

Local public services 2040

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CONTENTS

| | |
|---|----|
| Acknowledgements | 4 |
| About the Authors | 4 |
| Executive Summary | 5 |
| Chapter 1: Looking to 2040 | 8 |
| Chapter 2: Drivers of change over the next 20 years | 11 |
| Chapter 3: Local public services in 2040 – a look to the future | 33 |
| Scenario 1: 'Industrial councils' | 33 |
| Scenario 2: 'Ofcouncil': regulatory opportunities and tasks | 37 |
| Scenario 3: 'Tech opportunists' | 39 |
| Scenario 4: 'The commissioning council revisited' | 42 |
| Scenario 5: 'Community councils' | 45 |
| Conclusions | 49 |
| Endnotes | 51 |

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EXECUTIVE SUMMARY

This report sets out to understand what factors could affect the future of local public services over the next two decades and what new roles for local government could exist by 2040.

Trends shaping the future

The research starts in Chapter 2 by exploring six dimensions of change that are likely to dramatically impact the demand for, and supply of, local public services in 2040. These trends, which present both opportunities and challenges, include:

- An ageing population that puts increasing pressure on social care and health services, but that brings new resources of its own through healthier pensioners.
- More fragmented families, living in highly urbanised and more dispersed communities, with housing quality and affordability remaining a problem in some regions.
- Prosperity driving higher expectations of public service quality and convenience, but growing disparities across regions and across generations demanding an adequate response.
- Huge opportunities to apply innovations in technology and big data to improve the productivity of public services, alongside the task of managing the disruption to jobs that is likely to accompany this.
- Localised environmental risks around flooding and air pollution to heighten, and the need for communities to display resilience.
- Greater fiscal devolution presenting huge opportunities to councils to control their destiny as well as risks around the resilience of their local tax bases.

The challenges come at a time when the sector already faces huge financial pressures. The report shows that employment in local government has fallen by a quarter or 800,000 employees between the start of 2010 and

2017. Meanwhile, analysis reveals that local government net borrowing has been increasing since 2013/14. The last time local government ran a fiscal surplus – with revenue exceeding expenditure – was in 1996. In the 2016/17 fiscal year, local government net borrowing stood at £8.6bn.

How councils could respond

Given significant regional variation, such as in life expectancy, economic performance and likely tax revenues, councils are likely to respond in diverse ways. Chapter 3 sketches out five possible scenarios for local public services and local government in 2040:

- 'Industrial Councils': large authorities with enhanced economic development functions, covering a wider geography, deriving gains from economies of scale in delivery and able to intervene in markets in new ways because of their wider geographic scope. With stronger tax-raising powers at their disposal and accompanying responsibilities, they will address market failures in infrastructure (e.g. broadband) and could assume responsibilities for agricultural policy and help their communities to adapt to technological change.
- 'Ofcouncils': will pursue objectives more through regulation than service provision, including in the housing market where they will set rules for tenure and quality in the private rented sector; the take-up and use of technology; and new spatial planning controls. They may also play a role in regulating utilities.
- 'Tech opportunists': will aggressively pursue the adoption of technologies in public services enabling patients to self-manage their care, using robots and carers to provide a blended mix of support to those requiring social care and more powerful use of data analytics to drive behaviour change.
- 'The Commissioning Council Revisited': will pay as much attention to the market of local and voluntary sector providers as to driving down costs. Councils will innovate with new practices such as financing services and projects through crowdfunding ventures, and commissioning one accountable organisation or consortium to achieve health, social care and well-being objectives.

- 'Community Councils': will set their purpose as services for the community, by the community. This will include addressing the shortfall of family carers and the growing problem of loneliness through networks of intergenerational support, as well as building the resilience of the community to respond to external incidents such as floods or disasters.

CHAPTER 1: LOOKING TO 2040

Why we need to look ahead

In the past quarter of a century, the UK's public services have undergone enormous reform. Provision has become more diverse, with state delivery giving way to a mixed market of private, public, mutual and voluntary sector organisations, commissioned by national and local government. Using competitive processes and maximising the innovation of different sectors has contributed to efficiencies and productivity improvements. In social care and health, personal budgets have been given to patients. In employment support and rehabilitation, government has moved to 'payment by results' where providers are only reimbursed when they achieve predetermined outcomes.

These reforms have been complemented by many less observable yet still important changes. The internet and IT systems have enabled the outsourcing of back office functions to more specialist organisations. Councils, NHS providers, Whitehall departments and other public agencies have moved services online to enhance the speed of services as well as to reduce their costs. Since 2010, councils have delivered significant efficiency savings as cuts to central government grants have reduced their revenues.

Yet, the opportunities for the future are in many ways encouraging and empowering. The UK is on a path away from its highly centralised system of government. Successive governments have devolved decision-making and commissioning responsibilities to the local level, sub-regional government and to the devolved assemblies. Councils now enjoy much greater fiscal discretion with a growing share of business rates being retained locally and central grants cut dramatically. The devolution of healthcare funding and responsibilities as well as a new social care precept signal a continuation of this trend. Local Enterprise Partnerships are taking a greater lead in their local economies, transport and beyond. The Industrial Strategy put devolved decision-making at its forefront and all political parties accept the benefits of a more devolved settlement in England as well as the devolved nations.¹

The long-term view

The UK faces huge short-term uncertainties – including the changing political and social order across the country and the country's relationship with European trade partners when it exits the European Union. The prospects in these spheres are in many ways unknown. For this reason, our purpose here is to have at the forefront of mind the long-term changes that will provide the broader backdrop for the future.

In common with other advanced countries, the UK faces huge technological, economic and demographic change, including an ageing population, new technologies and shifting family structures. These forces will interact with the UK's unique economic, social and political context; with its societal norms, such as the relationships between generations; and with further changes in the UK's politics and governance, including devolution within the UK at a number of levels. Less certain but equally profound are environmental factors such as climate change which present challenges to international governance but also to local political leaders and executives. These forces need to be understood more fully – even if we cannot predict what exactly will unfold.

This report

Despite the ambition to look at long-term scenarios, our purpose here is not to predict what will happen (this would leave too many hostages to fortune and we don't pretend to have prior knowledge of the future). Instead it is to provoke thinking about how future public services could evolve and the emerging risks and opportunities that councils could face over the long-term.

This report sets out to answer the following questions

- What factors are likely to affect the demand for, and supply of, local public services in 2040?
- What risks and opportunities do these present to local authorities?
- What are the likely implications for delivery models and the wider function of the local authority? What is the local state for in 2040?

The analysis that follows uses a scenarios exercise to identify the principal drivers of change in the future, and assess their importance and likelihood of occurring. Chapter 2 describes the principal trends likely to affect the shape of local public services in the next two decades. We carried out this analysis by drawing together trends from across the economic, social, demographic, political and environmental disciplines, before testing out our ideas with a panel of experts. Chapter 3 then sets out a series of scenarios for 2040, envisaging new forms of local public services and new roles for local government.

In this report, we also stretch our imagination about the boundaries of local public services. With a backdrop of devolution, our starting definition of 'local public services' intends to capture services that we expect the local authority to have significant influence over via funding, delivery, commissioning, regulation or democratic control in 2040.

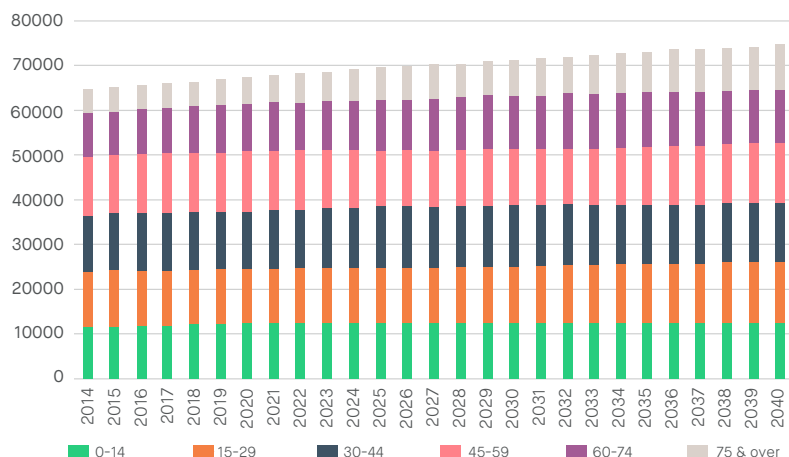
CHAPTER 2: DRIVERS OF CHANGE OVER THE NEXT 20 YEARS

In this chapter we explore the major trends which are likely to determine demand for local public services, and the way that these services are delivered over the next 20 years. As well as considering the UK-wide picture and the prevailing trends, we examine how these trends are likely to unfold in different regions and across different parts of society.

1. A growing and ageing population

The population of the UK is growing and people are living longer. By 2040, the UK population is set to grow by 9 million according to the principal population projection produced by the Office for National Statistics (ONS) – an increase of 14%.²

Critically, population growth will not be even across age groups. While the working-age population is expected to grow by 10% over this time period, the pension-age population is forecast to rise by close to a third (34%). While in 2016 there were an estimated 608 dependants (children and pensioners) per 1,000 working age individuals, this is set to rise to 668 by 2040. The number of over-75s in the population is set to grow even faster – by 89%. This points towards a surge in demand for health and social care services unless health in old age improves dramatically.

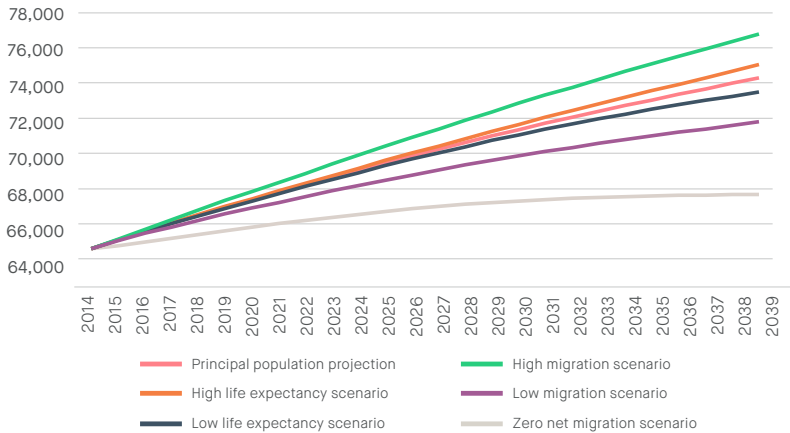
Figure 1: UK population, thousands, split by age group

Source: ONS principal population projections

Population projections are highly sensitive to changes in migration levels, life expectancy and fertility rates. As Figure 2 below shows, different demographic scenarios can translate into significant changes in UK population. Under the ONS's "high migration" scenario, the size of the UK population reaches close to 77 million by 2040. Under a scenario of zero net migration, the population would stand at just 68 million. The UK's post-Brexit immigration policy is likely to play a significant part in determining which path net migration takes.

The dependency ratio – the ratio of dependants to the working age population – is arguably the most important determinant of society's ability to afford to meet public service demand. The higher the dependency ratio in the country, the worse the UK's fiscal position is likely to be, with relatively more people net takers from the state (e.g. those requiring care and pensions) and relatively fewer net givers to it (e.g. those paying substantial amounts of income tax while working). The ONS zero net migration forecast would leave the UK with 690 dependants per 1,000 working age individuals by 2040. This compares with 654 dependants per 1,000 working age individuals for the high migration scenario, reflecting the fact that most migrants are of working age.

Figure 2: UK population, thousands, different scenarios



Source: ONS population projections

It is important to note that under all of the population forecasts shown in Figure 2, the size of the UK population grows, with the dependency ratio rising. This highlights the fiscal pressures that local government will face over the coming decades.

Other population factors are likely to have a significant effect on local public services:

Where this larger population lives is likely to be important. On a regional basis, ONS projections suggest that population growth in the UK will be strongest in London, where the population is projected to grow by over a quarter between 2014 and 2040. Population growth is generally expected to be higher in large urban areas of the UK,³ with implications for local public services and infrastructure. Conversely, technological developments as well as the rising costs of congestion may result in a more dispersed workforce outside these centres. In urban centres, growing demand may place significant pressure on housing, as has been seen in cities such as London, Oxford and Cambridge, and make transport services congested. On the upside, more concentrated populations may be easier to service (for instance waste collection) or more amenable to public service markets

(choice works better where the population is relatively concentrated and therefore has a choice of providers, e.g. schools).

Levels of immigration and effective integration may be important determinants of community cohesion. Persistently high levels of immigration may have implications for community cohesion, and require a potentially greater role for government to create integrated communities. However, the link between immigration and community cohesion is complicated and depends on a wide range of factors, such as – pressures on public services, levels of English spoken by immigrants and the extent to which there are shared social and cultural norms.

Differences in the extent to which individuals are ageing in a *healthy* way will have implications for how demand for care will rise over time as well as how councils may provide care. At present, the health of the UK population varies significantly across the country. For example, a woman at the age of 65 can expect to live 12.8 years in good health in the South East of England, on average, over a third (37%) more than the 9.4 years seen in the North East of England. Men in the South East of England can expect to live 11.7 years in good health upon reaching the age of 65, 42% more than the 8.3 years seen in the North East of England. As Figure 3 shows, those in the North East of England and London spend more years of retirement in bad health than in other English regions. These outcomes are correlated with economic inequalities, but also linked to other factors such as the environment. As we discuss later, air pollution has significant negative implications for life expectancy, and may be contributing to worse life expectancy outcomes in regions such as London. The capital, despite being the most affluent region of the UK on average in terms of incomes (albeit with substantial pockets of deprivation), has a relatively low healthy life expectancy at age 65.

Figure 3: Average number of years of “bad” health expected at the age of 65 in 2010-12

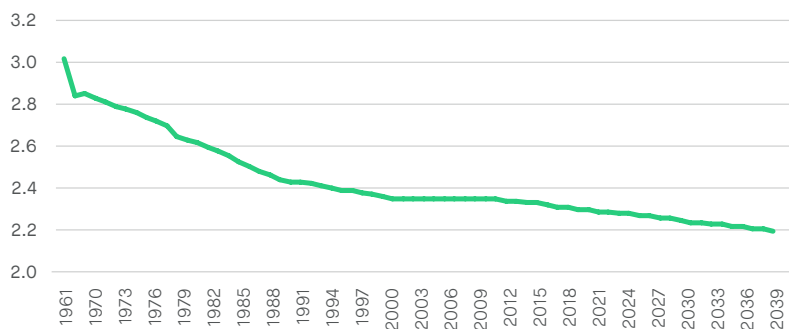


Source: ONS, SMF calculations. “Bad” health years defined as the difference between overall life expectancy and healthy life expectancy at the age of 65.

Recent decades have seen growth in long-term conditions and a rise in multiple co-morbidities,⁴ whilst ONS data show a marginal reduction in the proportion of a person’s life that is spent in good health.⁵ Nevertheless, an older population could be a powerful resource as well as a cost on the local state.

2. Social and lifestyle changes

Coinciding with significant changes in the size and age composition of the UK population are transformations in the way individuals are living. Households have become more fragmented, with a rising number of people living alone, sparking growing concerns about isolation. Department for Communities and Local Government (DCLG) data for England show average household sizes declining by about 5% from 2.3 to 2.2 between 2017 and 2039, as shown in Figure 4. The total number of households in the UK is expected to breach the 30 million mark in the 2020s.⁶

Figure 4: Average number of persons per household (England)

Source: DCLG

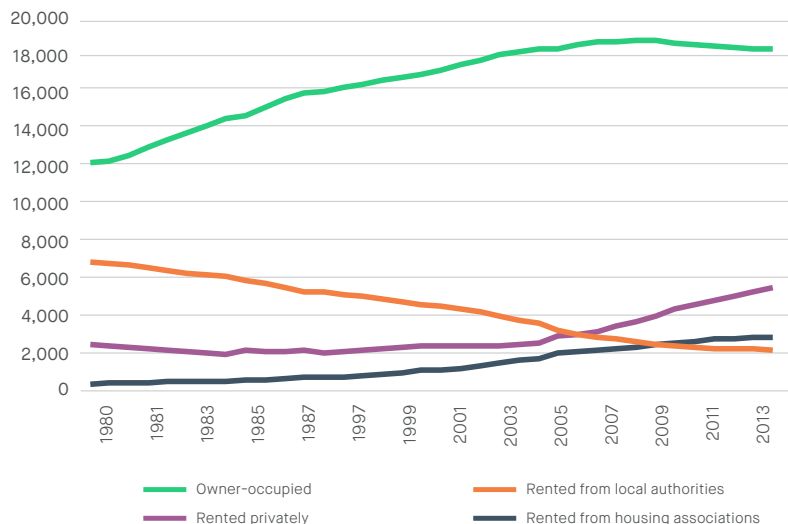
More fragmented families – perhaps with more individuals living a greater distance from parents and other relatives – could translate into greater demand for public services. For example, care roles which have traditionally been undertaken by family members may need to be increasingly delivered by the market and / or the state. Past SMF research⁷ has noted that there has been an increase in the number of families without children. This will also translate into increased care requirements in old age. Data analysis by Linda Pickard of the LSE has shown that by 2032 there will be a shortfall of 160,000 care givers.⁸

Changing family structures contribute to this trend and reinforce some of its implications. Intergenerational families are getting longer and thinner as the number of generations alive at any one time expands and the fertility rate declines. We can expect families and the intergenerational family to continue to alter how responsibilities and duties are shared out: the proportion of women in work has risen dramatically since the Second World War; the task of childcare is likely to fall to grandparents, great grandparents, the market and the state as well as parents.

We can also imagine a growing case for local government to re-enter the housing market over coming decades. Tenure trends in the housing market have changed drastically, with potential implications for the public services demanded by households. The rapid increase in UK house prices in recent years has contributed to a significant decline in homeownership. Notable

also is the dramatic fall in properties rented from local authorities, modest growth among housing association properties and strong growth in the private rented sector.

Figure 5: Number of households, by tenure, thousands



Source: DCLG

If homeownership continues to decline and housing costs remain relatively unaffordable in places such as London and the South East of England, local authorities could be required to step in and provide more homes for individuals directly. While the stock of local authority housing has declined significantly in recent decades, as a result of the Right to Buy policy introduced in the 1980s, this does not preclude a much greater role for local authority housing in the future.

The problem of chronic undersupply in the UK housing market, which the private sector seems unable to resolve acting in isolation, could lead to more local government involvement in housebuilding in the future. Indeed, the recent rhetoric of the main political parties suggests that this will be the case. The Conservative's 2017 general election manifesto mentioned

a “new generation of fixed-term council housing linked to a new Right to Buy”. The Labour manifesto mentioned “building at least 100,000 council and housing association homes a year for genuinely affordable rent or sale”.

The shifts within the rented sector may also require greater regulatory intervention in the private rented sector enabling it to mirror some of the positive features of the social-rented sector and owner-occupied sector (for instance security of tenure). Meanwhile, recent events indicate that local authorities as social landlords and / or as regulators may have to play a wider role in assuring quality and safety of housing.

3. Economic performance and regional variations

Demand for public services will be shaped by the overall economic backdrop over the coming years. We should expect consumer expectations of public services to rise noticeably as the convenience, choice and accessibility of goods and services consumed from the private markets are enhanced. We discuss in Chapter 3 how government services may seek to adapt to this broad growth in expectations. People may also care more about how they spend their leisure time as their incomes grow.

How the economy performs will also have a strong bearing on the future trajectory of employment, unemployment and wages. This in turn affects demand for public services and tax revenues. For example, revenue from council tax, business rates and parking fees could be negatively impacted by a subdued economic environment.

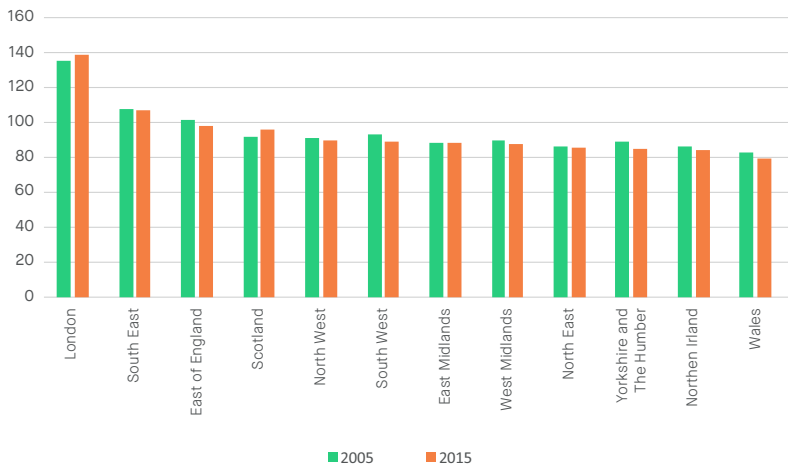
These two factors are likely to interact to generate debate about the resourcing of public services. While the public demand high quality public services, for instance in healthcare, spending levels are lower than in many advanced countries. In 2015, the UK ranked second from bottom among G7 countries in terms of healthcare spending as a proportion of GDP.⁹ More broadly the IFS has voiced concerns about the level of honesty in the current debate on tax and public services.¹⁰ The dilemma is likely to become more marked over time as expectations rise, demand grows and pressure on the tax base is felt from an ageing population.

As important as the headline growth rates are, the distributional effects are potentially as important across regions and generations.

Regional divergences in economic growth matter. The strong economic performance of London in recent years has driven substantial internal migration of young adults under the age of 30 into the capital. Migration from areas with weak economies to ones with strong economies erodes the tax base in the poorer performing regions – potentially placing pressure on local government finances. At the same time, economically successful areas can face their own problems, such as high housing costs and congestion.

In a scenario where the devolutionary trend persists, an increasing proportion of local government funding will be raised locally. Supporting regional economic growth will therefore be fundamental to ensuring tax revenue stability for local government. ONS data graphed in Figure 6 show that the productivity gap between London and the rest of the country has widened from the middle of the last decade.

Figure 6: Economic output (GVA) per head, by region, UK = 100



Source: ONS

Although government has taken steps to try to reduce regional economic inequality, with initiatives such as the “Northern Powerhouse” agenda, the hurdles that need to be overcome are very high. London’s incumbent position as a hub for international services leads businesses and “top talent” to gravitate towards the capital in many instances.¹¹ Structurally high unemployment remains a problem in many parts of the UK, such as former mining towns and some coastal towns and cities. Economic change in the future, which will drastically change the job market and the sectors driving growth, could lead to structural unemployment elsewhere as traditional sources of employment disappear.

At the same time, research has shown that younger generations enjoy poorer economic prospects than past generations at a similar life-stage. Work by the Institute for Fiscal Studies has shown that earnings levels among the younger generation are no higher than that of their parents’ generation when they were at a similar age.¹² Indeed, the Resolution Foundation estimates that a typical Millennial has earned £8,000 less during their 20s than their predecessors (Generation X), making Millennials the first cohort in modern times to be financially worse off than its preceding generation.¹³ The younger generation are less likely than those that went before to own a home and they face less generous retirement incomes than their parents. Whilst those of working age have seen their benefits cut, the pensioner population have seen their state incomes rise via the ‘Triple Lock’.¹⁴ Commentators posit that voting patterns in the 2016 EU referendum and the 2017 general election revealed differences in attitudes across the generations.

Millennials will by 2040 be middle-aged, but less asset-rich and resilient than their predecessors. Though more likely to be homeowners than Millennials, those in Generation X are less likely to own a home than ‘Baby boomers’ and less likely to have generous DB schemes.¹⁵ Councils will have to adapt to cohorts who are less likely than our current older population to own a home with implications for the funding of social care, the social and private rented housing market.

Differential economic outcomes across regions and generations may fuel disillusion and undermine social stability and cohesion. This is likely to be the case especially if poorer parts of society, different generations or particular regions feel that they are treated differently or unfairly, potentially at times for political gain. A stalling economy and rising debt may aggravate this.

Finally, the transformation of the economy is driving and being driven by the changing nature of work. There has been huge growth in individuals working by themselves and for themselves. More generally, the social function of work has changed as industrial structures have collapsed. There is less pattern to careers; people are likely to have to re-train multiple times. Social protection typically provided by employers is not available to the army of the self-employed. Research also suggests that the proportion of workers citing stress from work has grown from 28% in 1989 to 37% in 2015.¹⁶

Local government will have to be imaginative to respond to these diverse challenges.

4. The rise of the robots – an opportunity and a challenge

Trends suggest that the annual supply of industrial robotics has grown by 10% per year this decade.¹⁷ Robotics could change the face of public and private services as well the nature of work across the UK. The rise of automation offers a range of economic benefits for the UK, though these do not come without challenges.

On the upside, automation could improve productivity in the public sector significantly. As Figure 7 shows, productivity in the public sector saw little growth since 1997. A backdrop of rising fiscal pressures will continue to push productivity gains to the top of the local government agenda, allowing local and central government to meet increasing demand for services while containing the cost of delivering these.

Figure 7: UK public sector productivity, 1997 = 100

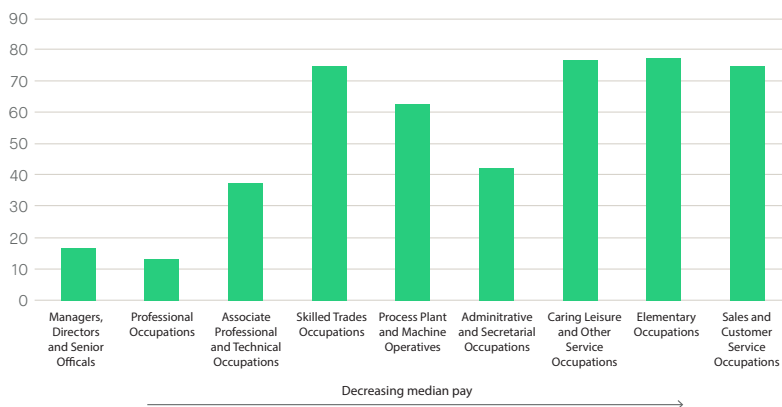
Source: ONS

As we show in the next chapter of this report, technology has the potential to dramatically change the way services such as education, care and policing are delivered. Indeed, use of technology is already making it much more convenient to access public services – for example, updating a driving licence or reporting a crime via the internet. There is clearly a growing opportunity to deploy robots and devices more systematically in health, social care and beyond. This could see people doing more things for themselves.

While robots can substantially increase productivity, concerns have mounted in recent years around the extent to which automation could see swathes of the workforce made redundant. There are fears that automation and robotics are starting to eat away at well-paid jobs in white collar professions which were once thought to be “out of reach” for machines. For example, “robo advice” is increasingly making its way into the financial services industry, potentially threatening jobs in areas such as wealth management. Research by PwC found that 30% of UK jobs would be at risk of automation by the mid-2030s.¹⁸ In a speech delivered by the Bank of England’s Chief Economist,¹⁹ Andy Haldane, it was explained that over 70% of jobs in sales

& customer services, skilled trades and elementary occupations could face the prospect of automation in the future. While professional occupations were relatively more insulated from automation, over one in ten jobs were perceived to be at risk.

Figure 8: Average probability of automation by occupation



Source: Bank of England

As far as local government is concerned, robotics and automation have numerous implications. Job displacement caused by automation could place substantial burdens on local government. In the absence of re-skilling and suitable new job opportunities, automation could push up demand for public services while eroding tax revenues as employment declines. The implications of automation on the labour market mean that local government could fulfil an important function in helping their local economies adapt, for instance through re-skilling adults.

5. Climate change, energy and air pollution – the local environmental challenge

Climate change is a global problem without borders. However, it will impact different areas in different ways.

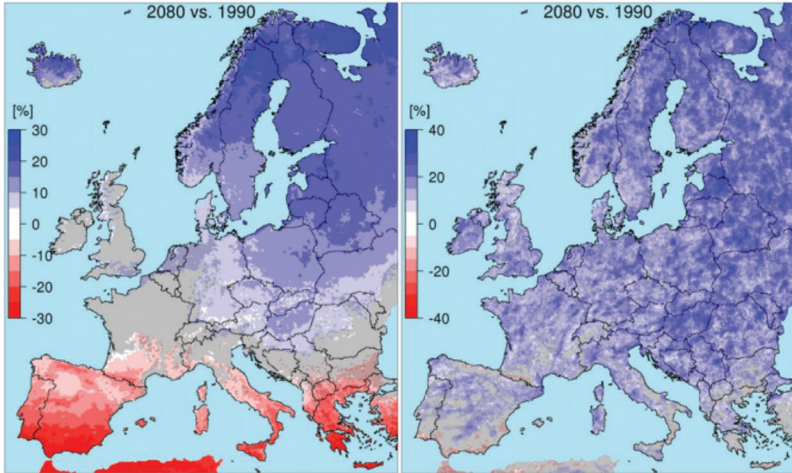
The knock-on implications of climate change, such as flooding, extreme weather and subsequent damage to the physical environment are felt locally

and mean that councils at the very least will need to intervene in managing the consequences of climate change. Research by Alfieri, Burek, Feyen and Forziei (2015), for example, suggests that global warming increases the frequency of river floods in Europe, with modelling suggesting that the South of England in particular will see an increase in precipitation over the years to 2080. Schaller et al (2016) found that human-induced climate change increased the risk of severe storms like those that hit the south of England in the winter of 2013/14.²⁰

Flood risks stretch the boundary of the local state because they are affected by actions taken on public and private lands, whilst contingencies are required across the public, private and community sectors. Councils are likely to find themselves leading on mitigation and building resilience in the community.

Higher temperatures and extreme weather events could also have implications for the sustainability and future prospects of local agriculture, potentially undermining (or improving) the ability of some regions to grow crops. Apricots, vineyards and melons may replace apple orchards in some parts of the South of England as a result of climate change.²¹ The requirements of and pressures faced by rural communities could therefore evolve significantly and there may be a role for local government in helping to manage this transition.

Figure 9: Change in average annual precipitation in 22 European regions containing large rivers by 2080, compared with 1990 (left). Change in annual maximum daily precipitation (right)



Source: Alfieri et al. (2015)

According to United Nations Development Programme (UNDP) estimates, more than 70% of climate change reduction measures and up to 90% of climate change adaptation measures are undertaken globally by local government.²² Projects delivered locally are designed to reflect local circumstances and can allow effective action, tailored to the specific impacts of climate change on the local geography. For example, spatial planning at a local level can help reduce the threat of climate change by, for example:

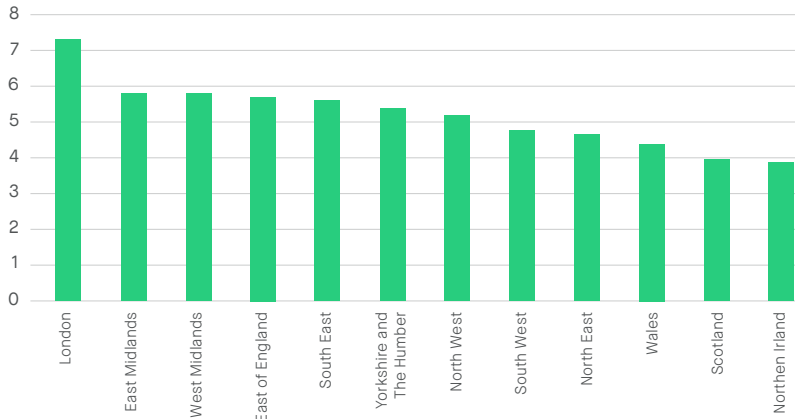
- Encouraging energy efficiency
- Encouraging sustainable and green forms of transport, such as electric vehicles and cycling
- Restricting development which has a major negative impact on CO₂ emissions
- Ensuring appropriate measures are in place to cope with potential environmental disasters – for example, putting in place flood defences and measures to prevent coastal erosion.

The increasing use of renewable energy to tackle climate change could mean that electricity generation becomes more of a decentralised issue falling under the remit of local rather than national government. As well as hitting targets for renewable energy generation, local government could face challenges around energy sustainability and sufficiency, particularly in the face of new technologies which could drastically change patterns of energy demand. For example, increased usage of electric vehicles has the potential to place significant pressure on the national grid going forward. According to a report by the Green Alliance,²³ electric cars could cause local blackouts without further investment in electricity capacity.

Another, more localised, environmental issue which has gained growing attention in recent years is air pollution, with medical research suggesting a strong link between pollution, disease and early death. According to a study by the Royal Colleges of Physicians and of Paediatrics and Child Health, outdoor air pollution is linked to about 40,000 early deaths a year in the UK. A Public Health England report²⁴ suggests that over 7% of local deaths in London are attributable to long-term exposure to anthropogenic particulate air pollution.

With pressures to improve the environment and air quality, local government, particularly in urban areas, may find itself playing a more central role in tackling pollution. This includes both carrot and stick approaches. For example, parking restrictions can disincentivise car usage, while cycle lanes and improved bus services can encourage use of alternative transport. Local authorities can also work with the private sector to provide car sharing clubs – offering a compelling, affordable alternative to individual car ownership.

Figure 10: Percentage of local deaths attributable to long-term exposure to anthropogenic particulate air pollution

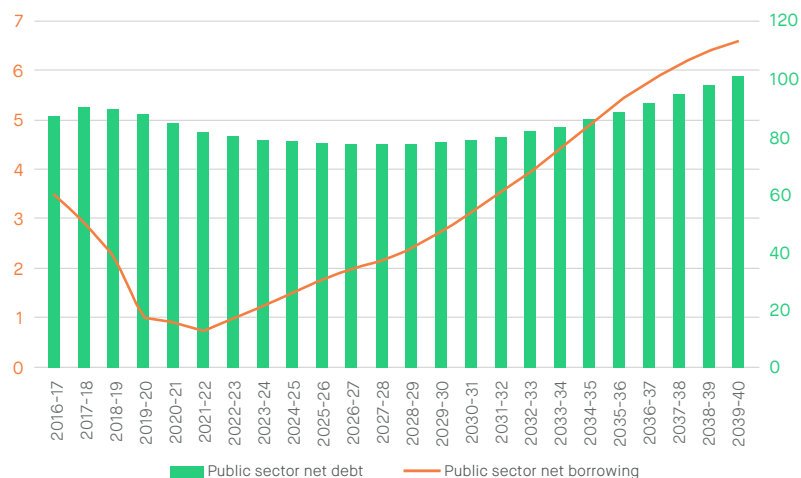


Source: Public Health England

6. Policy and funding – trying to balance the books

The long-term fiscal challenge facing local and central government is stark. The prospect of lacklustre economic growth in the future also remains very real, placing further pressure on public finances. The Office for Budget Responsibility's central projections show total public borrowing roughly doubling as a share of GDP between now and 2040. By 2040, government debt is expected to stand at over 100% of GDP. Weaker economic growth or unfavourable demographics could lead to even higher levels of government debt.

Figure 11: Public sector borrowing (Left-hand axis) and debt (Right-hand axis), % of GDP



Source: OBR Fiscal Sustainability Report, January 2017

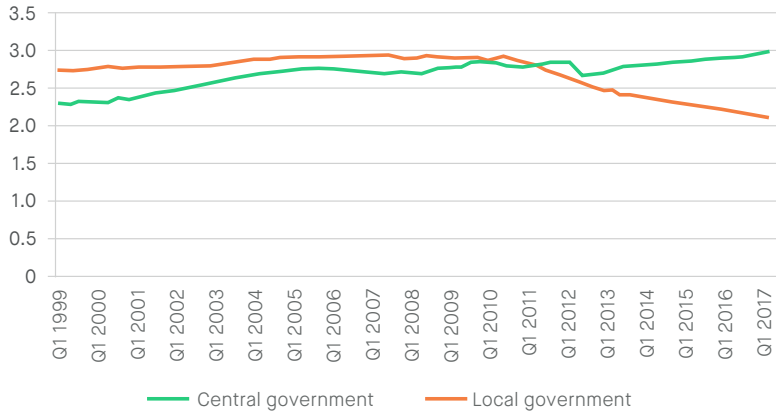
Data from the OBR also shows that growth in spending on social care is set to rise from 1% of GDP in 2016/17 to 1.6% in 2039/40, whilst health care expenditure will rise from 7.3% of GDP (2016/17) to 9.5% (2039/40).²⁵

Already local government finances are under significant pressure. Local government employment has fallen by over a quarter, close to 800,000, between the start of 2010 and the start of 2017. Despite this, local government net borrowing remains in deficit territory. The last time local government ran a fiscal surplus – with revenue exceeding expenditure – was in 1996. In the 2016/17 fiscal year, local government net borrowing stood at £8.6bn. Net borrowing has been increasing since 2013/14. On top of this the Local Government Pension Scheme (LGPS) has recorded a deficit of £37bn in 2016 – around 15% of liabilities. As at the 31st March 2016, the LGPS liabilities were estimated at £254bn indicating an overall funding level of about 85%.²⁶

To improve the fiscal position of local government at a time of rising demand for services such as care is a potentially daunting task, requiring either a substantial increase in the amount of tax raised locally, or a significant

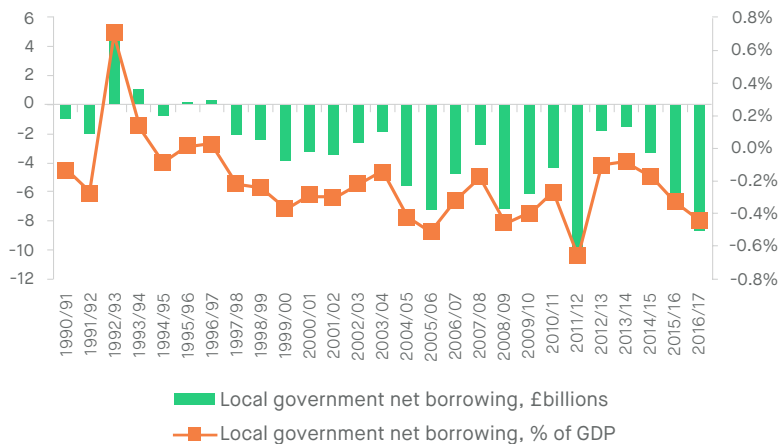
increase in public sector productivity. While the challenges are not insurmountable, they are far from easy to address and will require high levels of innovation in the public sector.

Figure 12: Central and local government employment, millions



Source: ONS

Figure 13: Local government net borrowing, £ billion (left-hand axis) and as a % of GDP (right-hand axis). Negative sign implies spending exceeds revenues.

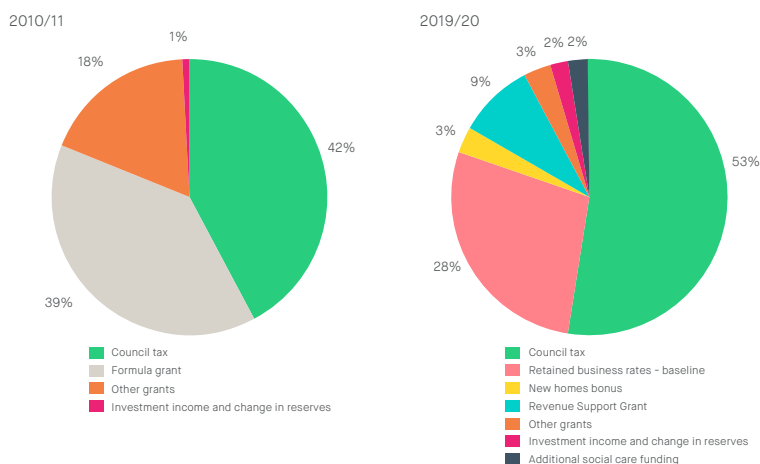


Source: ONS, SMF analysis

Tax revenues are set to become increasingly devolved, as shown in Figure 14. The consequence is that local leaders will need to work hard to preserve and grow their tax bases to meet any increase in demand for local services.

A key challenge for local authorities outside of the capital will be to close the gap in economic performance and boost the locally-generated tax base. If London were to “keep more of what it earns” the implications for the rest of the country could potentially be ruinous, requiring many local authorities to significantly increase their tax base in order to fund public services. Much depends on the nature of devolution. Risks have also been identified associated with the devolution of business rates and the reliance on the social care precept for regions with less buoyant tax bases.²⁷ The Queen’s Speech did not reintroduce a Local Government Finance Bill, which had been expected to increase business rate retention to 100%.

Figure 14: Composition of total local government funding 2010/11 and 2019/20 (excluding Public Health)



Source: Local Government Association, *Future funding outlook for councils 2019/20: Interim 2015 update* (2015)

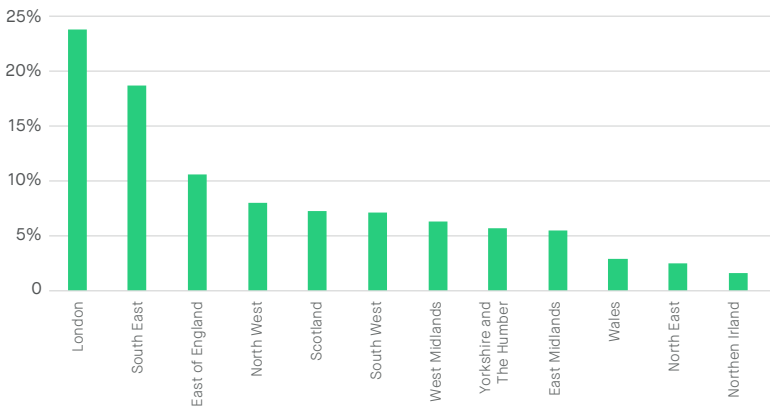
HMRC data show London accounted for close to half (45%) of stamp duty revenue raised from property in the UK in the 2015/16 tax year – up from 29% in 2006/07. The capital also punches above its weight in terms of income tax: despite containing just 13% of the UK’s income taxpayers in

2014/15, the capital accounted for just under a quarter (23%) of all income tax raised, reflecting relatively high average incomes. Combined, London, the South East and the East of England account for over half of income tax revenue raised in the UK.

If taxes such as income tax become devolved further²⁹ in the future there could be substantial distributional consequences. On the one hand, such tax devolution could drastically widen regional economic inequality, with London, the South East and the East of England pulling away from the rest of the country as they invest their tax revenues locally. On the other hand, tax devolution could reduce regional economic inequalities by allowing more tax competition; regions with weak economies could offer lower rates of income tax or corporation tax to draw in businesses, bolstering growth.

In this context, ensuring that revenues from fees and charges are maximised is likely to be very important across both existing revenue streams and new ones. For instance, a 2014 Local Government Association (LGA) survey found that the most common tactic to manage the medium-term financial challenge was to maximise revenues from investments, fees and charges.³⁰ Meanwhile future developments (for instance away from car ownership towards automated, shared vehicles) may see income from charges fall.

Figure 15: Income tax revenue by region, 2014/15 (percentage of UK total)



Source: HMRC

Summary

Across these different dimensions, a number of important themes emerge:

- Greater regional divergence – whether in life expectancy, population, economic performance, tax revenues or environmental risks. Local leaders will need to respond proactively.
- Technological opportunities – whilst there are many associated risks that will need to be managed and regulated, technology presents prospects for innovation in public services, better quality and more convenient provision and productivity improvements.
- Funding pressures and fiscal devolution – councils will need to be proactive to generate and sustain revenues, taking a lead in areas where they previously have not.
- New risks to be managed (environment) and social problems to be resolved locally (e.g. housing) – may drive a wider focus on the regulatory role of local authorities.
- Need to re-assess the division of responsibilities between central government, local government, individuals and markets.

CHAPTER 3: LOCAL PUBLIC SERVICES IN 2040 – A LOOK TO THE FUTURE

The previous chapter revealed dramatic demographic, social and economic changes set to revolutionise the nature of local public services. Here, we envisage the future – how local public service delivery could evolve and what public services might look like by 2040.

These scenarios are intended to indicate a range of paths that local authorities could pursue rather than be mutually exclusive or predictions of the future. We envisage that councils may adopt a mix of approaches.

SCENARIO 1: ‘INDUSTRIAL COUNCILS’: 21ST CENTURY JOSEPH CHAMBERLAINS

Summary

Here we envisage the evolution of large authorities with enhanced economic development functions, covering a wider geography, deriving gains from economies of scale in delivery and able to intervene in markets in new ways because of their wider geographic scope. With stronger tax-raising powers at their disposal and accompanying responsibilities, civic leaders will expect – and be expected – to display entrepreneurialism and activism. Their closest historical parallel could be Joseph Chamberlain and the ‘gas and water socialism’ of the nineteenth century; their current pioneers are Greater Manchester and London.

Why and how this scenario might evolve

Narrowing the substantial gaps in economic performance and affluence across the UK is likely to be a fundamental policy focus over the next two decades, evidenced by the political focus attached to it by all major political parties.³¹ Momentum towards greater devolution of government spending and taxation is therefore likely to continue, giving local authorities more economic levers to pull. For example, future devolution of air passenger duty (APD) in England could help develop aviation capacity outside of London and the South East. Devolved income tax and corporation tax are

within the realms of possibility, enabling tax competition among authorities attempting to win over businesses and talented individuals. Councils may have powers to vary immigration rules and benefit rates.

On the spending side, local authorities are arguably better-placed than central government to identify the local infrastructure requirements that are most likely to boost regional economic prospects. Devolved spending plans may thus lead to a more optimal allocation of government resources via Local Enterprise Partnerships. We expect recent trends to devolve spending plans in some cities to continue. As we discuss later in this chapter, there is potential for devolved spending to be paired with new financing arrangements, such as crowdfunding, to drive much greater local-level civic engagement.

The fixed costs associated with adopting new technologies such as robotics also mean that these are probably better implemented by newer, larger authorities that can benefit from economies of scale. Given these anticipated trends, we believe that larger local authorities will emerge in the future, developing the current concepts of ‘combined authorities’.

New opportunities, new roles and new services

Helping local labour markets and economies adapt to technological disruption

We expect economic development functions to expand to reflect significant structural changes which are likely to take place across the UK economy. Automation and robotics potentially threaten hundreds of thousands of existing jobs in the UK, meaning significant numbers of individuals will need to be reskilled to acquire new employment. We expect local authorities to play a key role in overseeing this reskilling, working in tandem with local businesses, colleges and universities to identify where the job opportunities of the future will lie. This function is likely to expand to include an emphasis on lifelong learning (due to rate of technological advance), the re-skilling of an ageing workforce, greater emphasis on provision for those who do not go onto higher education and a more coordinated training offer for self-employed workers.

Broadband and digital municipalism – Councils will intervene to rectify emerging market failures and become responsible for infrastructure for

a digital and technological age. These are likely to include: coordinating investment in new forms of broadband and digital communications infrastructure, especially in localities where the market will not deliver on its own; responding to new infrastructure requirements for electric vehicles, including charging points; and developing the infrastructure for automated vehicles.

Coordinating a leisure society – The productivity gains created by automation, while potentially threatening employment, could lead the UK towards a more leisure-oriented society. The influential economist John Maynard Keynes talked about how technology could pave the way for “three hour shifts or 15 hour weeks” in his famous essay entitled “Economic Possibilities for our Grandchildren”. A leisure society may create a greater government role in the provision of recreational and cultural activities, particularly with respect to cultural pursuits that would arguably be under-consumed if households were left to their own devices – fine art and classical music, for example. We envision a greater role for councils in helping individuals make the most of the leisure time they have available.

Shared services – Evidence suggests that shared services are now pervasive across local authorities. The LGA estimates that at least 96% of councils across the country are currently sharing services with other councils as a means of reducing costs. Early savings are made by reducing staff requirements, for example by removing duplication and management posts. As shared services mature and evolve they may benefit from wider business transformation – such as better use of IT and assets, improved processes and cultural change programmes.³² Fiscal pressures in local government over the next couple of decades mean that the trend of shared services seen in recent years is likely to continue, with local authorities exploring new ways of pooling together their resources to reduce the costs associated with public service provision.

Post-Brexit responsibilities – Responsibilities previously managed in Brussels may be devolved to local authorities if they cover a wide geography and display sound administrative credentials. Potential candidates for devolution include funding streams such as the European Structure and Investment Fund, the European Regional Development Fund, and the

European Social Fund. More radically, central government could devolve responsibility for agricultural policy to combined authorities allowing them to determine the basis for subsidies in their sub-regions.

House building – As noted earlier, councils may also play a greater role in the construction of new social housing, given the seeming inability of the UK's housing crisis to be solved by the private sector alone. Capital funding grants may return; more likely, councils may raise finance through schemes such as local government pension scheme (LGPS) funds which seek long-term secure assets (which social housing is) and / or by partnering with local housing associations. For instance, the LGPS had £217bn of funds under management in 2016.³³ As such, a reversal of the downward trajectory in local authority housing stocks seems likely over the next couple of decades.

Commercial activities – Councils already trade a wide range of commercial services including acting as estate agents, bus service operators and energy suppliers. In some cases this is to rectify a market failure and an absence of supply or of efficient supply. Commercial and trading activities, if designed well, can stimulate competition in the local market and a better deal for consumers and businesses using the products and services, although councils will also need to be careful not to undermine competition and innovation in the market. It can also generate revenue and profits. Analysis by Localis found that profits from local government externally traded services amounted to £1.5bn between 2008 and 2013.³⁴

Municipal bonds – Greater fiscal powers are likely to stimulate more interest in municipal bonds – where a council or group of councils go direct to the capital market to finance activities. This is common practice in the USA where the market is estimated to be worth \$3.7 trillion.³⁵ The 2016 Autumn Statement said that city mayors and combined authorities will be able to borrow for economically-productive investment.³⁶ There is already growing interest in the sector.³⁷

Challenges, risks and new competencies

The gains of devolution will be offset by additional responsibilities and risks. Further devolution of tax may mean less stable and resilient income streams.

SCENARIO 2: 'OFCOUNCIL': REGULATORY OPPORTUNITIES AND TASKS

Summary

We envisage local government acquiring new and expanded regulatory responsibilities. We also see some councils preferring regulatory intervention in markets to public service delivery due to the advances in the private markets and the constraints on public spending. New roles could include: more active intervention in the housing market; new responsibilities to manage the take-up of technology; and new spatial planning roles. Councils could find themselves regulating in new markets in innovative ways to ensure positive economic and social outcomes, especially for groups previously marginalised.

Why and how this scenario might evolve

Four forces could provide the backdrop to this scenario. First, market failures may remain unaddressed by national government. The most obvious example based on current trends is the housing market, where the growth in the private rented sector, the drop in homeownership and the rise in housing costs overall have not been reconciled. The 'politics of housing' are likely to continue to make this problematic. There are also significant quality and safety concerns. Second, local populations and their councils will have to respond to new, emerging and expanded risks, such as technology or floods. These will require new regulatory frameworks. Third, in the context of a falling dependency ratio, funding constraints may require the local state to prioritise the services it wishes to fund and rely more heavily on regulation elsewhere. Fourth, increasing local divergence may mean that national regulation becomes anachronistic. This may apply to public sector pay, the minimum wage, and even regulation of utilities.

New opportunities, new roles and new services

Regulating the local housing market – Growing recognition that intervention is required to resolve the UK's housing crisis means that we expect a much greater role for local government in this space. Local government may also spy an opportunity to address growing intergenerational differences and

a disillusioned young electorate through stronger regulatory measures. Trends towards greater levels of private renting, including among families with children, are likely to increase the requirement for local authorities to ensure quality and safety of accommodation, as well as security of tenure. There is likely to be pressure to regulate local rents, though councils may be better addressing affordability through planning consent rules. Councils may also play a stronger regulatory and enforcement role over housing quality, safety and building standards not only in social housing estates but also potentially in the private sector.

Regulating the application and impact of new technologies – Along with national agencies, local authorities will need to grapple with the tax and legal implications of trends such as autonomous vehicles and the sharing economy. AirBnB, Uber and a range of other technologies, while bringing new levels of convenience to households, can give companies and individuals loopholes around taxation and regulation. For example, professional landlords have been accused of using Airbnb and other home rental websites to avoid taxes and evade planning laws.³⁸ Uber is disrupting a previously regulated local market. Councils are also likely to play an important role in facilitating democratic decision-making about the ethical trade-offs involved with new technologies, whether that is energy generation or autonomous vehicles.

Devising and applying new spatial planning functions in local government – As well as playing a more central role in the housing market, we also envision councils taking on new roles to ensure that planning reflects the spatial requirements of new technologies and ways of living. Local authorities are responsible for 98% of the road network.³⁹ Autonomous and electric vehicles will require charging points and possible redesigns to road layouts. Increased use of car sharing could allow planners to reduce the amount of urban space devoted to parking, creating new pedestrianised areas and cycle routes. The rise of e-commerce means that former retail/commercial space may be better used as housing. Local authorities must not be wedded to an outdated view of planning which revolves around private car ownership and high street shopping – they need to be forward-looking and planning for the changing ways that people live their lives.

Challenges, risks and new competencies

Regulation requires significant expertise. If the costs of regulation are borne by only a minority of the population then it may be difficult to achieve the political motivation to remove unnecessary regulation.

SCENARIO 3: 'TECH OPPORTUNISTS'

Summary

In this scenario, councils pursue the benefits of technological change aggressively across their workforce structures and through their design of services. Services are designed with tech at their heart, enabling patients to self-manage their care, robots and carers to provide a blended mix of support to those requiring social care and more powerful use of data analytics to drive behaviour change.⁴⁰

Why and how this scenario might evolve

Technological innovation, such as automation, artificial intelligence and robotics, has the potential to dramatically disrupt the provision of public services and lead to better quality experiences for citizens. As a Deloitte report on "the state of the state"⁴¹ notes, public sector jobs can loosely be divided into three types of role: administrative roles (involving repetitive and predictable activities); frontline roles (require personal interaction, such as social workers); and cognitive roles (require strategic thinking and complex reasoning, such as finance directors and commissioners). Jobs in the former category are at high risk of automation over the coming decades, whilst those in frontline and cognitive roles are likely to be more resistant to automation though their productivity could be enhanced by such technologies. The Deloitte study estimates that automation could see 861,000 public sector jobs cut by 2030, delivering a saving of £17 billion off the public sector wage bill in 2030 compared to 2015. It could also release office space. Against this potential cost saving and productivity gain for the public sector, forward-looking councils will have opportunities to re-skill and re-deploy workers.

New opportunities, new roles and new services

Smarter healthcare - If trends towards devolution persist over the coming years, local government is set to play a growing role in delivering healthcare services. Futures work by Nesta has concluded that by 2030, 'self-monitoring technology will be ubiquitous'.⁴² Emerging practices that give a sense of the potential for technological applications and devices to improve healthcare delivery and productivity include: smart wearable garments with wireless health sensors and a GPS to communicate conditions to healthcare professionals who remotely monitor patient progress and condition;⁴³ rapid information sharing that can aid diagnosis and deploy specialists efficiently;⁴⁴ in-shoe sensors to help stroke patients walk again, with data collected by the sensor providing information on activity and posture and giving feedback to promote more rapid rehabilitation through behavioural advice.⁴⁵ Online doctor "appointments", facilitated by videoconferencing software on phones, tablets and computers, could lead to swifter and more convenient patient-doctor interactions. Doctors would thus be freed up to dedicate more time to patients with complex, time intensive requirements.

"Care-bots" - Research by Age UK in 2014 suggested that over one million older people say they always or often feel lonely⁴⁶ - highlighting a need to increase, rather than diminish, human interaction among older individuals. We envision a future in which robots are used to free up care staff to engage with patients in more meaningful ways - such as socialising with them and tending to those with more complex requirements. Robotics could be used to, for example, help patients get out of bed and get dressed. Human interaction could be provided by a combination of professionals, the community (see below) and via social media and telecommunications. 'Care-bots' are already being used in other markets, with Japan leading the way. The country's care-bot market is expected to increase 25 times to \$3.7bn by 2035, according to Japan's New Energy and Industrial Technology Development Organisation and the Ministry of Economy, Trade and Industry.⁴⁷

Increased use of data analytics - Data analytics look set to become an increasingly important tool for local authorities to ensure that limited resources are used in the best possible way. For example, predictive policing,

which uses data trends to foresee criminal activity, has enabled local police forces to prevent crime taking place. Results from trials indicate that such models can help cut crimes where perpetrators exhibit predictable patterns of behaviour. After using predictive policing across Greater Manchester, the borough of Trafford experienced a 26% drop in burglaries between May 2010 and May 2011 when the software was in use.⁴⁸ Other applications for big data can be imagined, including better knowledge of consumer behaviour (e.g. tracking consumer waste and recycling behaviour), leaving government better-placed to supply services at the optimal frequency, manage demand and change behaviours.

Such approaches may trigger important ethical considerations about civil liberties. Use of predictive techniques in policing or child safety may be considered immoral (“guilty until proven innocent”). Authorities also risk being accused of dehumanising services and engaging in discrimination as a result of using these technologies. At the least, public service leaders will need to work hard to engage communities and assuage such concerns.

Safer travel - Technology will also present opportunities to resolve previously unresolvable problems. For instance, 80% of road accidents are the consequence of driver error. Driverless cars could significantly reduce road accidents by eliminating driver error, including drink driving and the effect of tiredness.⁴⁹

The ‘virtual council’ and online services - Digital technologies are moving basic transactions with government online. However, a recent report indicated that the UK was only mid-table in terms of the benefits that the shift online had brought to consumers.⁵⁰ Online services can represent significant cost savings. Estimates produced by Socitm suggest that the average cost of digital transactions in local government was 15p in comparison to telephone and face-to-face costs of £2.83 and £8.62 respectively.⁵¹ However, changing the mode of services can also bring greater convenience to consumers and wider accessibility. By the middle of the next decade tax and benefits will have migrated online. As consumer online transactions grow, accessibility and inclusion will shift to digital inclusion.

‘Edtech’ – Education technology (edtech) advances offer lower cost provision that is easily accessible and more suitable to the continual updating of skills.⁵² Given low start-up costs and significant economies of scale, online courses dramatically lower the cost of learning and widen access to more students, removing the need for students to learn at set times or places. In addition, e-learning may have benefits beyond working age – improving health outcomes among the elderly. For example, some research suggests that speaking more than one language is associated with later onset of dementia.⁵³ Local authorities may therefore start devoting more time to providing mental stimulation to older age groups for health-related reasons.

Challenges, risks and new competencies

Tech evangelists must heed the warnings of history about the potential damage caused to specific communities during periods of disruption: technology must be used as an opportunity to progress the economic and social prospects of those in lower skilled occupations rather than leave them behind. Councils will have to think imaginatively about how they raise the capital necessary to make tech investments.

SCENARIO 4: ‘THE COMMISSIONING COUNCIL REVISITED’

Summary

Here, we envisage councils pursuing new commissioning models to drive competition and innovation in their local public services. This includes greater attention to community and SME providers, financing services and projects through crowdfunding ventures, and commissioning one accountable organisation or consortium to achieve health, social care and well-being objectives.

Why and how this scenario might evolve

The 2010s have seen significant innovations in local government commissioning, whether it is Lambeth’s Cooperative Council, the

Commissioning Council in Barnet or the experiment of the Tri-Boroughs in London. Alongside technological innovations, new forms of commissioning have the potential to lower costs and improve quality of public service provision. Disappointing productivity improvements during previous decades, combined with funding pressures, encourage local authorities to sharpen the incentives for the market to innovate in achieving public service outcomes.

New opportunities, new roles and new services

Local market makers - Devolution of government expenditure and taxation will increase the importance of supporting local economies. This is because the performance of the local economy will have a bearing on both demand for public services and the amount of tax revenue raised locally. This will encourage councils to focus more on the effect of procurement policies on their local economies and supply chains. As a Federation of Small Businesses⁵⁴ survey-based study of local government showed, “cost savings are [at present] overwhelmingly the biggest driver of procurement policy, outweighing other factors such as quality of goods and services, and economic development”. This is despite the introduction of the Public Services (Social Value) Act which came into force on 31 January 2013.⁵⁵

As more services are competed out, ensuring that there is a competitive and diverse range of voluntary, private and public sector providers will also become increasingly important as a route to achieving competition and value for money. This should include the voluntary and community sector who innovate in different ways to traditional private sector providers. Moreover, in a world of minimal grants to charitable bodies, supporting the local activities of charities through commissioning may provide them with the life-blood to continue to play a wider role in the community. Attitudes to public service provision are comparatively open-minded. A survey by the NCVO found that people are positive towards diversity of provision as long as the services are delivered in a better way than the government would do.⁵⁶ On one view, it is likely that this attitude will persist and potentially become more positive towards alternative providers – although scandals of private sector delivery as witnessed this decade may counteract this.

Crowdfunding – The ability of technology platforms to link would-be funders / investors with investees and projects is revolutionising private saving and investment through peer-to-peer lending websites and crowdfunding. In the decades ahead, local government is well-placed to adopt and adapt these practices. Some local authorities are already starting to trial crowdfunding. For example, Plymouth City Council has offered match funding for community projects on a crowdfunding platform.⁵⁷ A number of uses of crowdfunding could be envisaged. For instance, councils could finance non-statutory local services – raising voluntary contributions from a broad spectrum of the community to pay for interventions that otherwise would not take place (such as purchasing a sports site or building non-critical transport infrastructure). This could take the form of donations-based crowdfunding; equity crowdfunding; or peer-to-peer (P2P lending).

As well as financing these plans, crowdfunding could also dramatically increase civic engagement in local communities, as individuals direct funds towards the services and regeneration plans which they value the most.

Commissioning for outcomes – Increased use of outcome-based specifications rather than rigid contracts for local government services could encourage greater levels of innovation and competition in service provision. LGA survey data suggest that outcomes-based specifications are used across unitary and district authorities but not systematically.⁵⁸ With moves to devolve healthcare spending and commissioning, the concept of capitated payments may be adopted in local government. Capitated payment, also known as capitation, means paying a provider or group of providers to cover the majority (or all) of the care provided to a target population, across different care settings.⁵⁹ This approach has been taken forward most adventurously in international healthcare settings such as Kaiser Permanente, Geisinger Health System in Pennsylvania, Veteran's Health Administration and Valencia. Allowing providers to share in any such gain gives them an added incentive to keep patients in their target population healthy. They are more likely to identify risks, intervene early and arrange the right treatment for patients, at the right place and the right time to aid patients' recovery, continued wellness and better management of long

term conditions.⁶⁰ Beyond health and social care, councils could enter risk-sharing agreements in waste management and public transport franchises. Using outcomes-based commissioning may also enable councils to attract investment from outside through social impact bonds (where private investors finance social interventions and are only paid by government if pre-determined objectives are achieved). Potential candidates include: early diagnosis, pupils excluded from schools and homelessness.

Challenges, risks and new competencies

Getting the details right with outcomes-based arrangements is critical. Poorly designed contracts can result in excessive cost cutting and end up undermining service quality. For example, this could happen if capitated payments are set at too low a level. Outcomes-based contracts need to take account of the measurability of outcomes, and the extent to which it is possible to directly attribute improving or deteriorating outcomes to, say, a care provider. Such matters are complex and will require high levels of expertise in public sector procurement teams. There have also previously been criticisms that in large contracts smaller providers – often charities – have faced risks that they are unable to bear, or have been excluded from the commissioning process due to unrealistic requirements (for instance around balance sheet).⁶¹ In the aftermath of the Grenfell disaster, councils are likely to focus efforts to ensure that there is equal attention on quality as there is on the cost of bids. The disaster may also lead to political pressure to in-source delivery.

SCENARIO 5: 'COMMUNITY COUNCILS'

Summary

In this scenario, we envision councils developing the concept of co-production, in which citizens themselves contribute to public service outcomes. Many councils have already sought to use volunteers to help run libraries and community services. Here, we envisage that councils regulate, coordinate and reward community contributions towards broader public service goals.

Why and how this scenario might evolve

Fiscal pressures mean that local authorities are likely to develop new ways of helping communities to help themselves in areas such as health, care and the environment. A pessimist could argue that this represents local authorities offloading their responsibilities onto the wider community. However, the positive motivations are compelling:

- Community-led services could promote integration of different religious and ethnic communities in a world where higher migration and population pressures exert themselves.
- Coordinated community action and networks may counteract isolation amidst concerns about the atomisation of society. This could see new networks and dialogue established between the young and the old, substituting for traditional intergenerational family ties in a scenario where family members are more widely dispersed geographically and where communities are more fragmented.
- Extending life expectancy is likely to mean a growing army of healthy older people who wish to stay active and contribute to their local community in a social setting.
- By building community networks and action, councils can strengthen resilience and the ability of communities to respond to adversity, for instance environmental incidents.
- Growing fears of social unrest fuelled by unequal outcomes across regions, generations and incomes could be counteracted by more positive efforts to embed community resilience and stability.

New opportunities, new roles and new services

Matching care givers and receivers – Councils (themselves or via social enterprises) could play a coordinating function matching those who are able to provide support and care with those who require assistance. Initiatives such as ‘Shared Lives’ provide a template. Shared lives schemes are designed to support adults with learning disabilities, mental health problems, or other needs that make it harder for them to live on their own.⁶² The schemes match an adult who has care needs with an approved shared lives carer. These carers share their family and community life, and give

care and support to the adult with care needs. The advantage of such care arrangements is that they potentially offer greater opportunities for the individual to engage in family life – particularly important if traditional family ties are not present. There are also potential financial benefits of shared lives arrangements: a 2013 report suggested Shared Lives saved local authorities £26,000 a year for a full time arrangement for someone with learning disabilities and £8,000 for someone with a mental health illness.⁶³

The matching of young adults with older adults could mirror practices in Japan and help the UK address its growing shortage of unpaid carers. Other countries are getting creative in encouraging more care within the community, and we expect at least some parts of the UK to adopt some of the ideas being implemented. One interesting case is a nursing home in the Netherlands, Humanitas (<http://www.humanitasdeventer.nl/>), which allows university students to live rent-free alongside elderly residents, where they are expected to act as “good neighbours” and to engage in activities with older residents. Such solutions are interesting as there are benefits for all parties involved – for example, the Humanitas solution helps young people with their housing needs while providing greater levels of social interaction for the elderly. Solutions may also comprise co-location of public services so that older and younger people interact, and residential developments that purposefully situate older and younger people together.

Rewarding community contributions – To promote community support, councils could look to reward citizens. The Government has discussed introducing ‘older person care’ vouchers, whilst carers can already receive credit for their National Insurance record if they provide care rather than work. Councils could look to build on such ideas, introducing reward points to individuals that participate giving free access to local leisure and entertainment services. “Timebanking” may also become increasingly prevalent in communities. Timebanking is essentially a means of exchange used to organise people and organisations around a purpose, such as care for the elderly, where time is the principal currency.⁶⁴ For every hour participants ‘deposit’ in a timebank, perhaps by giving practical help and support to others, they are able to ‘withdraw’ equivalent support in time when they themselves are in need. Participants decide on the services they can offer.

Community resilience to external events – Councils can contribute to resilient communities by setting the expectations that communities will resolve and respond to challenges themselves. For instance, communities could be prepared to respond to flooding in their neighbourhoods, complementing the work that the local authority itself does. It could also involve building the capabilities and networks for communities to provide relief in the aftermath of disasters.

Challenges, risks and new competencies

In this scenario, councils will shift from contractors to community commissioners and enablers. A principal challenge will be achieving and retaining community buy-in.

CONCLUSIONS

The scenarios set out above are diverse. However, they pose some common challenges and opportunities.

What councils need to do to succeed

- Local government will have to innovate and take more risks – this will require a cultural change in political and managerial leadership. In this context, we observe also that society's tolerance for failure among public institutions and servants appears to be small. Public servants may find themselves vilified for perceived failure, including via social and national media. Such a culture may continue to form the backdrop for councils as they seek to innovate and take risks in the decades ahead. This may require a broader effort from national and local government to explain the decisions that public servants have to make.
- There will be pressure to take on new responsibilities beyond statutory duties to help their communities – at the same time as funding pressures persist.
- In an increasingly devolved state, councils will have to be innovative in how they sustain and build their tax base and other revenue streams.
- The role of market maker and manager will become more important as councils seek to bolster their local economies and sustain their local community sector, whilst driving better value for money in contracted services through innovation and competition.
- Authorities will need to evolve new organisational competencies, such as around industrial policy, regulation and commissioning.

Councils must prepare for other uncertainties

This report has sketched out a series of possible futures. But others are conceivable and may prompt a different range of responses:

- Devolution may turn full circle – the devolutionary instinct may occur in waves and the 2020s or 2030s could witness a retrenchment to centralised policy-making.

- Predicted regional differences may not materialise and the need for localised interventions may recede.
- Immigration may be much lower or much higher than the central forecast. This may have consequences for the economy, political stability and the social and cultural fabric of the UK.
- Post-Brexit, council responsibilities could theoretically expand significantly if powers and duties currently executed in Brussels are handed down direct to local authorities.

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Local public services 2040

Demand for some public services is set to increase dramatically over the next two decades. The ageing population will push up demand for health and care services. At the same time, local government is coming under increasing pressure to step up its role in areas such as housing, air quality and the environment.

The challenges come at a time when public finances are still in poor health. Local government borrowing has increased in recent years and meeting increased demand for services while balancing the books will be a major challenge. Ultimately, local government will have to innovate and take more risks to meet these objectives.

This report examines the key drivers of local government service demand over the years to 2040. It then considers the likely scenarios for service delivery over this timeframe, highlighting the opportunities and risks around these scenarios. Robotics, automation, new forms of commissioning and community engagement can all play a significant role in helping local government meet rising service demand. Done right, there is an opportunity here for local government to dramatically improve service quality, productivity and civic engagement.

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