Grant Thornton

CCN
COUNTY COUNCILS NETWORK

New strategies for uncertain times

Political and policy scenario planning in county areas

2020

Foreword

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The general election in December 2019 produced a clear result in the form of a government with the biggest majority for almost two decades, but for local government the policy landscape is anything but certain.

If we look at the domestic challenges facing the country – the housebuilding imperative, the social care funding crisis, the COVID-19 pandemic, the zero carbon agenda, and the growth agenda – all of these require the assistance of local councils if they are to be solved but it is not precisely clear to what extent they will be empowered to play a leading role, despite the aspirations and ambitions of local political leaders.

In particular, county local authorities stand ready and willing to be a key player, but they need government to provide the right tools, powers and funding to unlock their potential.

One of the key domestic pledges of Boris Johnson's government is to 'level up' so-called left-behind parts of the country. What has been overlooked in much of the narrative on this agenda is that county areas contain the bulk of these left-behind communities, despite being great places to live and work. These range from deprived rural and coastal communities, to former manufacturing hotbeds, to places where young people leave to go to university and never return. The left-behind nature of many of these places are partly a product of resource and policy being overly London centric and city focused.

Over the last ten years, councils have needed to rapidly adapt to a climate of significantly reduced resources, increased populations and ageing demographics, alongside the changing needs of residents. But politics and policy making have changed vastly too, creating an even more unpredictable landscape for local government.

None of this is more so when it comes to local government finance. Recent governments have made available short-term resource for councils, but this is no substitute for long-term certainty. Therefore, it is imperative that the government addresses the current volatility and challenges of local government finance and the challenge to continue to deliver adults and children's social care in local authorities.

Separately, the government should recognise the opportunities through devolution and the stronger role for delivering local economic growth that our councils and county authorities can bring.

This report looks into some of the uncertainties facing counties and how important political scenario planning is, with a clear message to the new government: with the right tools, the right powers, and the right funding, councils can be a key partner in unleashing the potential of left-behind England.

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Introduction

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To help aid local government in adapting to this new environment, Grant Thornton UK LLP has developed a method for policy and political scenario planning. They describe the reasoning behind this as:

'with so much volatility and change, policy and political scenario planning provides a way of exploring different future states, assessing the impact, and identifying priorities for action. It can help identify 'no regrets' decisions: actions that can be taken now that mitigate risk and maximise opportunities in all scenarios. It also helps develop clear contingency plans for 'worse case' events and what would need to happen to trigger action.'

At the 2019 CCN conference in Guildford, Grant Thornton hosted a roundtable for senior councillors and officers to discuss some of the wider policy and political scenarios facing local government and how they can approach this, potential solutions to challenges, opportunities that are available, and how to highlight areas of good practice for local government.

This report draws out the key themes from the roundtable and sets out the challenges at a high level, the benefits of policy and political scenario planning and how counties are currently tackling the issues and the national context. Each section is headed by insights identified by Grant Thornton that emerged during discussions.

Drivers of volatility

For local government, Grant Thornton have highlighted three key trends behind the current volatility: technology; demographic change; and the change in the structure of the economy.

These factors have contributed to a breakdown in trust and led to an increase in political unpredictability over the past decade. These trends are playing out globally and are not exclusive to the UK.

Grant Thornton framed the roundtable around a broad change in politics, where people are realigning to different values, highlighting a recent trend of people moving from their party-political values being based on economics to ones based on their cultural identity. This is a complex socio-political phenomenon and simplistic models do not tell the full story; but one way of categorising the new dividing lines is between "metro-liberalism" (which in general, refers to people who live in a city and voted against Brexit) and "national populism" (which generally refers to people who live in towns and rural areas and voted for Brexit). Interestingly, their analysis of the differences between metro-liberalism and national populism found that both sides had pro-localism in their values.

To aid policy and political scenario planning, Grant Thornton used VUCA to frame the discussion:

- Volatility - the rate of change
- Uncertainty - unclear about the present
- Complexity - multiple key decision factors
- Ambiguity - lack of clarity

The roundtable on drivers of volatility and uncertainty, and Grant Thornton explained that considering policy and political scenarios helps understand their impacts on organisations, services and place, and what actions need to be taken in strategic, service and financial planning.

Financial resilience

Introduction

Since 2010, local government has witnessed large reductions in funding as a result of government efforts to reduce the national deficit. The Institute for Fiscal Studies found that (in real terms) between 2009-10 to 2019-20, central government funding will almost be £29 billion lower, which equates to a 77% fall in revenues per person[1].

CCN's latest funding forecasts show that local government's cumulative funding gap over the next five years is now estimated as £30.4 billion[2]. Even if county authorities receive an inflationary increase in funding and the current funding for social care continues, they still face a cumulative funding shortfall of £13.2 billion over the next five years and pressure to raise council tax.

This forecast also suggests that a 4% rise in council tax in 2020/21 reduces this year's funding gap for CCN members to £1.3 billion. Further annual rises of 2% from 2021/22 reduces the cumulative funding gap to £7.7 billion, an average annual gap of £1.5 billion.

Managing austerity

When considering policy and political scenario planning for the period ahead, the outcome of the 2020 Spending Review will be crucial to determining the future financial resilience of local government.

Local authorities have done a remarkable job at managing financial reductions over the past nine years or so, but the pressure is undoubtedly starting to tell for all upper-tier councils.

The additional funding announced in the September 2019 Spending Round, covering the 2020-21 period, provided the first real terms increase in government grants for local authorities in over a decade. There is hope that the next Spending Round in March 2020, which will cover funding post-2021, will similarly increase funding for our local authorities.

However, neither the 2019 Spending Round nor the election manifesto of the newly elected government signalled a return to levels of funding councils experienced in the 2000's. Moreover, with significant new investment committed for the NHS, police and infrastructure, it is uncertain how much priority will be given to council funding in the forthcoming Spending Review.

Grant Thornton's financial forecasting of local government income expenditure and demand for all councils in England, taking account of 2019 Spending Round for 2020/21, found 42% of non-district councils in England are "at risk" over the next five years, with "at risk" being where a council's reserves fall to less than 5% of net revenue expenditure. The focus of this discussion on financial resilience homed in on austerity, devolution and audit regimes.

1 IFS (2019) Institute for Fiscal Studies - English local government funding: trends and challenges in 2019 and beyond
2 CCN and Pixel (2020) County Councils Network and Pixel Financial Management - Local Government Funding Forecast Update 2020-25 – (includes annual 1.7% increase in settlement funding assessment, 3% public health & continuation of all 2020/21 social care grants to 2024/25)

Future financial landscape

A potential challenge for local government is that in its response to austerity, councils have coped relatively well, particularly as additional funding has at times been provided in-year and in response to specific pressures. Whilst councils have continued to be innovative, balancing the books on a short-term basis is not sustainable.

By the start of 2020, research undertaken on behalf of CCN[3] showed that local government would needed to have made £13.2 billion of savings and cuts since 2015 to balance budgets, on top of council tax rises.

Although local authorities have produced financial plans covering the next three to four years, more serious planning is difficult in this volatile financial environment. Many councils still have significant funding gaps, and it is difficult to foresee how financial planning can be effective without at least medium-term certainty on funding position, whether this is from government grants, business rates, council tax or the new Shared Prosperity Fund.

Audit regimes

A question that local government is asking is: How do we assess ourselves in order to stay financially resilient?

The government's spending commitments over the medium term, and their borrowing rates, will have implications for local government. Some councils are acquiring assets and are increasingly becoming involved in direct investment that is being funded through borrowing. And more generally, local government's response to austerity has increased some areas of financial complexity, as councils have become increasingly commercial, such as the use of arms' length trading companies, and some councils using innovative funding instruments.

This has led to reflections on the nature and type of assurances councils and their stakeholders need from their external auditors, and the regulatory environment in which auditors must operate. In particular, what are the critical assurances in relation to a council's financial resilience?

The current external audit regime has arguably dissipated the focus of auditors on value for money and governance and since the abolition of the Audit Commission the local audit regime has evolved with sometimes contradictory objectives. The Redman Review and the new National Audit Office (NAO) Code of Practice provide an opportunity to ensure that auditors address financial resilience and value for money at councils with renewed focus and vigour.

3 PwC (2019) PwC - Independent Review of Local Government Spending Need and Funding (Technical Report)

Adults and children's social care

Introduction

A major driver for volatility is the financial and demand pressures faced by local authorities from adults and children's social care; impacting on their financial resilience and ability to continue delivering services. CCN councils represent 47% of all spending need for adult social care, and county authorities have the largest elderly population of any local authority grouping in England, being home to some 55% of the county's over 65 population. This number is expected to grow at a faster rate than anywhere else. As well as this, county authorities are responsible for 38% of England's entire spend on children's services and have experienced an escalating demand for children's care services over the past six years.

Context

The long-term financial picture for both adult and children's social care will be uncertain for the foreseeable future. In recent years central government has been preoccupied with older adults, rather than younger adults and children which is impacting on local authorities. Future immigration policy overhangs some of this policy and political scenario planning in relation to workforce recruitment and retention. Local government calls for a radical change to the funding allocation for adults and children's social care to end the volatility and bring stability to the sector.

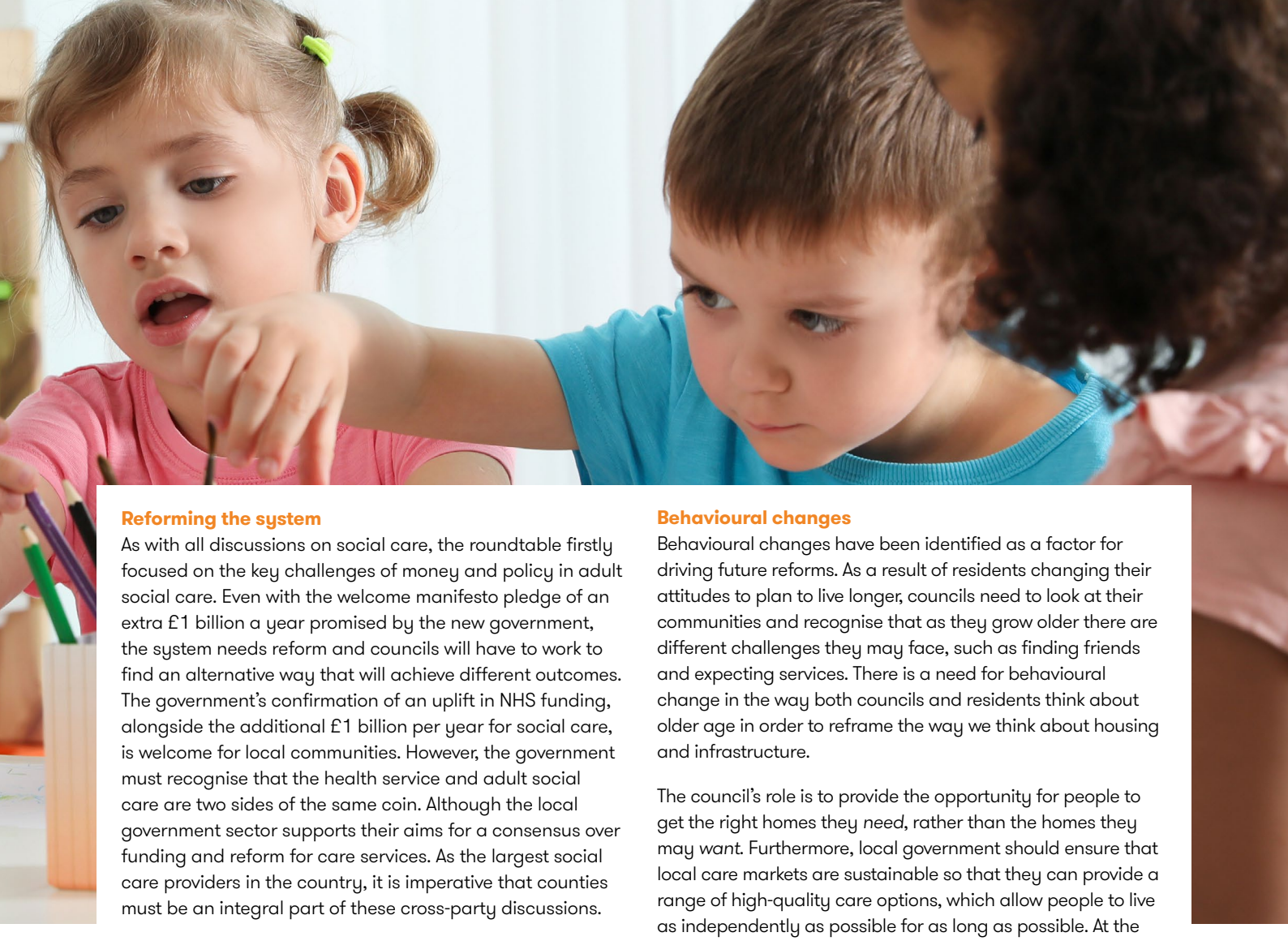
Population growth

To respond to these challenges, the roundtable referenced the so-called 'Barnet Graph of Doom', and the applicability of the projection in today's climate. There were questions about whether future population growth and adult social care will still be as great a concern when scenario planning into the distant future, and whether in time other issues such as building zero carbon economies will supplant social care as the biggest issue facing councils.

However, social care is a pressing short and medium-term issue which we need a solution to now: some councils don't see the end to the issue in sight, as they are experiencing demand increases in all social care cohorts, from younger disabled adults, to the frail elderly, and for children suffering abuse and neglect.

County authorities are under immense pressures, and it was only the Adult Social Care Precept and temporary one-off grants that had effectively stopped the collapse of services. Referring to the 'Barnet Graph of Doom', spending on statutory services has not happened as predicted – the growth of cost and complexity of working age adults has been a stronger force than expected compared to costs of caring for the frail elderly. Demand for children's social care will rise faster than any other local government service. Spending on children's social care will rise nationally by 48%. By 2024/25, CCN member councils will account for £4.5 billion of all spending need on children's services, with spending need increasing £1.4 billion since 2015/16[4].

4 PwC (2019) PwC - Independent Review of Local Government Spending Need and Funding (Technical Report)



Reforming the system

As with all discussions on social care, the roundtable firstly focused on the key challenges of money and policy in adult social care. Even with the welcome manifesto pledge of an extra £1 billion a year promised by the new government, the system needs reform and councils will have to work to find an alternative way that will achieve different outcomes. The government's confirmation of an uplift in NHS funding, alongside the additional £1 billion per year for social care, is welcome for local communities. However, the government must recognise that the health service and adult social care are two sides of the same coin. Although the local government sector supports their aims for a consensus over funding and reform for care services. As the largest social care providers in the country, it is imperative that counties must be an integral part of these cross-party discussions.

There needs to be radical change in this area, and there was widespread consensus that local authorities cannot continue to do the same thing as they will eventually run out of money. To achieve this change there needs to be adjustments to infrastructure and planning policies to make them more focussed on preventative services, which can reduce or mitigate demand for social care.

Whilst independent living is often the preference for service users and can be beneficial to mental health, it creates additional challenges for social care providers who are strained travelling from place to place. A key thrust of reform needs to be focused on planning practices to encourage development and promote more choice of effective and desirable housing for older people, such as the Extra Care model. Communities must be planned and designed for the future and involve older people's views in how these developments are shaped, and until these structural policy challenges are tackled then the issues will not change.

Behavioural changes

Behavioural changes have been identified as a factor for driving future reforms. As a result of residents changing their attitudes to plan to live longer, councils need to look at their communities and recognise that as they grow older there are different challenges they may face, such as finding friends and expecting services. There is a need for behavioural change in the way both councils and residents think about older age in order to reframe the way we think about housing and infrastructure.

The council's role is to provide the opportunity for people to get the right homes they *need*, rather than the homes they may *want*. Furthermore, local government should ensure that local care markets are sustainable so that they can provide a range of high-quality care options, which allow people to live as independently as possible for as long as possible. At the roundtable it was debated as to what councils should do if someone choses to live in their large house in the suburbs and through this personal decision substantially increase the cost of their social care, do they get the same level of service?

Workforce issues

Grant Thornton have identified key workforce issues in social care: shortage of capacity; issues for families just about managing; and care markets. Questions were raised about wages in social care and whether social care is offering careers, lives, and a family setting that people aspire to.

The incoming government has committed to raising the living wage to £10.94 by 2025, with a 6% increase from April 2020. However, at present the social care market does not necessarily have the capacity to raise wages without impacting the wider sustainability of local services. But for people to see social care as a viable career path they must be valued and have clear career progression with wage and status incentives – particularly as at present five of the six main supermarkets pay a higher average wage with far less responsibility.

County authorities – especially in more remote coastal areas – have difficulty in attracting high quality staff and this has been exacerbated by a tightening labour market. Local authorities need to manage their care markets effectively to ensure they have the staff to continue to run effectively.

Local economy and sustainable development

Introduction

Emerging findings from a report by Grant Thornton suggests that county areas account for 39% of GVA, 48% of all businesses, and 42% of all employees. They are the backbone of the UK economy; however, they suffer from structural weaknesses. For example, over the last five years they have witnessed slower growth rates. Business growth of 7.9%, for instance, has lagged behind the England average of 11.6% and 15.1% for non-county areas[5].

In the report, exploring the role of county authorities in place-based growth, Grant Thornton argue that county authorities, working in closer collaboration with their local partners, are best placed to create and deliver the strategic vision for a place. This can assist the new government with their levelling up agenda as they can play a key role in overcoming these economic challenges across the country and support post-Brexit growth.

Context

When policy and political scenario planning, Grant Thornton highlighted three key things in relation to local economy and sustainable growth: infrastructure, skills, and the sectors that may be affected, such as agriculture and food. These scenarios were talked about within the political context of the post-Brexit economy and policies. Attendees used this policy and political scenario planning session to discuss the UK Shared Prosperity Fund (SPF), which is set to replace the EU Structural Funds from 2021, within the setting of a rural environment and the future of Local Enterprise Partnerships. Whilst the 11 March 2020 Budget had a particular focus on significant new infrastructure investment, there were no further details provided on Shared Prosperity Fund and Local Enterprise Partnerships.

5 Grant Thornton for CCN (2020) - Place-based growth: Unleashing counties' role in levelling up England

Devolution

Central government can aid local authorities by harnessing the strategic role of county authorities, making sure they are at the heart of the devolution proposition in shire counties, and seeking to build on the foundations already in place in CCN areas. A theme from the roundtable attendees was that the new government should put devolution into action as had been promised during their election. Furthermore, councils should challenge and change the narrative and incentivise government and the civil service to not direct everything from Whitehall.

Given councils track record in continuing to deliver high quality services at a time of austerity, it is time to change the narrative of central control. To achieve this, there must be radical change to the distribution of powers to enable councils to run their authorities effectively. They need decentralised tax raising powers, to match the skills agenda to what they need in their parts of the UK and to invest where they know it is best to go. Local authorities must show government their track record of successfully delivering services during challenging financial times and demonstrate how devolved powers will positively impact the whole of the country and prove that counties have the capabilities to deliver.

Building on these points, there is a need for government to recognise that devolution deals should be given to non-mayoral authorities. Counties can help government to become more efficient as central government cannot deliver local services from Westminster. Devolving powers and funding on economic growth would have a major impact on economic growth in county areas.

In addition to this, local authorities cannot maintain current public service provision, which is experiencing increasing demand. Demanding that public services are run locally will be beneficial to both central and local government to ensure the most effective and targeted services. Oxford Economics for CCN have estimated that full devolution to counties could save up to £36 billion over five years, as well as bringing decisions closer to local people[6].

During the roundtable the notion that devolution deals to mayoral authorities is the answer was disputed, as some argued that mayors are another costly layer of local government. Some attendees thought mayors have done a disservice to non-mayoral authorities as they claim everything that is good is down to them but blame central government when something is bad, rather than accepting their faults.

Local authorities need to convince government that they can deliver effectively both the good and the bad and will deal with the consequences. Counties' scale mean that they can apply the synergies between both revenue and infrastructure. Added to this, it is important to have the backing of local MPs and work together with them to understand the change that devolved powers would bring and to highlight that your influence will be better over a better run area. MPs can help lead this as they have the capabilities to make changes in central government to enable this to happen.

6 Oxford Economics (2017) Understanding County Economies www.countycouncilsnetwork.org.uk/download/901/

Shared Prosperity Fund (SPF)

The emerging findings from the research by Grant Thornton show that CCN areas received the highest total EU funding allocation per capita in comparison to non-CCN areas, core cities and greater London; demonstrating their high dependency on this funding to support regional growth initiatives[7].

An urgent issue for local government is the uncertainty around the UK Shared Prosperity Fund and the future of the Local Industrial Strategy approach. Both these add to financial uncertainty for local authorities. Growth deals conclude in March 2021 and there are going to be many rural areas that are desperately going to need funding as the country heads towards an alternative to the Common Agricultural Policy.

Central government needs to address this urgently to ensure our regions have the financial support they require. One of the uncertainties is how the Shared Prosperity Fund will be delivered and through what governance. It was possible the Shared Prosperity Fund be tethered to Local Enterprise Partnerships; this could be a concern for local government as if the funding goes through the Local Enterprise Partnerships then local authorities lose a lot of democratic control over the funding. Additionally, the future of Local Enterprise Partnerships themselves remains uncertain which adds to the ambiguity faced by local governments.

Local Enterprise Partnerships

The theme of the uncertain future of the Local Enterprise Partnerships was debated at the roundtable, whether they would and should be reformed. There are very mixed messages on the future of Local Enterprise Partnerships partly as government has seen some of the inefficiencies and ineffectiveness. Local Enterprise Partnerships are often too heavily reliant on county authorities for delivering capacity and resourcing and are not able to give democratic oversight to the investment of funding.

There are benefits and drawbacks of additional business people being invited to join Local Enterprise Partnerships. Recent reforms to Local Enterprise Partnerships have reduced the role of local government in their governance, and it is a concern whether the council's role is increasingly being taken away. However, this possible change to Local Enterprise Partnerships is less concerning provided the council is the accountable body. It is important that local authorities should have a role in shaping any reforms of Local Enterprise Partnerships for better recognition for place-based growth, especially regarding funding and allowing local authorities to continue to have democratic control over this.

7 Grant Thornton for CCN (2020) - Place-based growth: Unleashing counties' role in levelling up England

Co-terminous models

Although there is still uncertainty, councils should continue to work with their Local Enterprise Partnerships. Some of these relationships are based on 'co-terminosity', with Local Enterprise Partnerships and county authorities sharing a geographical boundary, as is the case in Buckinghamshire and Cornwall. Having the same geography is beneficial for cooperation and working together for the place as a whole.

An example of a model based on geography is the Oxford-Cambridge Arc. This is a joint declaration between 31 local authorities, four Local Enterprise Partnerships, 10 universities and the historic assets in the area, which is an emerging approach featuring local government and key local partners who are coming together to support growth in the area.

However, strategic decisions can be made between councils and Local Enterprise Partnerships not just due to geography but also commonality, where there are similar economic drivers. The roundtable gave examples of Local Enterprise Partnerships in Cornwall and Bristol, where work is based on commonality and not just geography.

Decision makers

A clear message from the roundtable was that in policy and political scenario planning, councils need people around the table that can make decisions and it is crucial that at a local level people are empowered. Even if government doesn't delegate all powers to local authorities, it is imperative that government makes sure that councils can talk to someone who can make decisions. To aid this, council's need to look at their area as a single entity as it will benefit their voice as a place, not just as an authority but through integration with partners. From previous examples given by councils, a more productive solution was reached when key partners and local government spoke with one voice to central government.

However, currently there are too many people trying to make decisions in local areas, which could be a reason as to why devolution has been unsuccessful in some places. Counties however, have a much stronger strategic board across a wide range. For example Surrey Heartlands is a partnership approach to transforming local health and social care services. This project was able to come to fruition due to the availability of senior government officials who could make those decisions and this needs to happen across the whole of the country for place-based growth.

Conclusion

Local government over the past 10 years has shown resilience and ingenuity to keep delivering for the residents they serve. Although local authorities have continued to deliver during this time of austerity, this is not sustainable and does not promote future planning.

During this roundtable Grant Thornton took the participants through some of the wider policy and political scenarios facing local government. The three main themes discussed, through policy and political scenario planning, brought up common issues faced by local authorities around England, and aided conversations about best practice, options, alternatives and solutions.

It is imperative that the government addresses the current volatility and challenges of local government finance with cost and demand pressures in delivering adults and children's social care in local authorities. The government should recognise the opportunities through devolution and the stronger role for delivering local economic growth that our county authorities can bring.

Through policy and political scenario planning councils can be best equipped to deal with future challenges and opportunities through assessing the impact and identifying priorities for action. It can help identify 'no regrets' decisions: actions that can be taken now that mitigate risk and maximise opportunities in all scenarios. It can also help develop clear contingency plans for 'worse case' events and what would need to happen to trigger action.

About us

Grant Thornton UK LLP

Grant Thornton UK LLP has a well-established market in the public sector and have been working with local authorities for over 30 years, and are a leading provider of advisory, consulting and audit services, counting 40% of English upper-tier local authorities as audit clients, and a significant proportion of the remainder as recent advisory clients.

Our approach draws on a deep knowledge of local government, combined with an understanding of wider public sector issues. We have significant insight, data and analytics capabilities which supports are advisory and consulting work with local government. Our team is made up of consultants, analysts, researchers and developers with a range of backgrounds which includes operational roles in the sector.

We are backed by a wider firm that offers 3,500 specialists across a wide range of business advisory services working from 27 UK offices.

If you would like to find out more about our approach to supporting councils in political and policy scenario planning, summarised below, please contact:

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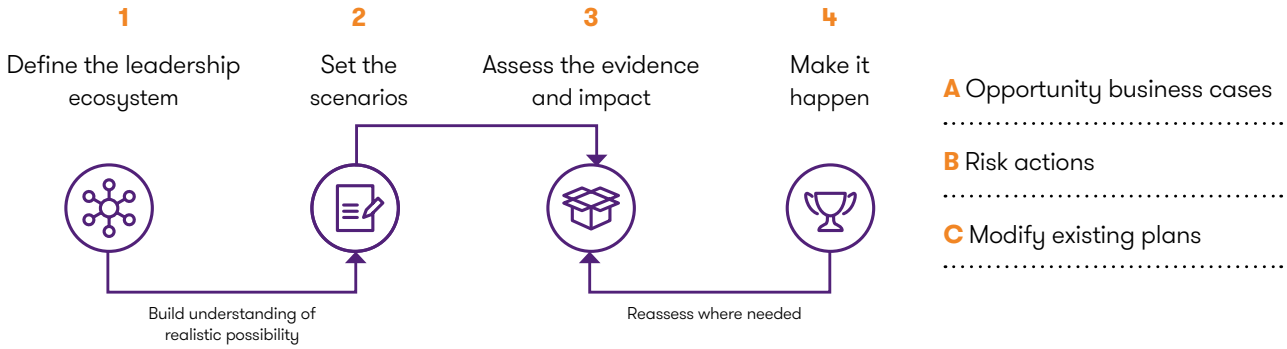

In assessing the impact on local government we set the scenarios, and then consider them through three lenses:

Example scenarios	4 filters	3 lenses	Focus	+ and -
Global recession Carbon neutral agenda Automation	Legal Economy Behaviours Policies	Your organisation Your services Your place	Business criticality	Risks and opportunities

Your organisation
People, funding and revenue, stakeholders, delivery models, suppliers

Your services
Social care, housing, education, environment, transport

Your place
Business, societal impact, regional funds, infrastructure, demographics

CCN

Founded in 1997, the County Councils Network is the voice of England's counties. A cross-party organisation, CCN develops policy, commissions research, and presents evidence-based solutions nationally on behalf of the largest grouping of local authorities in England.

In total, the 26 county councils and 10 unitary councils that make up the CCN represent 26 million residents, account for 39% of England's GVA, and deliver high-quality services that matter the most to local communities

The network is a cross-party organisation, expressing the views of member councils to the government and within the Local Government Association.

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