



Citizens, government and business

The State of the State 2017-18

UK Public Sector | #stateofstate

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Foreword

Welcome to *The State of the State* 2017-18.

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

A major theme in this year's report is collaboration across sectors. The public sector has a track record in leveraging private sector capabilities to deliver public services, and government now spends more on delivering through others than it spends on delivering services itself. But beyond contractual relationships, effective dialogue between the public and private sectors is needed more than ever to address complex challenges like exiting the EU, delivering the government's Industrial Strategy and driving inclusive local growth. To explore that local economic challenge, this year's *State of the State* features a survey of what businesses want from the local public sector.

That business voice adds to the citizen voice that is heard in this year's report through our second annual citizen survey. Among its findings is a very encouraging message for government on data trust which suggests the public are relatively comfortable with public bodies using their data. That will be good news for those in government who want to harness the data it collects to inform decision making and improve outcomes for the public.

Now in its sixth year, *The State of the State* has once again brought together Deloitte LLP and Reform to analyse material from a range of public sources along with new, exclusive research. This year's report is constructed around three distinctive perspectives – the citizen lens, the public sector leader lens and the business lens – and we hope they provide a fresh look at *The State of the State*.



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Executive summary

This year's *State of the State* finds the UK government amid the complex and politically-charged challenge of leaving the EU. But while EU exit issues may dominate headlines, the public services face more local and immediate challenges as they address rising demand, ongoing budget pressures and heightened concerns over social inequality.

The State of the State 2017-18 features a survey of citizens and a survey of businesses that explore their views on government – and both uncover some conflicting attitudes. Our citizen survey finds that public support for austerity has waned just as government debt reaches a peak. It shows that people recognise they are responsible for their own social care yet few are making provisions for the future. And our business survey finds that companies want to see business rates reduced but spending on local infrastructure increased.

The report also draws on insight from 45 interviews with public sector leaders from across the UK. They suggest that austerity remains a challenge – but many leaders are clear that it has driven constructive change in their organisations. They want that momentum of reform to continue, not least through greater collaboration with partners from other sectors as well as other public bodies. Most recognise that the sector's pervasive issues will only be solved by policy-making for the longer-term, better public engagement and system-wide thinking about demand.

About this year's report

The State of the State 2017-18 explores government through three lenses:



The citizen lens examines public attitudes towards the state, informed by a survey of more than 1,000 UK adults from every region and country of the UK.



The public sector lens explores how its leaders see their challenges, informed by interviews with more than 45 senior figures from England, Northern Ireland, Scotland and Wales.



The business lens reflects on what businesses want from the local public sector, informed by a survey of more than 1,000 UK businesses.

Key findings

The report's key findings are:

Attitudes towards austerity have shifted

Our citizen survey finds that support for spending cuts to restore the public finances has halved since austerity began. In 2010, 54 per cent of the public agreed that public spending cuts were needed to restore the public finances – and now just 22 per cent agree. The survey also found that the proportion of the public who believe the government should extend its services, even if that means tax rises, has grown for the second year running. From a low of 46 per cent in 2009, some 63 per cent of people in our citizen survey told us that they wanted to see public spending go up.

Demand is as much of an issue as austerity, and the public sector wants sustainable solutions

Austerity has been challenging for the public sector, leading to headcount reductions, restructuring and rethinking services in many organisations. But many public sector leaders have used austerity pressure to drive constructive change, and they hope that momentum of reform will continue. In our interviews, many told us that demand for local services is a more challenging issue than budget restrictions and they want to see sustainable answers through longer-term policy-making, better public engagement and system-wide thinking on preventative measures.

Inequality and equitable growth have risen to the top of the public sector agenda

For the first time since our *State of the State* interviews with public sector leaders began five years ago, many interviewees described social inequality as a pressing concern and were reflecting on the levers they could use to tackle social exclusion and promote inclusive economic growth.

Exiting the EU has brought uncertainty but limited consequences to date

While the public sector leaders we interviewed acknowledge that leaving the EU has created a sense of uncertainty in the public sector, most told us that they had not experienced significant, tangible effects to date. Civil servants in Northern Ireland and vice chancellors in Higher Education were the most focused on scenario planning, given their exposure to EU exit issues.

The boundaries between the public and private sectors continue to blur

The public sector now spends more on contracts with companies and charities than it does on providing services itself. Our research suggests that public sector leaders want to work more with private sector partners to deliver on their objectives, and both private and public sectors want to collaborate more at local level to drive economic growth.

People are uninformed, unconvinced and unprepared for their own social care

Our citizen survey found that just under half the public wrongly believe social care is free at the point of need and two thirds believe it is provided by the NHS. Just a fifth say that government policy on social care is adequate and only a third of the public have taken steps to provide for any care they might require in the future.

Digital has changed the public sector's world

Every *State of the State* has highlighted an evolving view of digital technology in the public sector. This year, our interviews found public sector leaders reflecting not only on what digital can do for their organisations, but how this ever-pervasive technology has changed the world in which they operate – creating new risks, pressures and vulnerabilities – as well as opportunities.

The public trusts the government with their data, as long as certain rules apply

Our citizen survey has found that people tend to trust government more with their data than companies, and support its use by the public sector – especially the NHS. Our analysis suggests that data trust in government is driven by a belief that it uses data for the good of society, will not use it for marketing and its use is regulated. As public bodies seek to make fuller use of the data they hold, our research suggests that government could boost public trust further by explaining how data is used and the benefits that can bring.

Local businesses want councils to prioritise business rate reductions, town centre investments and local infrastructure

Our business survey asked companies what councils should prioritise in order to drive growth. While the most popular response was to reduce business rates, the second and third most popular answers were to invest in town centres and invest in local infrastructure.

Both businesses and councils can and should engage more effectively

Our business survey found that companies know too little about councils and their role in improving local economies, but where they do engage, businesses are far more positive about the public sector's role. We conclude that local authorities and businesses should engage better to create a shared understanding of local challenges and a vision for the future.

Conclusions

Our assessment of *The State of the State* points to these conclusions:

The momentum of public sector reform needs to be re-energised

Public sector leaders tell us that austerity – while challenging – created momentum and helped drive constructive change in the sector. Whether austerity continues or is eased, momentum needs to be maintained to drive continuous reform across the public sector and a re-energised, re-stated vision for its future would provide a welcome direction of travel.

Public engagement needs to be ramped up to manage expectations

Public perceptions of austerity may have hardened but indicators suggest that public spending stills needs to be constrained. In addition, public sector leaders interviewed for *The State of the State* made clear that citizens need to have more realistic expectations on public services. All of this points to the conclusion that public officials and elected representatives – local and national – need to ramp up their engagement with the public over the nature of the services they should expect.

Government needs to start resolving the future of social care

Our citizen survey exposed that the public is uninformed about social care provision in the UK, unconvinced that public policy is adequate and unprepared for their own future. All political parties recognise that the current system is straining and is unsustainable. Hence, government needs to take steps to resolving the future of how social care is funded and delivered.

Social inclusion needs to be explicit in all public policy and decision-making

Since the Grenfell Tower tragedy, politicians of all parties have refocused on the state's vital role in tackling social inequality and the public sector leaders we interviewed for this year's *State of the State* saw it as a pressing and immediate issue. Some called for new policies and direction, suggesting that many in the public sector would welcome guidance on making sure that social inclusion is part of all public policy and decision-making.

Collaboration between business and government is crucial to local areas fulfilling their economic potential

Our business survey found a broadly positive view of the local public sector but suggests effective collaboration between companies and local public sector partners is crucial to local areas fulfilling their economic potential.

Government needs to see beyond geography to adapt to digital – and build on data trust

Digital technology has not just changed how public bodies can operate – it has changed the boundaries and environments they exist within. Ultimately, governments around the world need to see beyond their geographies and place-based approaches in order to rethink regulation, security and economic opportunity as they continue adapting to digital.

Government should also build on public trust as it harnesses data. As the public sector develops its capability to use data for improving decision-making and outcomes, government should continue to ensure public confidence by explaining how and why it uses public data.

Government in numbers

The UK state is a complex mosaic of organisations, democratically accountable to 45.7 million electors and serving a population of 65.6 million people.^{1, 2}

At 65,648,100, the UK population is larger than ever, having grown by some 538,000 since last year. Migration accounts for just over 62 per cent of that change.³

Last year, the UK electorate grew by around one million voters, mainly in England and Wales. The Office for National Statistics suggests that increase was driven by a desire to take part in the June 2016 EU referendum.⁴

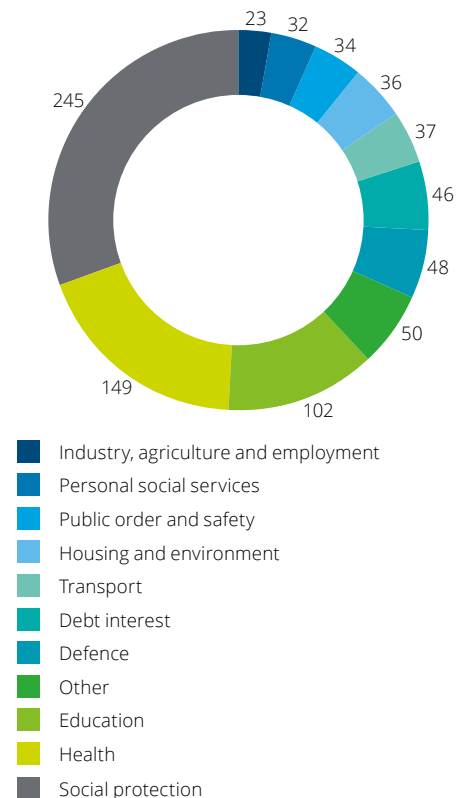
The government's accounts identify more than 6,000 organisations across England, Northern Ireland, Scotland and Wales as the UK's public sector. Together, they employ 5.4 million people which is 17 per cent of everyone in work. That is the lowest proportion since current records began in 1999.⁵

As well as national government in Whitehall, three distinctive administrations based in Belfast, Cardiff and Edinburgh run the UK state with 131 ministers serving as national political decision makers. Some 947 elected representatives legislate and scrutinise government in Westminster, Holyrood, the Senned and Stormont – although the latter is currently suspended – with a further 802 members of the House of Lords acting as a second chamber of the UK parliament.

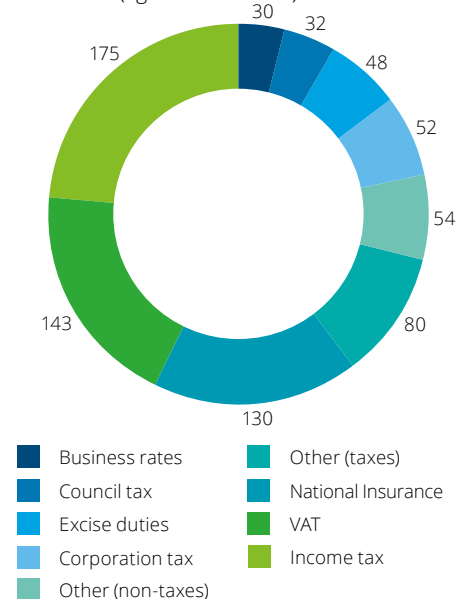
This financial year, the UK government will raise £744 billion and spend £802 billion, as shown in Figure 1.⁶ That shortfall between what the state earns and what it spends – the deficit – is funded by borrowing and this year, the government is expected to borrow £58 billion. The cumulative effect of that borrowing over time means that the government's debts have risen threefold since the 2008 global financial crisis to £1.8 trillion in August 2017.

The UK government's latest balance sheet shows £1.74 trillion of assets, including land, the road network and military equipment and liabilities of £3.73 trillion including public sector pension schemes and borrowings. The state's net liability – the difference between what the government owns and what it owes at an accounting year end – rose by £111 billion to reach £1.98 trillion at last count for the 2015-16 financial year.

Figure 1.
Government will spend £802 billion in 2017-18 (figures in £ billion)



Government income will be £744 billion in 2017-18 (figures in £ billion)



Source: Spring Budget 2017, HM Treasury

The state of the public finances

Introduction

Since 2010, successive UK governments have been striving to repair damage to the public finances left by the global financial crisis. Austerity measures have helped reduce the budget deficit considerably – cutting the shortfall between what the state spends and what it earns by two-thirds – but economic and political circumstances have forced the government to adapt its plans along the way. Most significantly, last year's vote to leave the EU created considerable economic uncertainty and this year's general election triggered speculation that under public pressure, austerity may be coming to an end.

This section of *The State of the State* explores the state of the public finances and the outlook for public spending.

The certainty of uncertainty

In the wake of the 2008 global financial crisis, the UK entered its deepest recession since quarterly data was first published in 1955. The economy finally returned to its pre-crisis level in 2014 and has now grown for four-and-a-half years, showing some of the best growth levels among the major economies.

However, uncertainty began to drive a slowdown in corporate recruitment and investment in early 2016 when the date of last June's EU referendum was set. Deloitte's quarterly survey of chief financial officers – a recognised barometer of corporate sentiment – found confidence sank to a three-year low as the vote loomed.⁷ And the consensus among economists ahead of the referendum was that the UK economy could experience a significant negative shock if the electorate voted to leave the EU.

Of course, economic indicators in the immediate aftermath of the referendum result were mixed. Within one month, the FTSE 250, which tracks companies reliant on UK income and sterling, was down £27 billion and the pound had fallen 13.5 per cent against the dollar. But at the same time, the FTSE 100 which includes more international companies was up by £70 billion. Through the rest of 2016, growth remained robust and the end of the year saw the fastest upturn in consumer spending for a decade.

However, economic performance this year has not been as encouraging with growth at 0.2 per cent in the first quarter and 0.3 per cent in the second. Looking ahead, forecasts are largely subdued, and the International Monetary Fund (IMF) has downgraded its forecast for UK growth in 2017 by 0.3 percentage points to 1.7 per cent.

There is little doubt that exiting the EU has created a pervasive sense of uncertainty for many UK businesses. Last year saw a 1.5 per cent dip in business investment as corporates held back from major decisions and this summer, 43 per cent of CFOs rated the level of economic uncertainty as 'high' or 'very high', with the effects of EU exit topping their list of risks.⁸

Since the referendum, Whitehall has established new machinery of government, built capacity and capability within the Civil Service, given official notice of the UK's decision to leave, engaged business in its thinking, published a series of position papers and begun the negotiation process. But it is still too early to identify what the final, detailed framework for exiting the EU will be.

In the medium term, uncertainty looks set to remain a characteristic of the UK economy that government will seek to mitigate through engagement with business and flexible fiscal policy. Ultimately, uncertainty is an inherent part of leaving the EU.

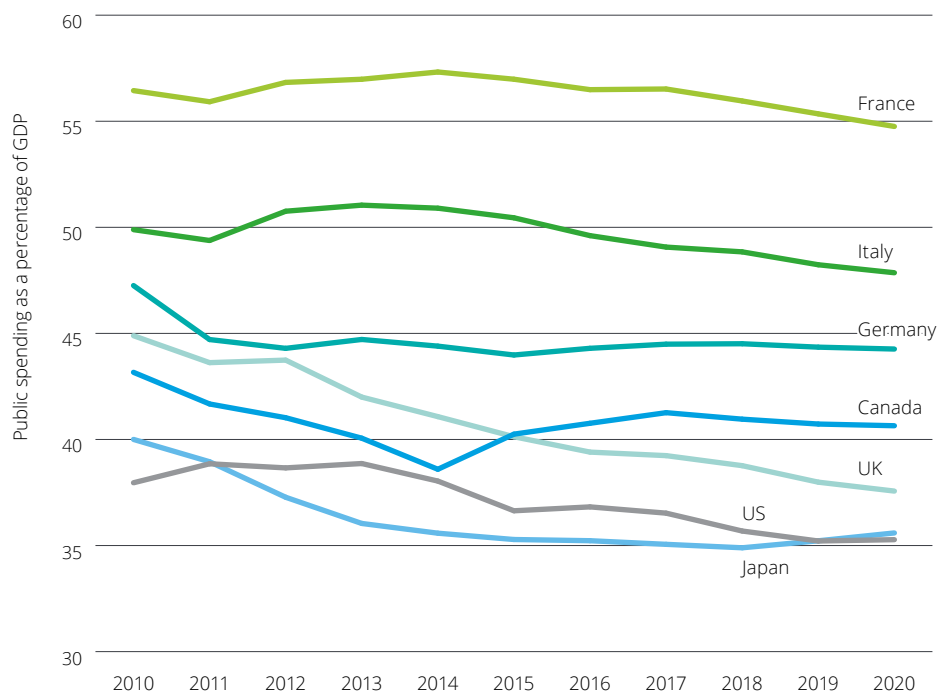
Deficit elimination goes on

The 2008 global financial crisis hit the UK's public finances hard, creating a deficit that grew to a post-war record in 2010 when the state spent £152 billion more than it earned. Forming a coalition government that same year, the Liberal Democrats and Conservatives unified behind a common purpose to eliminate the deficit and deliver an annual budget surplus so that the state's income would exceed its spending. Ultimately, they halved the deficit by initiating a period of public sector austerity and achieving 80 per cent of their deficit reduction through public spending cuts.

Globally, the 2010-15 UK government stood out in its commitment to austerity measures. Figure 2 shows public spending as a percentage of GDP in the G7 nations and how it is changing over this decade. The UK's distinctive profile shows a clear reduction of some 16 per cent, or eight percentage points over ten years compared to relatively modest reductions elsewhere.

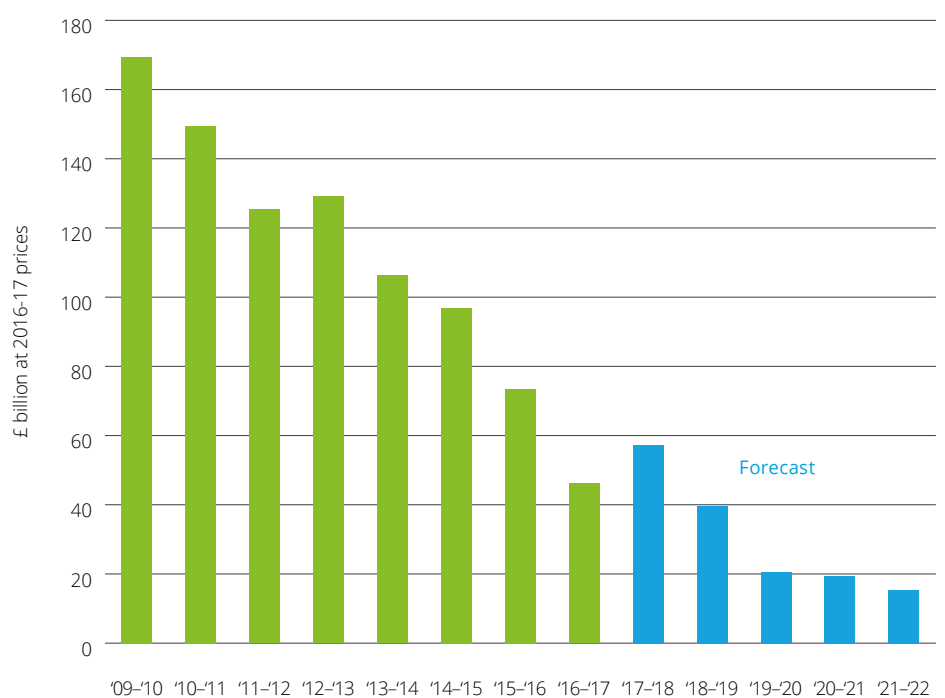
This year, the UK's deficit is expected to come down to £58.3 billion. Figure 3 shows how the deficit has reduced since 2010 and its expected path to 2022.

Figure 2. Public spending in the G7



Source: IMF World Economic Outlook, April 2017

Figure 3. The path of deficit reduction



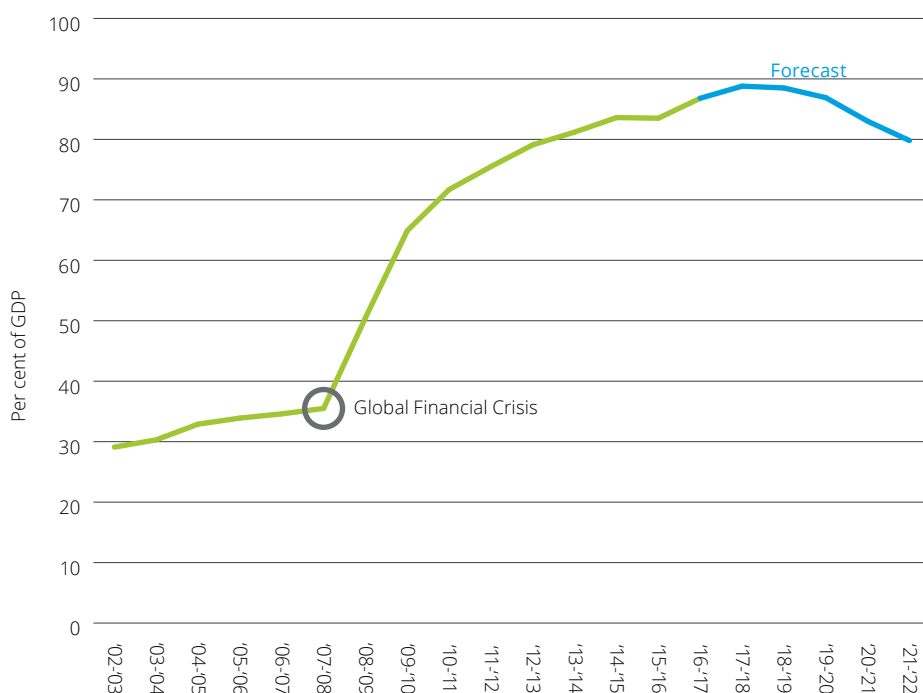
Source: Office for Budget Responsibility

This year could represent the summit of the UK's public sector debt mountain.

The summit of the debt mountain

When governments run a deficit, they plug the shortfall between income and spending by borrowing. Since the global financial crisis, the UK government's debt has more than trebled to £1.8 trillion, as shown in Figure 4, which represents 88 per cent of GDP. That level of debt comes at a price: this year, the government will spend £46 billion on interest – almost equalling the UK's defence budget – and such significant debt levels expose the UK to greater risk in the event of an economic shock. For those reasons, the government remains committed to reducing its debt as a share of GDP from 2020-21. Official forecasts suggest that debt measured this way could peak in this financial year and begin to fall next year, ahead of the government's target. If correct, this year could represent the summit of the UK's public sector debt mountain.

Figure 4. The summit of the debt mountain



Source: Office for Budget Responsibility

Is this the end of austerity?

After the June 2017 general election, Chancellor Philip Hammond reflected that voters had become “weary of the long slog” of public spending cuts and as a result, many commentators heralded the end of austerity.⁹ The Chancellor’s assessment certainly reflects the sentiment in our citizen survey, which finds that the public’s attitude to austerity has hardened.

However, spending plans are continuing on the path set in the 2016 Autumn Statement. That saw a policy shift towards investment, reflecting a call by the Organisation for Economic Co-operation and Development for advanced economies to move away from austerity measures and invest in infrastructure to boost sluggish economic growth. The IMF has been recommending since 2013 that the UK should increase its infrastructure spending, and last year called on all G20 nations to do so in a bid to stimulate short-term demand and encourage private investment. Autumn Statement 2016 answered that call by confirming a total of £170 billion commitments to housing, economic infrastructure and research and development from 2017-18 to 2021-22.

While speculation on the economic impact of leaving the EU may attract all the headlines, the government’s approach to eliminating the deficit and paying down debt remains a highly salient factor in the UK’s financial status. In September, credit ratings agency Moody’s downgraded the UK’s rating to Aa2, two steps below the highest level, citing “the pressure to increase spending in the coming years” as one of the key drivers behind its decision.¹⁰

Striking a balance between public spending, infrastructure investment and restoring the public finances is at the heart of the government’s fiscal challenge. In Germany, the government has built a budget surplus of €56 billion since amending its constitution to prohibit deficits in the wake of the global financial crisis. However, its development bank has calculated that Germany has also built an investment backlog of €126 billion, with transport and schools in the greatest need of maintenance.^{11, 12,}

While Autumn Statement 2016 committed to greater capital spending, austerity is more concerned with spending on day-to-day administration and public services – and there is no indication that this spending is set to return to the levels of growth seen in the decade before the financial crisis.¹³ In fact, government departments are expected to come under particular pressure in 2019-20 when their resource budgets face the third steepest fall of any year since this austerity decade began.¹⁴

Of course, these spending plans may change. But if the government remains committed to eliminating the remaining £58.3 billion of its annual deficit, a blend of continued austerity and tax adjustments will almost certainly be required. OBR analysis suggests that if deficit elimination continues at the pace it is expected to be falling by 2021-22, the deficit will not be eliminated until 2025-26.

Powering up the UK economy

Restoring the public finances and leaving the EU are not the only factors that will shape our future prosperity. The UK, along with other advanced economies, has for some years been in the midst of a long-term transition towards a more technological, automated and skills-rich economy. Leaving the EU has added a further dimension to that transition, and sharpened debates on the role of migration in the UK's skills mix – issues that have been recognised in the government's proposals for an Industrial Strategy.

While this transition may be long-term, the pace of change in the next two decades is expected to be brisk. Working with researchers at Oxford University, Deloitte has forecast that 35 per cent of jobs in the UK are highly susceptible to automation within the next ten to fifteen years, and lower-paid jobs in industries that are often dependent on non-British labour are most likely to be affected. But our research also suggests that technology tends to create four times as many jobs as it destroys.¹⁵ All of this suggests that the UK is at a turning point in how its workforce is shaped to meet future challenges.

Ultimately, Deloitte's research in this area points to these recommendations:

Develop the UK's immigration system to recognise the personal choices of international talent and the needs of certain sectors for access to particular types of labour

Deloitte research this year found that the UK remains a highly attractive destination for international talent, with a survey of non-British nationals concluding that 89 per cent see the UK as quite or highly attractive as a place to live and work. But uncertainty driven by leaving the EU, coupled with intense competition from other countries, means that the UK may need to try harder in order to attract and retain talented workers. Our recommendation is that the UK's immigration system is developed in ways that recognise that talented people with in-demand skills tend to be mobile and willing to exercise choice over where they live and that certain sectors are disproportionately reliant upon European labour of varying types – not just highly skilled – so a new immigration system should recognise and be flexible enough to manage this.

Invest to upskill current and future workers

The UK's skills needs are changing. Automation is reducing the number of low paid jobs and placing a new emphasis on cognitive abilities, workplaces are requiring more collaborative approaches to meet complex challenges and technology is allowing for new and creative solutions and products. As a result, Deloitte research has concluded that cognitive, collaborative and creative skills will be the most marketable in the UK's job market in the coming years. Our recommendation is that policymakers, businesses and educators continue working together to adapt current education and training systems to meet these needs. Our interviews with university vice-chancellors, explored later in this report, illustrate how higher education sees this challenge.

Embrace digital and invest in the deployment of technology

Our recommendation is that businesses explore how technology might bridge skills shortages and boost productivity. There is nothing new in this – self-service checkouts, robots in warehouses and automated menu systems for call centres are among technologies that have become the norm in recent years. Transport could be a particularly important sector for the UK's future if government and business could seize the opportunities in self-driving cars. The UK is well-placed among eight auto manufacturing nations vying for first-mover advantages in what is shaping up into a \$10 trillion industry.¹⁶

Work at a regional level to create an appropriate local response

Deloitte's survey of non-British workers within the UK found considerable regional variations in moving intentions. In the Northern Powerhouse region, only 21 per cent of EU nationals are considering moving to another country, compared to 59 per cent in London. On top of that, different parts of the UK enjoy different concentrations of industries. Fortunately, government policy across all of the UK's administrations has shifted towards regional planning and our recommendation is that business, educators and government in each region engage as effectively as possible to create a shared agenda and plan for the future economy.

The government's balance sheet

The UK government is a world leader in public sector financial reporting, and for the past seven years has published the largest consolidated annual public sector accounts in the world: Whole of Government Accounts (WGA). They allow for a perspective on the public sector's underlying financial health and sustainability and an extract of the most recent WGA report, for the financial year 2015-16, is shown in figure 5.

Figure 5. The government's balance sheet

Statement of revenue and expenditure

| £ billion | 2015-16 | 2014-15 restated | Notes |
|---|----------------|------------------|---|
| Revenue | (693.9) | (659.9) | Includes services provided by councils such as social care, as well as EU income. The latter is largely passed onto third parties as farming subsidies, for example |
| Total expenditure | 742.2 | 751.3 | Spending which includes £222.5 billion on social security benefits, £193.3 billion on staff costs and £192.1 billion on goods and services |
| Financing costs of long-term liabilities | 187.4 | 65.1 | Includes £52.1 billion of pension financing costs and £127.9 billion of provision financing costs |
| Revaluation of financial assets and liabilities | 8.1 | (4.5) | The net loss on revaluations and disposals of assets and liabilities |
| Net expenditure for the year | 243.8 | 152.0 | The shortfall between the government's income and expenditure in accounting terms |

Statement of financial position

| £ billion | 2015-16 | 2014-15 restated | Notes |
|----------------------|------------------|------------------|---|
| Assets | 1,742.4 | 1,683.3 | Assets – what the state owns – include the rail and road networks, military equipment, land and buildings |
| Liabilities | (3,728.4) | (3,558.5) | Liabilities – what the state owes – include government borrowings, banknotes in circulation and public sector pension schemes |
| Net liability | (1,986.0) | (1,875.2) | Net liability – the difference between assets and liabilities – has increased by six per cent or £110.8 billion |

Source: Whole of Government Accounts 2015-16, HM Treasury

In his report on this year's accounts, the independent Comptroller and Auditor General (C&AG) recognised that WGA have become increasingly important to the UK's public financial management and are used by key institutions in their commentary on government finance. He went on to note that HM Treasury has significantly improved how the accounts are presented, providing an "insightful narrative", and made recommendations to embed them further in the UK's public financial management.¹⁷

A notable development in the latest WGA is a five per cent rise in the government's liabilities, taking the total to £3.7 trillion. That is mainly due to a rise in government borrowing to meet the deficit shortfall but there has also been a significant rise in provisions – the amounts set aside for probable future obligations – in relation to nuclear decommissioning and clinical negligence.

The provision for nuclear decommissioning, which estimates how much it will cost to clean 17 of the UK's earliest nuclear sites over a programme expected to last 120 years, has increased from £83 billion in 2014-15 to £182 billion in the latest accounts. Most of that liability relates to Sellafield, and as the Nuclear Decommissioning Authority recognises, the oldest parts of the site were created during the Cold War in some haste, with no plans for decommissioning.¹⁸ Increases in the estimate for cleaning the site generally come from an improved understanding of its complexity and last year's transfer of the organisation that operates Sellafield into the private sector is expected to accelerate progress of the clean-up.¹⁹

Over the same timescale, the provision for clinical negligence claims against the NHS in England has gone up from £29 billion to £58 billion. NHS Resolution, formerly the NHS Litigation Authority, reported a five per cent reduction in the number of claims, although their overall value has increased. As WGA reports, the NHS has taken significant steps to reduce clinical negligence, including improved professional standards and a new Statutory Duty of Candour which provides patients with a prompt apology and accurate information when care goes wrong.²⁰

A notable development in the latest WGA is a five per cent rise in the government's liabilities, taking the total to £3.7 trillion.



The citizen lens

The citizen lens

Introduction

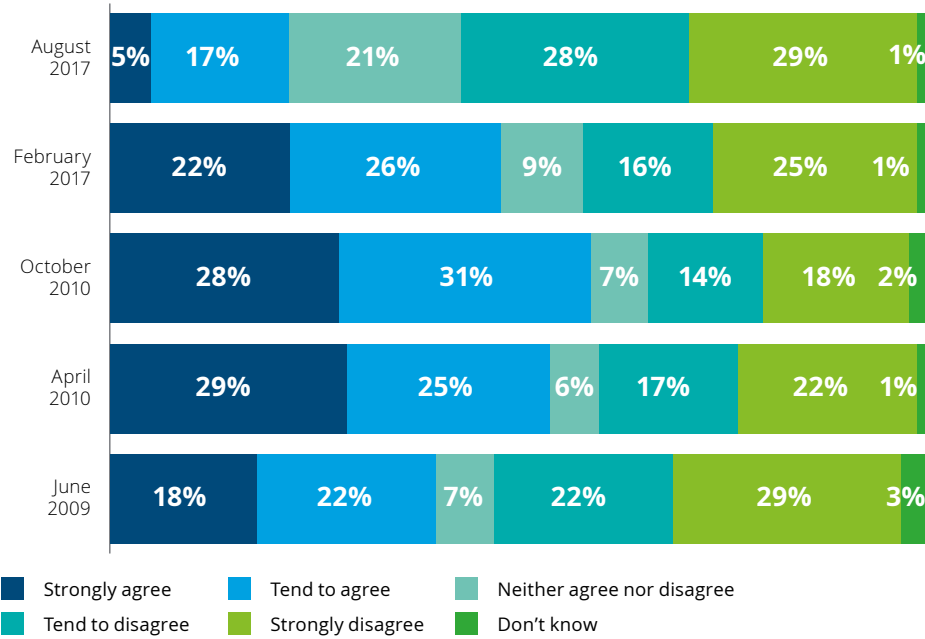
Understanding public attitudes has always been important to government and the public sector. It helps political leaders respond to the electorate’s priorities and helps public service managers deliver on citizen expectations. But the power of the public’s voice has been amplified in recent years – not least through unexpected election and referendum results – and the sector is more alert than ever to balancing what the public wants with what the state can afford.

For the second year, Deloitte and Reform have commissioned Ipsos MORI to undertake an exclusive survey into public attitudes and expectations on the state. The polling took place this summer with 1,071 face-to-face interviews of adults across the UK and the results have been weighted to reflect the known profile of the adult population. This chapter of *The State of the State* sets out the survey findings across four themes – exploring perceptions of austerity, tax and spending, social care and cyber trust.

1 Attitudes towards austerity have shifted

Our poll finds that public attitudes towards austerity have hardened. As Figure 6 shows, support for cutting public spending to restore the public finances has halved since austerity began in 2010 and only a fifth of the public now see a need to make cuts.

Figure 6. Support for austerity has halved since 2010
Do you agree: There is a real need to cut spending on public services in order to pay off the very high national debt we now have.



Base: 1071 UK adults

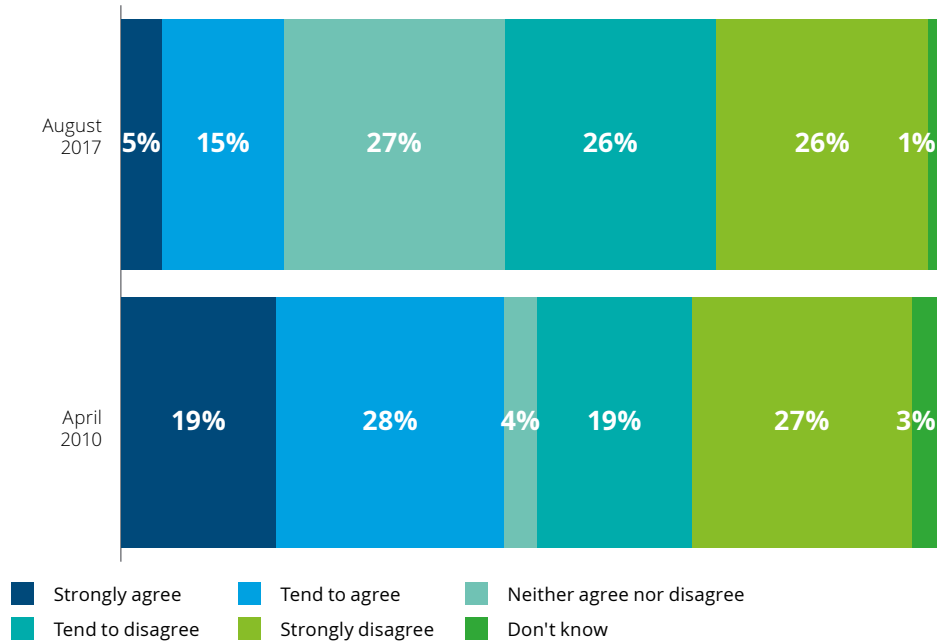
These findings represent a substantial shift in public opinion. Our survey also asked respondents whether they personally would be willing to accept less from the public services to pay back national debt. In April 2010, an Ipsos MORI poll found that almost half of the public would be willing to sacrifice their own public services for the good of the public finances. This year, our poll found that number has shrunk to one in five, as shown in Figure 7.

To explore citizen priorities further, our survey asked people to identify areas of public spending they think should be protected from cuts. Figure 8 shows the top ten areas that people would like to see protected and, as ever, the NHS tops the list by some margin.



Figure 7. Fewer people are willing to receive less from the public sector

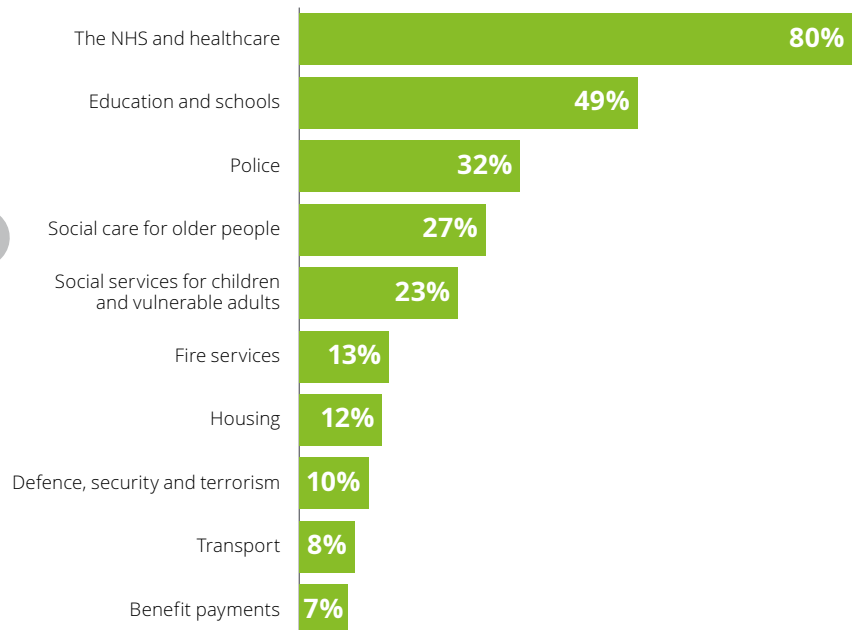
Do you agree: I am personally happy to accept less from public services than I currently get in order to pay off the very high national debt we now have.



Base: 1071 UK adults

Figure 8. The public want to protect NHS, education and police spending

Which two or three, if any, of the following main areas of public spending do you think should be protected from any cuts?



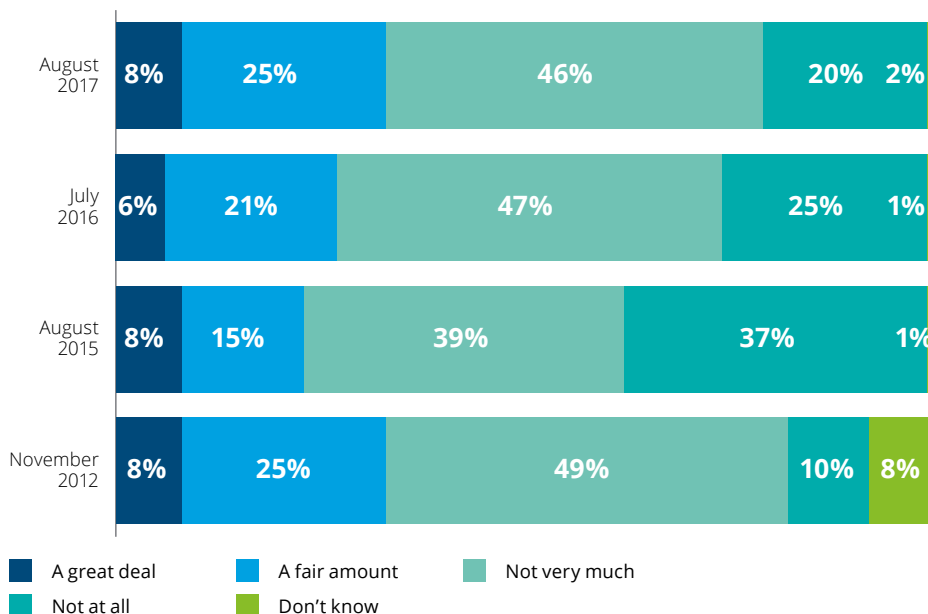
Base: 1071 UK adults

Our survey also explored whether citizens have any personal experience of austerity. Last year's *State of the State* found that 27 per cent of people reported some experience of spending cuts, but this year that figure has risen to 33 per cent. In other words, the impact of austerity has grown in the past two years and a third of the public now say they have felt its impact. These findings are illustrated in Figure 9.

The data also suggests some regional variations in experiences of austerity. As Figure 10 shows, people in the north of England are the most likely to have felt the impact of spending cuts and people in Scotland – where the Scottish Government has followed its own, less austere spending plans – have felt them the least overall.

Figure 9. Austerity is being felt by more

As you may know, over recent years the government has announced a number of spending cuts to help reduce the national deficit. To what extent, if at all, have you and your family been affected by the cuts so far?



Base: 1071 UK adults

Figure 10. Regional experiences of austerity

As you may know, over recent years the government has announced a number of spending cuts to help reduce the national deficit. To what extent, if at all, have you and your family been affected by the cuts so far?



Base: 1071 UK adults

2 Support continues to grow for extending public services – even if tax rises are needed

Since 1997, Ipsos MORI has gauged public sentiment on the balance between tax and spending. In last year's *State of the State*, our survey showed an increase in the proportion of people who wanted to see more extensive public services – even if that required tax rises. The survey for this year's report shows such support has grown even further, with some 63 per cent of the public now open to more tax and more spending. Of course, substantial amounts of research shows that the public expects its public sector to offer value for money and organise themselves effectively, but this finding suggests a significant shift in sentiment over the balance between tax and spending. Figure 11 illustrates this trend over time.

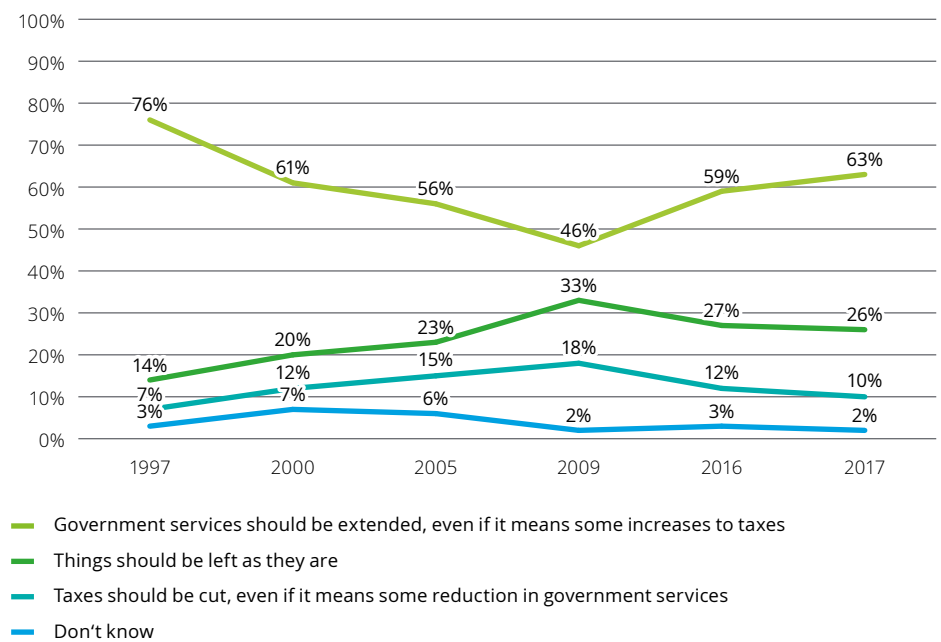
3 People are uninformed, unconvinced and unprepared for their own social care

The need to address the future of social care in the UK is now widely recognised. The UK population aged over 85 is expected to grow by 106 per cent and the cost of state-funded long-term care is expected to rise from £19 billion to £31 billion in the next 20 years.^{21, 22} Maintaining current funding models is not sustainable and the UK government is expected to review its structure in a consultation promised earlier this year. To help inform that debate, this year's *State of the State* survey asked the public about their views on current policy as well as plans for their own social care. We found that people are largely uninformed about how social care is delivered in the UK, unconvinced by existing policy and unprepared for their own care.

Our survey gave respondents a definition of social care and asked whether they believed it was free at the point of delivery. Almost half wrongly believe that social care is free and two-thirds believe that it is provided by the NHS, as Figure 12 shows.

Figure 11. Public sentiment over tax and spending continues to change

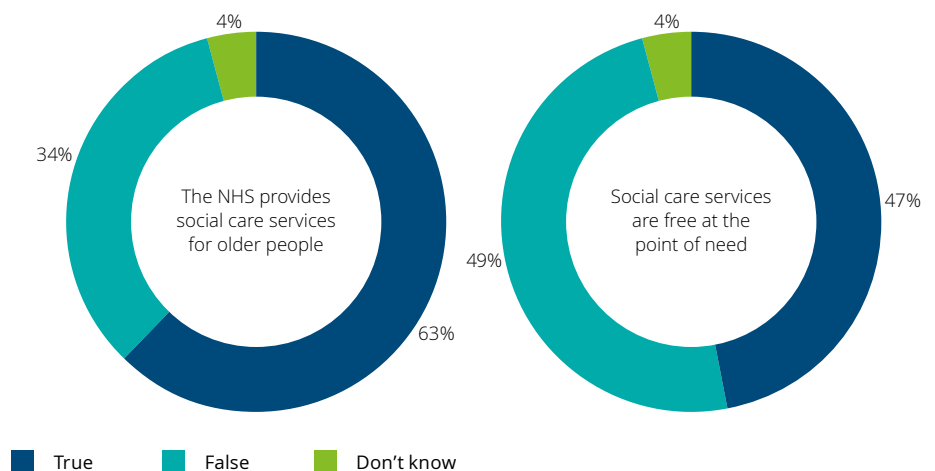
People have different views about whether it is more important to reduce taxes or keep up government spending. How about you? Which of these statements comes closest to your own view?



Base: 1000 GB adults

Figure 12. Many wrongly believe social care is free and provided by the NHS

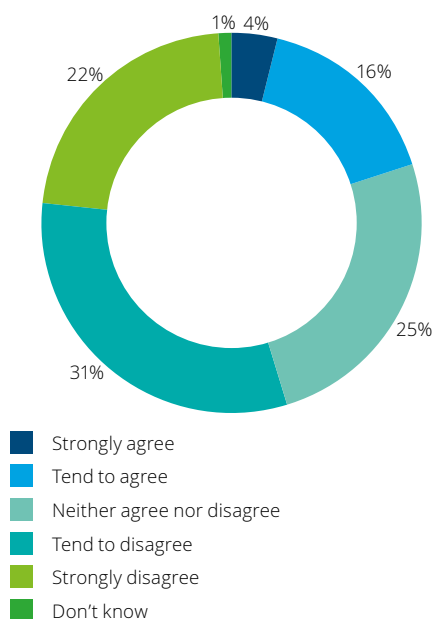
I am now going to read out a couple of statements. For each one, please can you tell me whether you think it is true or false...



Base: 1071 UK adults

Figure 13. Few believe that existing social care policy is adequate

To what extent do you agree or disagree with the following statement? The government has the right policies about social care for older people in the UK.



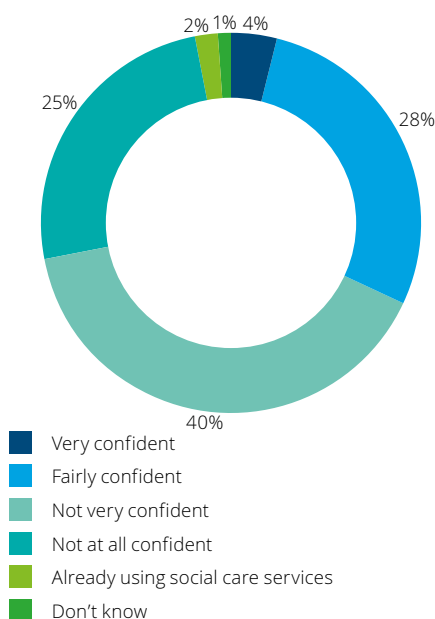
Base: 1071 UK adults

Our survey also found that the public is not convinced the government has the right policies on social care for older people. Just one fifth think that the government's existing approach is right for the UK, as shown in Figure 13.

Analysis of this data shows that sections of the public differ in their confidence levels. Among the groups most confident that social care will be available to them are men, younger people and people in lower-skilled jobs. Conversely, the groups least confident that social care will be available to them are women, higher earners and homeowners with mortgages.

Figure 14. Just one third are confident that care services will be available

How confident or not do you feel that there will be social care services available to support you when you need them?

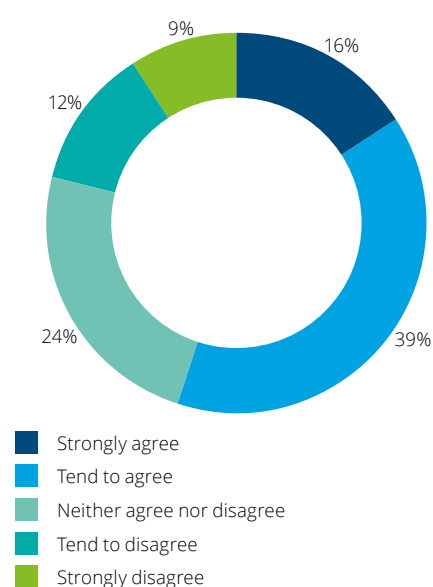


Base: 1071 UK adults

One central issue in debates about the future of social care is whether the state should be responsible for its funding or whether that should fall to the individual. Our survey found that more than half the public believe it is their responsibility to provide for their own social care when they are older, as shown in Figure 15.

Figure 15. More than half believe it is their responsibility to fund their care

Please tell me whether you agree or disagree with the following statement: it is my responsibility to save or make other financial plans so that I can pay towards my care when I am older.



Base: 1071 UK adults

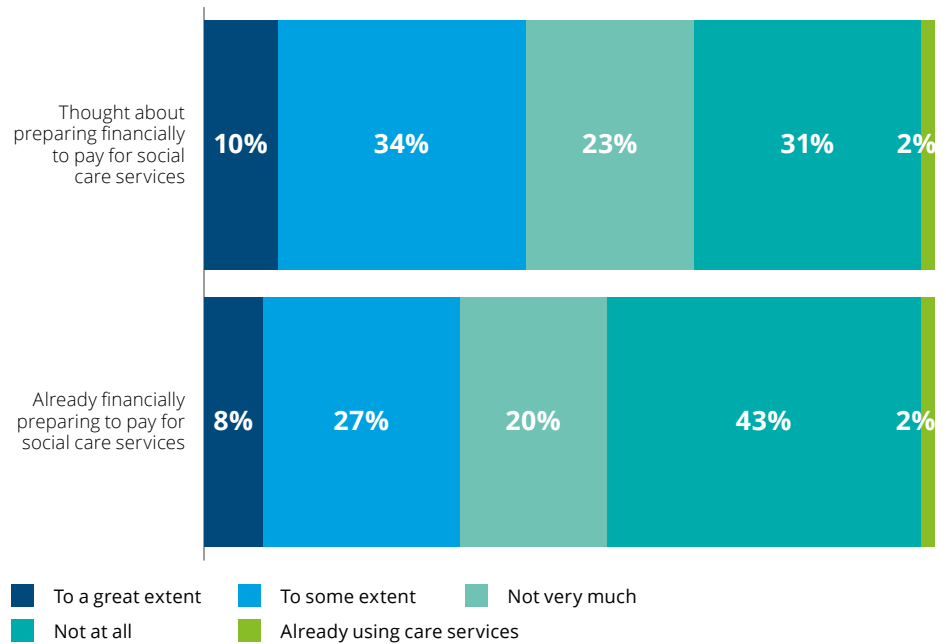
Rationally, this might suggest that half the public, believing themselves responsible for funding their own care, will be taking steps to do so. Actually, 44 per cent told us that they have thought about making financial plans and just one third have actually done so, as shown in Figure 16.

We asked the people who said they were preparing for their care needs about their plans. The top three answers were saving, pensions and owning property but the top two answers were most significant. Some 45 per cent told us that they were saving, 29 per cent told us they have a pension and just 6 per cent said they own properties which they viewed as a form of financial plan.

Perhaps inevitably, our data shows that people over 35 are far more likely to be preparing for their future needs than younger people. However, it also finds that people on lower incomes, in more manual occupations and in rented accommodation are far less likely to be making financial plans, as illustrated in Figure 17.

Figure 16. One third have taken steps to prepare financially for social care

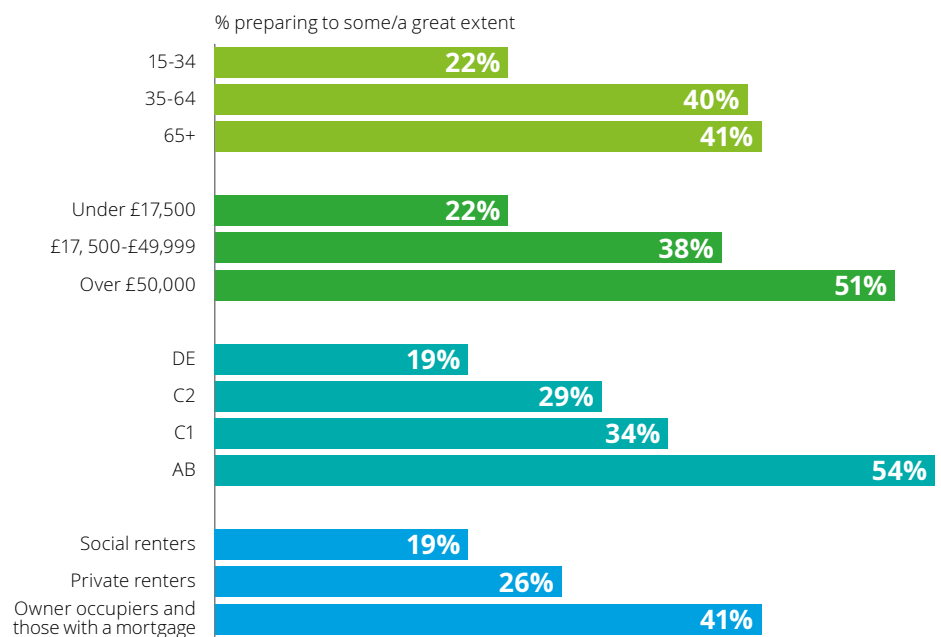
Before today, to what extent, if at all, had you thought about preparing financially for social care services you might need when you are older?



Base: 1071 UK adults

Figure 17. Demographics and preparing for future care needs

To what extent are you already preparing financially to pay for the social care services you might need when you are older?



Base: 574 UK adults preparing financially for social care

4 Citizens trust government with their data – as long as certain rules apply

The ability to capture, store and manipulate data at scale is one of the central benefits of digital technology. For the wider public sector, exploiting data offers incredible potential to inform policymaking, co-ordinate public services and deliver a more personalised citizen experience. Government is of course alert to those possibilities. John Manzoni, the Chief Executive of the Civil Service, told a Reform conference earlier this year that harnessing data “is the next phase of public service modernisation”.²³

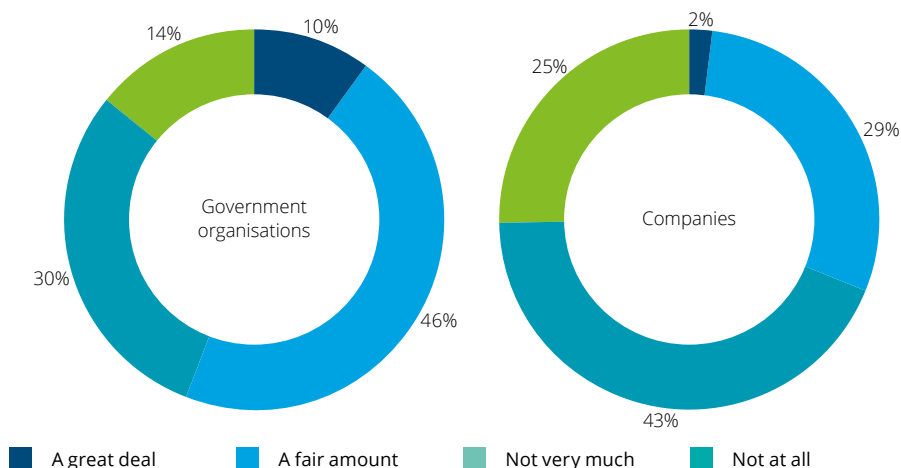
However, Manzoni went on to recognise that “public trust is absolutely critical to achieving our ambition for a data-driven government”.²⁴ To help inform thinking around data and cyber-security in government, our *State of the State* survey asked a series of questions on data trust.

We found some encouraging views for the public sector. When we asked about levels of trust with personal data, more than half of the public told us that they trusted government organisations. By comparison, less than a third trust companies, as shown in Figure 18.

Analysis of the survey responses once again suggests some demographic divides. Younger people tend to be more trusting of both government and the private sector with their data, and so do higher earners and professionals in the ABC1 grades. These demographic divides are illustrated in Figure 19.

Figure 18. More trust government with data than companies

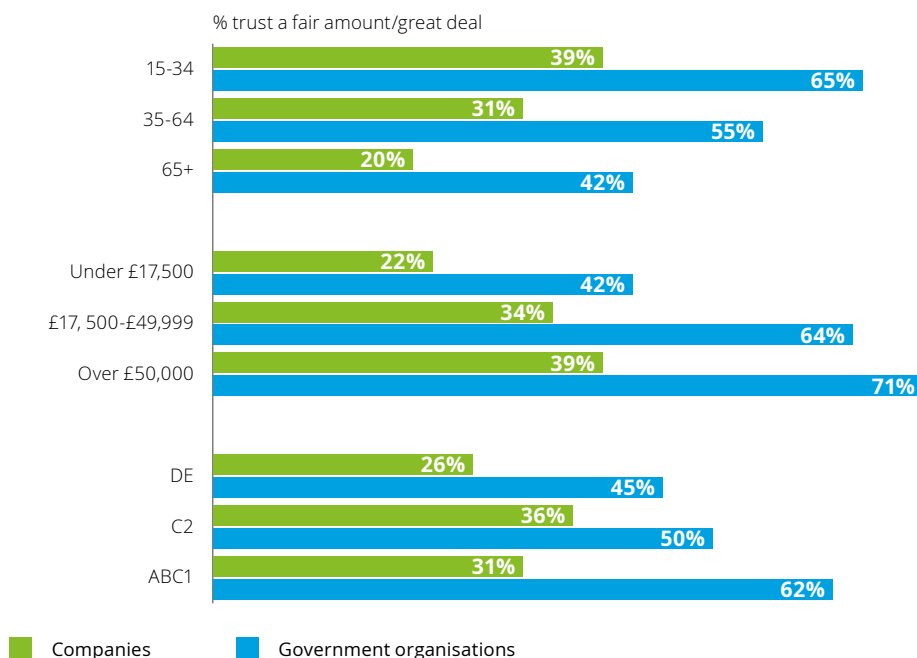
How much, if at all, do you trust government organisations or companies with your personal data?



Base: 1071 UK adults

Figure 19. Demographics and data trust divides

How much, if at all, do you trust government organisations or companies with your personal data?



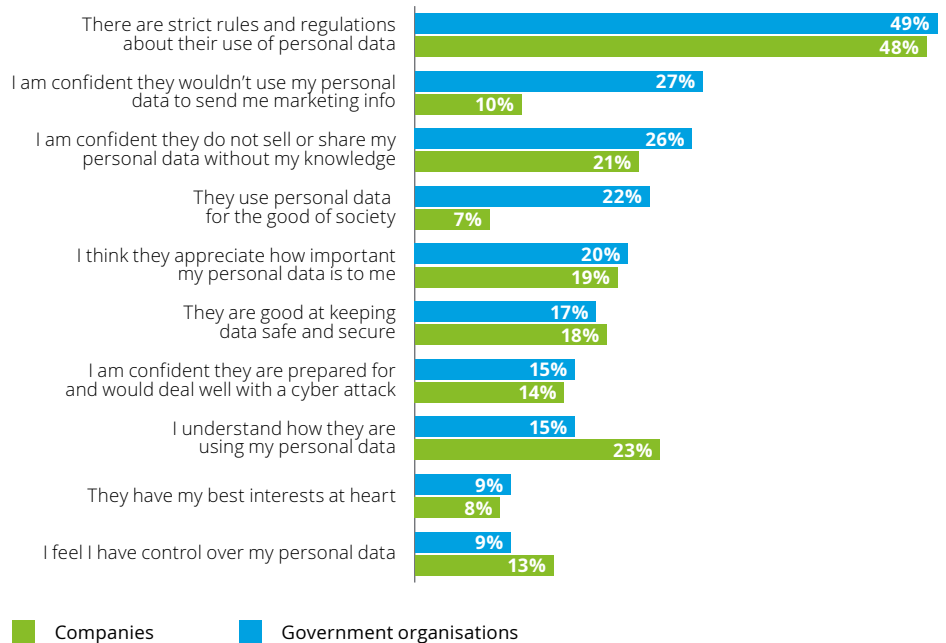
Base: 1071 UK adults

Our survey went on to explore the drivers that lead people to trust or mistrust government organisations with their data. We found that people are more comfortable when they know regulations apply to how their data is used and in addition, we identified two factors that drive trust in government agencies in particular: a belief that public bodies will not use data for marketing purposes and a belief that public bodies will use data for the good of society. Figure 20 shows the factors that drive data trust.

Another finding to note is that the public have limited faith in both the public and private sectors in relation to cybersecurity, with just 15 per cent believing that government bodies are well prepared. Attacks such as the ransomware breaches in May 2017 are increasing in profile, and this could be driving a perception that all organisations need to improve their resilience.

Figure 20. Drivers of why people trust government with data

Which two or three of the following reasons, if any, do you think are most important in explaining why you trust government organisations or companies with your personal data?



Base: UK adults who trust government organisations (587) and companies (333) with their personal data

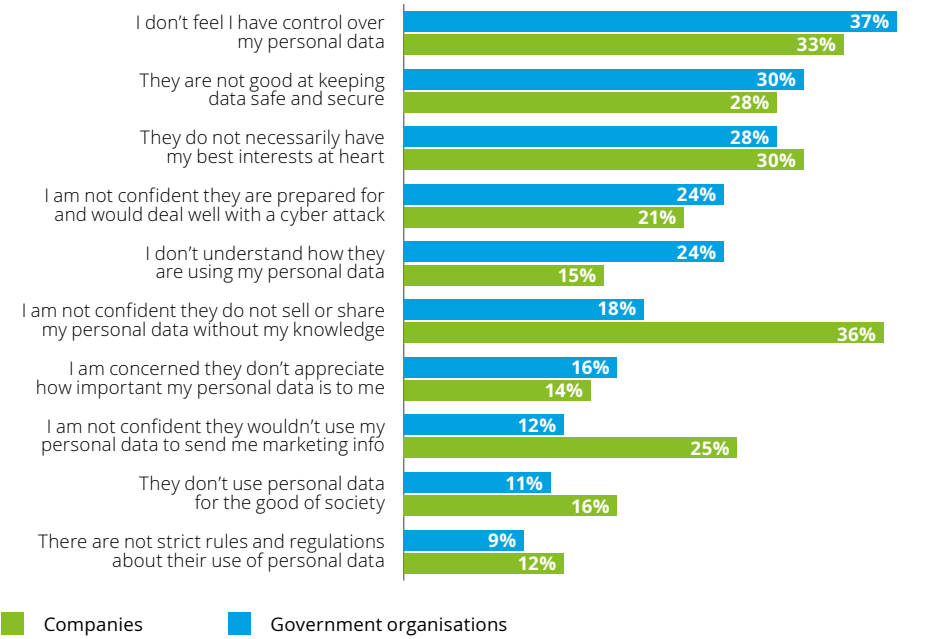
Cyber-security issues seemed to be more important to the public when we explored why they might mistrust organisations with their data. Building on our earlier questions about what drives trust, our survey asked the public to explain why they might not trust government organisations with their data. The results are shown in Figure 21.

This shows that public mistrust rises when people feel they have lost control over their data, they do not believe their data is kept securely and they are not convinced that an organisation has their best interests at heart. For government, addressing these concerns could build further on existing levels of trust.

Both questions found that knowing what an organisation does with data is a factor in driving trust or mistrust – and importantly, the public say that they are less likely to know what government organisations do with data. So, public bodies could boost levels of data trust further still by explaining how they plan to use the public's data and the benefits it can bring.

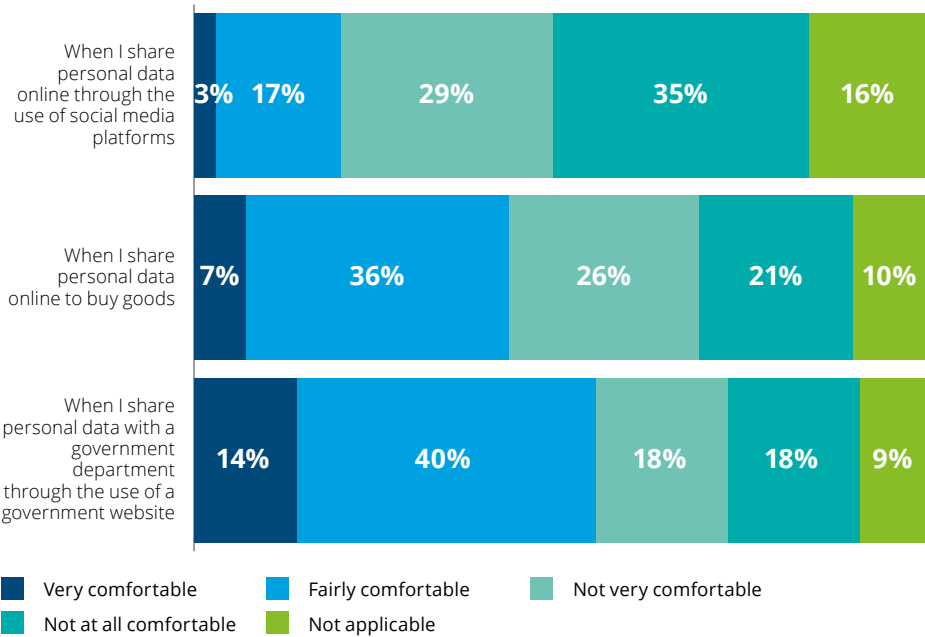
Our survey went on to explore how comfortable people feel about sharing data online with public bodies compared to other organisations. Again, we found that people are more comfortable sharing data online with government departments than when shopping online or using social media. Some 55 per cent are comfortable sharing data online with the government in order to access a service compared to 23 per cent sharing personal data via social media. We also found that people are more confident that their data is used, stored and secured appropriately through the use of a government website than when shopping online or using social media as shown in Figure 22.

Figure 21. Drivers of why people do not trust government with data
Which two or three of the following reasons, if any, do you think are most important in explaining why you do not trust government organisations or companies with your personal data?



Base: UK adults who don't trust government organisations (479) and companies (736) with their personal data

Figure 22. Confidence that data is used, stored and secured appropriately
How confident, if at all, are you that your personal data is used, stored and secured appropriately in each of the following circumstances?



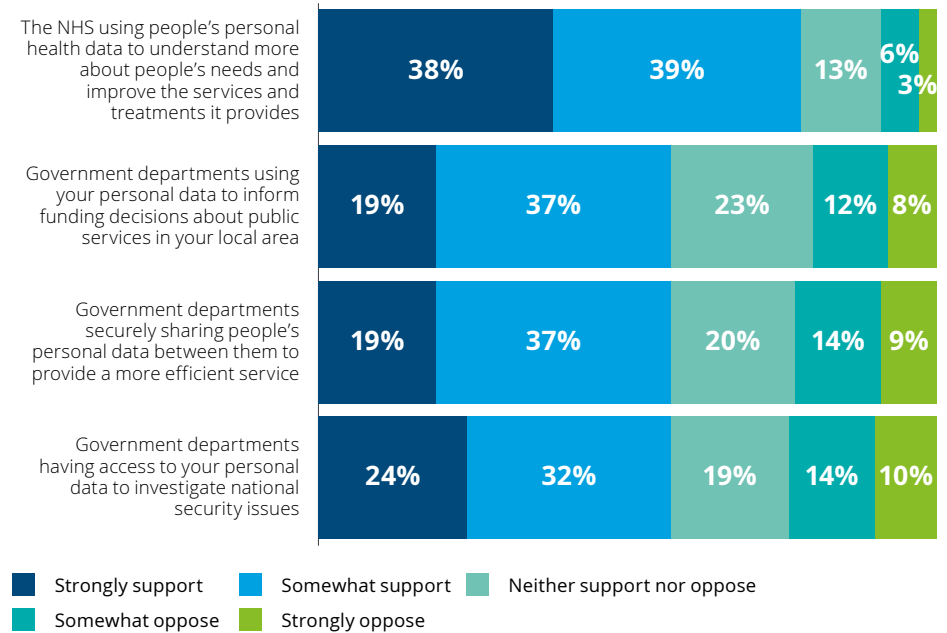
Base: 1071 UK adults

To explore how people feel about the government using data for different purposes, our survey asked people to comment on a series of examples. We found strong levels of support for data use in the NHS, with some 77 per cent supporting its use of data to improve its services and treatments. While the public are less overwhelmingly convinced by other uses of data – to improve public sector efficiency, for example – the majority are still supportive. Figure 23 illustrates the extent of public support for data use in government.

Overall, our *State of the State* survey shows an encouraging public perception of data use in the public sector. People are relatively trusting of government with their data, tend to believe that it will use their data for the good of society and do not think their information will be used for marketing. They are also supportive of the public sector using their data for a host of reasons, and especially the NHS. These findings also suggest that if government wants to boost public trust in its use of data, it needs to engage people in why it uses data, give confidence that personal information will not be breached in a cyber-attack, and assure the public that data is managed under strict regulations.

Figure 23. Public support for government use of data

To what extent, if at all, do you support or oppose government organisations, such as public services and government departments, using your personal data in the following ways?



Base: 1071 UK adults

The public sector lens



The public sector lens

Introduction

The UK's public sector leaders are uniquely placed to commentate on *The State of the State*. As in previous years, Deloitte and Reform have interviewed 45 leading public figures from across England, Northern Ireland, Scotland and Wales including permanent secretaries, senior civil servants, council chief executives, NHS chief executives, chief constables, chief fire officers, police and crime commissioners, non-executives and former ministers. While higher education may not be technically part of the public sector, we also interviewed university vice-chancellors because their institutions play such a central role in public life. The perspectives of all of these leaders provide real insight into the challenges facing the UK public sector as well as its outlook for the future.

This chapter of *State of the State* sets out key themes from the report alongside quotes from the interviews.

Themes from our interviews

Seven consensus themes emerged across our interviews with public sector leaders:

- 1 Inequality and equitable growth have risen to the top of the public sector agenda**
- 2 Leaving the EU has brought uncertainty but limited consequences to date**
- 3 The boundaries between public and private sectors continue to blur**
- 4 Digital has changed the public sector's world**
- 5 Demand is as much of an issue as austerity, and needs a sustainable solution**
- 6 The changing public sector requires new capabilities, different leadership approaches and fresh thinking on recruitment**
- 7 Higher education is central to the UK's future – but faces major risks**



1 Inequality and equitable growth have risen to the top of the public sector agenda

For the first time since our *State of the State* interviews began five years ago, many public sector leaders described social inequality as an urgent concern. Several cited the tragic fire at Grenfell Tower as a wake-up call for decision makers to identify their organisation's role in reducing social divides. Their views reflect those of politicians from all main parties who reaffirmed their commitment to addressing these issues following the Grenfell tragedy.

The local government chief executives that we interviewed have become particularly focused on social inclusion. Some told us that the need to address inequality has added a fresh complexity to their spending plans, as they did not want to make cuts to services that addressed inclusion issues. And crucially, all council interviewees saw equitable growth as a vital dimension of the economic development they wanted to be pursued locally.

This renewed focus on social inclusion spanned interviewees from all parts of the UK. However, several interviewees in urban areas described high levels of energy, activity and focus on city agendas – and they wondered whether rural areas were getting the same levels of attention from national policymakers.

Thirty years ago, there were enclaves of affluence and enclaves of deprivation but the people in them used to meet and that doesn't happen anymore.

Financial issues are significant but there's more complexity. Where people feel excluded...that plays into where we make cuts. It's not straightforward. We have to be alive to what the public are saying.

Inequality in the city is quite stark. We'll never cross it but we want everyone to gain. That's sensible economics.

The big thing for us is taking advantage of the opportunities we do have. Like can we deliver inclusive growth and make sure the jobs we expect to come are jobs for our citizens that they can take up?

Everything boils down to having a resilient and inclusive economy. Inclusivity has become everything.

Student debt means a lot of students are working part time. When they do it for a few hours, there's a positive impact on studies because they are organised. But for those that work longer hours, they are more likely to get a 2:2. And which students need work? The ones from less advantaged backgrounds. So this is a social mobility issue.

Our policies need to change in terms of social inclusion. We need to get clear direction on policy and implementation.

2 Leaving the EU has brought uncertainty but limited consequences to date

Exiting the EU was discussed in all of our *State of the State* interviews. As in other sectors, many public sector leaders acknowledge that the UK's departure has generated a level of uncertainty. However, our interviews suggest that few have seen significant, tangible effects of EU exit to date – either positive or negative.

Last year's *State of the State* reported that public sector leaders were sanguine about leaving the EU, and they appear to remain so. However, some interviewees said that the uncertainty it has created is causing anxiety for staff from the EU. Looking ahead, an NHS non-executive warned that rising healthcare demand around the world meant that the UK should recognise that it is in a competitive landscape for health and social care workers.

Some interviewees raised sector-specific issues. For police, one leading figure commented that UK agencies have good relationships and data exchange with European partners, and both sides are concerned about the implications of EU exit on sharing data. Civil servants in Northern Ireland told us that they were engaging effectively with the Department for Exiting the European Union (DeExEU), and they reflected it had been "hoovering up talent" from Whitehall. Leaders from Scotland and Wales recognised that their countries had received higher levels of EU funding than England, and while the government has guaranteed funding will be honoured until 2020, the situation beyond then was "hard to read" according to a senior figure in Scotland's public sector.

Our interviewees in Northern Ireland, and from the UK's higher education institutions, were far more focused on what leaving the EU could mean, given their exposure to exit issues – and those perspectives are explored in later sections.

People in the media talk about challenges in the workforce. We have a number of staff anxious about the situation, but not overly so. The uncertainty is the position. It's not the thing, it's the vacuum.

Demand for healthcare in the world is going up – we live in a competitive landscape for workforce.

There's not really anything happening on Brexit. It's a general fear about what it's going to do to the economy and the knock on effect on the public sector.

We have not seen any impact of Brexit so far. We have good relationships with European partners but those relationships are vulnerable. Our partners are as worried as we are about what Brexit means.

We've got very few people doing Brexit full time but we're pretty close to changing that. You can spend a lot of time chasing windmills.

We've benefitted hugely from EU funding and we need to know how that will be replaced.

Whitehall is listening and they are reading the material we're sending in.

3 The boundaries between public and private sectors continue to blur

In last year's *State of the State*, interviewees observed how local public bodies had continued to shift away from service delivery and towards commissioning services through others. This year, our research found that the boundaries between sectors have continued to blur and public leaders increasingly want to pursue partnerships with the private sector to help them tackle complex challenges with constrained budgets.

Nationally, the decision to leave the EU has put a fresh emphasis on the importance for government to engage business – not least to make sure that companies talk to Whitehall about the opportunities and challenges arising from EU exit. In addition, the government's flagship Industrial Strategy rests on a vision of the UK's economic future that needs to be shared by local and central government as well as the business community. One senior civil servant that we interviewed called on businesses to think less about influencing government and more about the potential of working together, while a former minister mused that he was often disappointed that large businesses approached him with "lazy ideas" rather than innovative proposals.

At local level, public bodies continue to engage with private sector partners to support their operations or services – and the leaders that we interviewed expected such engagement to continue growing. The rise of the local growth agenda and devolution deals have provided new impetus for engagement between the sectors and local government interviewees told us that partnerships between authorities and major employers had potential to improve the sustainability of the local economy, as long as the plans had "everyone's shoulder to the wheel".

We need to pause and think about how we want to transform the public sector with the private sector. If not, we will have an ever decreasing circle.

We need private sector reform too. They should think about the skills they need, and what they'll need for the future. We need society as a whole to own these things.

How we focus on growing our economy – the political support, the partnership with government departments and our internal capacity – are all vital.

We've been working on our investment programme, involving major employers and government. It's hugely exciting with potential for improving the sustainability of the local economy, but it needs everyone's shoulder to the wheel. It feels like a grind.

The private sector think they need to lobby us or beat us up whenever we meet, rather than think about partnering.

Business comes to government with lazy ideas like 'get rid of this tax' and that's always disappointing.

4 Digital has changed the public sector's world

Every year, *The State of the State* has observed an evolving view of digital among public sector leaders. In 2013, in the earlier years of austerity, most told us that they hoped digital transformation would deliver substantial cost savings. Within three years, many had come up against barriers to change, including a shortage of skills, which meant progress had not been as rapid as they had hoped. This year, leaders from across the sector told us how their digital horizon has expanded beyond what the technology can do for their organisation to a wider view of how digital has changed the world – and public bodies need to adapt accordingly.

All of the police leaders that we interviewed discussed how the internet has created an expansive new environment in which criminals and terrorists can exploit new vulnerabilities, effectively doubling the reported crime rate. They questioned whether geographically-determined police forces were suited to dealing with online crime that takes place beyond national boundaries. Across the public sector, leaders are recognising that place-based thinking does not meet the challenges of an increasingly digital world.

The WannaCry attacks in May 2017 that affected 42 NHS trusts in England forced cyber-security up the public sector agenda. As a result, the leaders we interviewed were well aware of the volume of attacks that their organisations faced and although they were confident in their cyber-security systems, many felt that a serious cyber-breach was inevitable and could cause significant disruption beyond that experienced after the WannaCry attacks.

While recognising how digital is changing their wider environment, public sector leaders continue to drive digital transformation in their organisations. However, three barriers were mentioned by numerous interviewees: bandwidth, skills and vendors. Several leaders told us that their digital transformation progress had been slower than they hoped because it competed with their pressing, day-to-day priorities. Many told us that their organisations lacked the skills needed to drive digital change, either because they could not afford the high salaries that digital professionals can attract or because their senior teams were not sufficiently aware of the possibilities of new technologies. And some expressed frustration about technology vendors who can fail to understand the complexity of public bodies.

In spite of their concerns about digital technology and its dark side, the leaders we interviewed still recognised the potential of various technologies. Many told us that they were focused on making better use of their data to inform decision-making and many told us that they hoped technology could help them better engage their local communities. NHS interviewees suggested that artificial intelligence could help free up clinician time by supporting diagnosis and the chief executive of a social care provider observed that AI-driven technology could help independent living for older people by powering smart homes.

As the world gets more technologically connected, the ability to affect our lives through tech-related crime gets bigger.

How do you find the time and thinking space when the demands of service delivery are hitting people at all levels?

The development of AI is going to change the role of the clinician and we're still teaching people at university the old medical degree rather than the new one which will be around patient engagement rather than diagnosis.

The problem is that the NHS is run by people of my generation. We don't know what we don't know. We need our technological revolution driven by our younger generation.

We map out the attacks in real time and it's terrifying. Have we got robust systems? Yes. Would it surprise me to come in tomorrow to a major problem? No.

We haven't suffered a cyber-attack and we take all the precautions that it's advisable to take. But nothing is kept on paper anymore and we're incredibly vulnerable.

We're doing quite a lot of channel shift. But these projects have to compete with projects like supporting older people.

We haven't done as well as we could but you're not going to get cutting edge technology for what we can pay. We're never going to be as cutting edge because we can't afford to employ that kind of person.

We were lucky last time that the cyber-attack didn't lead to the extraction of data. It comes back to a fundamental lack of investment in tech skills; keeping tech up to date; the disciplines of patching; all of these systems are vulnerable at their maximum point of weakness and discipline is needed across the system – PC security, iPad security. I do genuinely think the next one will be a serious one.

I'm not sure if partners in industry get the complexity of a public sector organisation like ourselves. We deliver 700 services and digitising that as a whole is difficult for partners to grasp.

We came through WannaCry unscathed with a large dose of luck. There's an inevitability about the next attack and it needs to be brought into business continuity plans. There's no doubt that an attack will close facilities for a couple of days.

5 Demand is more of an issue than austerity – and the public sector wants sustainable solutions

While austerity has become a byword for spending cuts in the public sector, budget reductions are not the only cause of the sector's financial challenge. Demand for local services, often driven by demographic change, has heaped additional and unprecedented pressure on public bodies. In our *State of the State* interviews, many public sector leaders told us that for their organisations, demand is more of an issue than austerity – and only longer-term thinking will solve it.

Seven years of spending restraint has seen many public bodies reduce their headcount, restructure and rethink the services they offer. In our interviews, several public sector leaders told us that their financial outlook is challenging, not least because years of budget cuts have had a cumulative effect. However, as in previous years, many leaders told us that austerity pressures have driven positive change in their organisation and some shared concerns that a return to greater public spending would kill the momentum for innovation.

While the sector's finances are challenging, most of our interviewees were more concerned with the associated pressure of demand. For the police, online crime has essentially doubled the UK's crime rate, the volume of complex crimes like child sexual exploitation continues to grow, and the police are called upon to deal with non-crime issues when other, more appropriate public services are unavailable. For local government and the social care providers that work with them, the pressures of an ageing population are already being felt and some interviewees warned of a "policy vacuum" which has left the future of social care funding "completely hanging". One suggested that greater investment from the private sector into care homes could significantly increase capacity in the system, but investors are put off by the lack of policy certainty. For the NHS, ringfenced budgets continue to grow, but interviewees told us that they are not growing at the same rate as demand for services.

Almost of all our interviewees felt that increased budgets or substantial one-off injections of funding would only alleviate demand pressures in the short term. Most felt that more ambitious, sustainable reforms were needed and three solutions were raised by many. First, many interviewees called for longer-term, strategic thinking from policy and decision makers that would deliver sustainable ways forward. Second, most interviewees in the local public services told us they wanted to better engage the public to understand citizen needs better whilst at the same time demonstrating the limits of their services. Third, a number of leaders we interviewed wanted to see more system-wide thinking on preventative measures to avoid shunting demand between public services.

Everything is about the rights of the citizen and the responsibility of government but we need to flip that.

We need to have a really big debate about engaging people and we'll spend a lot of time on how we can listen and engage with communities – not when something goes wrong, but now, and understand their daily challenges and give them a voice and an understanding of the issues we're dealing with.

This is all public money we're spending. If we fail in our intervention, the cost to the public purse is enormous. You need to think about that across the system. I might not save money by helping a family but it means the police might in a few years if they don't have to intervene with them.

It's far better to prevent a crime from happening than to deal with its aftermath. But most resources are focused on response and insufficient resource and thinking is put into prevention.

We're suffering from a complete lack of reality, particularly from the public. It's easy to default blame to politicians, but they just reflect public opinion.

You see companies with unforgiving market conditions that work with them. We've got unforgiving market conditions without the model to respond to that type of pace and with that type of innovation. We act like innovation is something we should have a think about at a conference.

The financial outlook is challenging. We've got significant resource constraints but let's be honest: the resource challenges are an opportunity to focus our minds on variation and waste.

There's one extreme that says the state pays for everything, and the other extreme that says everything is personal responsibility. Neither extreme is right but we need to pull back from the state paying for everything.

We're seeing demand growth outstripping the growth in resources and outstripping the ability of business-as-usual savings to bridge the gap.

We need to sort the preventative agenda. The public sector did it with water supplies, and then seatbelts, and then smoking, so we need to do it again with obesity and exercise.

6

The changing public sector environment requires new capabilities, new leadership approaches and fresh thinking on recruitment

Seven years of austerity has put considerable pressure on public sector leaders and changed the way that the sector operates. In our *State of the State* interviews, our interviewees recognised that the new public sector environment requires new capabilities in their top teams, new leadership approaches and fresh thinking on recruitment.

Many of our interviewees told us that austerity had taken a toll on their organisation, and that headcount reductions had seen some of their talented staff – who knew they could get jobs elsewhere – leave. That left those remaining in the organisation with greater pressures and often broader remits.

Several leaders told us that they wanted to work more effectively with private sector partners and that required more commercial skills at senior levels in their organisation. Some added that such a shift to greater partnership working, between sectors and across the public sector, required more collaborative approaches and an end to more hierarchical leadership styles.

Several spoke about difficulties in recruiting to their top team as salaries in the public sector are often lower than elsewhere at senior levels, while others told us that hostility from parts of the media and the reputational risks that come with high-profile public sector jobs can make senior roles unattractive.

Looking ahead, a number of our interviewees observed that peoples' expectations on careers have changed, with fewer people seeking a job for life, and the sector needs to adapt its recruitment plans accordingly. Many told us that leadership development within their sector or their own organisation needs to be better resourced and less ad hoc.

We can't fill our chief executive jobs. It's the chief executive that gets sacked, not the directors.

Attracting talent is my biggest problem. We don't pay enough to get the talent in, and the environment that they come into is terrifyingly unforgiving if you don't play by the rules.

People are more interested in portfolio careers, or working abroad for a bit, but we still try to attract people straight in as graduates and to stay for life.

We need to do more to grow our own talent. We have secondment opportunities where people go off to the private sector to learn new skills and then they come back – but that's a bit ad hoc.

For chief officers, they're at the junction between politics and operational delivery. Combine those things and it's a really tough job.

A lot of people took voluntary redundancy and a lot of the wrong ones left – the ones that knew they could get a job somewhere else. That doesn't mean the people who stayed have got no talent. But it means we're putting a lot of pressure on the talented people that remained.

The leadership ask is miles different. In days gone by, you focused on your own area. Now the skill set is about collaboration and work across organisations, not only within health but across the sector. The days of hierarchical working are gone.

How do we grow a future workforce that attracts the brightest and the best? They might not see a 30 or 40 year career for themselves in the public sector but they might want to work for a few years in cyber, for example, as part of a wider career. Maybe we need a different employment model where people spend a few years with us and then a few years in the private sector.

We have issues around recruitment and attracting the right talent. Local government has changed. We used to provide services. Now we are rolling out investment and being more commercial. But it's really hard to attract the right talent into local government to do all that.

The sector does not invest enough in leadership. I've not seen a university that does, compared to the private sector. It's antediluvian.

We're trying to get ahead of the game with fewer and fewer resources. I worry about the pressure that puts on my colleagues, directors with ever increasing workloads and responsibilities, and how that impacts on them. It always seems to grow and never seems to shrink.

I've got some really talented people. I've got a good chunk from the private sector. They definitely bring something new in. As long as you get that mix with people who understand the policy and the government of it.

7 Higher education is central to the UK's future – but faces major risks

Higher Education is central to the UK's international standing, and universities could prove pivotal to meeting some of the UK government's most fundamental challenges of redefining the UK's place in the world, driving growth through the Industrial Strategy and building skills that workforces will need in the future. Our *State of the State* interviews with vice-chancellors and other leaders show that higher education is alive to how it can help shape the UK's future – but external pressures have created a set of major risks.

UK universities hold three places in the top ten of the Times Higher Education global rankings, but while long-established Russell Group universities ride high on league tables, all universities make significant contributions to their local economy.²⁵ For every 100 full time jobs within universities themselves, analysts suggest that another 117 jobs are generated elsewhere in the economy by multiplier effects.²⁶ All of the vice-chancellors we interviewed reflected on their institution's local role. Many told us that the government's emphasis on place-based policy, including the Northern Powerhouse, Midlands Engine and other devo deals, had energised their thinking about their university's role as a local institution. Several felt that universities need to strike a strategic balance between focusing on their local geography and their international attractiveness.

Most vice-chancellors in our interviews observed that universities will need to play a fundamental part in delivering the UK government's Industrial Strategy, especially in supporting enterprise, innovation, local growth and skills. Several talked about a tension between their colleagues who believe universities should focus on enrichment through education, and others who believe universities should help students become job-ready.

All of the vice-chancellors we interviewed saw the potential for their sector in contributing to and maintaining the UK's competitiveness and economic success. But they saw risks too, and all expressed concern over leaving the EU. Universities are embedded in EU academic programmes, recipients of EU research funding, host to EU students, employers of EU academics and connected with institutions in EU countries. Inevitably, the vice-chancellors we interviewed were deeply concerned about the impact of exiting the EU on their institutions but they differed on whether they have seen any impact in the year since the referendum. One said that academics in her institution had been headhunted from their home country, another told us that there has been a decline in European academics applying for UK jobs and another spoke about a growing reluctance among universities in EU countries to partner with UK institutions.

Interviewees also expressed concern that leaving the EU had sent a negative message about the UK's openness. Several spoke about the soft power that universities generate for the UK, not least through international students that return home with positive experiences and understanding of the UK.

The UK's reputation abroad is of course significant for universities. Many of our interviewees told us that their university income is reliant on international student fees, and a downturn in that market would end their surpluses and put significant strain on their finances. But while the UK government can control those policies, policy shifts from other countries could also impact the UK's international student market. A senior figure in a Scottish university told us that his institution's finances were over-reliant on students from China, and vice-chancellors with an eye on international markets will be well aware that China has been building the equivalent of one university every week.

The Far East is the region with the fastest improvements in the latest Times Higher Education global rankings – an important measure influencing international student destinations.

All of this means that expectations on university leaders have changed substantially in recent years, with a greater need for commercial acumen rather than purely academic experience. One national figure also told us that the past decade has seen new levels of professionalism in university finance and estates functions.

Overall, UK universities face several layers of risk driven by their external environment. As one leading vice-chancellor told us, "everything on our board risk register has moved up and to the right. Everything has got worse". But given universities have such a pivotal role in the UK's future, dialogue between higher education and government has never been more vital. Reflecting on relations between them, one well-connected vice-chancellor suggested "there's a poor understanding of higher education in government" but another conceded "we need to get out more".

The UK higher education sector is excellent and globally appreciated. But we do this great British thing of bashing everything all the time. We've lost sight of what we do for the UK and not just the Russell Group. The institutions that wouldn't stand a chance of being high on a league table still do an enormous amount, not least for their area.

Some well-known institutions are not doing well financially. Their surpluses are low, their reliance on government remains high, compared to others that have taken on a group structure or diversified in other ways. Call it stratification, or universities finding their own niche in the market.

Most institutions are looking at how they spread their wings. Or they become very close and become the local choice institution as the local provider. There is space for both strategies.

Universities will play a fundamental part in pretty much all of the industrial strategy. Brexit makes that politically and economically more vital.

The role of universities in their local context, their geographies, is getting increasing prominence because of devolution policies. This is not third mission. This is fundamental. This is the DNA.

Brexit has made international recruitment a challenge because the country does not look welcoming...it has had a profoundly deleterious effect on our image as a country. International students spend money in the local economy, they bring fee income, they bring an international dimension to learning, and they are a source of soft power for this country.

The only thing we have a surplus on is international students. It's that stark. A slight downturn in the international market and our surplus disappears.

A low-angle, upward-looking perspective of several modern skyscrapers with glass facades, converging towards the top of the frame against a clear blue sky. The perspective creates a sense of height and scale. The buildings are arranged in a way that they seem to be looking up at each other, creating a central void in the sky.

The business lens

The business lens

Introduction

The relationship between the public sector and the private sector has never been more important or relevant to *The State of the State*. For central government, engagement with corporates is crucial to delivering its Industrial Strategy, improving the UK's lacklustre productivity and managing a successful departure from the EU. Locally, public bodies continue to increase their engagement with partners to support their operations and deliver citizen-facing programmes. And for local government specifically, a thriving local economy has become more central to its purpose than ever as its funding becomes linked to business rates.

To explore that latter issue in more depth, this section of *The State of the State* explores the business community's view of the local public sector.

Beyond the state

In its modern form, public sector contracting with the private sector began as outsourcing in 1980 when Compulsory Competitive Tendering was introduced for construction, maintenance and highways work undertaken by councils.²⁷ Within two years, the same system was extended into health authorities for support services including catering, cleaning and estate maintenance and the scope of outsourcing continued to grow. Almost forty years later; outsourcing is just one way that the public sector engages with partners, and the sector spends more on contracts with others than it spends on delivering services itself, according to the National Audit Office (NAO). Local government and health remain the largest buyers of external services, spending £69 billion and £61 billion a year respectively.²⁸

As well as working with the private sector, the public sector has a long history of engaging the voluntary sector – especially to deliver citizen-facing services – and as with the private sector, such partnerships are anticipated to grow in scale and scope. Research by New Philanthropy Capital suggests that 48 per cent of charities currently deliver public sector contracts, and 87 per cent expect to be doing so to the same or a greater extent within three years.²⁹

This year's *State of the State* explores engagement between the private and public sectors, with a special emphasis on local relationships. To inform our thinking, Deloitte and Reform commissioned Ipsos MORI to survey more than 1,000 UK businesses to gauge their views on councils and the local economy. We wanted to explore the interface between companies and councils and understand what businesses think local government should prioritise.

That research drew five conclusions, outlined below:

- 1 Local businesses want their council to prioritise business rate reductions, better town centres and investment in local infrastructure**
- 2 While businesses might not see support from councils as central to their success, they do see certain government functions – like tax and regulation – as key**
- 3 Councils are a significant and well-regarded source of information for medium-sized enterprises, but most businesses know little or nothing about what the council does to support them**
- 4 Businesses tend to think that the local public sector does not understand its needs and are split on their confidence in councils to attract new businesses and investment**
- 5 Council plans for improving their local economies are well-regarded by the businesses that are aware of them – but connections between the sectors need to improve to create a truly shared agenda**



1 Local businesses want their council to prioritise business rate reductions, better town centres and investment in local infrastructure

Our survey asked local businesses about what councils should prioritise to support local economic growth. As Figure 24 shows, almost a quarter said that they wanted councils to collaborate more with them, and more than a fifth want support and advice from local government.

But above those priorities, some 40 per cent of businesses told us they want their council to prioritise business rate reductions, 28 per cent said they want to see investment in town centres and 27 per cent said they want to see direct investment in local infrastructure. Clearly these are conflicting views: business rate reductions would of course mean less public funds available for investment.

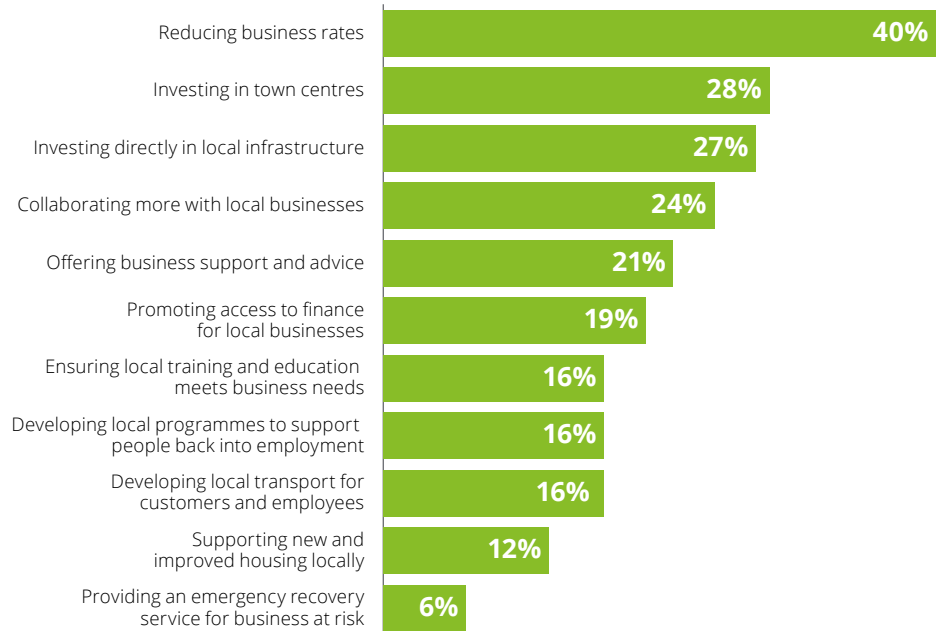
2 While businesses might not see support from councils as central to their success, they do see certain government functions – like tax and regulation – as key

Our survey asked local businesses to identify the biggest obstacles to their success. As shown in Figure 25, just 11 per cent said that a lack of support from government or their council was an obstacle. Instead, businesses cited competition, cash flow issues, red tape, taxes and skills as the five biggest issues. While councils may not be able to intervene in competition or cash flow, they are of course a significant regulator, a tax authority for business rates and – especially in devo deals – a central part of the skills landscape.

Overall, a fifth of businesses told us they think their council and its partners make a positive difference to their success. That number increases to 59 per cent among managers working in medium-sized companies.

Figure 24. Local business priorities for councils

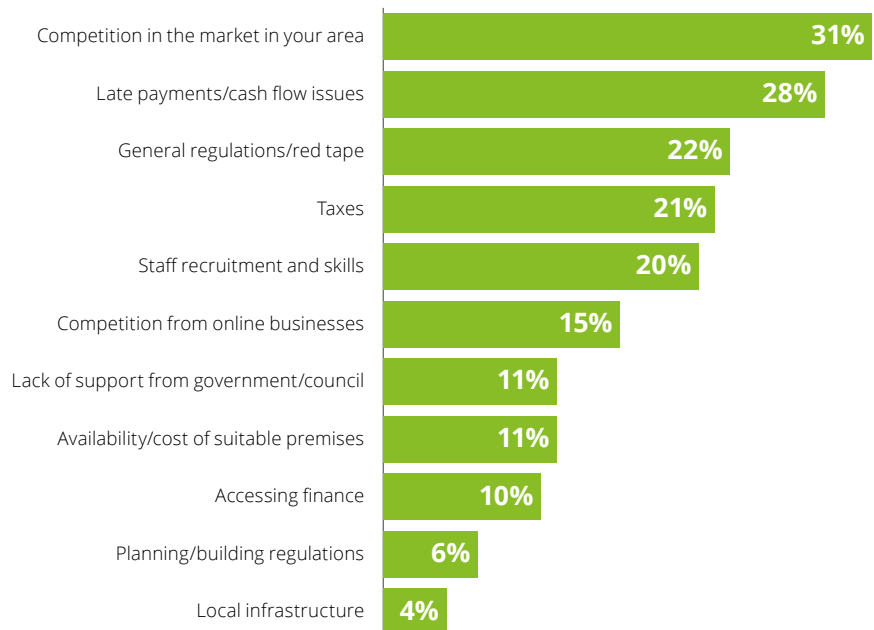
Which two or three, if any, of the following do you think your local council and its partners should prioritise to support businesses and economic growth?



Base: 1010 UK businesses (online)

Figure 25. Biggest obstacles to local business success

Which two or three, if any, of the following would you say are the biggest obstacles to the success of your business in general?



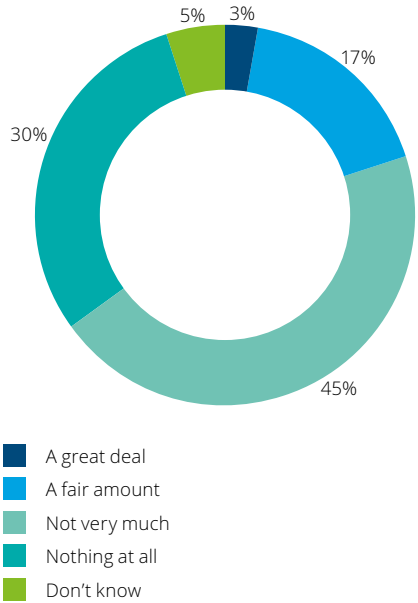
Base: 1010 UK businesses (online)

These results suggest different conclusions for policymakers, councils and businesses. For policymakers, it suggests that businesses do see council responsibilities as factors in their success, and so continued devolution of powers to local government could be used to stimulate local economic growth better. For councils, this result reinforces that business rate levels and local skills provision have significant impact on local businesses. And for businesses, it illustrates the importance of engagement with their council and its partners to have a voice in local growth debates.

3 Councils are a significant and well-regarded source of information for medium-sized enterprises, but most businesses know little or nothing about what the council does to support them

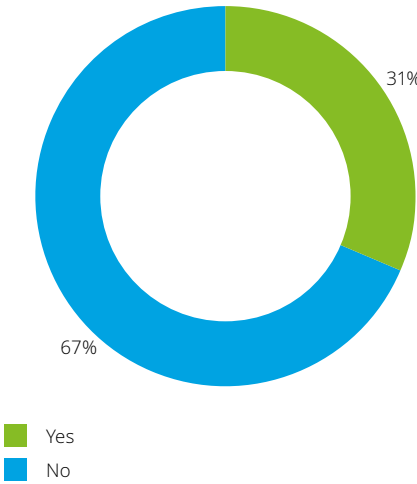
Councils are more likely to be approached for information or advice than any local business forums with 17 per cent of respondents telling us that they had approached their council in the past year. In addition, almost a third of businesses – and half of managers working in medium-sized companies – told us that they had visited their council online regarding their business in the past year. When asked if they were satisfied or dissatisfied with the information they received, half said that they were satisfied and almost a quarter said that they were dissatisfied, as shown in Figure 26.

Figure 26. Information and awareness
How much, if any thing, do you know about what your local council does to support businesses?



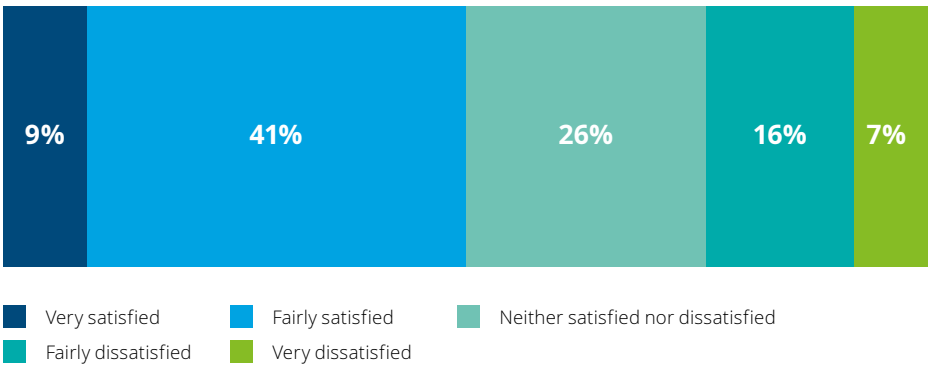
Base: 1010 UK businesses (online)

Over the past 12 months, have you visited your local council's website to get advice or information regarding your business?



Base: 1010 UK businesses (online)

How satisfied or dissatisfied, if at all, were you with the advice or information you received from your local council?



Base: 1010 UK businesses (online)

Fewer people – some 12 per cent – told us that they had visited their Local Enterprise Partnership's (LEP) website but a greater proportion were satisfied with the information or advice that they received. Sixty per cent reported being satisfied and 17 per cent said they were not satisfied.

Overall, a fifth of respondents told us that they know about council support for business but 30 per cent said they know nothing at all. Medium-sized businesses were more likely to say that they were aware of council support with 43 per cent saying that they knew a fair amount or a great deal. The survey found a similar pattern in relation to LEPs with 14 per cent saying that they know a great deal or fair amount about LEP support.

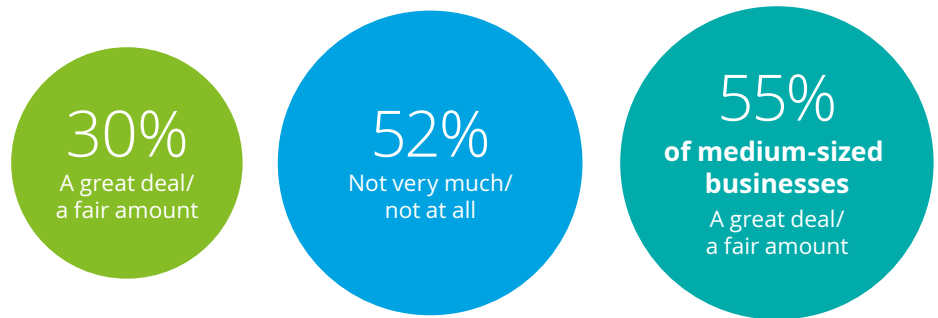
4 **Businesses tend to think that the local public sector does not understand its needs and are split on their confidence in councils to attract new businesses and investment**

Our survey asked whether local businesses thought that the council understood their needs. Overall, just less than a third told us they thought their council did understand their needs while more than a half thought that they did not, as illustrated in Figure 27. As throughout this survey, respondents from medium-sized businesses were much more likely to say that their council did understand local businesses' needs.

We also explored if businesses are confident that their council and its partners can attract new businesses and investment to the area. Overall, half of businesses told us that they were not confident with just 28 per cent saying that they were 'fairly confident' or 'very confident'. Looking just at data from medium-sized businesses shows a very different result, with a 56 per cent level of confidence in the council and its partners.

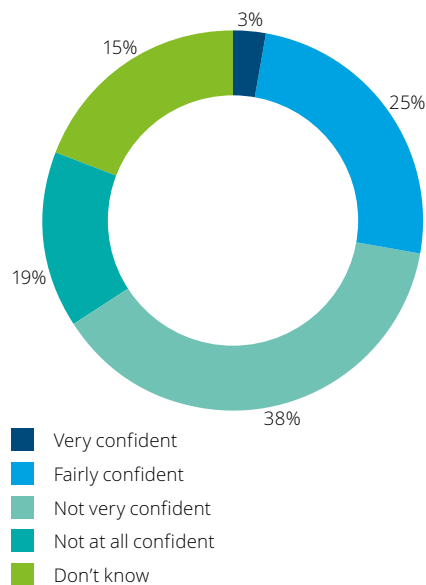
Figure 27. Perception of council understanding of business needs

To what extent, if at all, do you think your local council and its partners understand the needs of local businesses?



Base: 1010 UK businesses (online)

How confident, if at all, are you that your local council can work with its partners to attract new businesses and investment to your local area?



Base: 1010 UK businesses (online)

5 Council plans for improving their local economies are well-regarded by the businesses that are aware of them – but connections between the sectors need to improve to create a truly shared agenda

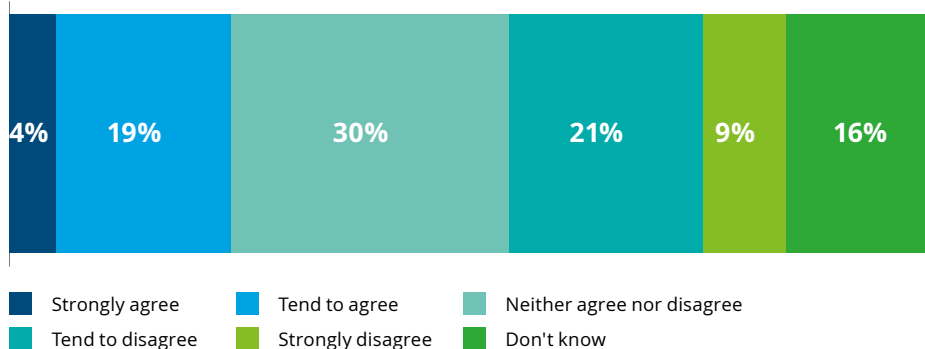
Our survey asked businesses whether their local council had a clear plan for improving the local economy. Overall, 23 per cent of businesses thought that they did and 30 per cent thought that they did not, as shown in Figure 28. Managers in medium-sized businesses were far more likely to think that their council had a plan, with 41 per cent saying so.

While this result suggests that too few businesses are aware of local economic plans, the people who were aware of them were likely to be impressed by them. Some 54 per cent of the people who said they were aware of a local plan told us that they agreed with it while just 13 per cent said they did not.

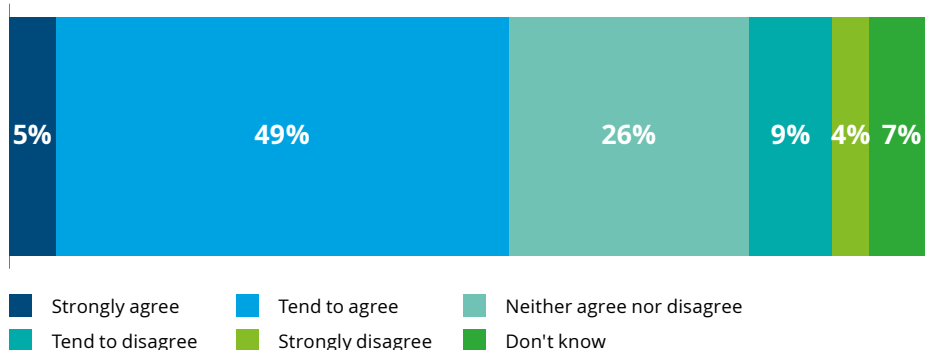
In other words, where businesses are sighted on a local plan, they are likely to get behind it. The challenge for local government is therefore to make sure it is connected into the local business community in order to create a truly shared agenda – not exclusively through business forums but also directly with key business leaders to foster a constructive network.

Figure 28. Local government plans – a shared agenda?

To what extent do you agree or disagree that your local council and its partners have a clear plan for improving the local economy?



And to what extent do you agree or disagree that the plan is one that local businesses agree with (just looking at those aware of a plan)?



Northern Ireland

The state of the state

Last autumn, the politics and government of Northern Ireland were characterised by optimism, energy and confidence. Cohesive political leadership, an outcome-based plan for the public sector and an emerging economic renaissance had created a positive outlook for the future. But events have since conspired against that.

Much of 2017 has seen Northern Ireland at the nexus of political and economic uncertainty in the UK. If the UK's decision to leave the EU was a political earthquake, this past year has confirmed that Northern Ireland lies on its fault line. At the same time, the Executive's collapse has created a leadership vacuum with growing implications as policy decisions remain untaken. And multi-faceted aspirations from the main political parties have added to a complex set of circumstances that will need to be addressed for devolved government to resume.

In January, power-sharing in the Northern Ireland Executive was suspended when its Deputy First Minister, the late Martin McGuinness, resigned. That triggered an election in March but talks failed to restore the Executive and as a result, Northern Ireland has been without an Executive ever since.

A government without ministers is unprecedented for a major part of the UK, and the absence of executive decision-making could become increasingly apparent. Under legal advice, civil servants have continued to maintain government and press ahead on programmes in accordance with guidance from ministers when they were last in post. But increasingly, that guidance is becoming out of date. Civil servants may well be minded to stretch their mandated powers in the public interest, but could face judicial review for doing so. But many will be aware that as the months go on, policy decisions that require ministerial approval have not been taken. That could come at an opportunity cost for Northern Ireland,

especially where public sector reform stagnates and decisions that could save money are not taken.

A number of public servants interviewed for *State of the State* warned of a degradation of the public services. Overall, there is a sense that Northern Ireland has had a lost year.

The next steps remain unclear. Direct rule from Westminster could restore budget mechanisms to the Executive and provide for ministerial decision-making. Several interviewees in our research considered that direct rule could well begin by the start of 2018, though some reflected on whether the existing devolution model may need to be rethought for a future Northern Ireland government.

In the meantime, wider political forces are at play as power-sharing talks continue. The DUP's influence grew substantially in June when it lent its Westminster support to the Conservatives in return for a billion pound investment deal for Northern Ireland. And Brexit has given vigorous life to debates about Ireland reunification, with significant implications for Sinn Féin as it continues to pursue a united island of Ireland. In other words, the main Northern Ireland political parties are negotiating their return to an Executive while mindful of wider agendas and aspirations that Brexit and other political developments have triggered.

The billion pound deal negotiated by the DUP to support the Conservative government was well designed. Crucially, it splits investment in public services between funding to relieve

immediate pressures and investment in transformation to continue reforms of the health and social care system.

Drawing on the 2016 report from the World Health Organisation's Rafael Bengoa, the Department of Health's *Delivering Together* plan has the potential to put Northern Ireland at the leading edge of health reform as governments around the world – including the UK – struggle to address unsustainability in their health and social care systems. However, such transformation could rely on access to funding – and Northern Ireland is yet to receive any funding from the billion pound deal.

As negotiations between political parties go on, the Northern Ireland Civil Service is ensuring continuity of government and the public services. It also continues its own reform programme, building on its reorganisation and downsizing of recent years. Most senior civil servants we spoke to in the course of research for *State of the State* told us that wanted to address the civil service age profile, which has become increasingly older. NICS has an older age profile than the wider economically active population and in 2016, 36 per cent of its staff were 50 and over compared to 25 per cent in 2010³⁰. While that might represent a future talent issue, NICS continues to show strong reform capability and its former ministers speak highly of their interface with civil servants.

In the absence of political decision makers, the draft Programme for Government offers a useful framework for progress in key areas of public policy. But as a plan created by the last Executive, and

with no ministers to energise it, the draft programme could struggle to maintain traction in years ahead.

The absence of an Executive is of course the main pre-occupation among leaders in Northern Ireland's public sector. However, many are also concerned about Brexit given the region's unique exposure to issues that arise from leaving the EU. And the most significant of those is its border.

Fortunately, the border has been one of the three issues in the first phase of Brexit negotiations, which testifies to its importance and keeps Northern Ireland high on the agenda. The absence of an Executive means that Northern Ireland does not have its own ministerial voices taking part in Brexit debates, but its civil servants have found their colleagues in the Department of Exiting the European Union to be open to their representations, receptive to their input and engaging in discussions.

In Northern Ireland, as in the rest of the UK, the dangers of Brexit are at present more apparent than any benefits that could emerge. But as responsibilities are repatriated to the UK from the EU, there could be potential to strengthen Northern Ireland's powers.

Economically, Northern Ireland has remained resilient in the face of the uncertainties that are inherent in Brexit. Its economic growth of 0.3 per cent in the first quarter of 2017 was higher than UK-wide growth and would put Northern Ireland's annual growth at 2.4 per cent compared to the UK rate of 2 per cent.³¹ However, numerous factors – not least the border, the strong agri-food sector and high levels of EU funding – could make Northern Ireland's economy particularly exposed to Brexit uncertainties in the year ahead.

The biggest issue is the absence of a devolved administration. To be frank, it's causing chaos.

We're operating without ministers, and for a part of the UK, that's extraordinary.

Without ministers, we're seeing a slow degradation of public services.

Brexit cuts across the ambiguity in our system. It throws the constitutional question back on the table.

We've got good access to DeExEU...we've found a very open ear in Whitehall.

Whitehall is listening and they are reading the material we're sending in.

Without a ministerial voice, our position is weaker and under direct rule, there would be less attention to us other than on border issues.

The Programme for Government is not dead, but it's on life support.

I worry that the civil service has not been recruiting and we're getting pretty old...we're stagnating as an organisation.

The civil service...are impartial and supportive...nothing but willingness to get things done and no willingness to prevaricate.

All politics is local. And in Northern Ireland, it's very, very local.

Scotland

The state of the state

Scotland's maturity as a devolved administration has been rapid. Since devolution twenty years ago, the Scottish Parliament has become embedded in national life, a dynamic political landscape has been established and the Scottish Government has exercised its independence by charting its own, distinctive course.

The independence referendum three years ago may have kept Scotland within the union but it accelerated further devolution of borrowing, tax and welfare powers which look set to see it diverge even further from the rest of the UK in its approach to public spending and public sector reform – and that divergence could extend even further as a result of last year's EU referendum.

In this year's *State of the State* interviews, public sector leaders in Scotland told us that they face the same challenges as the rest of the UK, although budget restraint has not been as severe. One council chief executive told us that "the Scottish public sector is about four years behind English austerity" and another said "reductions here are not on the same scale as south of the border". But some felt that this had not given Scotland's public sector the same stimulus for innovation. A local government interviewee said that "we're not seeing as much radical thinking" as in England while one of her colleagues in another authority told us that further settlements will shape the extent of reform on the sector because "the magnitude of austerity drives how far you need to change as an organisation".

However, interviewees in the NHS were particularly concerned about their financial outlook as demand continues to grow faster than budgets. One chief executive warned that his organisation's financial survival increasingly depends on non-recurring sources of funding, and as such, were not sustainable. He went on to tell us that demand for local NHS services is growing by the equivalent of a new GP practice needed every year – a pace which he described as "remorseless".

Police Scotland, the country's single force since the 2013 merger of eight forces, has been bold in addressing its financial position. In a bid to meet challenging expectations on savings, this year the force put forward a budget with a £47 million deficit along with a new approach to financial management. Police Scotland appears better-placed to realise the benefits of a single force, with the release of a ten-year strategy that recognises the changing shape of demand, the opportunities of technology and the need to work with partners including communities themselves.

In local government, our interviewees were focused on the same inequality issues as their peers in England.

Talent issues specific to Scotland were raised by some of our interviewees. One director of a non-departmental body reflected that the Scottish Government and its agencies would need new capabilities to make full use of new tax and welfare powers. They told us that recruitment is generally more difficult in rural areas, but several interviewees added that political and reputational risks put talented candidates off. A senior NHS figure told us that NHS chief executives were hard to recruit because "it's the chief executive that gets sacked" and another public sector leader described how "destructive and personal" comments from the media and politicians create a hostile environment for senior staff. However, a Scottish council chief executive recognised her staff are driven by a sense of mission to the area they serve.

Scotland's public sector has a unique exposure to Brexit, not least because of the political uncertainty that it creates. In the 2016 referendum, the more europhile Scottish electorate voted to remain in the

EU and in response, the governing Scottish National Party moved quickly to propose a second Scottish independence referendum. Such a vote could be put forward by the First Minister within two years, once details around the UK's Brexit deal become known.

In addition, Scotland is a significant beneficiary of EU funding. As a submission to Holyrood's finance committee set out, while the country is home to 8.5 per cent of the UK population, it expected to receive 14 per cent of EU funding coming into the UK between 2013 and 2020.³² Council chief executives that we interviewed questioned whether such funding would be replaced beyond that date.

Overall, the public officials we interviewed in Scotland were professional and sanguine about Brexit. A local government finance director told us that the council "can only approach [Brexit] from a risk perspective" and to date, no interviewees had seen any significant tangible impact – positive or negative – as the UK prepares to leave the EU. Several leaders said that Brexit, and the prospect of a second independence referendum, had added a political dimension to the economic uncertainty it has created across the UK. A council chief executive told us that it led to "a general fear about what it's going to do to the economy and the knock on effect on the public sector". Another confirmed that inward investment has not slowed, but he went on to warn that "foreign direct investors ask about stability – and that's everything from currency to government".

As the Scottish Parliament marks 20 years since the referendum that led to its inauguration, some of our interviewees reflected on its success to date as well as its future. As in other parts of the UK, the

public sector leaders we interviewed in Scotland called for longer-term thinking. One key figure urged that "Parliament is good at debates on people waiting eight

hours in A&E, but not good at debating why we've got a generation of inactive kids growing up. Too much parliamentary time is focused on short term issues and not

enough on long term issues, and those are the ones that are going to make a difference to Scotland".

We haven't felt any effect from the indy referendum issue or Brexit yet. We're getting incoming business and direct investment. But foreign direct investors ask about stability – and that's everything from currency to government.

We don't know what's going to happen with Brexit. We can only approach that from a risk perspective. But we've got an eye to Brexit.

It feels like our financial survival is increasingly dependent on non-recurring sources of funding. It's not sustainable.

Reductions here are not on the same scale as south of the border. We're not seeing as much radical thinking on prioritising or doing more with less.

Our real problem is coping with growth. We have to think through everything from housing to office supply. Everyone's got adult growth. We've got that plus more, without any more money.

We've benefitted hugely from EU funding and we need to know how that will be replaced.

What will make a difference is how bad austerity gets. You have to deal with your burning platform. The magnitude of austerity drives how far you need to change as an organisation.

Parliament is good at debates on people waiting eight hours in A&E, but not good at debating why we've got a generation of inactive kids growing up. Too much parliamentary time is focused on short term issues and not enough on long term issues, and those are the ones that are going to make a difference to Scotland.

Scotland benefits disproportionately in terms of EU funding. The government has agreed to continue funding until 2020 but after that, all bets are off. It seems unlikely Scotland will have the same share as we did before and that's difficult for public bodies to be managing. And hard to read.

Parliament itself was established in 1999, so it's heading to its 20 year anniversary and it's been through all the permutations of minority and majority government. The shine has come off and people are being more realistic about what it needs to improve. There's an appetite to actually move parliament itself on a step again, so it has the kind of conversations that it needs to have.

Wales

The state of the state

This year marks the 20th anniversary of the referendum that led to Welsh devolution. Those past two decades have seen the Welsh Assembly and Government become embedded in national life, delivering policies that diverge significantly from the rest of the UK.

Such differences will become even more significant in the years ahead – not least as legislation has now devolved control of big ticket powers including the electoral system, onshore fuel extraction and harbours. And in two years' time, a new fiscal framework will give the Welsh Assembly control over income tax rates and take Welsh devolution to a new level.

This year also saw the publication of a programme for government, *Taking Wales Forward*, which sets out the government's strategy for this assembly term to 2021. While the programme may not be as target-driven as plans in Scotland and Northern Ireland, it provides clear priorities and specific commitments that will see Wales further exercise its devolved powers.

As in the rest of the UK, the success of the Welsh Government's plans will require strong engagement with business and *Taking Wales Forward* commits to a new 'economic contract' between business and government. If that contract focuses on meaningful commitments, and receives the necessary levels of energy from both sides, it could make a substantial difference to stimulating growth as well as tackling economic inequality.

For the public sector, *Taking Wales Forward* sets out some significant reform challenges including:

- Developing the regulatory framework for business.
- Establishing a Development Bank of Wales.

- Maximising the value of public sector procurement on the local economy.
- Further integrating health and social care.
- Publishing a long-term plan for NHS and social care.
- Ensuring that health and care services pool budgets and commission jointly.
- Delivering an integrated public transport network.
- Improving public health campaigning.
- Co-ordinating housing, health and social care to provide affordable care homes.
- Expanding the community health and social care workforce.
- Establishing a national academy for school leaders.
- Introducing a strategic planning system for post-16 education.
- Developing a new care delivery model with private and public sector partners.
- Creating a new employability programme.

In our *State of the State* interviews, public sector leaders in Wales told us that their challenges – certainly in terms of financial and demand pressure – reflect those across the UK. As in Scotland, they recognised that the devolved administration had shielded the Welsh public sector from austerity to some extent, but budgets were still heavily constrained. However, our interviewees celebrated that devolution was increasingly allowing public bodies in Wales to differ from those in England – which one council chief executive said was “a sign of maturing government”.

While our interviewees across the UK tended to say that politicians needed to make bolder decisions, our interviewees in Wales said that Welsh Government ministers were ambitious and willing to make difficult decisions. One civil servant said that politicians in Wales “know what needs to be done and they've no problem making the calls”. However, he went on to say that reform is difficult at local level, where “organisations change like an oil tanker where we want it to turn like a speedboat”. While that may be a perspective from one civil servant in central government, many local bodies in Wales have driven significant levels of change in recent years and have clear forward plans. The chief executive of one Welsh council shared his vision for a local authority that better engages communities in co-production of services, is more effectively networked with businesses and more fully exploits technology to maximise its productivity.

On Brexit, as in other parts of the UK, the leaders we interviewed recognised the economic uncertainty it has created but they had not seen any tangible impact. One chief executive said that “If I'm honest about Brexit, it will be important but it feels like a lot of national politicians wasting time. It's having a marginal daily impact”.

Overall, this year's *State of the State* sees the public sector in Wales at a major inflection point. As increased powers become available to the Welsh Government, and the *Taking*

Wales Forward programme rolls out, there is significant potential for the public sector to reflect local circumstances and deliver a more sustainable health and social care system.

While Brexit adds a layer of uncertainty and complexity, the Welsh Government continues to demonstrate ambition to reform and tackle long-standing issues.

Wales has always been socialist so it's more about joining up the public sector rather than bringing in the private sector.

The problem with healthcare is always the political appetite for change. We've got a lot of young, ambitious politicians in Wales. They know what needs to be done and they've no problem making the calls. It's the public sector that can't turn it around. Management and leadership of change is a massive capability gap in Wales.

There are different opportunities in a small country like Wales. At government level, there's huge ambition to do that but at delivery level an organisation changes like an oil tanker where we want it to turn like a speedboat.

It's a sign of maturing government that we can establish a slightly different route.

If I'm honest about Brexit, it will be important but it feels like a lot of national politicians wasting time but it's having a marginal daily impact. But a lot of European regulation covers the 800-odd things we do.

It concerns me that the devo agenda has become a haven for policy wonks. City deals seem to have become a process to satisfy the Treasury and prove you have earned the next tranche of money. How serious is it about devolving power and responsibility? I worry about that.

Conclusions

Our assessment of *The State of the State* points to these conclusions:

The momentum of public sector reform needs to be re-energised

Public sector leaders tell us that austerity – while challenging – created momentum and helped drive constructive change in the sector. Since 2010, austerity provided an overall context for public sector reform, alongside digital transformation and the open public services agenda. Whether austerity continues or not, momentum needs to be maintained to drive continuous reform across the public sector and a re-energised, re-stated vision for its future would provide welcome direction of travel. Such a vision should address the need to reduce demand for high dependency services.

Public engagement needs to be ramped up to manage expectations

Our citizen survey showed that public perceptions of austerity have hardened. But although the deficit has been reduced substantially, government debt has hit a fresh peak and the UK's credit rating has been downgraded – which serve as fresh reminders that public spending still needs to be constrained. In addition, public sector leaders interviewed for *The State of the State* made clear that citizens need to have more realistic expectations on public services. All of this points to the conclusion that public officials and elected representatives – local and national – need to rethink their engagement strategies to encourage citizens to take more responsibility for their own well-being.

Social inclusion needs to be explicit in all public policy and decision-making

Since the Grenfell Tower tragedy, politicians of all parties have reaffirmed their commitment to the state's vital role in tackling social inequality. The public sector leaders we interviewed for this year's *State of the State* saw it as a pressing and immediate issue. Some called for new policies and direction, suggesting that many in the public sector would welcome explicit guidance on making sure that social inclusion is part of all public policy and decision-making.

Government needs to see beyond geography to adapt to digital – and build on data trust

Digital technology has not just changed how public bodies can operate – it has changed the boundaries and environments they exist within. For the police, for example, the internet has created an expansive new world that has opened up new crimes and ways of working that cross national barriers. As a result, police leaders are grappling with how geographically-rooted forces should best address online and often international crime. Ultimately, governments around the world need to see beyond their geographies and place-based approaches in order to rethink regulation, security and economic opportunity as they continue adapting to digital.

Government should also build on public trust as it harnesses data. As the public sector develops its capability to use data for improving decision-making and outcomes, government should continue to ensure public confidence by explaining how and why it uses public data.

Collaboration between business and government is crucial to local areas fulfilling their economic potential

Our business survey found a broadly positive view of the local public sector but suggests that collaboration between companies and local public sector partners is crucial to local areas fulfilling their economic potential. Crucially, greater engagement would help businesses better appreciate government resource constraints and help both government and business drive local, inclusive growth.

Our research on the UK's future suggests that policymakers, businesses and educators should come together to seize an opportunity to create higher-skilled roles and improve productivity by developing the UK's immigration system to recognise the mobility of talent, invest in the kinds of new skills the UK economy will need, invest in new technology and work at regional level to create local plans.

Whether austerity continues or not, momentum needs to be maintained to drive continuous reform across the public sector and a re-energised, re-stated vision for its future would provide welcome direction of travel.

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Footnotes

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Notes



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