expansion in coffee consumption among the UK adult population.[50] But a core part of the viability of the UK coffee industry's business model has been the (entirely legitimate) payment of relatively little tax, as highlighted by a controversy with the Starbuck's tax bill over declared UK profits in 2012; although this was apparently subsequently resolved in late 2015.[51] Given the inconceivability of UK local authorities engaging in large-scale tax avoidance, this immediately puts them at a commercial disadvantage to other major high-street competitors in the coffee sector (to say nothing of economies of scale, or loss-leader branches by major retailers), making it highly doubtful that opening the occasional coffee shop will solve the financial problems of the local government sector.

[48] Confidential information.
[49] *50 Ways to Save: Examples of Sensible Savings in Local Government* (London: Department for Communities and Local Government, 2014), p. 9, https://www.gov.uk/government/publications/50-ways-to-save-examples-of-sensible-savings-in-local-government.
[50] Nathalie Thomas, 'Why Coffee Shops Are Replacing Pubs in Britain', *Daily Telegraph*, 9 September 2014, http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/leisure/11084328/Why-coffee-shops-are-replacing-pubs-in-Britain.html; Lauren Davidson, 'Coffee Crisis to Hit Within Three Years as Finer Tastes Lead to Shortage', *Daily Telegraph*, 4 January 2016, http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/12062340/Coffee-crisis-to-hit-within-three-years-as-finer-tastes-lead-to-shortage.html.
[51] Vanessa Holder, 'Starbuck's Tries to Draw a Line Under Tax Controversy', *Financial Times*, 16 December 2015, http://www.ft.com/cms/s/0/1e092a96-a419-11e5-873f-68411a84f346.html#axzz42otpB34X.

Futures: Possible scenarios and strategies for local government finance

Scenario 06

Nonetheless, the broader approach of looking further afield at creative new ways to generate revenue is worth revisiting, with the below case study of Bath and North East Somerset Council providing a diverse range of examples of viable commercial activities for authorities to engage in.

Local government practitioners also highlight other areas with scope for market-based disciplines. In response to one Chief Executive's observation that there was often mismanagement and poor decision-making around local government pension funds, another concurred, "We could manage pension funds more effectively", whilst another elaborated, "On pensions, there's much waste and duplication in how pension funds are invested, and we aren't encouraged to ask questions around this." Certainly, according to HM Treasury figures, public-sector pension liabilities across the board (not just in local government) are currently in the region of an estimated £1.7 trillion.[52] A review of local government pension fund investment would accordingly be a welcome development.

There is also a technological dimension to such solutions applied by various social enterprises. Apps enable people who cook extra portions at mealtimes to connect with others in their community and provide food to vulnerable members of the community only a few doors away, as an alternative to "meals on wheels".[53] Technology firms, such as BT, are heavily investing in research in such areas. Some more place-based initiatives include Plymouth Community Healthcare, now LiveWell South West, which is the vehicle for integrated health and social care in Plymouth, and trades under this name. Various local authorities are looking into making greater use of meters, and of telehealth, as more affordable ways of providing support for those with disabilities. One Chief Executive remarks: "These sorts of things are not saving large sums of money in themselves - but they can be, if they're done at scale. Scale is all-important."[54]

Finally, marketisation need not be confined simply to councils venturing into not-for-profit enterprise, as local authorities look to widen their impact by collaborating with other organisations. As local authorities look to widen their impact by collaborating with other organisations. Whilst much has been made of greater collaboration with the voluntary sector, with the rhetoric of the "Big Society" being both lauded and derided, less has been made of social enterprise. One Council Chief Executive recognises, "There is still something to be done about social enterprise, making the market work, and an ongoing dialogue to be had on a better model than we have, and what the council's role should be within that. Should we marketise in that sense, to make council active players in the market? Successful councils already do this."[55]

[52] Harry Wilson, 'Treasury Warned of £1.7 Trillion 'Hole' in Public Sector Pensions', *The Times*, 22 September 2015, www.thetimes.co.uk/tto/business/economics/article4563837.ece.
[53] FutureGov, http://www.wearefuturegov.com/.
[54] Confidential information.
[55] Confidential information.

Scenario 6

Other marketisation? Look at what other places are doing…

Case Study: Bath and North East Somerset Council

For many years, successive council administrations of different political hues on Bath and North East Somerset Council (BANES) have pursued an agenda of commercialisation - in the sense of generating additional council revenue to compensate for the shortfall in traditional revenue streams. For many, "commercialisation" is synonymous with the sale of assets in exchange for revenue - but what is striking about the BANES example is how this has not been the direction taken. Instead, the emphasis has been on building up the council's capital assets to maximise sustainable revenue. To local authorities fearful that business rates based on consistent growth may not be a reliable revenue base, this is a striking example, and one worth following.

Of course, Bath is in no way "typical" - it is a conurbation blessed with an exceptional number of natural assets, and so not all lessons learned here may be directly transplanted. Nonetheless, the wider principles may well be applied elsewhere.

Several insights can be gleaned from this chart showing Bath's major commercial income sources. Councils have attracted much vilification in recent years for their increasing reliance on parking income, and whilst BANES has not altogether escaped from this trend, the diversification of sources of income does point the way to how over-reliance on this can be avoided.

The most striking feature is that the single largest income generator for BANES is its commercial estate portfolio - primarily in the charging of rents in the town centre. This is no doubt assisted by Bath having some of the highest property prices in the UK, but is nonetheless a case of a local authority making the most of the natural assets it has at hand.

Similarly, generating almost as much income as the commercial estate are Bath's museums and galleries that are run directly by the council - some £15 million in income. Again, this isn't necessarily an easily exportable model: Bath's council-run Roman Baths remain a UNESCO World Heritage Site and a distinctive international draw, aided by strong transport links that make tourism a viable industry for the council to invest in. Yet again, the wider applicability is in an area making the most of its natural assets.

Futures: Possible scenarios and strategies for local government finance

Scenario 06

Bath's remaining commercial ventures, though not as conspicuously profitable as the three main income strands - Commercial real estate, museums & galleries, and parking income - are still responsible for a multi-million-pound annual income which many authorities would crave. Some - such as the council-administered Thermal Spa - again play to Bath's strengths as a spa town, and capitalise on that to run a successful, profitable business that subsidises the local authority. Others, such as the use of a major asset found in every local authority - the town hall - for banqueting and events - is an easily replicable formula. Others, such as the placing of advertising, become more profitable is a locality enjoys an even higher profile, with the premium for advertising in things like the local council magazine becoming even greater.

And other items are, essentially, offshoots of the council engaging with the property market. The letting of office space to partners, the construction of new retail units just outside Keynsham, and the provision of pre-application planning advice, all stem from the existing demand for property of various types in Bath, and all seek to convert that into revenue streams for the local authority.

Furthermore, Bath's commercialisation plans have not stopped with the above ventures. A number of additional possibilities have been mooted, including:

- City street furniture and ICT wireless networks.
- An energy company.
- Renewable energy (although the market has shifted considerably away from this in recent months with substantial changes to the environment around renewable; nonetheless, Bath is geographically well-placed to benefit from this).
- Hotel development company.
- Health sector property development.
- Housing development company.
- Trading companies.
- Tourism-related charges (though these would require legislation).
- Regeneration-related development.
- More commercial estate acquisitions.

Scenario 6

Other marketisation? Look at what other places are doing…

Finally, BANES makes a point of integrating such moves towards commercialisation with a wider professionalisation of the way in which council services are managed. Consequently, they have supplemented the above with a series of exercises and techniques imported from the private sector, which reach considerably further than conventional efficiencies and "back-end" office savings, several of which mirror the DCLG's own "best practice recommendations":

- Use of cash flow.
- "Lean reviews".
- Simplifying and standardising.
- Shared services.
- Bringing some service back "in-house".
- Externalising other services, i.e. leisure.
- Asset transfers.
- Training to develop commercial skills and business partnering.[56]

[56] For these points on BANES's recent shifts towards commercialisation, I am grateful to Andrew Pate, Strategic Director of Resources for Bath and North East Somerset Council, for his presentation and slides, "How Far Can We Commercialise Public Services?", January 2015.

There are, of course, limits to the wider applicability of some of these techniques. One local authority Chief Executive remains sceptical, saying, "When it comes to sharing services, I just don't think the money is there. And the time isn't there, either - senior management are often overstretched as it is. And who wants to take on the children's services of a publicly-shamed borough, or to pool resources? And who thinks they would save money by doing so? And also, these savings are quite small, and are nothing compared to what's been taken out of local government."[57] Certainly, as the wide diversity of activities and amounts generated by Bath show, any one of these commercial activities alone do not constitute enough replacement revenue in themselves, but are part of a broader, across-the-board strategy; and even then, with their not being directly transplantable across the board to other authorities, other forms of sharing and co-operation may be necessary to reduce costs. And as the same sceptical Chief Executive concedes, "The one exception is shared procurement - even something simple like software, and in other procurement areas; though the big savings in serious money aren't on clustering four or five councils together, but on much larger operations."[58]

[57] Confidential information.
[58] Confidential information.

Scenario 7

Devolution and collaboration

Scenario 07

The importance of collaboration

There are several key reasons why collaboration is essential in local government:

- Economies of scale. There are barely more than a handful of local authorities (if that) which have the revenue base to finance further revenue-generating commercial ventures. This is further exacerbated by the continuing financial pressures on local government which make it even more difficult for authorities to free up the necessary cash to launch such ventures. Yet this need not be an obstacle to generating the necessary capital. It does, however, involve authorities clubbing together.
- Shared risk. As well as shared costs come shared risks – and lowered risks make for a stronger investment opportunity.
- Redistribution mechanisms – a topic that is politically difficult, with both a small ‘p’ and a large ‘P’. In any given year, some authorities will always be ‘wealthier’ than others, in terms of revenue generation, although *which* authorities enjoy what kind of a margin over one another may well vary from one year to another, and certainly will do over a consistent period of time. Accordingly, as well as the moral case for redistributive mechanisms, there is also a practical case - namely, that redistribution exists as a form of “insurance” from one authority being caught out in exceptional circumstances in any given year.

Not all collaboration requires a devolution dimension. Numerous authorities share senior staff or “back end” office functions, whilst others practice forms of internal and interagency collaboration as well as external collaboration; for instance, in the wake of pilot studies around the link between credit unions, money advice, and overall welfare,[59] some authorities have seen NHS funding from prescription budgets go into advice for the general public from credit unions and debt advice; because it was noticed that in one affected council that the single largest category of people given antidepressant prescriptions was people experiencing debt problems, and so a focus on this has helped to drive prescriptions down.[60] Therefore, even on a small scale, collaboration can deliver major benefits.

[59] Paul A. Jones, *Linking Credit Unions and Money Advice: The Blackfriars Advice centre, Southwark Credit Union and Twinpier Financial Inclusion Partnership Project 2006* (Liverpool: Liverpool John Moores University, May 2008), http://www.abcul.org/filegrab/documents/41218474e9ace8d7c2f8303ab5abe146/1blackfriars-report.pdf.
[60] Confidential information.

Yet as devolution to Greater Manchester shows, the size of an area’s ‘footprint’ is important. Whilst many historic and cultural ties may bind together particular areas – or divide them from nearby neighbours – they only become sizeable economic units if they collaborate with neighbours.[61] One local authority Chief Executive freely admits: “The unitary borough, which exists on quite a small economic level, with a small economic footprint, is a major challenge - especially in London, and particularly when employment and commuting patterns [into and out of the borough] match up. It’s built on a very small financial base.”[62] The number of overlapping agencies, and wider regional agencies - as with transport - is considerable. But the challenges to successful collaboration are considerable: another Chief Executive believes, “Local government is too small to do many of its services, so thinking out-side our traditional boundaries is the only way to go. But sharing is difficult. Few organisations want to share; they want to take over, and that’s tricky to manage.”[63]

The Devolution agenda

Seizing the devolution agenda goes hand in hand with collaboration - and with public service reform. Not only are local government and the wider range of public services increasingly interdependent, but they face shared crises with spiralling costs, spiralling demand and ever-reduced revenue. The devolution agenda is not incidental to these financial developments - it offers a way to reconcile these tensions.

Greater Manchester’s devolution bid has shown a template for how such plans can proceed. Previous moves towards regional devolution have lacked a political or administrative “buy-in”, as evidenced by the lost 2004 referendum on devolution to the North-East of England, and have involved the imposition of additional layers of democracy which have felt divorced from citizens.[64] The 2004 referendum was widely interpreted as signalling the death of devolution along the lines carried out in Scotland, Wales and London in 1998-9, of top-down structures with associated levels of bureaucracy. Indeed, the recent Brexit vote can be seen in part as a vote against additional layers of government. Yet hand in hand with this has been the popularity of directly-elected Mayors, which has come as a surprise to some, but which has increased turnout in local elections.[65] Whilst this greater

[61] John Holden and Francis Markus, New Economics Foundation presentation, Local Government Finance conference, local Government House, London, 6 January 2016.
[62] Confidential information.
[63] Confidential information.
[64] ‘North East Votes “No” to Assembly’, BBC News, 5 November 2004, http://news.bbc.co.uk/1/hi/uk_politics/3984387.stm.
[65] The success of an attempt to replicate this level of directly-accountable Police and Crime Commissioners has yet to be fully appraised - the first round of elections in 2012 saw record lows for turnouts, but this was no doubt in part due to the unusual time of year these elections were held (November). The second round of elections, in May 2016, at a more conventional time of year for such things, may yield a more reliable basis of turnout measurement.

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emphasis on accountability is welcome, what Mayoral structures lack are the kinds of economies of scale, shared risk, and shared redistribution outlined above. A successful system, combining the pooling of resources with the democratic link outlined above, and in meaningful communities that reflect citizens' self-identification, promises the best possible platform for public service reform. Furthermore, as has been reflected in recent HM Treasury announcements, the government has made it abundantly clear that it is receptive to each of these agendas, offering much scope for working with rather than against the grain.

If we look at the policy shift underway in Greater Manchester, one of the defining features has been the shifting of the focus of public services from the reactive to the preventative. This often means taking counterintuitive decisions, investing in areas which have traditionally been the first to be cut; but again, the argument which can be keenly appreciated by public policy leaders, regardless of where they are on the political spectrum, is that with a preventative approach, in the longer term, the total public spend can end up being significantly less.

This principle is most demonstrably being rolled out in the area of health and social care, particularly with the merger of the two currently moving forward. Whilst the execution of that merger has been nothing short of traumatic for NHS Trusts, with surpluses converted into sizeable deficits in all but one region of the UK, this has only underlined the urgent need for structural reform to relieve pressure on the system, taking a broader whole-systems approach grounded in place-shaping a locality to meet its needs.

Drawing the Threads Together

Local authorities do not govern in isolation - indeed, with most services delivered in their communities, they do not govern at all. At best, they retain an oversight and scrutiny role, and can remain key influencers in their communities - but they are merely one of many providers; and key services are delivered privately as well as through the public sector. This only underlines the need for them to act collaboratively, with other key stakeholders - including neighbouring authorities. It also underlines the need for them to increase their 'footprint'. Section 6 suggested one possible way in which they might increase that impact, through the use of housing revenue to offset the revenue from other sources. But the commercialisation of the public sector - in full keeping with the founding principles of the public sector's nineteenth century roots - not only promises more bottom-line revenue. It also promises to do things differently, in a way which maximises collaboration and outputs, and involves a structurally very different set of outcomes for the public sector.

Of course, the success or failure of such a shift depends in great part on the detail of how such initiatives are managed on a day-to-day basis, with such factors as culture, behaviour change, leadership, partnership and relationship management, risk management and accountability all playing a key part - which leads us to the next section…

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Scenario 8

Culture, behaviour change, relationship management, risk management, accountability

Scenario 08

"The devil is in the detail", and even with a successful model, effective delivery can be undermined by small individual factors. As such, this section constitutes less an effective individual strategy or scenario, as a collection of different dimensions of strategy, each of which can be essential to the managing of opening up and maintaining of effective and sustainable revenue streams.

Culture

"We don't do that", or "That's not something the council has ever done before." Speaking to Leaders and Chief Executives from different parts of the UK, time and time again this recurred as the single most frequent reason cited for a local authority not undertaking an area of revenue-raising activity.[66] The barriers to much of this are often cultural.

Accordingly, a marked culture shift is required if any of the activities outlined are to be explored. It is, in some ways, perfectly understandable *how* many authorities have found themselves in the *status quo* - any organisation with a long-term continuous existence has a tendency to instil certain "organisational norms" - including a deep-seated sense among long-term staff about what the organisation's remit does and does not include.[67] This presents a challenge for leaders (leaders in the wider sense, for the challenge is both a political one for Council Leaders, and a managerial one for Chief Executives); in successfully redefining the culture of an organisation in a way that is not at odds with its central *raison d'être*, yet in nonetheless carrying out a number of far-reaching changes.

Most obvious in exploring any degree of commercialisation is the shift to seeing citizens as co-producers and co-deliverers in the community. Actually moving to seeing the recipients of a local authority's services as co-producers involves quite a big signal shift from the way many authorities are run, but there is evidence that it correlates with an improvement in performance, and that citizens largely like it. This is, of course, a contested space, but practitioners have been quick to draw the difference between "noncontroversial metrics" used in optimising the experience of service users, from more politically sensitive areas.[68] There is no serious suggestion, for instance, that the area of adult social care be handled along such lines. However, if a local authority begins to move into the realms of commercial enterprise, it would be a folly and a dereliction of duty to *not* organise such ventures alongside equally commercial lines. The culture shift involved in this simple step can be considerable.

[66] Confidential information.
[67] Kecheng Liu, Mark Hafkamp and Yasser Ades, 'Understanding the Roles of Signs and Norms in Organisations', *Journal of Behaviour & Information Technology*, Vol. 19, No. 1 (2000), pp. 15-27.
[68] Sebastian Katch and Tim Morse, 'When Your Citizens Are Your Customers', *McKinsey Quarterly* (August 2009), http://www.mckinsey.com/industries/public-sector/our-insights/when-citizens-are-your-customers.

Amongst front-line staff, it can be most pronounced, with a very different skill sets being required. In Tunbridge Wells Borough Council, for instance, the shift in culture among staff has involved offering numerous staff incentives, including an innovation scheme, contribution pay, and a reappraisal of competencies. They have also reorganised some staff meetings to "think more like a business", with quarterly "board meetings" being held to focus on income and expenditure.[69]

If we return to the Bath case study, we find that they have identified the three following priorities in their approach to working culture:[70]

- Only promising what can realistically be delivered.
- Nurturing creativity and innovation.
- Being excellent in everything we do.

Yet speaking to Council Leaders and Chief Executive, there is one other key area where culture shift is at least as fraught: collaboration. Decades of command-and-control direct handling of specified services has, understandably, made authorities mistrustful of pooling responsibility, or taking responsibility for things outside their control. Nonetheless, this has already been the direction of trajectory for much of local government over the last few decades. To quote one Chief Executive, "In the current climate, what have you got to lose?"

Devolution also holds out the scope for a meeting of agendas between local and national government - but only with a culture shift. One local council Chief Executive asserts: "It's true that central government doesn't understand local government. But local government doesn't understand central government either. And that's despite their having shared goals, that's despite many secondments that already happen. There have been major cultural differences for decades, and if we can tackle those cultural differences, then we can make big progress."[71]

Behaviour Change

To return to the original "graph of doom", its projection shows that a combination of adult social care and children's services, both of which face heavy rising demand, will consume more than an entire local authority budget, with its falling revenues. Much of this publication is dedicated to looking at different ways of increasing revenue - but it would be foolhardy to entirely overlook the alternative strategy of demand management. An introduction to some of the themes raised here, in a local government context, can be found in the second half

[69] William Benson, Chief Executive, Tunbridge Wells Borough Council, 'Establishing an Entrepreneurial Organisation' presentation slides, 'Developing Commercialism in Local Government' Capita conference, London, 22 March 2016.
[70] Andrew Pate, Strategic Director of Resources for Bath and North East Somerset Council, presentation and slides, "How Far Can We Commercialise Public Services?", January 2015.
[71] Confidential information.

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of the recent *Demand Management and Behaviour Change* publication, by Kippin, Randle and Thévoz. The authors argue that whilst there have been numerous successful pilots in various localities, and whilst they can point to a number of success stories, behaviour change will only be an effective component of any strategy if carried out at scale - with numerous suggestions made on how tapping into social networks and community mobilisation can help build this sense of scale.[72] The applicability to local government finance is a particularly stark one: the cycle of rising demand for public services and falling revenues can be broken if more people are in work, and are by definition paying tax into the financial system, there is also a strong evidence base that people in work are less likely to be consumers of services; so a shift needed to this kind of behaviour can be seen as a beneficial, desirable public policy aim.

Relationship Management and Development

Relationship management is a crucial dimension to the success of any commercial initiative. In the sense of local government (especially as part of the devolution debate), "relationship management" is usually taken to mean external relations, typically between neighbouring local authorities; or sometimes, between local authorities and central government.

But if local government is to play a more proactive commercial role in revenue generation, then external relations should also encompass relations with outside partners and competitors.

Equally, internal relations should not be neglected - not only among different departments, but also between an authority's leadership and its workforce. One Chief Executive asks, "Where is tomorrow's public sector workforce coming from? When we keep talking about changes, people want to know if they have a job - not if it's the same job, but whether they have a job at all. And as a result of uncertainty, good people aren't being motivated to stay in the sector."[73] Consequently, it is vital to develop, train, retain and challenge effective staff - something which a simple narrative of cuts alone seldom succeeds in doing.

Risk Management

Difficult decisions in local government have necessitated a certain amount of risk-taking. One local authority Chief Executive concedes, "We're already taking more risk in the things that are low risk. And if we're to achieve greater success, we arguably need to take even more risk. The danger is that we hit adversity in one case, and the climate of criticism and blame then ends in the good ideas getting drowned out."[74] Another Chief Executive was particularly stark:

[72] Henry Kippin, Anna Randle and Seth Thévoz, *Demand Management and Behaviour Change: A Manual Collaborative Practice* (London: Leadership Centre, 2015), http://www.localleadership.gov.uk/docs/Demand_Management_and_Behaviour_Change.pdf.
[73] Confidential information.
[74] Confidential information.

"Given how overstretched we are, none of us are meeting our statutory obligations - I challenge anybody to say we are. Some of us are doing it [not meeting such obligations] consciously, some unconsciously. It all comes down to risk - whether we lose three court cases a year in one area, versus four cases in another area. And the local government sector needs to be saying that, openly and loudly. This isn't a position of our choosing, it's a position we've been forced into by a combination of government decisions, and the financial situation."[75] Risk management accordingly plays a central dimension to local government finance. From the devolution agenda, to the sorts of commercial activities lined out above, the local government agenda is already full of risk - but also full of opportunities, raising questions that go back to Sir Frank Layfield's 1976 review's original question: "What is local government for?"

Accountability

The democratic process offers the best safeguard towards accountability. However, as new structures and collaborations are created, this presents challenges to maintaining and indeed strengthening such accountability. For instance, with councils operating more commercial arms, how does Freedom of Information legislation interact with commercial confidentiality? How does a local authority's leadership - both political and managerial - effectively report back to residents on commercial activities undertaken? How do regular elections, with the scope for dramatic changes of leadership and agenda, reconcile with the need for long-term business strategies? These are all important points to reconcile.

Accountability concerns are all the more relevant as technology continues to play an increasing role in seeking solutions to local government finance quandaries. Beyond simple compliance with existing data protection legislation, local authorities making effective use of technology still need robust systems in place to allay concerns over privacy, predictive data, and hacked data. The area is fraught with difficulty for local authorities. One Chief Executive reflects: "The data we hold is no different to the data we've always had. What's different is that we join it up better. A lot of the analysis of data is now outsourced to universities, they do the analytics, the predictive side of things. On one project, we joined 30 data sets, and developed our own algorithm, to do some work around troubled families. We had no problem with the capacity or the legal side. Where we are now is that we'd really like to know who suffers from fuel poverty, and who is readmitted to hospital for different health problems - we can only start tackling these problems if we understand this. The ethical questions are the big ones for me. A public debate is still needed, sorting out these issues, and reconciling the contradictory ideas around this."

[75] Confidential information.

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Scenario 9

What to do in non-growth areas?

Scenario 09

Schemes around housebuilding, and revenue-raising commercial programmes for local authorities, offer promising opportunities for opening alternative revenue streams in growing parts of the United Kingdom; indeed, these are far more sizeable (and indeed more sustainable) sources of income than can be found through the current local government financial settlement through the clawing back of business rates.

However, the flaw in over-reliance on such mechanisms is that they are far from universally applicable. The UK may enjoy record average booms in the property market and in other sectors, but significant disparities exist around the country - demand for housing in, say, Bradford, does not equate with demand for housing in central London.

As noted, the devolution debate goes hand in hand with public sector reform, and so a shift towards regionalisation may well be crucial in addressing some of these factors. As repeatedly recognised by Leaders and Chief Executives, the size of an authority's economic 'footprint' is important, and with the current trend towards economies of scale, this has important consequences for the local authority 'outliers'.

Important questions remain about the implementation of the government's new business rates profit regime. Will future business rates be set locally, nationally, or regionally? If the latter, will there be a regional redistribution mechanism? The latter course offers some additional income for authorities sharing a region – as well as an additional incentive to participate in regional devolution plans. Many of the topical debates currently played out at the European level are also being played out regionally – questions of economic influence, economies of scale, level of control and accountability, and of pooling resources. Only if local authorities identify a clear 'offer' to how they may co-operate with other localities – whether through devolution deals, shared services, informal arrangements, or merely in the administration of existing regional partnerships – are they likely to gain much traction in further revenue generation.

But the existing local government financial settlement promises to deliver a wide disparity of financial outcomes. Numerous financial incentives have been offered to accord with existing government policy goals; and it is hoped that some of the existing strategies shown illustrate how authorities, whether they embrace the government's underlying political objectives or not, may work with the grain to survive in the current financial climate. But not all solutions are applicable everywhere, and for those authorities keen to plough their own course, they will need a strong, coherent strategy if their intention is to go 'against the grain'.

Conclusion

The *status quo* of local government finance is on a precipice - or, according to one Chief Executive, "We've already started falling off the cliff."[76] As noted, it seems probable that some local authorities will financially collapse in the coming years. One Chief Executive observes, "There's no evidence that the failure of a local authority leads to systems change. The failed authority gets hauled over and rebuked, and there's a short-term intervention, but this doesn't bring about change in itself."[77]

[76] Confidential information.
[77] Confidential information.

This point, in tandem with the direction of travel of local government finance, provides all the more incentive for local authorities to be innovative in drastically and pre-emptively seeking to redesign local service delivery across the board.

Fortunately, the means to do this are very much at hand. Successful, revenue-raising commercial ventures by local authorities have shown how whole new streams of revenue can be opened up, with the more conspicuous examples having stopped austerity altogether: one Leader of a Council enjoying substantial income from commercial endeavours says, "We haven't really experienced austerity - though we will have to soon - because of all the money raised through these ventures."[78] The most consistently successful ventures have been in the area of property development, and as the Elphicke-House report shows, there is considerable scope for authorities to engage in this whilst helping to meet their own housing needs, with demonstrable benefits all round. But successful revenue-raising authorities do not limit themselves to housebuilding - they maintain diverse investments across a broad range of profitable commercial activities that compensate for loss of council tax base and loss of central government funding. There is considerable scope for these principles to be rolled out elsewhere.

Additionally, devolution and public service reform offer agendas for local government to make a specific contribution, and allowing local government to manage resources and revenue in a more viable way, achieving scale, and co-operating to maximise their 'footprint'.

As one Council Leader notes, "The national narrative is so important. We risk missing this out." Practitioners in local government finance cannot afford to let cuts happen to them; they need to develop a compelling narrative of their own, and the devolution agenda promises a route to delivering services differently, in a more joined-up way, with targeted interventions that are funded differently. It is hoped that some of the scenarios here may provoke further experimentation by local authorities. It is not a luxury, but a necessity. The role of leadership in all of this - both political and managerial, in brokering the agreements between different stakeholders - has never been more pivotal.

[78] Confidential information.