ASSET

# THE CHANGING FACE OF LOCAL GOVERNANCE

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# THE CHANGING FACE OF LOCAL GOVERNANCE

## INTRODUCTION

The title of the ACES Glasgow Conference, **"20/20" Vision** is extremely relevant because one of the things that local authorities and local public services have been good at is getting through 2 or 3 years of misery and are practiced at busking, ducking, diving, and weaving in the hope that growth returns. The first thing I want to rehearse with you is the changing local context and that the previous strategy of dealing with a downturn will not be valid this time around. We do need to think 20/20 and begin to consider the business models and the approaches we will need to sustain ourselves from now on.

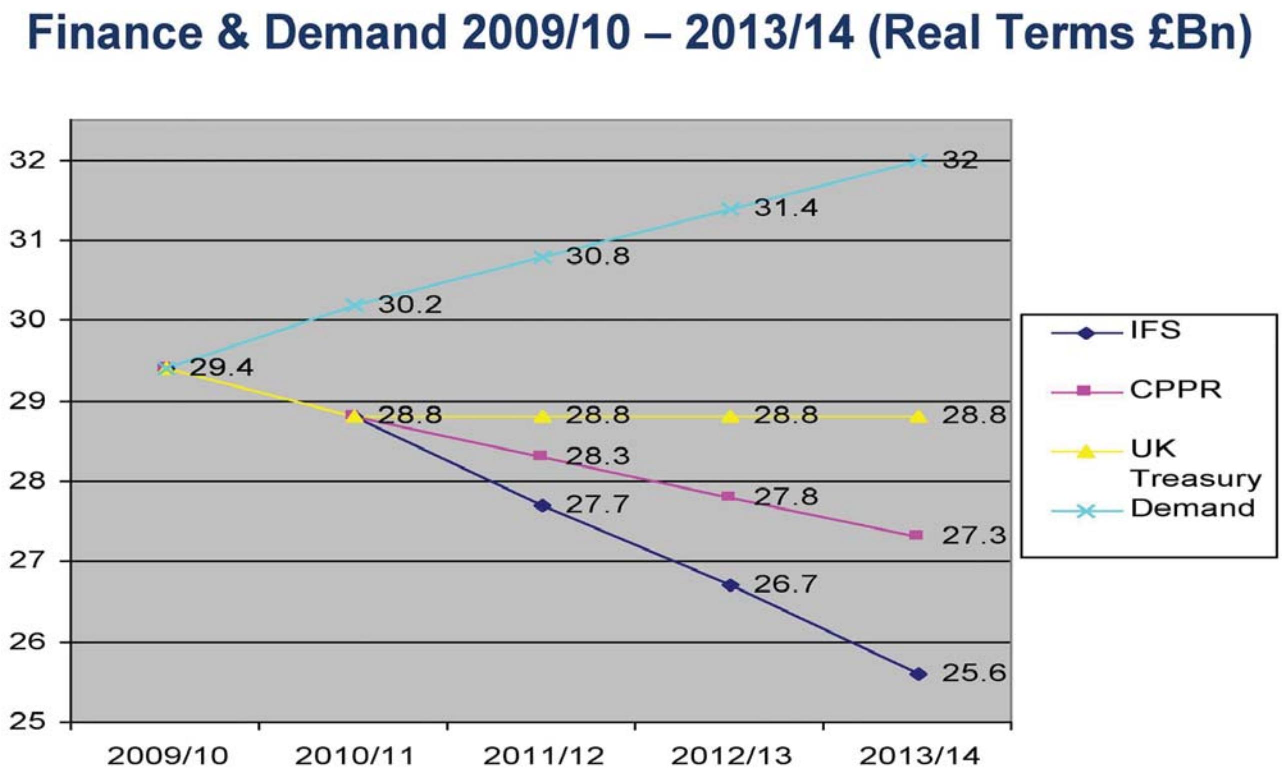
I then intend to look at asset management and the big current challenges. I will raise some issues that are intended to challenge asset managers to think about their own skills, approaches, and forcefulness around the corporate agenda.

This diagram applies to Scotland but most of the details, with one exception, could apply to England and Wales as well.

The top blue line shows where expenditure in Scotland, in real terms, would need to be between now and 2013/14 if we do not change our current models and only deal with the increased demand we expect for our services. It is therefore a projection of demand and I will return later to the basis on which it is calculated.

The bottom set of lines are, with varying levels of optimism and pessimism, projections of what may happen to public spending in Scotland across the same period. Using a common starting point of £29.4 billion in real terms, the yellow line is the Treasury/Scottish Government extrapolation. The pink line is our own Centre for Public Policy in the Regions (CPPR) at Glasgow University and the bottom blue line is the Institute for Fiscal Studies (IFS) forecast. Recently this body has proven to be by far the most reliable forecaster of public expenditure trends in the UK.

This diagram tells us that demand, a lot of it demographically driven and so potentially unalterable, and some of it policy driven, and therefore potentially alterable, increases steadily over the period, whereas expenditure either comes down sharply next year then flat lines, or alternatively just heads downwards sharply across the period through to 2013/14. But if that was all there was to it we could just sit tight and somehow get through 4 really bad years. However the honest truth is that if we extended the graph the 3 bottom finance lines would continue downwards at a much slower pace or continue to flat line, and the demand line will continue to go up through the roof as we go forward with exponential expansion as we continue with our plans and policies in Scotland around free personal care for older people and the increased number of older people to care for. The most optimistic forecast is we will take a hit next year and flat line but Nick Parsons' paper has put to the sword that assumption. Our view at the



Improvement Service is the IFS have got it right and so it is the bottom dark blue line that we need to think about. Thus with spending power reducing and demand ever increasing the real issue becomes "mind the gap," as they say on the railway. The gap is increasing incredibly rapidly and the net effect is that we will have to think very hard about what we are going to do here.

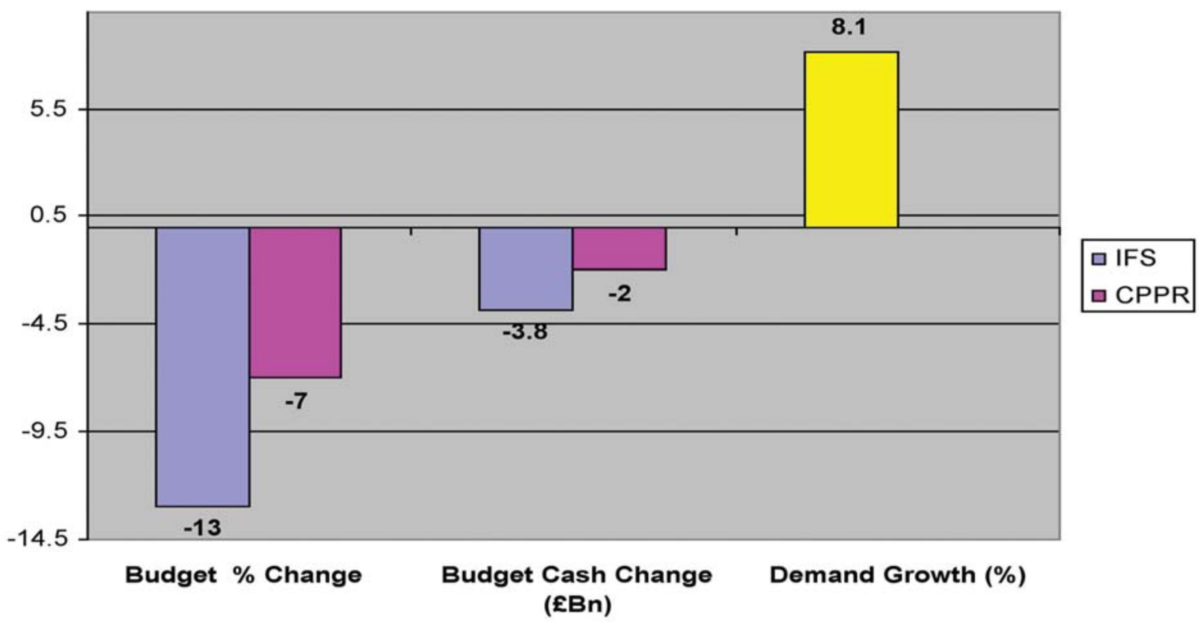
**Demand Projections**

These demand projections are based on reliable evidence, particularly with regard to services for older people, from both the Kings Fund and the Sullivan Review that took place in Scotland in 2008. The Review concluded we needed 2% real growth per annum in Scotland just to stand still. That is to say 2% is needed, not to improve services but just to stand still and cope with increased demand. The Kings Fund estimate came to similar conclusions for the whole of the UK and so will apply equally in England, Wales and Ireland as in Scotland.

In services for children there is also a demographic factor at work in all parts of the UK as well as the priority to ensure that all children have the opportunity to realise their full potential as they go through the system. In Scotland this is particularly acute as our 20 to 30 year demographic projections indicate a rapidly declining working age population and so if we continue to allow the education system to fail children at the current rate we will not have a labour force when we get to 2030. Hence the absolutely understandable policy priorities of an increased spend on children's services. There has been recent newspaper discussion about the Westminster Government's failure to meet targets for classroom sizes. You can mirror this in the Scottish press as well where the Government is also setting future targets for classroom sizes that will be very difficult to meet, given the financial climate. But understandably we are trying to invest in children generally as well as planning for very substantial expenditure per capita on children with learning support needs and special needs. It is a good news story that children who are seriously damaged at birth now survive for long life spans and this creates the need to invest in the type of educational arrangements that support these children across their young lives in Scotland. In some cases it can cost an average of £2,000 to £3,000 per week per child to put the right type of support in place to allow the child to learn and develop. The consequence is that the more we invest in improved health care at birth, the more we will need to invest in education systems, social care systems and so on in later life.

Cutting across all of this are impacts of recession. We know from previous recessions that the number of children running into difficulties in schools will go up as parents become unemployed, families become stressed and the family environment becomes unsupportive rather than supportive. That results in higher uptake of social work services and we know that recession also impacts on policing, community safety, and the need for business support. As people begin to find it increasingly difficult to pay bills they may choose to not pay either Council Tax or rent on the assumption that the Council is less likely than others to chase non-payment aggressively. This will be a challenge for Councils to address. If a family is already under financial stress do you tip them over the edge in an attempt to get the Council tax or do you support them because they are under financial stress. An outcome approach would say you support them, but that then

**Budget & Demand Changes (Real Terms) 2009/10 – 2013/14**



means that the revenue you otherwise ought to get from that family is lost. And in areas where Councils charge for services, it is highly likely that it will be necessary to give many more free concessions to enable people to continue to participate and the income derived from areas such as leisure will simply go down as a consequence.

Overall, if you pull all that together, we are talking about a minimum 1% increase in demand, depending on the population composition, but a much more likely average is something a lot closer to 2%.

Just to make it starker still, if you look at the trend rate for the Scottish budget, which has been growing at slightly over 4% in real terms per annum for a decade, then we are looking at a big reduction between now and 2013/14; 13% on the IFS projection or 7% according to CPPR. In terms of cash change this means a reduction of minus 3.8 or minus 2. In contrast demand growth looks to be 8.1%. There is a big squeeze materialising here.

**Longer Term (2013/14 to 2017/18)**

Just in case you are not yet depressed enough in the longer term there is also a structural gap opening up that, on the Chancellor's projections, will amount to 6.3% percent of national income by 2017/18; in other words we know it is going to be there but we just do not know what anyone is going to do about it.

At the moment the issue is being addressed by tax rises and spending cuts. Currently the balance is about 25/75, 25% in taxation and 75% by reducing public services. Unfortunately that will only claw back 50% so the remainder is still to be identified. If the 25/75 balance is maintained spending will rise 1% in real terms per annum in contrast with 1999 to 2009 when the average increase in real terms was over 4% per annum. Now I completely understand why the Chancellor would not talk about this in the run up to an election, as it's not a terribly good slogan. "It's really bad now then it gets worse" is not going to win you a British Election but in my opinion the Institute of Fiscal Studies way of expressing this as "two Parliaments of pain" is about right. It will mean one series of extremely hard choices, but at your own local level, it probably means that Councils will have three successive administrations of pain. In Scotland, because of proportional representation, relatively new and inexperienced elected members are likely to have to make incredibly hard decisions in the future.

The final issue is that the IMF is warning that for the whole of the UK there is a demographic impact kicking in with the maximum numbers of "baby boomers" coming through into old age. All have spectacularly good pension entitlements, in comparison to what everyone is going to have in the future, but that means a smaller working age population has to prop up a retired population that wishes to draw down pension receipts, extra services and so on. In other words there is a real structural issue around demography in addition to the other structural economic issue already mentioned.

**Implications**

To sum that up, there is a significant, on-going gap between spending and demand that will express itself first of all as pressure for significant efficiency and productivity savings and the average Scottish council has already planned in about $2\frac{1}{2}$% of these for its budget next year. The aim of that $2\frac{1}{2}$% is to get the council out of areas it does not wish to support and to prioritise into areas where it does. This is recycling, within the council, to priority demand areas. On top of that will now come at least another $2\frac{1}{2}$% to be removed from the system to balance the books. Overall then we are talking about 5% to 6% of budget reductions, $2\frac{1}{2}$% of which you could recycle to meet demand, and $2\frac{1}{2}$% to be identified and removed to balance the books. That, in my opinion, will be the model from now to 2013/14.

As a consequence we need to consider both efficiency and productivity and work out new ways of delivering services. This means a fundamental need to prioritise and rethink the business models we use, the service entitlements we have created and whether these are affordable and sustainable in the future. We already have, on both sides of the border, a situation where all local public service partners are signed up to a common analysis of the whole public service area including priorities and achievable outcomes but the immediate priority now is to redesign public service systems around those outcomes in order to make it affordable and sustainable in the future. The more we talk about outcomes, the more challengeable we become and that, in my view, is good. One of the current pressures in the Scottish system, as it is with some councils south of the border as well, is the move towards equal pay and single status. This is beginning to show that in a whole range of areas such as facilities management, social care and so on, that we are frankly uncompetitive now against the market in terms of deliverable value. The question is therefore are we going to open up service delivery to competition at this juncture? Our customers interest is to get the best possible service and if we cannot deliver that service cost effectively then we have no right to deliver it at all. It will be interesting to see how Chief Executives and Council Leaders wrestle with this sort of dilemma.

Public services are heading for some short term real cuts followed by long-term low growth at best.

**Opportunities**

Dealing with the Scottish context there are helpful things already in place.

We have The Concordat, a partnership between National Government in Scotland and local government. Part of that is that new policy development will be mutual and agreed so that we all go forward together. New policy commitments will be wholly funded, so that if we want to do something new we have to work out, together, how we fund it or what existing services cease to allow the new thing to happen. This has already led to a sharp departure from the tendency of Central Government to talk down to local government. But the cynic in you might wonder that at the time the money runs out does it not suit Ministers to say that we have provided the funding for local government and it is local members who make decisions now therefore if the public has problems blame the council and not the Minister.

I suspect decentralisation always recommends itself to central government as times get hard and the temptation is to push decisions down the line. But if we really believe in local government and our abilities to work with our local communities and understand their needs then we are much better placed to decide what is a priority, or not a priority, than someone sitting in Edinburgh or Westminster who is trying to make decisions about Western Isles or Argyll and Bute. So we do need to accept this challenge and that this will involve making hard decisions based on our far better understanding of the needs and expectations of local communities.

Also there is an Outcome Framework already in place. I have just reviewed all 32 local outcome agreements in Scotland to be signed by Ministers by the end of May 2009.

There is an established approach in most councils on how to set efficiency targets and track them. But we now have to consider proceeding at double the pace of the last five years which is a big ask given it has been hard to get to the present position.

Finally there is a developing focus on partnership and shared capacity at a local level both across the whole public sector and between councils themselves to achieve economies of scale and improved service delivery.

**Asset Management**

When the Improvement Service looked at asset management in Scotland's councils 18 months ago we defined the root of asset management as the resourcing of corporate and service outcomes. That is what asset managers are there for, to make sure that outcomes happen for individuals, families and communities. It is not to run buildings.

Asset management is also about delivering value, both public and financial value. When we get asset management right we provide the right assets to underpin services so that these services deliver higher public value than would otherwise be possible. In delivering this financial value, according to the Audit Scotland Report, we are sitting on top of a massive potentially valuable stored wealth system. We should manage that effectively in terms of public value to justify its opportunity cost and also consider whether there are alternative productive uses for some of these land and buildings assets. Whilst we need to look very hard at this, the public accounting framework we have to use obliges us to account for assets in a completely counter productive way. As we move towards carbon accounting we need to move towards a more helpful asset accounting system just as fast we can.

Another pressure we face is minimising the direct cost of asset management, and minimising opportunity cost. When we did our study more than half the councils could not tell us what capacity utilisation levels they used or they used measures so bizarre that they were unable to provide anything useable anyway. We need to consider carefully why we use physical space, the resources that we use and their carbon and financial costs and whether the assets used for the councils services are both sustainable and affordable over time because we will have to continue to support older people and educate children for the foreseeable future.

Good forward-looking asset management depends on corporate and service managers having a ten-year vision, not a one-year vision. What is a care service for older people going to look like in 2020? The time lag involved in adjusting assets, the disinvestments and the reinvestments necessary are substantial whether we do it in-house or procure it and whoever our asset partner is. There is a big time scale involved in resourcing a new social care service model.

**Elements**

The big issue, and this is not covered in the Audit Scotland Report, is whether current forms of service planning and corporate planning make good asset planning possible. If we really want to move asset management and planning on then you must first move service planning and management on. Currently most Scottish Councils, I cannot speak for Councils in England and Wales, often put forward a "service plan" that does not specify the assets necessary for its own delivery. An unresourced plan without any vision of what the service looks like ten years from now is inadequate and not really a service plan. A lot more hard corporate thought as to what service planning means is needed and we also need asset managers who are capable of supporting services and bringing together different types of expertise.

If you are clear about future corporate and service requirements then the way is clear to review the existing portfolio. What we wanted to do in Scotland was an area review across the whole public sector in, say, three areas of Scotland and to look at how the asset base is used collectively, and in partnership, rather than separately by the separate agencies. Were that possible we would create an investment plan but regrettably the investment plan is out of the question if you do not know whether the portfolio is right or where the services are going.

We need an effective delivery system and for any of this to happen we need an empowered asset management function and an understanding that no one should sit at the top table of a Council or a partnership to discuss service developments and future service models without an asset management presence. In my experience that is simply not the case just now even though Audit Scotland has already deemed asset management to be a core discipline. That we are not there yet is interesting and we need to reflect on that and why asset management is seen to be secondary and peripheral.

**Asset Management Capacity**

- Integration of data and analysis to support corporate governments is insufficient. All reports that I have looked at, and they go back the best part of twenty years, show that the difficulty here is that pockets of data are held all over the place. Overall there is, probably, sufficient but it is not held in an organised or coordinated form that supports decision-making and performance evaluation at corporate level.
- Advice and planning support for corporate decision makers is a role that asset management has to bring together effectively. This is needed to enable corporate governance to function. The corporate centre has to develop its understanding about the asset base and the link between assets and services.
- Business partner support for services is also part of asset management.
- Innovation and challenge are also important. The asset manager will be aware of opportunities whereas service managers will not. It is not service managers discipline to understand what asset managers can do and therefore part of the function of asset management has to be working with the businesses in partnership to inform them of opportunities, the implications of opportunities and to encourage them in the right direction.
- For example there is a lot of interest in the social work community about flexible and mobile working, partly because of budget pressures and a realisation about how much is tied up in a diffuse asset base and all the administrators and receptionists that then go with it. When service managers look more closely at what they do they realise how little time is spent dealing with customers and how much is spent on almost anything other than dealing with customers. One answer is to provide staff with the right equipment so there is no need to go to an office pick up a case and drive 30 miles and drive back to the office again, pick up another case and hand the first over to an administrative person to type it up for you. If the gasman can turn out with a hand held computer it is not beyond the bounds of credibility that a social care manager could use a hand held computer as well and directly input a care assessment into a system. If we are in favour of care personalisation, assessing the client at the client's house, and doing it instantaneously is about as personalised as it is going to get and if it is also a better model in outcome terms. Clearly this brings up a whole range of asset implications including why are social work offices strewn all over the place in assets nobody knows what to do with most of which have almost no transactional value at all and, therefore, what are we going to do about it?
- Accordingly there is a need to be able to challenge business requirements and so change process and services. A strong presence from asset management advising, guiding, challenging the service models services are coming up with and considering the asset implications of future methods of working.

**Key Points**

Asset managers need to consider what they are working for and what are they working to achieve? This is simply about getting more corporate and developing more of a partnership or public sector focus. If the option is "partnerships" we have agreed about outcomes and so on and whether it is to be local cross sector or sectoral and national. Then it is necessary to decide how to use the available estate as partners to maximise benefits to the community and the outcomes we want to achieve. In Scotland there is utter confusion about strategic direction. Some argue the option is to share it between Councils, some are arguing share it locally and cross-sectorally, and some are saying aggregate the whole lot for the whole of Scotland. In England it is more likely to happen on a regional rather than national basis, but nevertheless, we need to be clear of what we are doing and why. If we are focused on outcomes, my own sense is a probable local cross sector partnership around assets is probably the way to go. Then there are people tasked with delivering common outcomes to a common community and working together to exploit and maximise the benefits of the asset base.

We are about to move into a period where all around Britain groups of elected members will sit down with Chief Executives and Finance Directors in order to identify and discuss the nature of our core business.

The idea of core and detachable roles needs to be thought through with respect to asset management and the expertise needed and delivery and cost. Then a coherent direction and how you would physically resource the outcomes you want to achieve can be set. This is a critical part of the corporate governance remit for the council. There may be other things like property maintenance that are detachable, and many councils would take the view they did not come into business as councils to fix windows and roofs for example. We may need to start to look very much harder at these sorts of roles. The issues are expertise, proven delivery and costs. This is a high-pressure environment financially. If we can squeeze more out by doing things differently then this must be considered. The big question is if I needed someone to drive a corporate governance dimension of this, would I ask the asset manager or would I go elsewhere and buy from someone else, as they seem to know what they are doing.

Do asset managers have the skills to drive challenge, innovation and development? It is interesting that some councils who have chosen joint ventures or outsourcing did not choose either option because it was instantly more cost effective, they chose it because they did not believe they could do it themselves. They had no track record; it never happened before so why would you believe it can happen now?

As we move into a period where it will have to happen there may be a strong temptation to ask have we got the skills in-house or could we develop the skills if new management was brought in to give the right impetus, leadership and dynamism?

Finally we need to look at service change and the asset management implication. Services may be moving in new directions, social care is a good example, and education is another. In Scotland we have substantially out sourced the asset management part of the service to get the service we want. For example every year we spend £1.4 billion buying care for older people and what we buy is a total package; staff with expertise and the physical assets as well. We buy the whole thing and so do not need to do or own those things ourselves. This total package model will start to become of interest, particularly if, as part of the total package, somebody brings capital to the table. The truth, at least in Scotland, is that it is unclear where capital is coming from if you go down the conventional public route.

So if someone arrives on the council leader's doorstep and says if I could manage all the rest of your estate I can bring you £30 to £40 million for development then that is a tempting offer in today's circumstances. We have to think through where we are going and underpinning all that is if we are going to start to change and consider business models, outsourcing, in-sourcing, joint venture and all that, we need to get the core role within central government right, otherwise we will lose our environmental targeting, our making of place and space and quality standards in terms of supporting services. Therefore we need robust corporate governance whether the rest of the organisation is there in 10 years time or not. My guess is that the scene in 10 years time will be nothing like the current arrangements we have for property management.

**End Points**

What I am saying is that we are in a very transformational context now and in some ways that is the product of necessity, not of choice. We need to see this as a positive opportunity to fundamentally rethink how we do go about our business. It should not be driven by fad or trend. For example if three councils have a joint venture then everybody has got to have a joint venture. We must work towards a solution that is right for our area, right for our communities and right for their purposes.

I now believe that both the recent Improvement Service and Audit Scotland asset management reports are already hopelessly dated. They were based on a world of rational planning with 4% growth per annum. Unfortunately that world has just departed. We need to think about how we go forward with services and, in my opinion, the service link with asset management may be the one that people are most inclined to interrogate. So rather than planning services to meet with the assets already to hand, let us just find somebody who can do the service more cost effectively and bring in the assets too, in which case, they will manage the assets and existing asset managers will not; although they will still be needed to set and monitor performance standards. That will not happen universally, but it will start to happen, and so making sure we understand how we govern and manage performance will be of absolute fundamental importance as a future skill.

Finally, anybody who is a budget holder today running a service needs to consider how to continue to run the service well whilst meeting increased demand and losing 15% of the budget? Councils will have to consider how will we continue to operate and deliver our outcomes whilst taking 15% out. That is the scenario we are in.

In my opinion there is a huge amount of talent in asset management in Scotland, and I feel sure that it is so in England and Wales as well, within councils and other local public services but if we just sit here and fail to rethink ourselves and what we do a whole lot of things will happen to us and local government may lose a lot of what is very good as well as some things that frankly are not too good.

Therefore I would encourage you to see asset management as having a proactive role in these difficult times and that ACES members will have to think incredibly hard about the future direction and definition of asset management otherwise I think a tsunami will just wash us away along with the ways in which we currently operate and that may not necessarily get us to much better ways of working.

I am not alone in forecasting doom at the moment and most of it is incredibly well grounded. These are not outrageously pessimistic forecasts. They are basically realistic forecasts of where we are going and the circumstances create an opportunity for asset managers, as I think the Scottish Government example shows, but only if you are well connected through to political leaders and well connected through to corporate management.

So your priority is how to get in there and get amongst it if you want to take a positive public asset management agenda forward.

Colin Mair

# NOTES