The Bottom Line

A vision for local government

LOCALIS

KPMG

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To find out more about KPMG, please contact Iain Hasdell, UK Head of Local and Regional Government at iain.hasdell@kpmg.co.uk.

About Locales

Who we are
Localis is an independent think-tank dedicated to issues related to local government and localism. We carry out innovative research, hold a calendar of events and facilitate an ever growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK.

Our philosophy
We believe in a greater devolution of power to the local level. Decisions should be made by those most closely affected, and they should be accountable to the people which they serve. Services should be delivered effectively. People should be given a greater choice of services and the means to influence the ways in which these are delivered.

What we do
Localis aims to provide a link between local government and the key figures in business, academia, the third sector, parliament and the media. We aim to influence the debate on localism, providing innovative and fresh thinking on all areas which local government is concerned with. We have a broad events programme, including roundtable discussions, publication launches and an extensive party conference programme.

Find out more
Please either email info@localis.org.uk or call 0207 340 2660 and we will be pleased to tell you more about the range of services which we offer. You can also sign up for updates or register your interest on our website.

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The government's own figures show that from 2011 onwards we will face one of the tightest squeezes on public spending in the post-war era.

Introduction

It is beyond doubt that the UK public sector is facing a period of austerity that will last for several years – possibly as long as a decade. The start will be deferred for a year or more, because the government is committed to a Keynesian policy of fiscal stimulus – using public money to help ease the economy out of recession. However, the government's own figures show that from 2011 onwards we will face one of the tightest squeezes on public spending in the post-war era.

The Institute of Fiscal Studies has undertaken a thorough analysis of the 2009 budget[1] and has concluded that Departmental Expenditure Limits (the total amounts available to government departments and therefore to the public sector as a whole) are likely to fall, on average, by 2.3% a year (£790m for DCLG) in real terms between 2011 and 2014. It is unlikely that the cuts will be spread evenly: health, education and international aid will probably be shielded to some degree. It is therefore reasonable to assume that other areas including local government could face year-on-year cuts of 7% (£2.4bn for DCLG) or more. The Institute of Fiscal Studies estimates cuts in the order of £26bn by 2013.

The Institute of Fiscal Studies estimates cuts in the order of £26bn by 2013

There is considerable uncertainty about what will happen after 2014, but it would be prudent to assume that public expenditure will be flat, or grow very little in real terms, in the period 2014 to 2018. It seems most unlikely that we will see a rapid return to the substantial year-on-year spending increases that the public sector including local government has enjoyed in the last decade.

It is in this context that councils have begun reassessing their investment strategies and service delivery models. The public mood is becoming increasingly sceptical towards the public sector and its levels of spending, with less than one-third of people agreeing that

1 Institute of Fiscal Studies, http://www.ifs.org.uk/projects/304

they receive good value for money from their local council.[2] At the same time, many commentators are calling for a radical shift of power away from Whitehall to local government. A combination of budget cuts, low public trust and increased responsibility combined with little local control of funding has the potential to create the perfect storm for local government. The public sector has over the past 12 years seen overall real terms cash growth. But overall productivity in those years has not improved, and between 1997 and 2007 actually fell by 3.2%.[3] Local government is hampered by a low level of financial independence; but the sector must nevertheless deliver significant cuts in the coming years.

Aim of this publication

For KPMG and Localis there are five key strands to this debate that have so far been relatively under explored, namely:

1. Productivity, efficiency and the mixed economy
2. Accountability and performance management
3. The local economy
4. Cross boundary working
5. Financial innovation

These five strands therefore form the foci of this publication. We completely accept of course that progress in these five domains is not the whole answer for local government to successfully meet its current challenges.

2 Ipsos Mori, People, Perceptions and Place, 2009
3 Office of National Statistics: http://www.statistics.gov.uk/pdfdir/pps0609.pdf

Productivity, efficiency and the mixed economy

One of the key problems to address in local government, as with the rest of the public sector, is relatively low levels of productivity despite increased levels of expenditure. Given that council budgets are only likely to get tighter, this problem is likely to become more acute.

Service provision and the mixed economy

Examining the way councils run their services is the single biggest area to address in achieving significant efficiency savings in the short/medium term. Councils currently run substantially more services than are required under statute. While many of the extra services are a real asset to the local area, many are costly and could be run more effectively by businesses, charities, social enterprises or a combination of providers. Examples of these could non-exhaustively include swimming pools, libraries and other public amenities. Running services unnecessarily in-house undermines savings and adds a needless burden onto council tax and local residents. Councils should always be seeking to look further than having a role as simply a 'service provider' and instead move towards becoming a commissioning and procurement hub. Some progress has been made on this in recent years but there is a need to go further.

Councils should always be seeking to look further than having a role as simply a 'service provider'

In this model they should seek to match expertise, cost and quality to a range of important and costly services. A 2007 DCLG report suggested that nearly 60% of efficiency savings (about £2.8 billion) could be made through councils developing and implementing a procurement strategy. Furthermore, any service identified as marginally beneficial should be stopped. This should not be interpreted as a blanket cost cutting exercise – it is about diverting resources to the strategic priorities using a range of providers based on their unique skills to deliver the best results for the area. By focussing on 'outcomes', some areas of expenditure may increase, but in overall terms this should lead to councils being able to reduce significant proportions of their total costs. The need to cut costs is now not in dispute, and with councils at the coal face of delivering these cuts, it is clear that they must ensure that resources are focussed solely on delivering on the important outcomes for the area.

> Any service identified as marginally beneficial should be stopped – it is about diverting resources to the strategic priorities

Assets

The more efficient use of council assets is another major way of making significant savings and potentially returning a net profit. The current local authority property portfolio is valued at over £80bn, giving a great deal of scope for reform. Councils could do more to maximise revenues through improved asset management, including seeking out new revenues or the sale of unprofitable resources. Those councils which have had successful asset management strategies have tended to embed a corporate approach to oversee their capital programme, with a view to making a much larger return on the assets. Therefore, councils that wish to use assets more productively should look to embed such a corporate approach.

> Councils could do more to maximise revenues through improved asset management

Efficiency savings

Local councils have regularly been asked to make efficiency savings, and on the whole they have responded well, making approximately

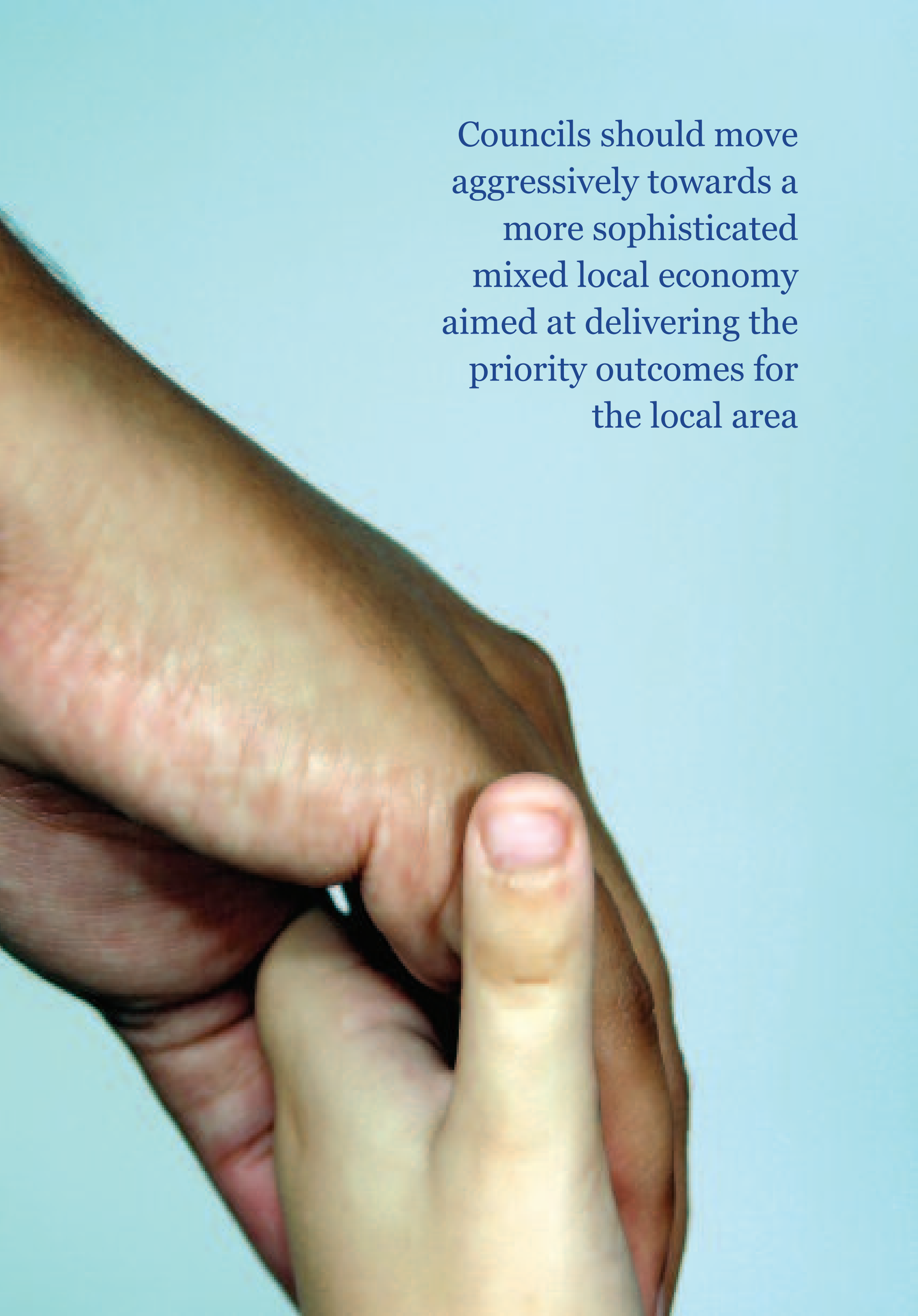
4 Based on 2006/7 savings - LGA

£3bn worth of savings a year.[4] Most councils have until now prioritised back-office efficiency as the prime target for savings. But the current financial climate poses more significant questions about productivity, with central government asking for an extra £600m of savings from local government in the current financial year. In a recent survey for the Local Government Chronicle, 88% of councils thought that staff cuts will be the main focus to meet efficiency targets, while 67% thought that back office sharing and 60% thought that better procurement would be the focus. Whatever methods councils choose, it is clear that they need to be able to deliver savings fairly rapidly and in more innovative ways than the traditional Gershon type savings. For example, many councils are carrying out relatively simple tasks to improve staff and process productivity including job re-designs, process mapping and staff retention initiatives which will go some way to improving the productivity of the council. Efficiency savings should also extend to collaboration between public bodies through initiatives such as 'Total Place', and through the use of technology and web-based initiatives and more intelligent procurement and commissioning.

Efficiency savings should also extend to collaboration between public bodies

Recommendation

We foresee that councils will need to be looking to reduce expenditure by 20% on average by 2011 based on 2009 figures. Whilst ambitious, this is certainly a feasible target. Councils will obviously vary in their ability to achieve this target, and some will find it harder than others. But only by fundamentally reassessing the services that councils provide now will they be able to prioritise investments in the future. **We therefore recommend that councils should set self-imposed targets, in the region of 20% by 2011, to reduce expenditure and improve productivity**.



Councils should move aggressively towards a more sophisticated mixed local economy aimed at delivering the priority outcomes for the local area

1. **Revisit and define key priorities** – Each of the priorities of the council set through LSPs, LAAs and other documents should be revisited and analysed in the context of net benefit or value to the local area. This should take into account all quantitative and qualitative measures and knowledge at the council's disposal.
2. **Test all functions of the council priorities against cost** – Look at what services are statutory to the local authority, and also at what is needed to fulfil local priorities. Affordability and cost should be determined for the most costly council services and assets, and the overall portfolio of core functions revaluated. Efficiency gains should also be considered. Both the cost and efficiency should be evaluated in order to achieve savings of around 20% by 2011.
3. **Create a strategy to meet the efficiency target** – Take the findings from the cost and priority evaluations and create a process strategy to divert resources from those most costly low priority functions to meeting the highest priority outcomes.
4. **Cut out unnecessary costs and marginally beneficial activities** – Those assets or services which offer limited benefit to the community or have minimal potential should be cut and the funds diverted to the key priorities.
5. **Move towards a mixed local economy** – councils should move aggressively towards a more sophisticated mixed local economy aimed at delivering the priority outcomes for the local area. Councils should explore a range of opportunities with all types of organisation to ensure that the local community is best served. This involves more commissioned services, as well as innovative partnerships between third sector and private organisations to capitalise on different levels of expertise.

Accountability and performance management

The current local accountability and performance management system is characterised by a desire to improve 'performance' based on stars or flags rather than on adding real value to the local area. On top of this, faith in our democracy is waning, and this is most evident at the local level where election turnouts have remained consistently lower than most European countries. Yet with calls for more local control from all the major parties, the reality is that councils are at best equally accountable to central government as they are to local residents. But genuinely improved performance based on meeting or exceeding the expectations of residents, and characterised by dynamism and innovation is only likely when councils utilise performance data effectively and engage local residents directly with performance and the decision making process.

Central vs. local

The performance and assessment regime is characteristically representative of the current central-local relationship. The Comprehensive Performance Assessment (CPA) and the new Comprehensive Area Assessment (CAA) represents a journey for central inspection from burdensome centrally determined assessment to a situation based on locally determined priorities. Yet performance is still monitored through the Audit Commission, and the data itself is inaccessible and on a spatial level which often has questionable value to local residents, thus risking undermining local accountability.

More freedom of information

The relationship between the public sector and information needs to become far more mature than existing freedom of information legislation. Information should be released in real time where possible; in a form which is meaningful to ordinary people; and in a way which encourages dialogue and debate between local government and residents. The presumption of information ownership needs to be reversed, and information should be owned by citizens until it is proven that it would be damaging to do so. Clearly there are limitations about how much information people really want, as the MPs expenses scandal has demonstrated, but withholding information has the potential to cause political shockwaves if not dealt with correctly.[5]

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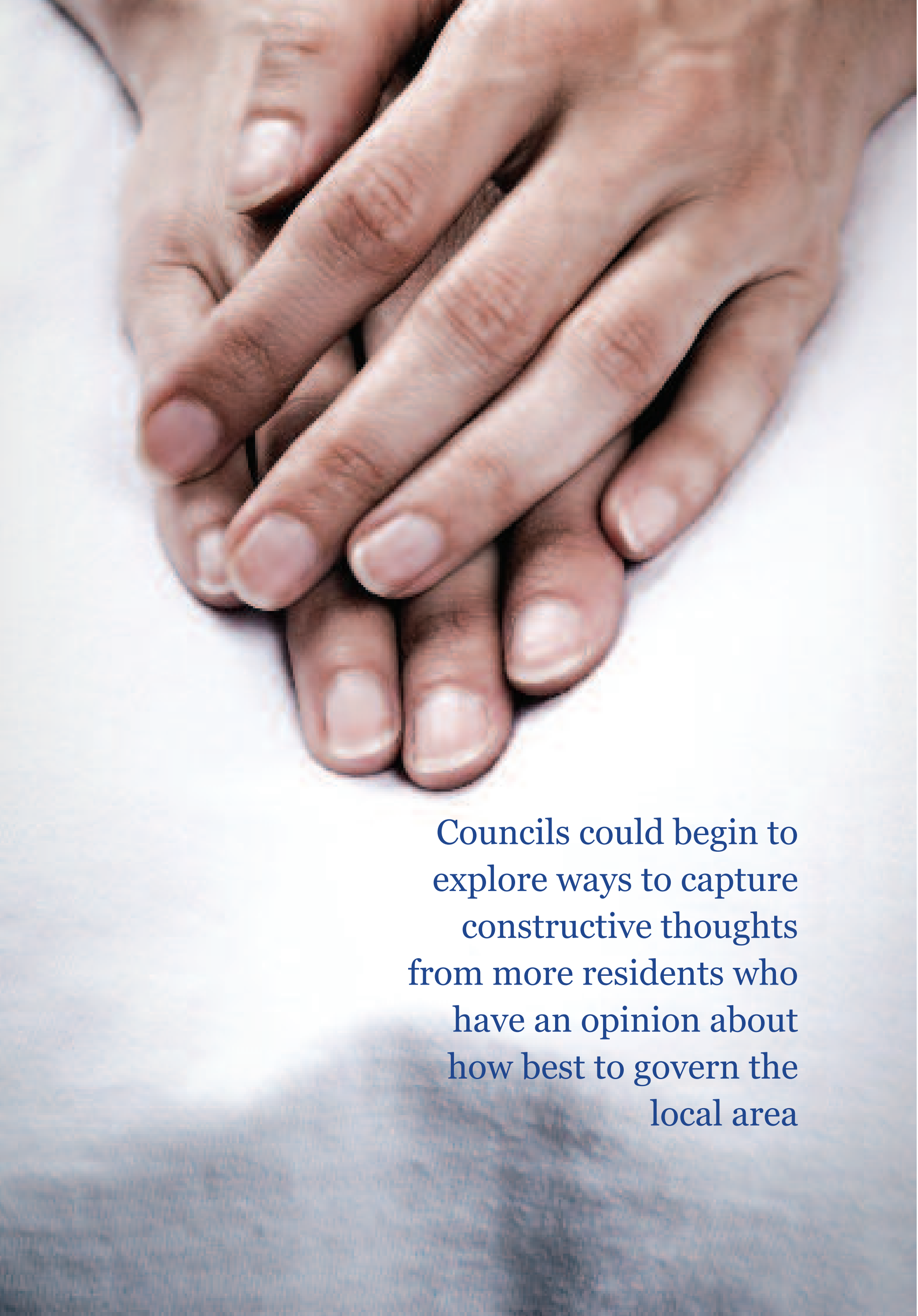
Local initiative

We foresee that this will become increasingly important for local government in the coming years because of the need to make politically sensitive decisions. Councils deal every day with the concerns of ordinary residents and already represent the priorities of the local area through local area agreements and the selection of national indicators. However, the emphasis of performance reporting should be shifted towards providing local residents with timely and relevant information. This may help with the process of encouraging more local democratic participation and political accountability.

Ultimately this should lead towards citizen involvement in decision-making such as through innovative variations on participatory budgeting or referendums. An engaged community will lead to better performance and improvement driven from the bottom-up. Consultation, participatory and scrutiny initiatives have already had an impact on the council areas which have trialled these ideas. However, councils should also look to stir more debate through online initiatives, which could for example, seek opinions on the investment and funding decisions of the council as well asking for a stance on how to achieve the best outcomes for the area.

5 See Shakespeare, T, 2008, 'Information, Information, Information', www.localis.org.uk



Councils could begin to explore ways to capture constructive thoughts from more residents who have an opinion about how best to govern the local area

Recommendation

We recommend that councils should more actively inform residents about their performance, make performance data more accessible, and establish a dialogue about the key strategic priorities.

1 **Provide accessible, real-time access to data** – Councils should make use of existing information outlets to get the public looking at data, and responding to what the data shows them. This should be released as regularly as possible so that people do not feel 'behind the curve'. Data should be formatted and presented in a way which will engage residents and make them keen to find out more.

2 **Make it easy for residents to respond** – Councils could begin to explore ways to capture constructive thoughts from more residents who have an opinion about how best to govern the local area, and establish a strategy for incorporating responses into the political decision making process.

3 **Take control of performance data** – Councils should push for more control of their performance data, making it more meaningful to the local area.

The local economy

Government support for businesses and local enterprises during the recession has had mixed success. State subsidised banks have not significantly increased lending to businesses during the downturn to date, and the VAT cut has had only a marginal impact. The Keynesian policy of fiscal stimulus has provided some stability to the funding of existing public projects and is likely to have gone some way to negating high impact job losses and business closures, at least in the short term. However, the ramifications of this policy are likely to have a major impact on the funding of projects in the medium term, with council budgets cut and projects stopped or postponed. Yet local councils currently have access to greater capital borrowing powers than ever before. Trading powers also offer the potential to stimulate new business and generate new income for the council. It is likely these powers will become more important in the coming years, with local councils looking to use these and other powers in more innovative and interesting ways.

State subsidised banks have not significantly increased lending to businesses during the downturn to date, and the VAT cut has had only a marginal impact

What can councils do

A number of top-performing councils are already using their prudential borrowing powers to provide business and mortgage support. Other councils are using it to improve and develop new infrastructure, such as transport links, plus a whole range of other capital expenditure schemes. Trading powers similarly have a huge potential to stimulate new business and lever in more receipts to the council. The value of current trading powers is currently £1bn, but very little of this is used to supplement the income of the council.

There is an enormous opportunity to use these trading powers in combination with the council's commissioning role to encourage the growth of new or emerging industries such as in the environmental and social sectors.

A couple of councils have even set up businesses which have expanded into other council areas because of their success. On top of this, councils also have the power to initiate new PFI deals with the private sector. Currently many PFI deals are often only marginally innovative in their structure and operation, and could potentially be re-negotiated. Councils need not be limited to traditional models and should explore options to involve the third sector to capitalise on expertise or to pool risk with other local authorities. Risk pooling and talent matching will allow councils to initiate projects which would otherwise not have got off the ground, and will be more likely to succeed. With innovative new ways of working and by involving a range of sectors, these powers combined will give councils a great deal of flexibility and ability to stimulate the local economy at little cost and with a large potential return.

Councils need not be limited to traditional models and should explore options to involve the third sector

Vision

The most important factor in deciding how and where to invest financial resources, and in deciding where to allocate the most high risk investments, should be encapsulated in a long term vision for an area and a clear articulation of the priorities of local residents. By basing all investments around this vision, this should ensure that the area is getting good value for money and is achieving the most important outcomes. Currently, councils 'create' their vision for the local area through their local strategic partnerships (LSPs) and local area agreements (LAAs). They select up to 35 indicators or targets on which they would like to focus their efforts. Ultimately there may be better ways

Local government has been as susceptible as other organisations in regard to mission creep, and councils will need to be acutely aware of this in the coming years of establishing the priorities, but LAA and LSP agreements should be considered initially with more meaningful public debate being the medium to long term ambition.

Prioritisation and courage

Over the coming years councils will need to focus with laser precision on their top priorities. They will be looking to manage their capital assets much more sensibly, and will have to stop doing marginally beneficial activities. Local government has been as susceptible as other organisations in regard to mission creep, and councils will need to be acutely aware of this in the coming years. It is particularly important that councils maintain their balanced financial portfolio by focussing high risk, high investment decisions on high priority outcomes. The debate is not about outsourcing vs. keeping services in house, or about cuts vs. investment – it is about delivering the most important outcomes better by ensuring a finance strategy which reflects the will of local residents.

Recommendation

Just as with our first recommendation, the most important aspect of any financial decision is for the council to fundamentally reassess what the priorities of the local area are and link finance directly to achieving that aim. But whereas the first recommendation was about saving money and creating a mixed economy, this section has been about using financial powers to stimulate growth and improvement for the benefit of the local area, with a potential return to local government. **We therefore recommend that local government should look to utilise existing financial powers far more extensively and should focus their higher risk investments on the main priorities for the local area.**

1 **Revisit and define key priorities** – Each of the priorities of the council set through LSPs, LAAs and other documents should be

revisited and analysed in the context of net benefit or value to the local area. This should take into account all quantitative and qualitative measures and knowledge at the council's disposal. The priorities should also include any measures which need to be taken to ensure that local economies are resilient in the current climate.

2 **Evaluate existing investments** – The council should examine all investments in the local area. They should especially highlight those investments which are high risk and those which are low priority issues but with high costs. Councils should also be aware of the amount they are investing on their higher priority aims. The council should consider which investments are likely to encourage new business and make a financial return to the council in light of current economic circumstances.

> The Council should consider which investments are likely to encourage new business and make a financial return to the Council in light of current economic circumstances

3 **Focus on investment priorities based on value to the local area** – The council should then realign investment into those things which are a priority for the local area, and help it become more economically resilient. Nationally, this should see a shift of investment into the areas selected as the top local priorities as indicated by the most commonly selected national indicators.

4 **Use existing financial powers more extensively to achieve the new investment strategy** – Councils should focus on prudential borrowing, risk pooling, trading powers and innovative partnership models plus other innovative approaches in order to achieve the new investment priorities.

Financial Innovation

As discussed in the chapter on the local economy, there are a whole host of financial tools available to councils in order for them to do innovative and interesting things. But beyond supporting the local economy, we envisage that councils will need to find extensive new ways of receiving revenues to meet the almost certain tight budget settlement in 2011. There are a range of tools available to allow councils to do this. Such mechanisms include tax incremental finance (TIF), the new Innovation Fund as well as prudential borrowing and trading powers.

> Beyond supporting the local economy, we envisage that Councils will need to find extensive new ways of receiving revenues to meet the almost certain tight budget settlement in 2011

Use the full range of tools

We anticipate that councils will have to become less wary in using such powers in the near future. But as these powers are already being used by other councils across the country in the interests of the wider area, then there is no reason why they should be hesitant.

Recommendation

We therefore recommend that councils should set themselves a self imposed target, in the region of 10% of gross revenue, to be made through local revenue raising techniques.

1 **Analyse financial and risk portfolio to assess potential opportunities for further investment** – Can more risk be taken, and are there opportunities for further investment?

2. **Explore the various opportunities to achieve a return on local investment** – TIFs, Innovation Fund, Prudential Borrowing, new markets, trading powers etc.
3. **Revaluate investments to ensure they fit into the overall investment strategy** – Are there gaps in investment into the priorities of the council, and can these gaps be filled be utilising innovative financial tools and better financial management?

Cross boundary working

Public services are organised in an incredibly complicated manner. There is a lot of confusion about who runs which services, and at what spatial level they are supposed to be run. It is not clear whether central and local government know which services should be run at which level, let alone ordinary people. And this is complicated further by the plethora of quangos operating nationally, regionally, sub-regionally and locally. This makes accountability particularly difficult, which is a trait not desirable in public organisations. This is largely a function of the way that public services are funded at an organisational level, rather than around the delivery of the most important outcomes.

The issue with partnerships

'Partnerships' have become the buzzword for the solution to operational problems or resource limitations. Some partnerships have been successful, but many have had serious drawbacks. But little attention has been paid across the public sector as to why this is the case. While the breakdown of partnerships can often be attributed to problems specific to each one, this can also be at least equally attributed to a lack of clarity over responsibility. This could be due to the fact that when public organisations are funded at an organisational level rather than at a project or outcome level, they tend to shift responsibility between each other, thus making accountability blurred and distorting preferable outcomes.

Organic partnerships at the right level

There needs to be a distinction between organisational collaboration and organic partnerships – one of which leads naturally into collabora-

Councils could also begin to look at innovative types of partnership which address some of the long-term issues for the local area with the help of social enterprises and other third sector organisations

tions for mutual gain, and the other leads to mixed accountability and mixed responsibility. Service provision and public accountability needs to be seamless and move away from the obsession with structures and organisations, which has grown enormously over the last 10-15 years. The focus should be on emergent organisations and groupings based on mutual interest over specific priorities or projects. The aim should be to encourage a focus on meaningful outcomes, such as early intervention schemes for young children or dealing with problems at the level of the family, involving a range of organisations focussed on well defined projects. This fits very closely with the idea of 'personalisation', as the ultimate aim is to design services around the end user's requirements.

Council commissioning role

Councils are perfectly placed to create the supply of such emergent collaborations. We foresee that their use of contracts and commissioning will become even more important in the coming months and years. Councils could also begin to look at innovative types of partnership which address some of the long-term issues for the local area with the help of social enterprises and other third sector organisations. This could also begin to lay a new framework for clear accountability and bottom-up and seamless cross-border collaboration. And with initiatives such as 'Total Place' budgeting, there is the potential to make funding follow responsibility, and for funding flows to be targeted at specific projects rather than at specific organisations. This opens up the market for service delivery and makes accountability much clearer.

Recommendation

We believe that there are two main requirements to foster better partnerships. First, more fluid budgets are a good way of ensuring that funding is targeted at outcomes rather than organisations. Second, partnerships should operate through a commissioning process with a specific project or remit, with funding to follow that remit.

We recommend that Councils should set themselves a self imposed target, in the region of 10% of gross revenue, to be made through local revenue raising techniques.

We therefore recommend that councils should take on a stronger commissioning role for the wider public sector aimed at achieving key local outcomes, and look to match local funding streams with the expertise of commissioned bodies on specific projects.

1. **What are the key priorities and desired outcomes** – The council should focus on the key priorities (both statutory and non-statutory) for the council and outline how the key outcomes should be achieved.
2. **Commission expertise to achieve those outcomes** – The council should commission expertise from a range of sectors with a specific remit in order to achieve the desired outcomes.
3. **Establish and use pooled funds** – The council should attempt to create a pooled fund by encouraging existing public bodies to allocate a proportion of their budget to achieving shared desirable outcomes. Central government has an important role to play in achieving this aim. Through the commissioning process, the council should allocate the pooled funds directly to the commissioned organisation.
4. **Revaluate existing unsuccessful partnerships** – Where traditional organisational partnerships are failing, the council should aim to reformulate the relationship into one where the council is the commissioner.

Conclusion

This thought piece has outlined five key areas for local government to think about in the near future, especially within the context of substantial cuts across the public sector which are likely to have a dramatic impact on the work of local government. The five recommendations have been designed to stimulate thought and action on those areas which are likely to make local economies and local government more resilient in the medium to long term. They also set out a vision for the direction of local government. Key components of this vision include:

- **The council as a much wider commissioner for the area** – The aim of this is to begin to solve institutional barriers to partnership and begin to align funding directly with achieving the outcomes set by the local council.
- **Utilise existing financial powers more extensively** – These offer an enormous opportunity to make both business and the public sector more resilient.
- **Involve residents** – Only by involving residents in holding the council to account and in decision making will the performance and assessment regime be replaced by accountability at a much more meaningful level.
- **Rethinking the priorities of local government** – Only by basing financial and investment decisions on the key strategy of the council will efficiency savings be made, and productivity improved.

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The Bottom Line
A vision for local government

The government's own figures show that from 2011 onwards we will face one of the tightest squeezes on public spending in the post-war era. It is against this backdrop that Localis and KPMG have written this thought piece for local authorities. Expenditure cuts of around 20% will be required – and it is for this reason councils must reassess their priorities and make some tough choices.

The report, entitled 'The Bottom Line: A vision for local government', focuses on 5 key strands within the debate which have so far been relatively unexplored. It reaches some important conclusions, suggesting that the CAA should be reassessed, and that councils should seek to cut marginal services and refocus their investments on their core priorities.

While this report is not a panacea for the problems which lie ahead for councils, it pulls no punches in respect of the need to tackle these difficulties head on.

LOCALIS RESEARCH LIMITED
10 Storey's Gate, Westminster, SW1P 3AY
www.localis.org.uk

KPMG LLP
One Canada Square, London, E14 5AG
www.kpmg.co.uk

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