The (local) state we’re in

PwC survey on local government’s financial challenge 2012
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Introduction

In March 2012, PwC conducted an online survey of local authority chief executives to explore how councils have coped with central government funding cuts.

This survey was a follow up to one we carried out in summer 2011 and was aimed at understanding where councils have generated savings, and the actions they have taken as part of their cost reduction programmes. At the same time, we also ran a survey for council leaders to understand the political point of view in relation to savings and expenditure pressures.

We explored to what extent there are similarities and differences in views between officers and Members about the financial challenges that councils have been and are continuing to address. Our survey this time has also sought to gather views about how officers and leaders believe their organisations will develop in the longer term.

In conjunction with these surveys, we ran a national online poll with 2,010 members of the public to gather information about their awareness of savings and service reductions made by their councils in the last twelve months.

This report presents the highlights of the findings from these three surveys, we focus on three main areas:

- The savings and achievements that councils have made to date.
- The council’s savings plans to 2015.
- The sector’s view on how the future council may look.
This second survey of local government confirms a lot of anecdotal evidence from the last few months, namely that local authorities have successfully delivered against an ambitious programme of financial savings over the last year, without any marked reduction in the quality of frontline provision.

It further highlights a strong level of confidence within the sector about being able to repeat that performance in the year ahead. Many councils have identified where they are going to secure most of the necessary savings and are pressing on with delivering them. Much of the focus has remained, and will continue to remain, on squeezing further savings and efficiencies through the way that councils operate internally and through tightening arrangements around their third party spend. Much of the internal focus remains on improving back office operations and transforming processes.

This remarkable performance and confidence about the short term is a double-edged sword for the sector. On the one hand, it rightly deserves applause for once again leading the public sector in demonstrating a strong “can do” attitude and readiness to engage with painful but necessary change. On the other hand, its success to date will give support to those who argue that the sector was ripe for reform and that there is plenty more to be done.

This presents a major challenge to the sector in the run-up to the next and crucial Spending Review. There will be an understandable temptation for it to argue for a lesser share of the pain in any future programme of public expenditure constraints, highlighting the risks this will pose in particular to disadvantaged communities and vulnerable people. But with little evidence of the impact of the spending cuts to date, in practice, this will be an uphill struggle in the face of a determined Treasury and some national political scepticism. Better therefore for the sector to draw upon its successes so far to create an argument for the role it can undertake across a broader range of local public services, demonstrating its capacity to secure both better outcomes and continue to deliver greater efficiencies. While our survey demonstrated that the local government jury is still out on the matter of Community Budgets, this particular initiative could yet prove vital to the sector’s long term prospects.
The survey also highlights a notable nervousness within the sector of further financial pressures beyond the current Spending Review period and Parliament. And there are good reasons for the sector to be nervous. The Coalition Government’s austerity budgets have been justified and predicated upon two critical assumptions – a rapid return to growth in the UK economy, and a sustained period of stability after that. With a stalled economy showing little sign of growth, and continued and potentially severe upheaval in the Eurozone, neither of those two assumptions any longer hold true. The most prudent planning assumption for the medium term is therefore that there will be a further round of painful public expenditure reductions, well into the lifetime of the next Parliament. With the mainstream political parties seemingly committed to protecting expenditure on health and education, it is not fanciful to conclude that local government will once again be asked to make a significant contribution to closing the gap. Councils really are in the eye of the storm and must plan now on how best to prepare for a turbulent future.

What the survey illustrates is the strong appreciation within the sector about the limits to securing financial savings from focusing solely within their organisations. The single largest challenge to the sector is the seemingly inexorable growth in demand for services, in particular social care. For these reasons, councils are increasingly focusing on how to secure significant savings, and desired outcomes through effective demand management.

But this is not without its challenges. To date, local councils have benefited in their programmes of expenditure reductions from a largely benign public attitude towards austerity. The Coalition Government clearly won the debate in the first 18 months of its life about the need for, and virtue of, public spending cuts. What our survey highlights is a notable hardening of public attitudes towards those cuts impacting local public services, a possible feature of the recent local election results. The almost simultaneous national elections in France and Greece further highlighted that there is a limit to the amount of austerity-driven pain that the public is prepared to tolerate. While councils may therefore be seeking increasingly to reduce or divert demand, they will need to be sensitive to a changing public attitude that will likely be more hostile towards perceptions of reduction than it has been so far.

The survey also shows that there is much more councils can and should be doing to engage local communities and individuals about the difficult choices they are facing. There is a marked contrast in views between officers and local councillors on the one hand, and the public on the other, about the effectiveness of local authority communication to date around these choices and decisions. If demand management is to succeed, local councils will need to find more effective means of engaging communities and individuals than they have to date.

This is not intended to be a counsel of despair. What the survey highlights is that councils are moving into a period of sustained public expenditure constraint, where the choices will be ever more challenging and the public attitude less forgiving. The most important message for the sector from the survey is therefore that there should be no letting up in the pace of change that it has demonstrated over the last year, that it needs to continue to focus relentlessly upon driving out further efficiencies from within and that simultaneously it should be looking to manage demand for services in more innovative and effective ways.
The context: the perfect storm

In 2009, PwC started to talk to its local government and other public sector clients about the impending ‘perfect storm’ which we believed was fast approaching and which would leave councils facing budget gaps of 20%-30% over the following three to five years. This ‘storm’ was the result of the simultaneous occurrence of a number of significant economic and social challenges – any one of which on their own would have created pressures for local authorities and their partners.

They included amongst other things:

- The impact of the economic downturn on local citizens and businesses.
- Pressure from reduced national funding and reduced local income generation.
- Pressures on capital funding and reserves.
- Demographic growth – at both ends of the age spectrum.
- Increasing pressure on public sector pensions.

At that point, we suggested that councils needed to act quickly and adopt a range of strategic, organisation-wide responses in order to help them weather the storm and create sustainable long-term solutions rather than simply salami-slicing budgets.
In order to meet the scale of the challenge facing councils, we suggested that a more comprehensive approach to securing efficiencies would be needed. This would include both the more traditional quick wins and focused service-based initiatives, alongside a more comprehensive whole council programme of transformation, and potentially a wider programme involving other local public sector partners. Evidence from both our previous survey and this one suggests that this is the route that many councils have actually taken.

The context for local authorities has moved on significantly and rapidly since our initial work on the “Perfect Storm”, and particularly so since the election of the Coalition Government in May 2010. The Government’s focus on prioritising deficit reduction has resulted in significant front-end loaded reductions in financial support to local authorities. Councils may feel that they are in the “eye of the storm” at present, particularly after a challenging two year period of financial pressures. What is disturbing for local authorities is that the continued sluggish performance of the national economy and potential shock to the system of continued uncertainty in the Eurozone which both portend continued financial pressures from now until well into the lifetime of the next Parliament. Councils are increasingly having to work on the assumption that continued austerity will be the new norm for the foreseeable future.
Achievements to date

Following on from our previous survey, respondents were generally optimistic again about achieving their financial savings targets for the last financial year. Over 90% of respondents expected that they would deliver at least their targeted level of savings in 2011/12; indeed just over one third were expecting to exceed their target for the year (Figure 1).

Less than a third of chief executives and leaders believed that the savings made so far have had an adverse impact on the quantity or quality of frontline services, and over 90% of respondents reported that they had successfully managed their risks while making the savings (Figure 2).

Figure 1: Achievement of anticipated savings 2011/12
Q4a What was your savings target for 2011/12?
Q4b How much do you expect to have saved in 2011/12?

Figure 2: Savings in 2011/12
Q1 To what extent do you agree with the statements below – Strongly agree or agree?

We are confident that we have successfully managed risks while making savings in 2011/12
We expect to have made our planned savings during 2011/12 to meet our budget challenges
Council employees have fully accepted the savings the council has implemented
Members have fully accepted the savings senior officers have recommended
The public have fully accepted the savings the council have implemented
The savings we have made in 2011/12 have been easier to achieve than we first anticipated
The savings we have made in 2011/12 have had an adverse impact on the quality and/or quantity of frontline services
There has been an adverse public reaction to the savings the council has implemented (e.g. rise in complaints)
However, this view was not shared by the public, just over 40% of whom said that they fully or tend to oppose the need for savings in local public services. While almost as many said they tend to or fully accepted the need to make savings, one in five were unsure (Figure 3).

The same question was asked in summer 2011 and the responses on this occasion suggest a shift in public attitudes overall towards being less accepting of the need for local spending reductions.

Evidence from the public survey suggests that a majority of the public were unaware of reductions or closures in most of the main local government services. The services with the highest reported levels of awareness were libraries and repair of roads and pavements (Figure 4).

**Figure 3: Public acceptance of savings**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
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<tbody>
<tr>
<td>Fully/tend to accept</td>
<td>38%</td>
<td>47%</td>
</tr>
<tr>
<td>Fully/tend to oppose</td>
<td>42%</td>
<td>36%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>20%</td>
<td>17%</td>
</tr>
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**Figure 4: Public perceptions of service reduction or closure**

Q2 Which, if any of the following services or facilities within your local area are you aware of having been affected by reductions in services or closures by your local council within the past 12 months?

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**“A strong focus on efficiencies, building rationalisation, procurement and treasury management have minimised service cuts and job losses”**

Chief Executive
The high level of media coverage of the changes being made to library provision has no doubt contributed to higher public awareness although, in relative terms, the levels of actual savings achieved from changes in library provision are not as significant as their profile.

As with our previous survey, Adult Social Care was not surprisingly the service that has made the largest contribution to council savings, with an average response of 3.5 (where 1 is no contribution and 5 is significant contribution – see Figure 5). This was some way ahead of the next highest areas of Environment, and Highways and Transport. Responses also suggested that it will grow and continue to be the most significant area for the attention of most councils in securing further levels of savings. We expect to see local authorities adopting ever more innovative approaches to releasing these savings in a way that is still consistent with ensuring support is secured for vulnerable adults.

“Although there has been vocal public opposition to some measures (e.g. closure of six of our twelve libraries), the overall impact on frontline services has been relatively limited”

Chief Executive

Figure 5: Contribution to savings from service areas

Q2b To what extent would you say that each of these frontline service areas have contributed to the savings you have achieved in 2011/12?
Q11 To what extent would you say that each of these frontline service areas will contribute to savings during the period from April 2012 to April 2015?
**PwC perspective**

**Transforming social care**

Demand for, and expectations of, social care services are rising fast. With the continuing fall-out from Baby P, the ageing demographic “time-bomb” and the economic strain many families are under, pressure on local authorities continues to increase. There is simply no option for councils now but to tackle social care, their largest area of spend – but they cannot afford to do this at the cost of quality. For many the option of tightening eligibility criteria has already been fully exploited.

Instead, councils need to look at a wider programme of change to address many of the underlying cost drivers of the service. They need to consider:

- **Managing demand more effectively through early intervention.** Working more effectively and proactively with schools and other agencies – private, community, third sector and in-house – creates a greater chance of preventing people requiring social care in the first place. Delaying the point where they need to access social care provision, or at least reducing the levels of support people require on an ongoing basis.

- **Streamlining caseload management.** The best authorities are looking more closely at how people are being managed into, and through, the system. This may mean more streamlining of the assessment process using different, more consistent and standardised approaches. Rapid and high quality assessment will ensure those who really need care services get access to the right packages as soon as possible. There may also be opportunities to manage workflow and responsibility more effectively, for example not necessarily always using highly qualified, skilled (and expensive) social workers for relatively straightforward first-point-of-contact assessment activities. Similarly, there may be scope to look at how packages of care are structured and procured, with authorities taking more of a brokerage role when it comes to decision-making and commissioning.

- **Managing exit from services.** Councils need to be looking harder at how people are exiting the system – re-enablement or longer-term solutions. People can come into the social care system and end up being “lost” or forgotten about. So it is about reviewing and focusing systems and being proactive about ensuring people are supported properly so they can, where appropriate, progress through the system and out the other side. For robust performance management, both culture and information are critical.

Taking a comprehensive view of the whole system will enable councils to significantly reduce cost without jeopardising quality or safeguarding. It is not about doing less for fewer people – but about providing different interventions in a more effective way.

“**We are still failing to capture substantial savings potential from total place/sharing agency budgets and integrating services...**”

Chief Executive
In terms of the approaches councils took to secure their savings in 2011/12, five stand out clearly ahead of the rest (see Figure 6):

- Reviewing and improving existing procurement contracts.
- Improving service delivery processes.
- Management restructuring.
- Changing ‘back office’ services.
- Restructuring and closing central services.

This was a very similar picture to the savings made in 2010/11. While there continues to be much talk about collaboration and shared services, there still appears to be little by way of savings secured from these activities in the latest survey.

“\textit{We have been careful not to place undue reliance on greater collaboration/ shared services due to the complexity of the required negotiations}”

Chief Executive

In the immediate aftermath of the first recession in 2008 and the realisation that public expenditure reductions lay ahead, many councils looked to their third party suppliers to “do their bit” in terms of reducing prices and margins, frequently with considerable success. For many councils, third party expenditure is a significant element of their operating budgets, so it is not surprising that local authorities are continuing to focus on this as an area for savings.

We are seeing the more progressive councils taking increasingly more imaginative and sustainable approaches towards procurement, embedding a commissioning culture and mindset into the organisation that links procurement to outcomes and demand. This is part of a move towards becoming a more ‘agile’ council, as we describe later.

\textbf{Figure 6: Approaches to securing savings}

\textbf{Q2} To what extent would you say that each of these actions have contributed to the savings you have achieved in 2011/12?

\begin{center}
\begin{tabular}{|c|c|c|}
\hline
\textbf{Action} & \textbf{2011 Survey} & \textbf{2012 Survey} \\
\hline
Reviewing and improving existing procurement contracts & & \\
Improving service delivery processes & & \\
Management restructuring & & \\
Changing support services or “back office” & & \\
Restructuring/closing central services or activities & & \\
Better compliance on existing procurement contracts & & \\
Disposal, rationalization or better use of assets & & \\
Changing customer services or “front office” & & \\
Changes to staff terms and conditions & & \\
Restructuring/closing frontline services or activities & & \\
Shared services and collaborative working with other local authorities & & \\
Changing eligibility or service levels in service provision & & \\
Shared services and collaborative working with other public or voluntary sector bodies (e.g. police authorities, NHS) & & \\
New outsourcing arrangements & & \\
Other & & \\
\hline
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\end{center}
PwC perspective

**Procuring with confidence**

With up to 60% of a typical council’s budget spent with third parties, procurement must be seen as core business to any modern organisation. Optimising procurement is one of the fastest ways to reduce costs on a sustainable basis without reducing headcount. In the current economic climate, transforming procurement can be a key part of the solution.

Many councils have already started to address spend on their largest contracts, through renegotiating pricing and changing volume requirements, and this has already brought significant short and medium term savings for those councils.

But there are many more issues to address across the whole procurement landscape that can deliver significant and long-term financial benefits and service improvement through sustainably transforming the buying landscape.

There are three key elements to this transformation:

1. **Find the money** – understanding where you spend your money and identifying where savings could be made on current third party spend.

2. **Get the money** – once you understand where the opportunities to save money are, implementing a strong category management approach to deliver the savings.

3. **Keep the money** – refining your policies, processes and practices across all elements of the buying landscape, and increasing the skills and capabilities of your staff so that sustainable savings can be achieved.

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<thead>
<tr>
<th>Outcome</th>
<th>Potential</th>
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<tr>
<td><strong>Professionalising procurement</strong></td>
<td>Procurement becomes empowered, professionalised, with continually managed benefits from the outset and a commercial focus.</td>
</tr>
<tr>
<td><strong>Procuring outcomes</strong></td>
<td>Procurement moves away from being rules based and risk focussed and instead drives commercial and business outcomes.</td>
</tr>
<tr>
<td><strong>A single integrated service</strong></td>
<td>Procurement activity works across structures and organisations removing fragmented and duplicated activity enabling Procurement to operate as an integrated service.</td>
</tr>
<tr>
<td><strong>Releasing value throughout the supply chain</strong></td>
<td>Significant savings and modernised service outcomes can be achieved in all areas by cutting costs, creating efficiencies and redefining cost structures.</td>
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Achievements to date
The eye of the storm

The front-loading of the expenditure reductions for local councils means that, for many, the current year will not be as financially challenging as the last twelve months. For the 2012/13 year, the majority of councils report that their savings targets are actually lower than they were for 2011/12, with only 15% having higher targets (Figure 7).

So perhaps it is not surprising that the levels of confidence shown by both chief executives and leaders about achieving their savings targets in 2012/13 are relatively high, although there appears to be more concern from leaders about the impact on the quality of service delivery and achievement of desired outcomes. Leaders remain more confident than chief executives that the public will support their future savings plans (Figure 8).

Figure 7: Savings targets for 2012/13

Figure 8: Views on future savings plans

Q3 To what extent do you agree with the statements below?

- We are confident that we will be able to make the necessary savings for the year 2012/13 without seriously impacting the quality of service delivery and outcomes
- We are confident that we will achieve the savings targets we have set for the year 2012/13
- Managers and staff will support the savings plans in the future
- Members will support the savings plans in the future
- We are confident that we will achieve the savings targets we have set for the following year 2013/14
- The public will support the savings plans in the future
Looking further ahead, there is less confidence from chief executives and leaders about the achievement of savings targets in 2013/14 and a number of respondents commented on the fact that they were expecting the situation to become more challenging again.

These views are perhaps not surprising when we consider that nearly 40% of chief executives reported that they still had to find solutions to deliver at least 50% of their identified funding shortfall between now and April 2015. This was an issue that was a cause for concern for both leaders and chief executives.

Over the next few years, councils are reporting that there will be a continuing focus on improving service delivery processes and changing support services and activities. There will also still be a focus on procurement, although this is expected to make less of a contribution going forward than it has done to date, as is the case for management restructuring, suggesting that many of the more immediate benefits from these activities have already been secured.

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Figure 9: Amount of future savings identified

Q6 What percentage of your known funding gap to April 2015 have you identified solutions for in your latest medium term financial plan?

- 0-25%
- 26-50%
- 51-75%
- 76-99%
- 100%

Figure 10: Approaches expected to contribute to future savings

Q2 To what extent would you say that each of these actions have contributed to the savings you have achieved in 2011/12?

Q10 To what extent would you say that each of these actions will contribute to your savings during the period from April 2012 until April 2015?

“2013/14 remains uncertain due to the impact of changes through LGGR”

Chief Executive
A significant area of focus for councils will be securing savings from the “back office”. The “back office” can often be a loose and ill-defined category for a range of activities and services that have little or no direct impact upon local residents and communities. Yet they are critical for the success of any council. In a political environment where priority is given to protecting the “frontline”, it is not surprising that councils continue to focus on reducing back office costs as far as possible, and we expect to continue to see this as a trend for some time to come. However, simple cost reduction in the back office carries with it significant risks. The focus for councils needs to be on ensuring that they streamline their operations through effective transformation while continuing to support frontline services appropriately and meet their many and complex statutory obligations.

There is also an expectation amongst respondents that shared services and collaboration will play a greater role, although this has been a belief for some years that, to date, has not really materialised. Our own view is that this will continue to be a priority for smaller authorities, in particular district councils, but we do not expect to see significant activity across the sector as a whole, except potentially in a number of back office areas.

There are two other areas that are now expected to make a more significant contribution to the savings planned for the next few years – an increasing focus on changing the ‘front office’ or direct customer service activities and the disposal or rationalisation of assets (e.g. property). In most cases, changes to how councils deal with their customer contact can secure not only financial savings, but also improvements in service for those customers, allowing them to choose more convenient channels of contact and increasing their ability to serve themselves. Our work with over 50 local authorities over the past few years has shown repeatedly that customer contact is regularly fragmented across many parts of the council, inconsistent in its quality and often leads to real frustrations and confusion for residents and service users.

Changes in both “front” and “back” office activities, along with other changes in working patterns, such as more flexible working and home working, and increased outsourcing of service delivery activities have also enabled councils to review the physical building space that they need to occupy. Many are now developing significant programmes of asset rationalisation, as they look to sell properties they no longer require, both to provide valuable capital income and to reduce their on-going spend on maintenance. Our survey suggests that this activity is likely to increase in the near future.
PwC perspective

Transforming support services

Our experience is that organisations have a significant proportion of their workforce that is an unknown, unmeasured and often unmanaged part of their business. This resource is often under the guise of administration, operational support or business support, yet more often than not it is incorporated into business unit structures.

There are significant implications if these support services and the wider back office are not proactively managed. They traditionally have a large number of staff deeply entwined in business units with multiple roles, job descriptions and reporting lines. This can lead to duplication and inconsistent quality of services that support the rest of the council’s business. There are often many ways of delivering the same service, and it may be this is simply the same way it has been done for years. Support services staff often feel under-valued and feel they compensate for others or for broken IT and processes.

By optimising support services across the organisation, services can be simplified with clear contact routes, roles and responsibilities. Councils can implement one way of doing things through standard processes and ensure that support is related to need and moved to an entitlement basis.

Increased sharing occurs through greater agility of resource, sharing of knowledge and the benefit of economies of scale. To sustain all of this, functions must have appropriate structures, spans of control and career pathways, all underpinned by robust performance management.

Simplifying support services and bringing them together as one function can also help councils to focus on their core functions, enabling non-core services to be delivered through alternative delivery models such as shared services. We are also observing a number of councils beginning to in-source their previously outsourced services such as HR in order to achieve savings.

Standardising support services and back office functions can significantly contribute towards the organisation’s efficiency savings target by making transactional processes simpler, enabling a customer-centric culture.

Bringing together support services can also create opportunities for the staff involved to recognise the valuable role that they play. It can professionalise their service and provide greater career development opportunities, something that is difficult to achieve when they are spread thinly across the council.

“I can see up to 2014/15, but thereafter the challenges become even more acute”
Chief Executive

“We are running out of opportunities to make savings”
Leader
Customer service in Local Government

The customer landscape is changing

The demands on customer service have never been more acute. Political, social and economic factors are evolving daily and customers expect organisations to respond. Innovation is no longer an option, it is expected. Customers...

- **Expect more** – customers expect to have the same level of customer service, choice of access channels and range of functions available that they do with their banks, shops and other private service providers.

- **Are informed** – easy access to research and data will expose efforts to mislead and enable comparison to other similar organisations; transparency and authenticity are required.

- **Expect choice** – as their experience with other providers increasingly offers choice, so they expect councils to offer choice in the services they receive and in how they receive them.

- **Have a voice** – vehicles for communicating experiences with any organisation, councils included – both good and bad – are ubiquitous and free, and customers are not shy about voicing their views.

Poor customer service is driven by duplicated processes and fragmentation in customer contact

Even the most efficient organisations we have worked with have a tendency to duplicate and fragment common front office processes that can and should be streamlined. Customers are passed from one department to another to have their questions answered or to request multiple services. They are required to repeat basic information with each new person they speak to. In councils we have worked with, we have found:

- On average, 8%-12% of staff time is spent managing initial contact.

- The number of Full Time Equivalents involved in initial customer contact can be as high as 25% of all front line resource.

- Up to 64% of teams are involved in handling enquiries but first time resolution can be as low as 12%-15%.

In local government, the end result is significant additional cost and an increasingly dissatisfied customer base. Increasingly, customers want to shift from traditional contact channels to digital ones. With a typical face to face contact costing around £9.50 per contact and the same enquiry being dealt with via the web costing £0.17 there is significant financial benefit to be gained from giving customers what they want.

We believe that councils need to focus on two key areas:

- **Firstly** to understand what their customers need and want, and to ensure that the right channels are being used to serve those needs. This applies to both what services the customers receive as well as the contact channels used to request and access those services.

- **Secondly** councils must standardise and simplify their processes across all customer access channels – web, face to face, phone – and simplify the technology base that supports them, and create frontline customer teams and processes that can deal with a wide range of services and topics.

The second area in particular can present a real cultural challenge as initial customer contact has traditionally been dealt with by the service delivery staff. However, releasing these teams from some elements of the customer contact process means that they can focus on delivery and the customer receives a more consistent response.
Effective Asset Management

As councils make progress with delivering their savings programmes, it is inevitable that opportunities will emerge to streamline the use of property assets and buildings. Indeed most new service delivery models will only deliver their full and true benefits if they are accompanied by a realignment of the asset base from which they are provided. The two processes need to go hand in hand. At a strategic level, the opportunity to release and create value from the better use of assets is likely to increase as councils develop and define new operating models. There are challenges but the opportunities are significant.

Cost reduction programmes are often driven by the need to release revenue quickly. This means that they often ignore the asset management agenda because of the longer lead-in times required to secure material efficiencies. There are also implementation challenges when reconfiguring an estate that is poorly utilised, expensive and in poor condition – community lobbying at the prospect of its closure can become front-page news. Nevertheless, the benefits of undertaking a fundamental review of council property and property related services, and the need to ‘size the opportunity’ that exists to release efficiencies under a range of service transformation scenarios, is increasingly recognised.

For many property practitioners the low hanging fruit from the sale of surplus property has long been picked, but our work over recent years with local authorities has proved that there are still substantial benefits to be gained. It has highlighted the importance of developing a structured, corporate change programme that fundamentally addresses the way authorities plan, operate and occupy property, exploring opportunities for collaboration and partnering wherever possible. This approach has led to significant (multi-million) annual revenue savings for councils as well as additional service benefits achieved by reducing asset dependency, optimising space utilisation within a leaner, higher quality estate and by exploiting service co-location opportunities both internally and with external partners.

At the same time, adopting new ways of working through investment in ICT solutions can also bring further cost and outcome benefits from reducing travel costs and time, increasing time spent on front-line activity and reducing carbon emissions.

Achieving a step-change in performance will require authorities to:

- Take decisions to close or relocate facilities.
- Adopt leading practices in managing operational property, office workspace and non-operational (including commercial) property.
- Establish leading practice organisation and management arrangements that enable the operation of good processes; for example, appropriate governance, policies, data and performance management.
- Exploit opportunities for asset rationalisation and reconfiguration.
- Explore collaboration opportunities between organisations and use the private sector, such as developer partners where appropriate, to augment gaps in skills, capabilities and funding.

Sustained leadership and a political appetite to make some difficult decisions will be required if asset management is to play an increased role in assisting local authorities address the financial challenges of the next few years.
By far the biggest concern for both leaders and chief executives in terms of achieving their savings targets over the next few years is the challenge of increasing demand for services (see Figure 11). Our survey in 2011 identified a similar concern and this is potentially a major area of focus now for local councils.

The fear for many is that, no matter the level of focus on transforming internal processes and operations, the sheer level of demand within the system (particularly in people-related services) will outweigh the savings that councils can secure in practice. This is supported by our survey, which found that almost 90% of chief executives and 80% of leaders believe that one or more councils will get into serious financial difficulties in the next three years. For these reasons, we are beginning to see a greater focus from councils on ways to manage demand.

**Figure 11: Barriers to achieving future savings**

Q13 How challenging do you expect each of the following issues to be in delivering your savings target for the remainder of the Spending Review period (until April 2015)?
There was also a concern about where councils will be able to find further savings, echoing the comments earlier about the most obvious savings having already been achieved. Interestingly, leaders were much more concerned than chief executives, about the difficulties of media coverage around savings plans. They were also significantly more concerned about the availability of investment funds to support savings activities.

Chief executives expressed more concern about staffing capacity, namely management capacity to oversee the changes required and the availability of the people with the skills required to implement them and to operate the new ways of working once introduced.

PwC perspective

**Demand Management**

While many councils have rightly been thinking about improving the efficiency of their services – the supply side – there is an increasing need to focus on the demand side of the equation. That does not mean simply not delivering services to some, or all, current service users but instead requires councils and their partners to think about alternative ways to achieve the same outcomes. There are a number of key demand drivers:

- Statutory duty.
- Council policy around statutory or mandatory spend.
- Public demand driven spend (we do it because we’re asked or expected to).
- Failure demand.
- History – the council has always done it this way.

Changes in socio-economic and demographic circumstances mean that demand for many services such as adult social care is increasing and shows little sign of stopping. Councils must therefore take action to reduce demand for those services, otherwise no matter how efficient they become in delivering those services the costs will continue to rise.

**So what can councils do to influence demand?**

- Challenge the notion that nothing can be done about ‘statutory’ services, which are often ill-defined and allow discretion in how they are delivered and ‘to what level’.
- Challenge tradition – historical delivery and council policy.
- Carefully analyse what is demanded, what is supplied and what is needed.
- Understand what causes the demand and identify points earlier in the journey where intervention could prevent future demands arising.
- Identify, and remove, failure demand – activities that are only demanded because the council, or another organisation, has failed in the delivery of another service.
- Reduce dependency – manage public expectation through dialogue and communication and identifying and supporting other ways to secure the necessary outcomes.
- In the longer term, work to transform the relationship between citizen and state.

**Managing demand**

- Channel shift
- Promoting more self service
- Tackling statutory demand
- Better matching supply with demand
- Working with citizens to co-create better solutions
- Early intervention and prevention
- Securing outcomes by different means
- Changing the relationship between citizen and state
The outcome of the Spending Review has brought into sharp focus the need for the public sector to review the shape and size of their organisations. With workforce related costs being the biggest single cost for local authorities, it is unsurprising that they have reported that a significant part of their savings to date have been achieved through restructuring and reducing headcount. Many also expect that further restructuring will be necessary in the future so we can expect to see continued reductions in the local government workforce.

However, in doing so, councils, and the wider public sector, must not lose sight of the long-term consequences of these short-term gains and the potential impact of rapid and significant headcount reductions on the viability and performance of the sector in the future. A fundamental part of the transformation programmes that councils are now developing and implementing must include long-term workforce planning. Councils that think creatively now about how to reduce their overall people costs will be able to reduce the need for compulsory headcount reductions in the short-term and develop a more flexible and sustainable employment model for the future.

In the same way that councils are considering the implications of their new ways of working on their physical assets, they must also consider what the implications of those new ways of working for the people that they employ. Most councils already recognise that they are likely to employ fewer staff in the future, especially those that are focusing on becoming a more commissioning-focused organisation, but few have really begun to consider the skills and capabilities that a reduced workforce will need. Even fewer have recognised that while they may employ fewer staff it may be that those they do employ are more highly paid – something that is already receiving significant media attention.

As councils consider their new operating and delivery models, so too they need to think about their people strategies. Recent years have seen councils focus on reducing spend on agency staff, seeing them as being too expensive. But as they reduce the amount of delivery they are directly involved in, there may not be enough work for full-time staff or will councils need to develop employment models that see more part-time working or seasonal working in order to meet peaks and troughs in demands for their time.

At a time when councils are looking to make savings, the training and development budget is often one of the first to be reduced, or removed completely. However, for councils to deliver the benefits from their new ways of working then the staff they retain will need to have access to training and development to help them build the skills and capacity they require.

The detailed requirements of the workforce of the future will vary depending on the new models of delivery that councils adopt, but all of them are likely to require staff that can work across service areas and subjects. Councils will need to implement new strategies for developing and recruiting staff who are more flexible and agile if they are to secure long-term benefits without suffering from future service failure.
Communication with residents and stakeholders

Our survey also uncovered a mismatch between the perceptions of both leaders and chief executives on the one hand, and the public themselves on the other, about how well informed the public are on the reasons councils are making savings (see Figure 12). Over half of chief executives and three quarters of leaders said that they thought the public very or quite well informed about the reasons that the council was planning to make savings. By contrast, only one quarter of the public thought that they were very or well informed.

While there was little variation between men and women, there were significant differences across age bands, with only 19% of 18-34 year olds saying they felt very or quite well informed, compared to 27% of...
Thinking about both the quality and frequency of communications, how good do you think your council has been at communicating with residents over the need to make savings?

- 100%
- 90%
- 80%
- 70%
- 60%
- 50%
- 40%
- 30%
- 20%
- 10%
- 0%

CEs frequency of communications
CEs quality of communications
Leaders frequency of communications
Leaders quality of communications

Figure 13: Quality and frequency of communication with residents

Q17/Q7 Thinking about both the quality and frequency of communications, how good do you think your council has been at communicating with residents over the need to make savings?

35-40 year olds and 31% of those over 55%. This raises the question of whether councils are using the right channels to communicate to all age groups despite chief executives and leaders having positive views about the quality and frequency of their communication about their savings programmes (see Figure 13).
PwC perspective

Making the most of new media

We have all seen how the fast-evolving world of social media has helped to transform the way that we as individuals go about doing things – how we socialise and keep in touch with friends and colleagues, how we interact with the world of work, how we network with and contribute to communities, how we purchase and consume goods and services, and how we access and analyse data and information.

The world of business is moving fast to understand these fundamental changes in behaviours, to address the challenges they present to established ways of working and to maximise the opportunities that they create. There are multiple potential benefits of applying social and digital media to service delivery and engagement.

We believe social and digital media can add value where:

- There is a broad community of interest who would find value in being connected together, having access to information and the advice, support and opinions of others.

- There are tools or useful applications that can be provided to help individuals or groups to make decisions or progress through an activity.

- Support to an individual or group can be delivered through a social or digital media channel, or the connection made between need and service provision.

From the council’s perspective, social and digital media provides an opportunity to rethink current service delivery, engagement or communication models with a fresh perspective, while recognising that social and digital media can only form part of a way of working. In our experience, local authorities have not been slow to realise the potential application of social media to their services and responsibilities, and the sector is awash with the examples of innovation and good practice.

But there are very few examples of using the power of social media to make council services more effective and efficient. Most of the good practice to date has been small-scale and limited in scope. Councils are good at using social media as a means of exchanging information with residents, but we believe it can do more than that. We believe it can transform services, change behaviours and improve councils’ relationships with their citizens, even as it saves them money.

In our experience, while councils appreciate the potential value of technological change from a customer perspective, they too often do not reorganise themselves to reflect the reality of the new world they wish to convey to their residents and communities. Too often new technology and new means of customer engagement are bolted on to existing systems and ways of working with no or limited redesign. This results in reduced financial benefits and a poor customer experience.

So there is a further challenge. If the benefits of social media are to be fully realised by local authorities, investment in it needs to be accompanied by ambitious service and process redesign that genuinely delivers a transformed customer experience. This in turn necessitates a focus within the council on engaging with Members, managers and staff on a continuous basis to educate, guide, support and effect behavioural and cultural change.

And finally we need to remind ourselves of a growing digital divide within our communities such that an enthusiastic adoption of social media could, at its worst, serve to alienate still further vulnerable groups with no or limited access to the technology that is a core requirement for its success. This is not a reason for not embarking upon an ambitious programme of embracing social media – rather it is a reminder that a critical success factor for the adoption of social media would be to reduce the digital divide, not to increase it.
The future council

Both chief executives and leaders believe there is significant potential for future council failure – both financial and service failure. Almost 90% of chief executives and almost 80% of leaders believe that in the next three years one or more councils will get into serious financial difficulties, while 70% of chief executives and 80% of leaders believe that one or more councils will fail to deliver essential services.

Our survey also asked chief executives and leaders for their views on a number of current ‘hot topics’ in local government, including issues such as elected mayors, self-regulation and shared services (see Figure 14).

Figure 14: The future council

Q9 To what extent do you agree with the statements?

- One or more local authorities will get into serious financial crisis in the next three years
- The Autumn Statement 2011 will result in further significant financial pressures for my council and for a longer period of time
- One or more local authorities will fail to deliver the essential services residents require
- Significant reform or reorganisation of local government will happen
- Shared services and collaboration will fail to deliver significant financial benefits in the sector
- Shared services and collaboration will fail to deliver service benefits to users
- The sector’s plans for self-regulation will lead to sustained improvements
- It has been relatively easy for the sector to secure savings to date because there was actually quite a lot of “fat” there in the first place
- The government’s policies and proposals will enable my council to play a leading role in stimulating economic growth
- Introducing Mayors in major cities will be beneficial to the residents and businesses in those areas
Interestingly there is a significant difference of opinion between chief executives and leaders about the sector’s plans for self-regulation, with 60% of leaders saying that it will lead to improvements in the sector compared to only 26% of chief executives.

There was little support for the introduction of elected mayors in cities, something clearly reflected by public views in the recent local elections.

Over recent years there has been much discussion about what the council of the future will look like – ‘commissioning council’, ‘mutuals’, ‘social enterprises’ and ‘big society’ have all entered the lexicon of local government language. While councils appear to be adopting different models, one common theme for the council of the future is that it will be smaller and employ fewer staff. The majority of respondents, 81% of leaders and 68% of chief executives, also expect to be involved in significant delivery partnerships with their local public sector partners (although as we have already seen, there is not a great deal of confidence that these partnerships will deliver significant financial savings). They also expect that there will be less direct service delivery and more commissioning of services. Interestingly, one-third of chief executives (34%) thought that their council would continue to deliver most services in the future (see Figure 15).

Overall, the scale of continued financial pressures for the foreseeable future, means that councils increasingly need to demonstrate ever-greater flexibility and agility in how they operate. We believe the predominant model for the future will therefore be the emergence of the agile council.

Figure 15: By April 2015, my Council will be...

<table>
<thead>
<tr>
<th>Model Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A smaller council, employing fewer staff differently</td>
<td>80%</td>
</tr>
<tr>
<td>A partnering council, in significant delivery partnerships with other local public bodies</td>
<td>70%</td>
</tr>
<tr>
<td>A commissioning council, directly delivering fewer services</td>
<td>60%</td>
</tr>
<tr>
<td>A trading council, actively selling its services locally or to other councils and public bodies</td>
<td>50%</td>
</tr>
<tr>
<td>A convening council, facilitating the commissioning and delivery of all public services in a locality</td>
<td>40%</td>
</tr>
<tr>
<td>An enterprising council, creating local ‘mutual’ enterprises and devolving delivery of services to local</td>
<td>30%</td>
</tr>
<tr>
<td>A delivery council, delivering most services in-house</td>
<td>20%</td>
</tr>
<tr>
<td>A bigger council, in terms of scope across sectors and services, and budget spent</td>
<td>10%</td>
</tr>
<tr>
<td>A ‘mutual’ council, partly owned by our employees</td>
<td>0%</td>
</tr>
<tr>
<td>None of these</td>
<td>0%</td>
</tr>
</tbody>
</table>
PwC perspective

The emergence of the ‘agile’ council

Agile councils think and act differently by breaking down existing service/professional models in pursuit of joined-up, system-based and customer-centric solutions. They are strong local leaders with a clear focus on place and securing outcomes. They adopt a commissioning and system mindset, seeing themselves as one of a number of players in the local public service network and they act collaboratively. In addition, they are driven by customer excellence which is delivered through intelligence, insight and choice.

Agile councils adopt simpler and more standard organisation forms, giving greater flexibility, scalability and the ability to respond rapidly to change. They have a corporate, commercially astute and project-centred culture, recognising that they need more than a service delivery mindset to influence the outcomes they desire for their communities.

To become more agile councils need to tackle organisational complexity, duplication and fragmentation – the attributes that traditionally slow down their ability to react quickly and efficiently to change. Most authorities will start their journey as very complex organisations, providing diverse services that are delivered through different organisational and management arrangements.

This is made even more complex where different authorities and other bodies are collaborating locally around the delivery of better outcomes.

We know that in a typical local authority more than 50% of effort is typically involved in managing, supporting and enabling service delivery, and that much of this is embedded within the services rather than held in consolidated front or back office environments. For example, in the average council (even where they have invested in new customer contact management arrangements) the delivery of customer-contact often still involves 250-350 staff and is embedded into more than 70% of services. These arrangements are then supported by many different IT applications – in some cases over 200 across a council. Not only does this demonstrate that there is significant scope for efficiency, it also shows the sheer complexity of navigating current operating models and the difficulty in providing a joined-up customer experience.

Back office processes are often similarly fragmented, requiring more highly paid and skilled staff to re-work reports and operate complex procedures where a standard process environment should exist. There are many other functions – for example, eligibility for services and performance management – that are still firmly embedded in services and are often seen as professional activity, but are in fact common across councils.

Service delivery is often also supported by a proliferation of IT applications. Many local authorities use over 1,000 applications with hundreds of linked databases storing disparate customer and service information. There are major opportunities to re-design and simplify these activities, consolidate on a more standard basis to professionalise delivery, align activities, reduce cost and free up time to concentrate on customer facing services.

One thing is clear, in a sector that potentially faces “death by a thousand cuts”, local government will need to look very different in 2014 and beyond. The emergence of the agile council as a model will help to preserve both the front line and the focus on strategic capacity.
The future council

The emergence of the agile council is consistent with another trend that is apparent from the survey – namely that the public is increasingly agnostic about the source of supply for its local services. On the whole if services were no longer provided by the council, the public would prefer them to be delivered by a not-for-profit organisation, particularly libraries, playgrounds, parks and open spaces, arts and cultural services and leisure and sports facilities. However, public transport, the repair of roads and street lighting were all services where slightly more of the public said they would be happy for a private company to run the services rather than a not-for-profit one (see Figure 16). There is certainly no strong attachment to the notion that the traditional public sector needs to be the primary source of supply.

**Figure 16: Delivery of local public services**

Q7 If your council stopped providing some services itself, which would you be happy to be delivered, to agreed standards, by a) a private sector business; and b) a not-for-profit organisation

<table>
<thead>
<tr>
<th>Service</th>
<th>Private sector business</th>
<th>Not for profit enterprise</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public transport</td>
<td>42%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>Repair of roads</td>
<td>42%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>Street lighting</td>
<td>38%</td>
<td>36%</td>
<td>33%</td>
</tr>
<tr>
<td>Refuse collection</td>
<td>37%</td>
<td>42%</td>
<td>29%</td>
</tr>
<tr>
<td>Street cleaning</td>
<td>36%</td>
<td>43%</td>
<td>28%</td>
</tr>
<tr>
<td>Recycling services</td>
<td>35%</td>
<td>47%</td>
<td>26%</td>
</tr>
<tr>
<td>Recycling facilities</td>
<td>34%</td>
<td>47%</td>
<td>26%</td>
</tr>
<tr>
<td>Leisure and sports facilities</td>
<td>31%</td>
<td>50%</td>
<td>28%</td>
</tr>
<tr>
<td>Parking services</td>
<td>31%</td>
<td>44%</td>
<td>26%</td>
</tr>
<tr>
<td>Arts and cultural facilities</td>
<td>29%</td>
<td>51%</td>
<td>29%</td>
</tr>
<tr>
<td>Adult education</td>
<td>27%</td>
<td>47%</td>
<td>34%</td>
</tr>
<tr>
<td>Council housing</td>
<td>25%</td>
<td>45%</td>
<td>36%</td>
</tr>
<tr>
<td>Nursery education</td>
<td>25%</td>
<td>46%</td>
<td>36%</td>
</tr>
<tr>
<td>Secondary education</td>
<td>24%</td>
<td>43%</td>
<td>37%</td>
</tr>
<tr>
<td>Primary education</td>
<td>24%</td>
<td>44%</td>
<td>38%</td>
</tr>
<tr>
<td>Special needs education</td>
<td>23%</td>
<td>48%</td>
<td>35%</td>
</tr>
<tr>
<td>Housing benefit/council tax</td>
<td>22%</td>
<td>44%</td>
<td>39%</td>
</tr>
<tr>
<td>Libraries</td>
<td>22%</td>
<td>54%</td>
<td>28%</td>
</tr>
<tr>
<td>Adult social services</td>
<td>21%</td>
<td>49%</td>
<td>30%</td>
</tr>
<tr>
<td>Child social services</td>
<td>21%</td>
<td>46%</td>
<td>34%</td>
</tr>
<tr>
<td>Parks and open spaces</td>
<td>21%</td>
<td>57%</td>
<td>28%</td>
</tr>
<tr>
<td>Playgrounds</td>
<td>20%</td>
<td>57%</td>
<td>29%</td>
</tr>
</tbody>
</table>
**Agenda for action**

Local authorities entered the ‘perfect storm’ in different states of financial health, with differing political perspectives on how best to respond and with different levels of capacity and capability to effect those responses. A single checklist of suggested actions in response to continued financial pressures will inevitably not do justice to the complexity and variety within the sector. However, a number of common themes emerge from this year’s survey and we would encourage councils to consider the following in particular:

- **Standardise and simplify processes**: Councils should continue to examine the scope for internal efficiencies in how they work, particularly in deploying common processes across the organisation that address fragmentation and duplication. The correct focus on standardising and simplifying processes will continue to offer councils the opportunities both to secure significant financial savings while improving outcomes for individuals and communities.

- **Secure efficiencies in the back office**: There continue to be opportunities to secure efficiencies in the same way in back office functions, particularly in maximising the use of IT. Standardising and simplifying processes around business support and administration also offers up the potential in many authorities for significant financial benefits.

- **Realise the value of social media**: The increasing focus on transforming the front office as a means of securing savings is timely as the technological advances around social media offer profound opportunities both for delivering efficiencies but also delivering much better experiences and outcomes for residents and communities.

- **Procure for outcomes**: The focus on third party spend should continue, but move from a simple reduction in rates and margins towards a stronger focus on how local authorities can secure sustainable improvements in their procurement and commissioning behaviour. This is as much an internal challenge to how they operate as it is towards third party suppliers.
• **Invest in greater collaboration:** Councils should continue to look for opportunities to secure financial and service improvements through better partnering with other local public agencies and through addressing common problems with greater common interest and less focus on organisational boundaries. The investment here is considerable and the time to payback at least equally so, but the gains are potentially significant. It is unlikely that councils will see their way successfully through the storm of the years ahead without at least some strategic focus upon greater collaboration.

• **Plan for the long-term:** There is a temptation at present for councils to focus on the short term leading up to the next Parliament. With increasing certainty that further public expenditure reductions will be required until well into the next Parliament, it is important that councils seize the opportunity to undertake longer term forecasting, horizon scanning and scenario development.

• **Define your core principles:** Forecasting and scenario planning should in turn assist councils in defining their core principles and ambitions for the next few years, and how they will operate to secure these. This is important if councils are to work successfully through the forthcoming further financial challenges as existing models built around traditional service delivery, and even procurement and commissioning to date, are highly unlikely to prove sufficient.

• **Build a workforce for the future:** In challenging times, it can be too tempting to see employees as a cost rather than as an asset. While headcount reduction is an inevitable consequence of financial pressures, councils should continue to focus on identifying and building a workforce that is one that it needs for the future, particularly in terms of strengthening competencies and skills to deliver constant change.

• **Engage your communities:** In doing so, there is a significant and continuing need for councils to engage more effectively with their local residents and communities about the challenges they face, the options they need to consider and the decisions they need to take. If councils do not do so effectively, they are unlikely to be able to drive through the changes that are implicit in a continued period of severe financial pressure.

• **Manage demand:** In addition to the internal focus on how the council operates, authorities will need increasingly to address financial pressures successfully through focusing on demand management – what their ‘offer’ is and how people access that; what they will not provide; and how individuals and communities can source solutions for themselves. These profoundly challenging changes will need councils to operate much more effectively, corporately and with strong political engagement.
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Mark is a Director in our Public Sector Team and has worked in and with the sector for almost 20 years. Mark has worked extensively with local councils over many years, helping them understand future challenges and plan their strategies for responding to them. Prior to joining PwC he was Head of the Strategy Team at the Local Government Association where he led the Associations work on a number of significant local government campaigns, including the 2000 Local Government Act. He is a regular speaker at conferences and has published a number of thought leadership articles and papers, both at PwC and before.

Methodology

Our research covered 65 local authority Chief Executives and 40 elected Council Leaders across the UK. These surveys were conducted online during March 2012. The range of responses from different types of council and the geographical spread gave us confidence that the results were a broad representation of views from across the sector as a whole.

An online survey of 2,010 UK adults aged 18+ was carried out from 16th to 19th March 2012. The results of the public opinion poll have been weighted to nationally representative criteria.

We previously explore these themes with Chief Executives and the public in July/August 2011. This report is available at www.pwc.co.uk/lgsurvey

We appreciate and value the time of all those respondents who contributed.

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At PwC we focus on three things for government and the public sector: assurance, tax and advisory services. Working together with our clients across local government, health, education, transport, home affairs, housing, social care, defence and international development, we look for practical, workable solutions that make a difference in solving the pressing challenges that are being faced every day.

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