



## Government beyond Brexit

The State of the State 2018-19

#StateofState

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# Foreword

## Welcome to *The State of the State 2018-19.*

This year's report comes a decade after the global financial crisis and amid the UK's complex departure from the EU. That process is taking place under intense press scrutiny, fuelled by passionate politics and debated relentlessly across social media, with an inevitable consequence that the depth of other policy development may not be as profound as it needs to be. This report casts a spotlight on the broader challenges – both related to Brexit and not – that affect the quality of our public services, the fairness of our society, the security of our citizens and the prosperity of our country.

Now in its seventh year, *The State of the State* has once again brought together Deloitte LLP and Reform to reflect on the most pressing public sector issues along with new, exclusive research. Central to the report is our citizen survey, which provides a platform for the most important voice of all in the public sector: that of the public.

Also exclusive to the report is our research with the people who know the public sector's challenges best: the people who run it. This year, we interviewed fifty senior figures including civil servants, police leaders, NHS directors and council chief executives, producing the most extensive qualitative research of its kind in the sector. Thank you to all the leaders who took part and informed our thinking. The conversations were inspiring, unflinching and a testament to the commitment of the people who manage and lead our public sector.

Ten years after the global financial crisis, and after eight years of spending cuts, the government intends to leave its austerity years behind. But the fiscal and economic outlook suggests that the public finances still need to be finely balanced and the government will need to make sure it drives as much impact from its spending as possible as it sets out on a new Spending Review. The two voices given a platform in this research – the public and the public sector leader – offer an insight into how that could be achieved.



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"This report casts a spotlight on the broader challenges – both related to Brexit and not – that affect the quality of our public services, the fairness of our society, the security of our citizens and the prosperity of our country."

# Executive summary

## About *The State of the State*

*The State of the State 2018-19* brings together two research elements alongside commentary from Deloitte and Reform. First, we commission Ipsos Mori to run our citizen survey, which explores public attitudes towards government and the public services. Second, our research team interviews more than fifty public sector leaders including senior civil servants, police leaders, local and regional government figures, NHS chief executives and more, representing the most extensive qualitative research of its kind. Together, these two perspectives – from the people who use public services and the people who run them – offer a unique view of the UK state.

### Introduction

This year's *State of the State* finds the UK government amid the complex and politically-charged challenge of leaving the EU. But while Brexit may dominate daily headlines, our report finds a wider set of challenges – and opportunities – that government will need to address in its forthcoming Spending Review.

The Prime Minister's announcement that austerity is over will be welcomed by many. Our citizen survey finds that support for cuts has ebbed away, and the majority would now prefer tax rises to fund more extensive public services. It also finds a wider shift in the public mood, with growing concerns over the future of public services.

However, while austerity may be set to end, the outlook for public spending remains tight. Demand for services continues to grow, priorities continue to compete and economic growth remains sluggish.

All of this means that ministers and officials face tough decisions in Spending Review 2019 – and not least to balance public expectation with limited resources. However, the public sector leaders we interviewed pointed to ways for government and the public services to maximise the impact of their spending, in some cases building on innovations that were prompted by austerity. They included greater regional devolution, ongoing digital transformation, more deliberate talent management, fresh progress on the industrial strategy and a clearer connection between budgets and outcomes.

### Main findings

#### **Austerity has flipped public attitudes to tax and spending**

Our survey finds that eight years of austerity has seen a turnaround in attitudes to tax and spending. As austerity began in 2010, more than half of the public backed spending cuts to restore the public finances. In 2018, as the Prime Minister calls a formal end to the austerity years, that support has dwindled to less than one fifth of the public. Over a similar timescale, the proportion of people who back tax rises to fund more extensive public services has grown from 46 per cent to 62 per cent, representing a fundamental shift in public opinion.

#### **People are increasingly concerned about public services and their future provision**

Our survey finds that the public is increasingly concerned about public services. It suggests that the past four years have seen a decline in the number of people who think that public bodies understand their needs, listen to their preferences and involve them in decisions – perhaps driven by perceptions of austerity. Looking to the future, the number of people who are worried that the state will provide too little support for them in the years ahead has risen from fifty per cent in 2010 to seventy per cent this year.

The survey also finds that the number of people who believe the government does too much has fallen – from 64 per cent in 2010 to 41 per cent this year. That illustrates the scale of the challenge for policymakers currently considering how to reset the citizen-state relationship so that people take more responsibility for their own lives and rely less on public services.

### Citizen views differ significantly across the UK's four countries

Recent years have seen an acceleration in the public policy differences between the devolved administrations, and our survey finds that citizen attitudes also differ. For example, people in Scotland are more likely to believe that taxes should be higher to pay for more public services, people in Northern Ireland are less likely say they have felt the effects of austerity and people in Wales are the most likely to say that public services listen to their needs. These differing views underscore the diverging political and policy landscapes across the UK.

### The public back penalty fines for wasting public sector time

Leaders from the public services told us that charging for some elements of their offer – like extra bin collections – might be a way to alleviate budget pressures and demand. Our citizen survey explored the circumstances in which the public would find charges reasonable, and found that the most acceptable would be penalty fines for wasting public sector time, like missing NHS appointments or wrongly calling out the emergency services.

### The view from public sector leaders

Across our interviews with more than 50 public sector leaders, seven themes emerged:

01. **The spending outlook means tough choices ahead.** Our interviews suggest that the government faces difficult short and medium term decisions on spending priorities as it gears up for Spending Review 2019.
02. **Brexit is preoccupying Whitehall – but energising civil servants.** Our interviews found that senior civil servant time is inevitably dominated by Brexit, but many told us that their teams have been energised by its challenge and are working more effectively across departmental boundaries.
03. **Local government cuts are having unintended consequences across the system.** Interviewees from the police and the NHS told us that cuts to local government have shunted pressure to their services as austerity is felt across the system.
04. **Thriving local economies are everything – as long as they are inclusive.** The public sector's focus on economic growth has been sharpened by the regional agenda, strengthened by the industrial strategy and elevated by Brexit – but its leaders remain focused on economic inclusion as well.
05. **Analogue processes are increasingly called out as digital transformation continues.** As public bodies strive to exploit digital technologies, examples of old-fashioned processes – like hard copies and faxes of patient records – stand in increasingly sharp relief, according to our interviews.
06. **Public sector talent needs to be better managed, developed and liberated.** Leaders in our interviews aired a range of issues affecting the sector's workforce, including disincentives created by pension arrangements and the need to better exploit the sector's inherent values to attract new talent.
07. **For governments, the world has become more competitive and less predictable.** Several interviewees told us about shifts in the UK's defence and security landscape, the global exposure of our university sector, the need for government agility in supporting inward investment and the increasing importance of adapting in an unpredictable world.

Across all of these areas, the leaders we interviewed told us about reforms that began during the austerity years that they would like to see developed further. *The State of the State* concludes that Spending Review 2019 should consider restating, refocusing and re-energising the government's commitment to those reforms:

- **Outcome-based spending decisions** in central government, realising the potential of the new Public Value Framework and encouraging system-wide thinking
- **Further regional devolution** as the preferred model for pursuing inclusive growth, inward investment and joined-up local services
- The development and implementation of a fair and sustainable model of **social care funding**
- Accelerated **digital transformation** that seizes the opportunities of technology for frontline public services
- The promotion of **greater personal responsibility** and less reliance on state intervention, especially in terms of health and social care
- More deliberate **talent management** and better use of the public sector's advantages to attract high performers.

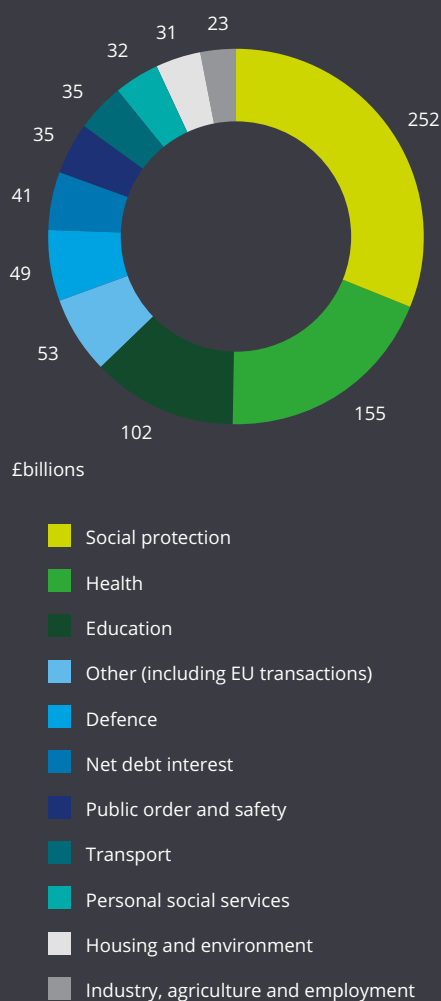
# Government in numbers

The UK state is a complex mosaic of organisations, democratically accountable to 46.1 million electors and serving a population of 65.6 million people.<sup>1, 2</sup>

This financial year, the UK government expects to raise £769 billion in revenue and spend £809 billion, as shown in figure 1. The shortfall between what the state earns and what it spends – the deficit – is funded by borrowing and this year, the government expects to borrow £37 billion, compared to £58 billion at the same time last year.<sup>3</sup> The cumulative effect of borrowing to fund an annual deficit means that the government's debts have risen threefold since the global financial crisis to reach £1.8 trillion.<sup>4</sup>

The government's accounts identify more than 7,000 organisations across England, Northern Ireland, Scotland and Wales as the UK's public sector. Together, they employ 5.34 million people which is 16.5 per cent of everyone in employment. That is the lowest proportion since current records began in 1999.<sup>5</sup> However, the past year has seen a three per cent increase in the number of civil servants as Whitehall resources the UK's exit from the EU.<sup>6</sup>

**Figure 1. Government spending**



Source: HM Treasury

As well as national government in Whitehall, three distinct administrations based in Belfast, Cardiff and Edinburgh run the UK state. However, the Northern Ireland Executive remains out of office after it collapsed in early 2017 following the resignation of the Deputy First Minister and a subsequent failure to agree a new power sharing deal.

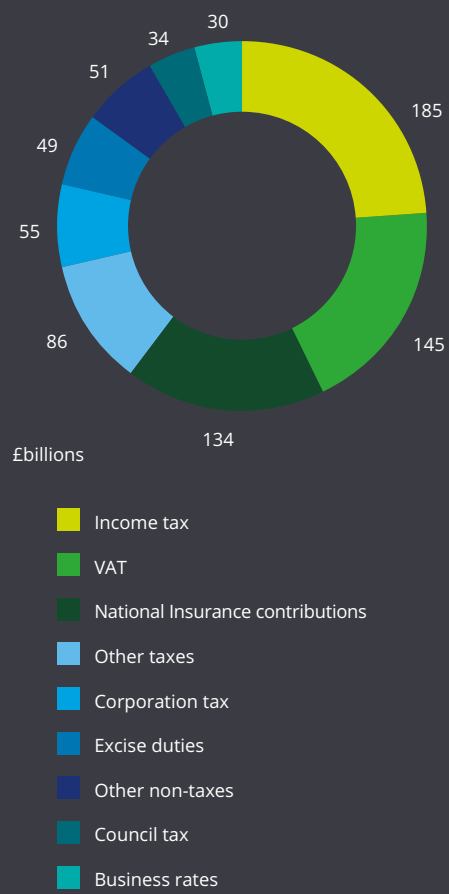
“This financial year, the UK government expects to raise £769 billion in revenue and spend £809 billion.”

Some 134 ministers currently serve as national political decision makers and 929 elected representatives legislate and scrutinise government in Westminster, Holyrood, the Senned and Stormont – although the latter remains suspended – with a further 793 members of the House of Lords acting as a second chamber of the UK parliament.

The UK government's latest balance sheet shows £1.9 trillion of assets, including land, the road network and military equipment compared to £4.3 trillion of liabilities including public sector pension schemes and provisions that are likely to be paid out in years to come. The state's net liability – the difference between what the government owns and what it owes at an accounting year end – rose by £434 billion to reach £2.4 trillion at last count for the 2016-17 financial year.<sup>7</sup>



Figure 2. Government income



Source: HM Treasury



# The state of the public finances

Throughout this decade, successive UK governments have strived to repair the damage to the public finances left by the global financial crisis. Through austerity measures, the deficit it left behind has reduced by three quarters since 2010, but years of borrowing have left the government with £1.8 trillion of debt.

While the Prime Minister has announced that austerity is over, public spending remains under pressure – not least because the UK's economic growth forecasts are sluggish. In the medium term, government faces tough choices on spending priorities as it begins a fresh Spending Review. And in the long term, public services will not be financially sustainable unless the government takes forward plans to reform social care funding.

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

## From economic recovery to economic uncertainty

In the wake of the 2008 global financial crisis, the UK entered its deepest recession since quarterly data was first published in 1955. Over the six years that followed, the economy returned to its pre-crisis level before showing some of the best growth levels among the major economies. However, when the date of the EU referendum was set in early 2016, the inevitable short-term uncertainty began to drive a slowdown in corporate investment.

“The global financial crisis hit the UK's public finances hard”

In the immediate wake of the vote to leave the EU, economic indicators were mixed. But the immediate economic impact of the decision to leave the EU was not as negative as many feared and 2017 even saw the fastest upturn in UK consumer spending for a decade.

This summer saw some encouraging signs when the UK's economy was estimated to have grown by 0.4 per cent in the three months to June, up from 0.2 per cent in the first quarter. As the Office for National Statistics (ONS) observed, sunnier weather and the World Cup are likely to have played a part in that growth by boosting consumer spending.<sup>8</sup>

However, the underlying trend in the UK economy is that growth has slowed since the EU referendum and the economy seems likely to grow at a slower rate than the Euro area countries in 2019 for the third consecutive year. While the UK is expected to grow 1.6 per cent this year, the Eurozone is expected to grow by 2.4 per cent and the US by 2.9 per cent.

Deloitte's CFO survey found big businesses particularly pessimistic over EU exit in summer 2018 when speculation of a 'no deal' departure peaked. Some 40 per cent said that they are scaling back their hiring plans and a third expected to reduce their capital expenditure over the next three years, up from a quarter in the previous survey.<sup>9</sup> Ultimately, this is how businesses react to uncertainty – and short to mid-term uncertainty is inherent at this stage of the EU exit process.

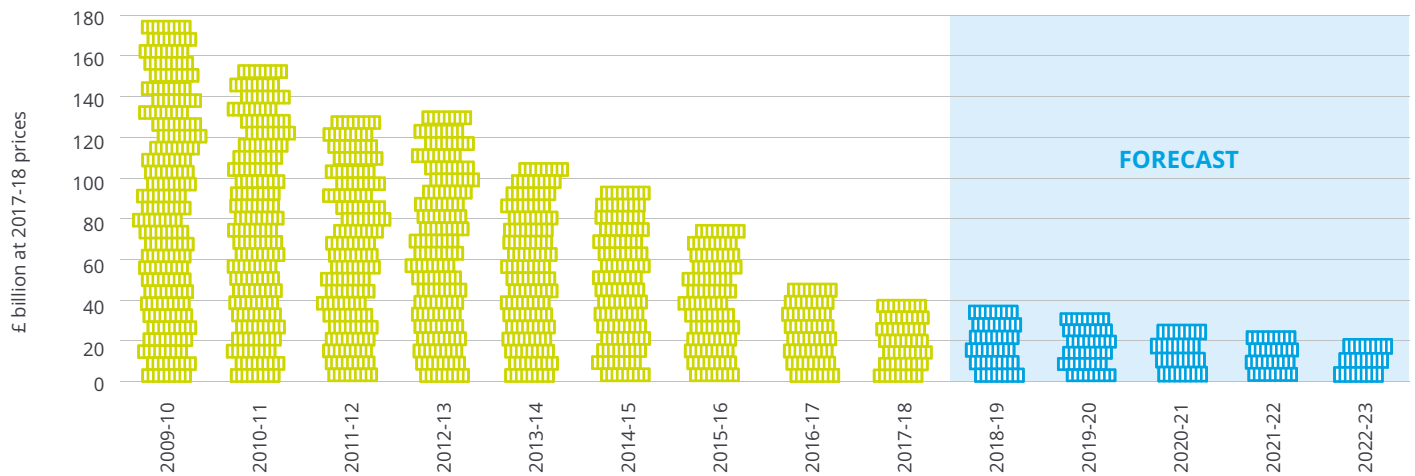
## Austerity and the path of deficit elimination

The global financial crisis hit the UK's public finances hard, creating a deficit that grew to a post-war record of £153 billion. In the five years that followed, the Conservative and Liberal Democrat coalition halved it by initiating a period of public sector austerity, and subsequent Conservative administrations have continued those austerity policies to bring the deficit down to £39.4 billion this summer. Measured on a day-to-day basis, the budget even showed a surplus in March 2017, meeting one of the government's original 2010 deficit targets, albeit two years later than first planned. Figure 3 shows how the annual deficit has reduced by more than three quarters since 2010, and its expected path to 2023.

Austerity measures have been delivering a substantial reduction in government spending as a proportion of GDP over the course of this decade. Figure 4 shows public spending measured in this way across the G7 nations and illustrates the respective drop in UK spending from 45 per cent in 2010 to 39 per cent in 2018. Forecasts suggest the figure will reach 37 per cent by 2022.<sup>10</sup>

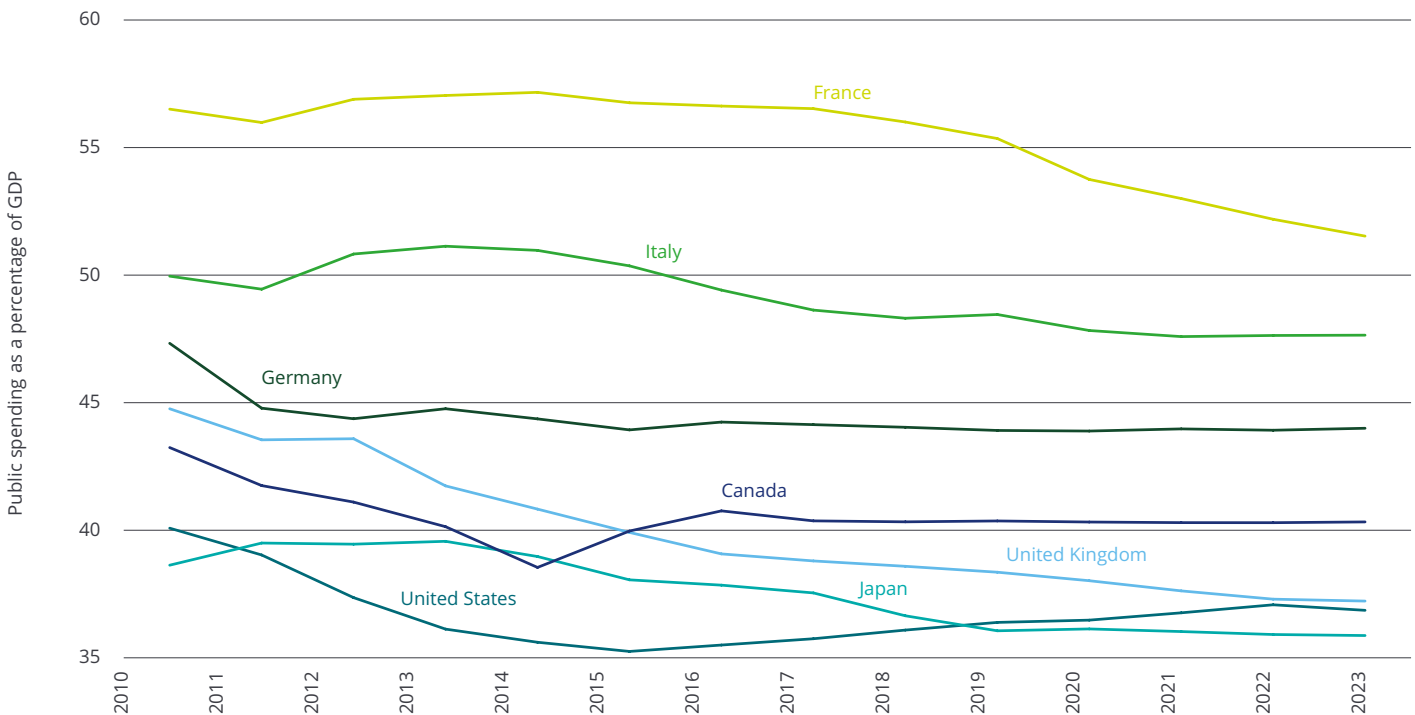


**Figure 3. The path of deficit reduction**



Source: Office for Budget Responsibility

**Figure 4. Public spending in the G7 nations**



Source: International Monetary Fund

### Towards the summit of the debt mountain

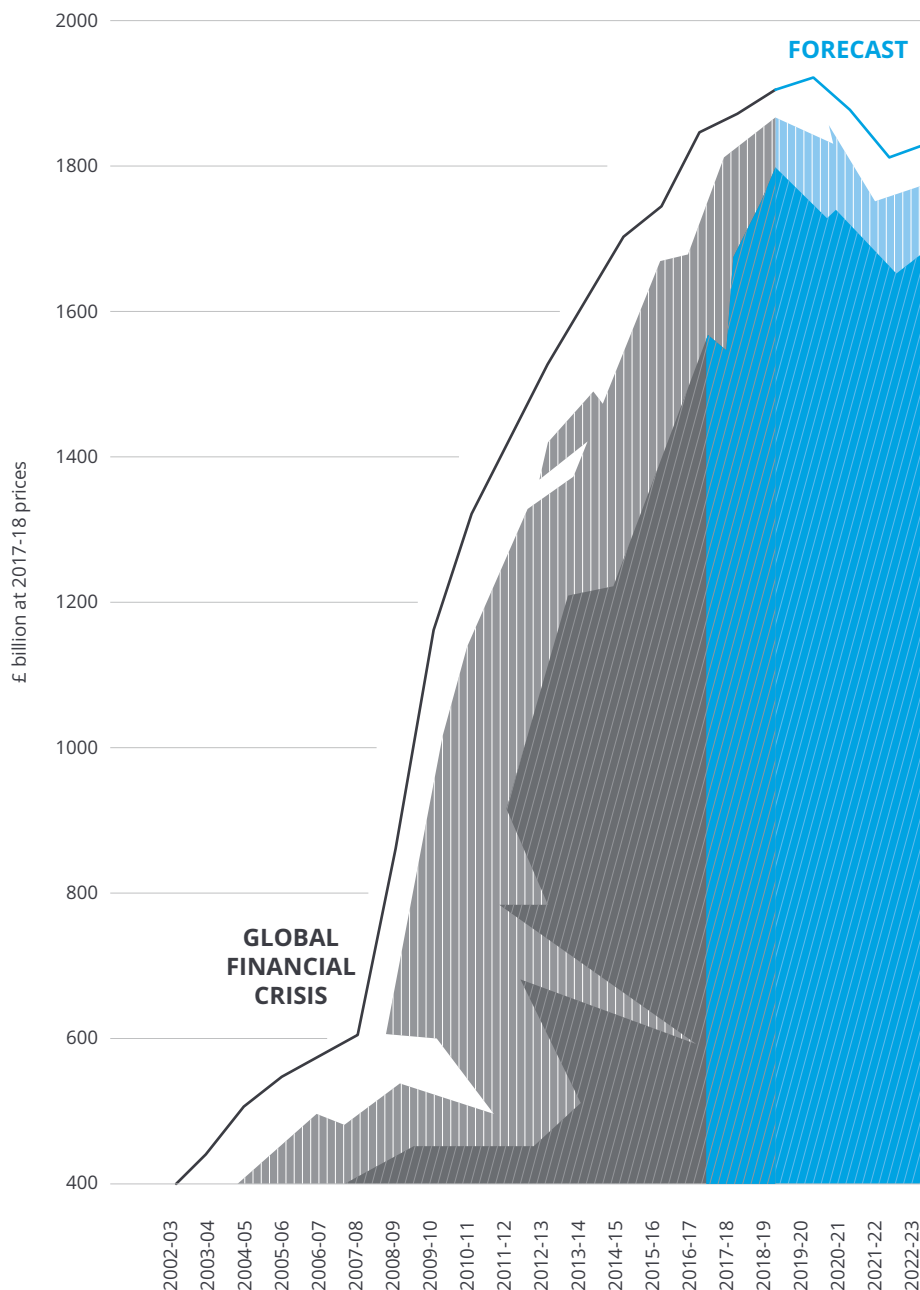
When governments run a deficit, they fill the gap between their income and spending by borrowing and since the global financial crisis, the UK government's debt has trebled to £1.78 trillion. That level of debt comes at a price: this year, the government will spend £41 billion on interest, which is significantly more than it spends on the police and criminal justice system. However, with the deficit under greater control, the summit of the debt mountain appears to be in sight. Figure 5 shows how the OBR forecasts debt will peak at £1.82 trillion in 2019-20.

### Public spending in the short and medium term

The UK's public spending is currently following a budget set out in the 2015 Spending Review, covering the period up to 2019-20. The overall spending envelope, along with HM Treasury's onward projection beyond the Spending Review period, is shown in figure 6.

With the end of the current Spending Review period in sight, Whitehall has begun work on the next, set for publication in 2019. The period it will cover is yet to be confirmed, perhaps because of a uniquely complex set of circumstances as it is unclear what powers the UK public sector will repatriate from the EU, what resources will be needed to administer them or how the UK economy is likely to perform over the next five years. Analysis by the OBR finds that "Brexit is more likely to weaken the public finances than strengthen them over the medium term, thanks to its likely effect on the economy and tax revenues".<sup>11</sup>

Figure 5. Towards the summit of the debt mountain



Source: Office for Budget Responsibility

**Figure 6. Total managed expenditure to 2022-23**

£ billion	2018-19	2019-20	2020-21	2021-22	2022-23
Total public sector current expenditure	730.2	740.1	752.4	772.9	795.1
Total public sector gross investment	79.1	86.6	97.6	98.8	101.8
<b>Total managed expenditure</b>	<b>809.3</b>	<b>826.7</b>	<b>849.9</b>	<b>871.7</b>	<b>896.8</b>
Total managed expenditure as a percentage of GDP	38.5%	38.3%	38.2%	37.9%	37.7%

Source: HM Treasury

Aside from these uncertainties, a number of factors are coming together that will require difficult medium-term spending choices for government, including:

- **NHS spending commitments**

In June 2018, Prime Minister Theresa May announced a funding increase for the NHS amounting to £20.5 billion in real terms by 2023-24. While the Prime Minister said the increase would be funded in part by a “Brexit dividend” and in part by “us as a country contributing a little more”, the exact details of that funding are as yet to be confirmed.<sup>12</sup> More widely, health analysts concur that the increase, which equals an increase of around 3.4 per cent a year, will be sufficient to keep the NHS running at its current level but an increase of at least four per cent a year in real terms would be needed to meet increasing levels of demand and expectation while additionally driving improvements.<sup>13</sup> Either way, these substantial increases in NHS funding mean less money will be available for other parts of the public sector.

“The state spends more on the treatment of obesity and diabetes than on the police, fire service and judicial system combined.”

- **The need to tackle inequality**

Last year’s *State of the State* report showed that tackling inequality became an even greater public sector priority in the wake of the Grenfell Tower tragedy, building on the Prime Minister’s 2016 commitment to tackle the UK’s social injustices. But of course, policy interventions come with resource implications and government will need to factor its commitment to tackling inequality into spending decisions. In its annual assessment of the UK, the International Monetary Fund (IMF) suggested that the UK should tackle inequality by building more homes while easing planning restrictions to make housing more affordable; improving infrastructure so that regions are more connected; reforming education to tackle skills shortages; and investing in research to give UK companies an advantage internationally.<sup>14</sup>

- **Public sector pay rises**

In July 2018, the government scrapped the public sector pay cap it established in 2010 and announced pay rises for a million public sector workers. The rises will be funded from departmental budgets and analysis by the Institute for Fiscal Studies suggests they will cost £800 million per year in addition to the existing one per cent pay rises.<sup>15</sup> This means that less funding will be available for other, non-pay related spending by those departments.

- **The impact of austerity**

The citizen survey in this year’s *State of the State* shows that since austerity began in 2010, public support for cuts has fallen. Chancellor Philip Hammond recognised this shift more than a year ago, when he observed that voters had become “weary of the long slog” of austerity, and ministers will no doubt be mindful of that trend in voter sentiment as they negotiate departmental settlements. Austerity’s impact was also raised by public sector leaders in our research interviews. Many aired concerns that spending cuts in some parts of the system – notably local government – are raising demand in others. The closure of youth centres, for example, might lead to increases in anti-social behaviour and therefore demand on the police. The IMF sees little prospect of major spending increases in the UK, and has urged the government to continue bolstering its public finances through tax reforms and reductions to guaranteed annual increases in state pensions.<sup>16</sup>

- **Citizen behaviour**

Unfortunately people do not always behave in their own best interests and unhealthy lifestyles are putting a massive strain on the public purse. For example, Public Health England estimates that the state spends more on the treatment of obesity and diabetes than on the police, fire service and judicial system combined.<sup>17</sup> This explains why so many public sector leaders in our *State of the State* interviews talked about the need for the public to take greater personal responsibility for their own lives – not just for their own well-being but to reduce demand on the public services.

- **Social care in crisis**

Issues in the long-term sustainability of social care funding have been widely acknowledged. However, across the UK, social care is reaching a crisis point that will require more urgent attention as well as longer-term solutions. This summer, research from the Local Government Association (LGA) showed that the gap in adult social care funding will reach £3.56 billion by 2025 as demand continues to grow and the proportion of council tax spent on care is rising from 28 pence in the pound in 2010-11 to 38 pence in 2019-20, squeezing the funding available for other council services. Adding to that pressure, in six months this year, funding issues put residential care providers out of business in more than 100 council areas.<sup>18</sup> In other words, the whole social care system needs urgent attention in addition to a long-term solution to its financial sustainability.

One way to mitigate the impact of funding constraints is to make sure that taxpayers' money is deployed as effectively as possible – and the government is pursuing that through the introduction of a new 'Public Value Framework'.

Developed by Sir Michael Barber, the framework was published with little fanfare alongside last year's Autumn Budget.<sup>19</sup> It sets out a compelling model for assessing the impact of public spending in terms of how public bodies pursue outcomes, manage their resources, engage users and develop their organisational capacity. Ultimately, it offers a way of thinking that connects public spending with outcomes. This year, four Whitehall departments are piloting its use.

Blogging on the framework, Cabinet Secretary Sir Jeremy Heywood wrote that the Civil Service "should seize this opportunity to bring about lasting change in the interaction between spending departments and the centre".<sup>20</sup> In other words, the framework should encourage departments to negotiate funding with the Treasury on the basis of what they will deliver rather than the size of the settlement. As our interviews with public sector leaders show, the framework's potential is profound – but only if it is used.

“While public spending appears under pressure in the short and medium term, the long term view is even more daunting.”

#### **Public spending in the long term**

While public spending appears under pressure in the short and medium term, the long term view is even more daunting – mainly due to demographic changes.

In common with many advanced economies, the UK's population is ageing. The proportion of older people is growing, people are living longer and people are coping with more complex conditions. Official population projections suggest that the number of people in the UK aged over 85 will increase from 2.4 per cent to 7.4 per cent of the population in the next 50 years.

However, the costs of hospital and community services for people over 85 are three times greater than for a person aged 65 to 74.<sup>21</sup> Over the next 50 years, official projections suggest that spending on health will increase by ten per cent, spending on long-term care will double and spending on state pensions will increase by a third in relation to GDP as a result of age-related pressures.

As well as consequences for spending on public services, these pressures also have consequences for the government's budget deficit and debt levels. Analysis by the OBR suggests that unless future governments increase taxes or fund health spending from cuts elsewhere, the deficit would return to post-financial crisis levels and debt – currently at 86 per cent of GDP – would rise to 283 per cent of GDP within five decades.<sup>22</sup> Those projections exclude any additional spending for services including new provisions for adult social care. It is therefore unsurprising the OBR this year warned both the government and opposition that they should “think carefully about the long-term consequences” of policy proposals.<sup>23</sup>

#### **The government's balance sheet**

For the past eight years, the UK government has published the largest consolidated annual public sector accounts in the world, confirming its place as a world leader in financial reporting. This consolidation includes over 7,000 organisations and spans all of the UK public sector, including central government, local authorities, the devolved administrations, the NHS, academy schools and public corporations. Whole of Government Accounts (WGA) allow for a unique, accounts-based perspective on the state's underlying financial health and sustainability. Figure 7 provides an extract of the most recent WGA report, for the financial year 2016-17.



**Figure 7. Statement of revenue and expenditure**

£ billion	2016-17	2015-16	Notes
Revenue	(720.8)	(693.9)	Includes services provided by councils such as social care, as well as EU income passed onto third parties such as farming subsidies
Total expenditure on public services	760.7	742.2	Includes £224 billion on social security benefits, £191 billion on staff costs and £195 billion on goods and services
Financial costs of long-term liabilities, including discounting	68.3	187.4	Includes £51 billion of pension financing costs and £9 billion of provision financing costs that refer to changes in the discounting of future liabilities rather than a change to the amount expected to be paid out
Revaluation of financial assets and liabilities	(10.4)	8.1	The net loss on revaluations and disposals of assets and liabilities
Net expenditure for the year	97.8	243.8	The shortfall between the government's income and expenditure in accounting terms

**Figure 8. Statement of financial position**

£ billion	2016-17	2015-16	Notes
Assets	1,903.0	1,742.4	Assets – what the state owns – including the rail and road network, military equipment, land and buildings
Liabilities	(4,323.7)	(3,728.4)	Liabilities – what the state owes – including government borrowings, banknotes in circulation and public sector pension schemes
Net liability	(2,420.7)	(1,986.0)	The difference between assets and liabilities

Source: HM Treasury

**Key findings in the latest WGA are:**

- Net liabilities – the difference between assets and liabilities – increased from £1.9 trillion to £2.4 trillion, mainly due to increases in pension liabilities as a result of pension scheme revaluations due to a change in discount rate.
- Public sector salaries increased marginally from £149.6 billion to £151 billion even though the number of full time staff decreased by 55,160 over the timescale covered. Public sector pay has been subject to a 1% cap since 2013, resulting in broadly stable pay figures, however, the UK government has announced new public sector pay rules for 2018-19, which may cause this to increase in future years.
- Total public sector revenues increased to £720.8 billion in 2016-17, from £693.9bn in 2015-16. This includes a 6% increase in tax revenues, primarily due to an increase in economic activity.
- Total expenditure on public services increased from £720.8 billion in 2016-17, to £760.7 billion in 2016-17. The largest area of expenditure continues to be social protection spend, which includes social security benefits and social care.

In his report on this year's accounts, the National Audit Office's Comptroller and Auditor General (C&AG) observed that WGA have become increasingly important to the UK's public financial management and are referenced by national institutions in their commentaries on government finance. He went on to note that HM Treasury has continued to improve on their presentation to provide "better quality analysis of the cross government finances" that allow for "a more complete picture of the economic performance and position of the UK public sector".<sup>24</sup>

Commentary from the C&AG suggests that future accounts should look in more detail at the £195 billion the government spends on goods and services, which would deepen their usefulness and relevance in scrutinising the government's public financial management.<sup>25</sup>

The OBR also observes that provisions on the government's balance sheet, including the costs of decommissioning the Sellafield nuclear site and for clinical negligence claims against the NHS, have the potential to become major pressures on the public purse. Those provisions – which are a way of accounting for future costs that are not certain to arise – currently stand at £322 billion.







# The view from citizens

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 what matters most to their users. Both matter more than ever as decision makers and policy makers explore ways to maximise the value of public spending, encourage greater personal responsibility and shift public expectations on the public services.

For the third year, Deloitte and Reform have commissioned Ipsos MORI to survey almost 1,500 UK adults on their attitudes to public spending, government priorities and public service reform. Polling took place late in the summer of 2018 and the results have been weighted to reflect the known profile of the adult population.

Overall, the results show a marked shift in public attitudes over the course of the UK's austerity years. In 2010, more than half thought that spending cuts were needed to restore the public finances but now less than a fifth support cuts. At the same time, the number of people who back tax rises to fund more extensive public services has risen from a low in 2009 to a majority view in 2018.

Our survey also shows that the public are concerned the state will do less for them in the years ahead, perhaps as a further reaction against austerity.

It also finds some notable differences between citizen attitudes in England, Northern Ireland, Scotland and Wales.

For example, people in Scotland are more likely to believe the public services should be more extensive, those in Northern Ireland are the least likely to have been affected by austerity and the citizens of Wales are the most likely to back penalty fines for people who wrongly call out the emergency services.

This chapter sets out the key findings from our survey and flags those national differences where they are significant.

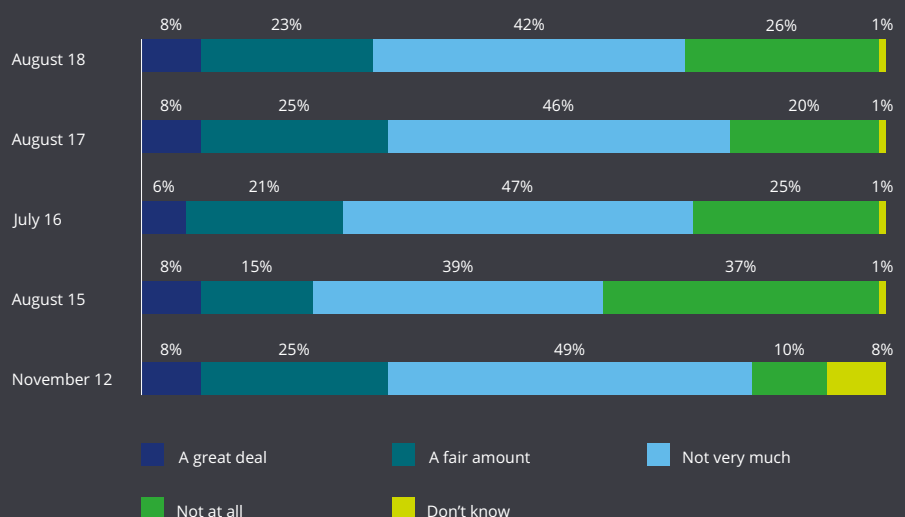
## The number of people affected by austerity remains stable

Our survey found that the number of people feeling the impact of austerity has not risen in the past year, although it remains elevated from earlier this decade. As figure 9 shows, a third of the public say they have been affected by austerity compared to a quarter in 2015.



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?

Figure 9: Numbers affected by austerity unchanged



Base: 1463 UK adults.

The UK's devolved administrations have, to differing degrees, cushioned their citizens from the impact of austerity. This is likely to have influenced peoples' experiences of spending cuts across the UK's four nations. Figure 10 shows that 32 per cent of people in England say they have been affected, compared to 30 per cent in Wales, 27 per cent in Scotland and 22 per cent in Northern Ireland.

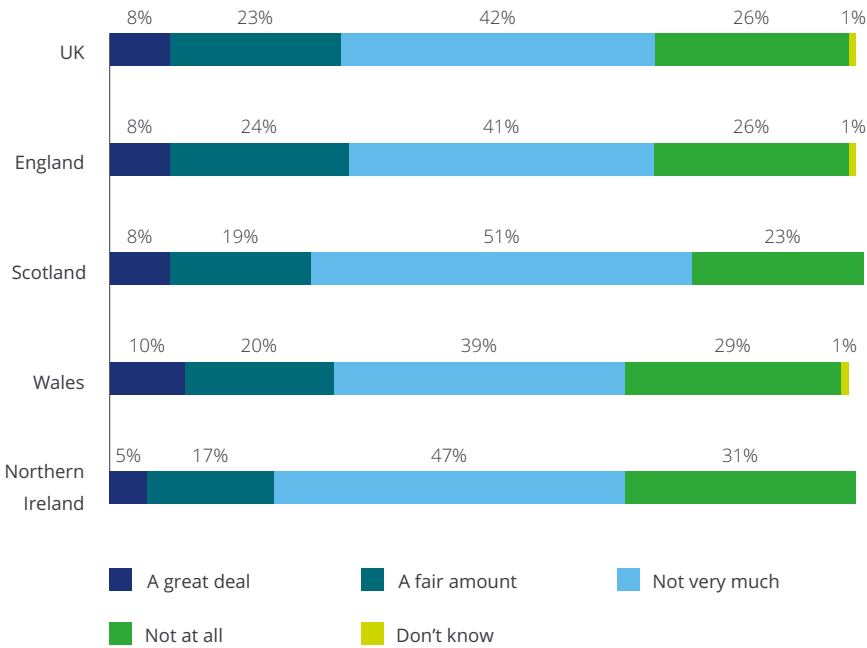
Support for austerity has dwindled

The survey also found that the majority of the UK public oppose spending cuts to improve the public finances. In 2010, just before the UK coalition government set out its austerity plans, 54 per cent of the public agreed that there was a need to cut public spending. That support has since dwindled to just 19 per cent this year, as figure 11 sets out. These figures are broadly consistent across the UK.



Figure 10: Austerity's impact across the UK

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?

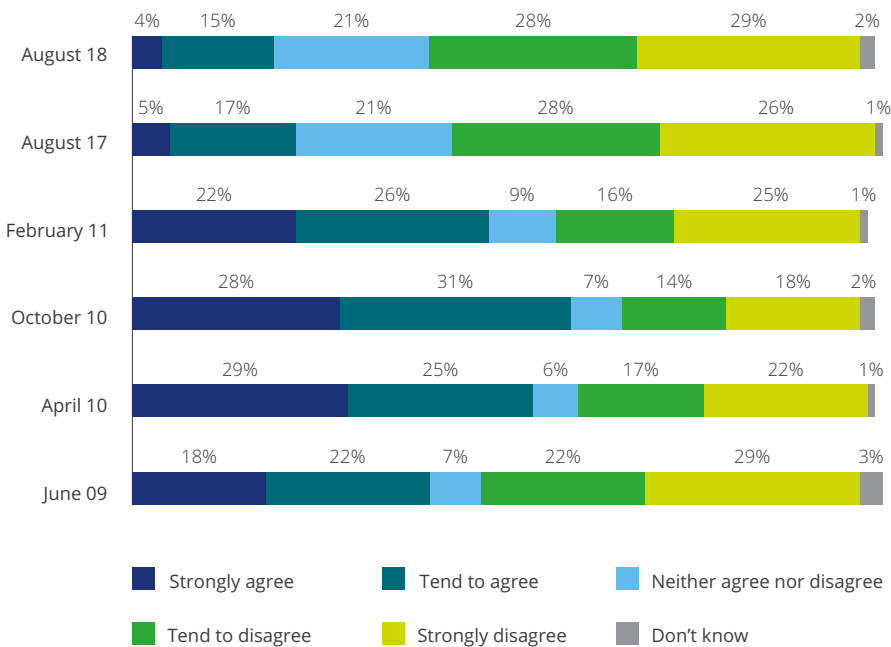


Base: 1463 UK adults.



Figure 11: Support for cuts decreases over austerity years

There is a real need to cut spending on the public services in order to pay off the very high national debt we now have...



Base: 713 UK adults. Numbers may not add to 100 due to rounding.



### Austerity has seen a shift in attitudes to tax and spending

Public attitudes on the balance of tax and spending have shifted significantly over the same timescale. Last year's survey found a marked increase in the number of people that believe government services should be extended – even if that means tax rises – and this year's survey shows that remains the majority view. The proportion of people who back higher taxes to pay for more extensive public services now stands at 62 per cent compared to just nine per cent who would prefer to see taxes and services cut. As figure 12 shows, this represents a significant shift in public opinion over the course of austerity.

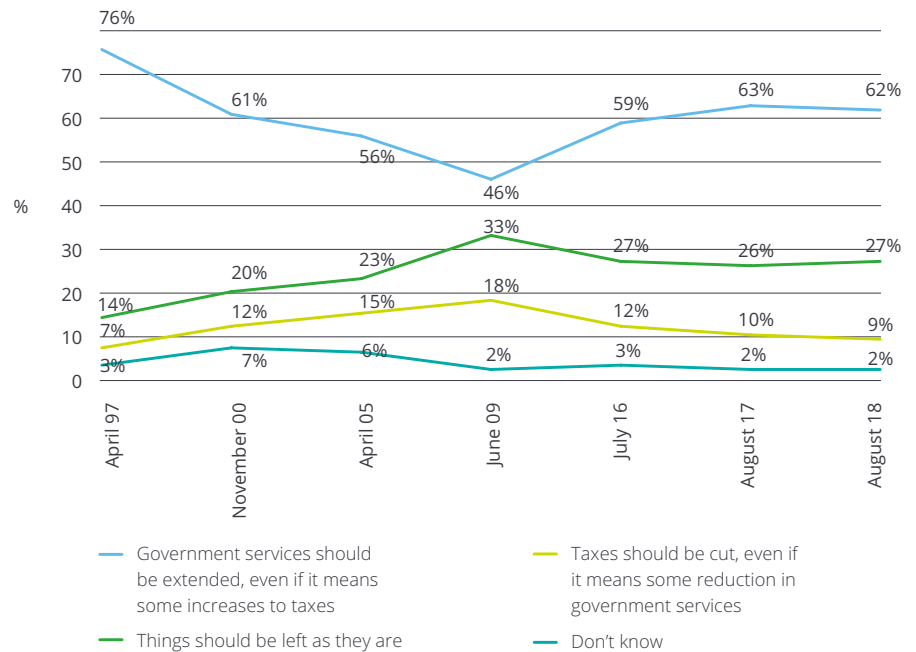
However, this poll does not show how much tax the public would be willing to pay, and evidence suggests that they would expect to see modest rises. A poll by Reform in early 2018 suggested that most voters would be willing to pay around £5 per month to fund greater spending on the NHS.

These attitudes differ across the UK. As figure 13 shows, people in Scotland are significantly more likely to believe that government services should be extended and funded through higher taxes.



**Figure 12: Shift in attitudes to tax and spending**

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?

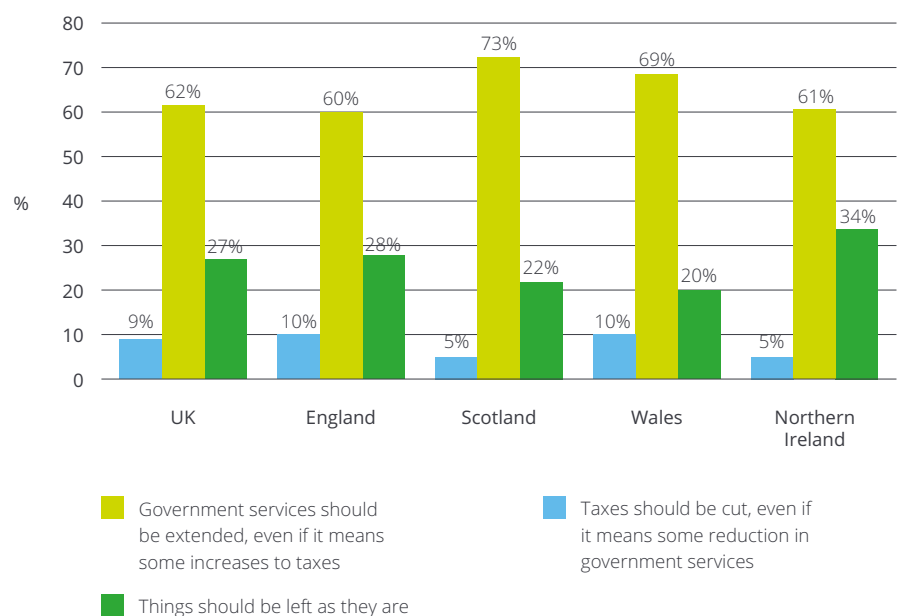


Base: 1463 UK adults.



**Figure 13: Opinions on tax and spend by region**

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: 1463 UK adults.

Policing has gone up as a public priority

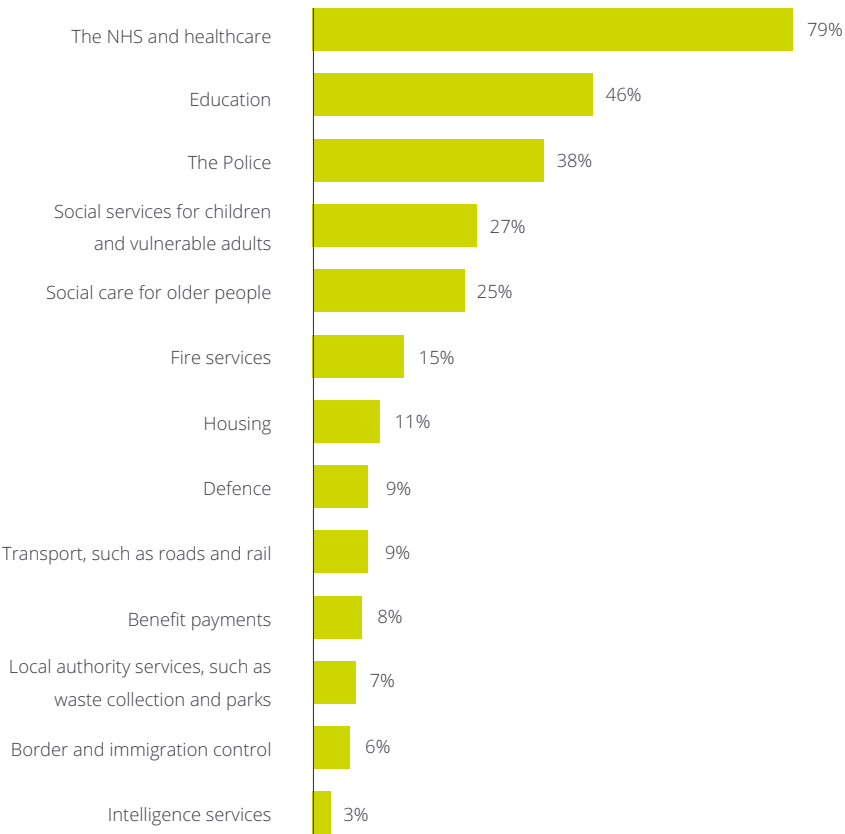
We also asked the public to select two or three areas of public spending that they think should be protected from further spending reductions. As in previous years, the NHS and healthcare remain the public's top choice, followed by education and then the police. However, this year, there has been an increase in the number of people also saying that police spending should be protected – from 32 per cent last year to 38 per cent this year – as shown in figure 14.

Digging into the data, we can see that different demographic groups prioritise different areas for protection. Perhaps inevitably, housing is a priority for Londoners, but also for single people and those working in more manual occupations. Social care for older people is a priority for those over 55, who are more likely to have older parents, and the NHS is more important to parents. Figure 15 outlines priority areas for different demographics.



Figure 14: Public want to protect NHS, education and the police from cuts

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



Base: 1463 UK adults.

Figure 15: Priorities by demographic

Areas to protect from further cuts	More important for...
NHS	Parents; ABs
Education	15-44 year olds; households with children; high earners; employed
The police	North and South; married
Social care for older people	55-65+; households without children; lower income
Social services for children and vulnerable adults	Women; Scotland and Wales; graduates
Housing	Londoners; DEs; single

### The public doesn't think the public sector does too much – and is concerned for future provision

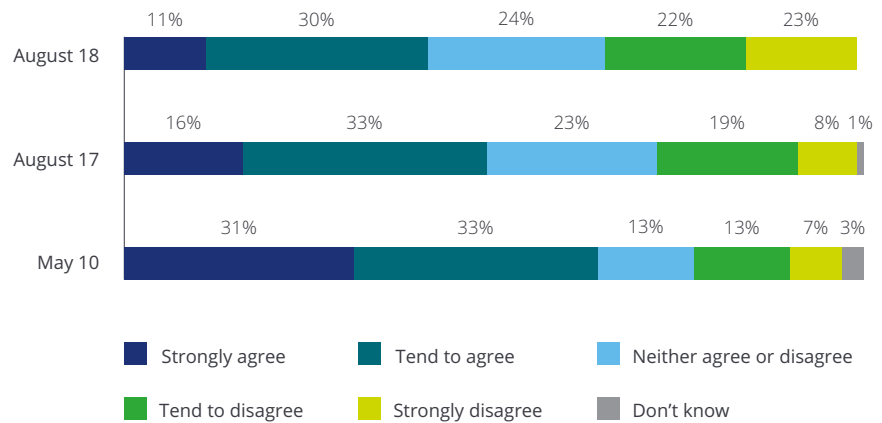
Our interviews with public sector leaders show that many want to change the relationship between the citizen and the state, resetting the public's expectations of the public services they should receive. Many see that as a significant way for the sector to cope with continued budget pressures. However, our survey shows the scale of that challenge. The number of people who think the state does too much, and people should take more personal responsibility for their own lives has fallen from 64 per cent in 2010 to 41 per cent this year. Figure 16 shows that trend.

These attitudes appear to differ across the UK, with people in Northern Ireland the least likely to say that government does too much. Figure 17 shows the differences.



**Figure 16: Fewer people think the government does too much**

**In recent years government and public services have tried to do too much, and people should take more responsibility for their own lives...**

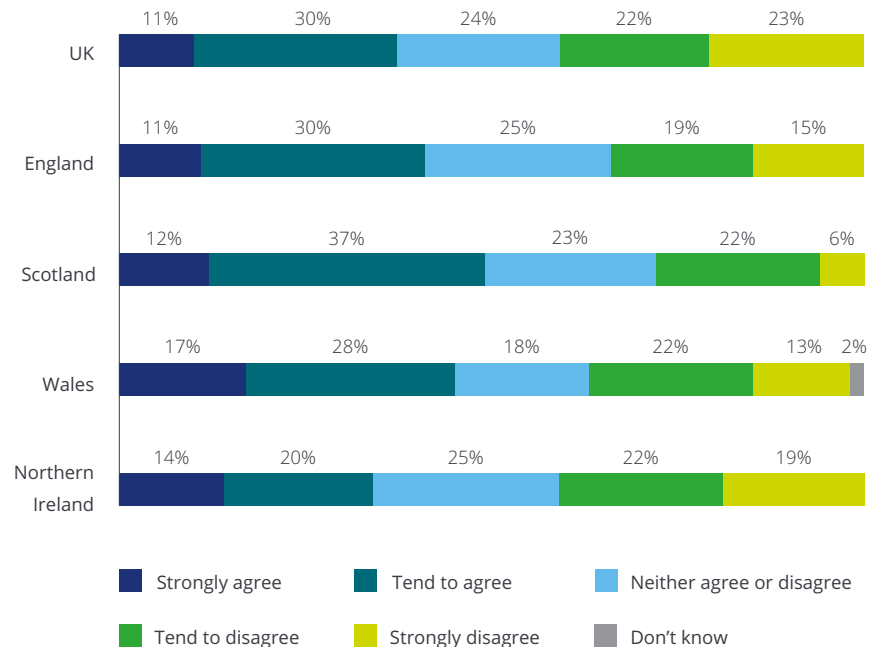


Base: 687 UK adults. Numbers may not add to 100 due to rounding.



**Figure 17: Regional views on the extent of government support**

**In recent years government and public services have tried to do too much, and people should take more responsibility for their own lives...**



Base: 687 UK adults. Numbers may not add to 100 due to rounding.

Fewer people are prepared to receive less from the public services

In the context of austerity, the number of people who say that they are personally willing to accept less from the public services continues to fall. In 2010, nearly half of the public said that they would accept less from the public services in order to restore the public finances. This year, that support has plummeted to 15 per cent. Again, these findings suggest that the public is largely resistant to the idea of a public sector that delivers less, as shown in figure 18. These attitudes are broadly consistent across the UK, except with people in Northern Ireland more open to receiving less from the public services.

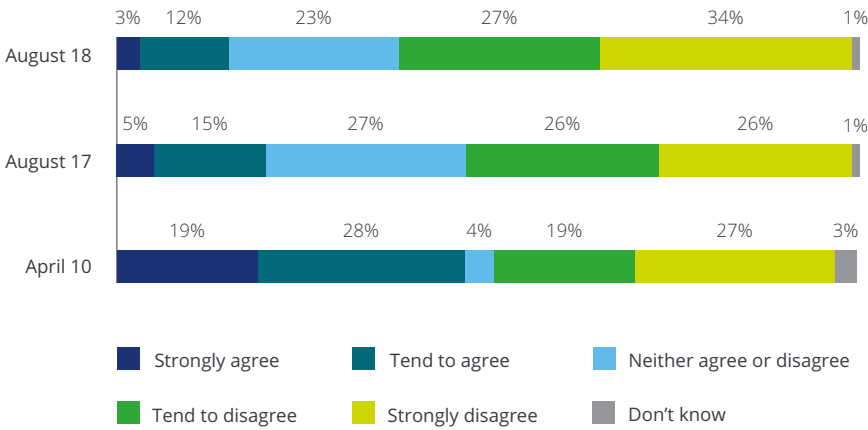
People are increasingly concerned that the government will do less for them

Looking ahead, the public are increasingly concerned that government and the public services will not do enough to help people in the future. Our survey found that some 70 per cent believe the public sector will provide too little support in the years ahead, compared to half in 2010, as shown in figure 19.



Figure 18: Numbers willing to accept less from government falls

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...

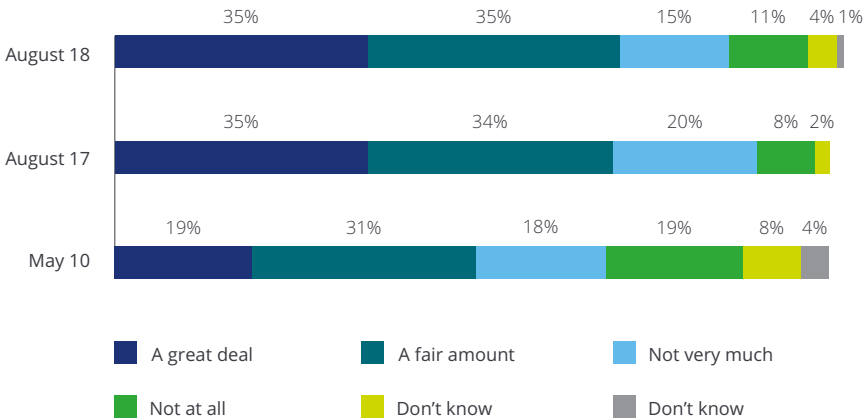


Base: 1463 UK adults. Numbers may not add to 100 due to rounding.



Figure 19: Concerns growing over future provision

I am worried that government and public services will do too little to help people in the years ahead...



Base: 774 UK adults. Numbers may not add to 100 due to rounding.



Views on this issue appear to differ across the UK. As figure 20 shows, people in Scotland are more likely to be concerned about what the public services will do for them in the future, and people in Northern Ireland less concerned, compared to the UK average.

### Citizens are less likely to feel public bodies listen to them, involve them and offer them a personalised service

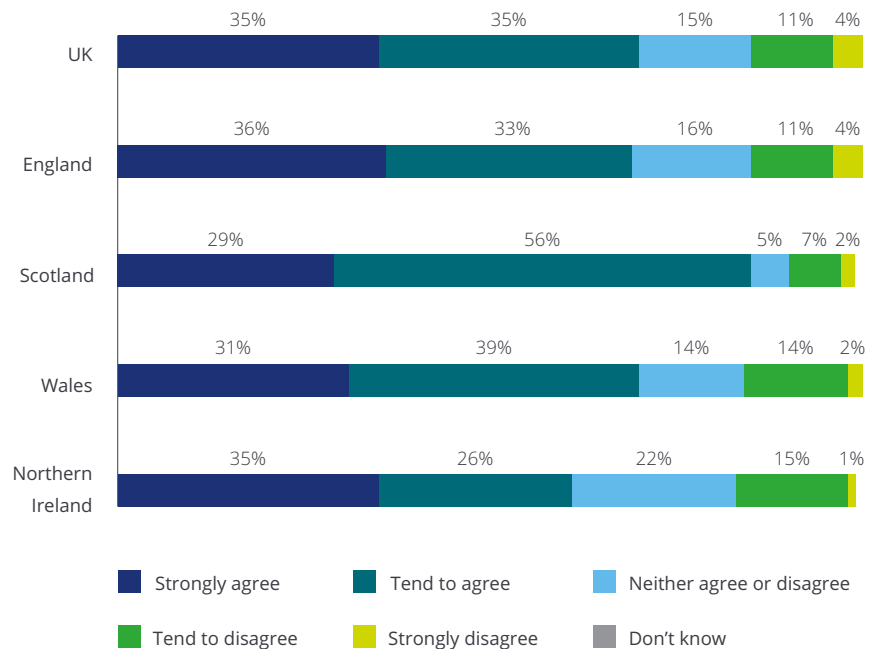
Our survey explored citizen attitudes towards public service delivery, and found their views less positive than in recent years - perhaps driven by perceptions of austerity. As figure 21 shows, fewer than one in ten feel that the public services offer a personalised service, listen to them or involve them in decisions.

Across the UK, our survey found that these perceptions are broadly consistent, except people in Wales are more likely to feel that organisations running public services listen to their needs and work with other public bodies to deliver services they could not offer on their own. While the UK figures were 16 per cent and 17 per cent respectively, the results in Wales were 24 per cent and 22 per cent.



Figure 20: Views on future services by region

I am worried that government and public services will do too little to help people in the years ahead...

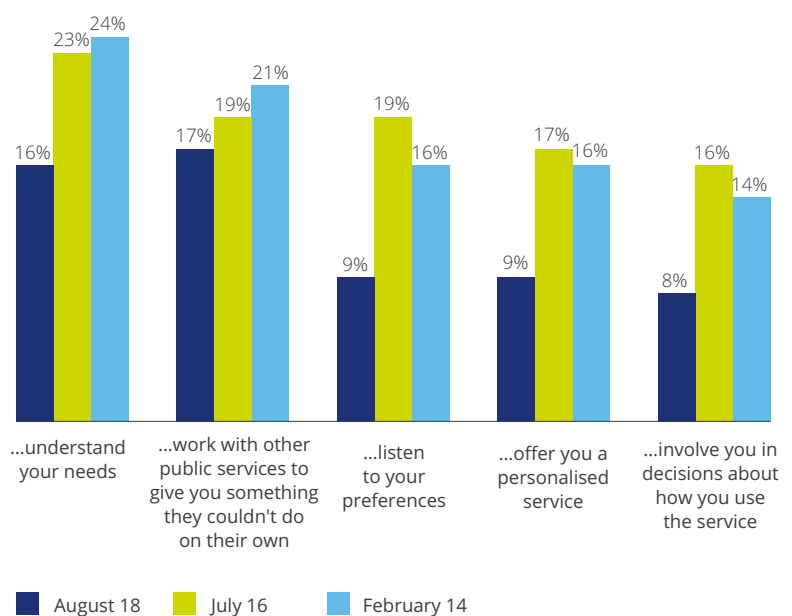


Base: 1463 UK adults. Numbers may not add to 100 due to rounding.



Figure 21: Views on public service engagement

Do you think that public service organisations always or often...



Base: 1463 UK adults.

### The public believe that a more joined-up public sector would drive improvement

Our survey asked the public how they thought different ways of organising public services would affect quality of service, cost effectiveness and accountability to the public. The findings, set out in figure 22, show that people believe joined-up working between the public services is most likely to improve all three factors, while partnerships with business and charities are also seen as positive. The results also show that the public is less enthusiastic about businesses or charities delivering public services alone. And perhaps shaped by high-profile failures of outsourcing this year, citizens are slightly more likely to think that business involvement makes public services less accountable than when we asked them last in 2016.

However, citizens in Northern Ireland, Scotland and Wales appear to have a greater appetite for different ways of organising public services than those in England. Across the board, our survey found that citizens in the three devolved administrations are more likely to think that the quality of services and their cost effectiveness would be improved by different public services working together or by businesses delivering public services.

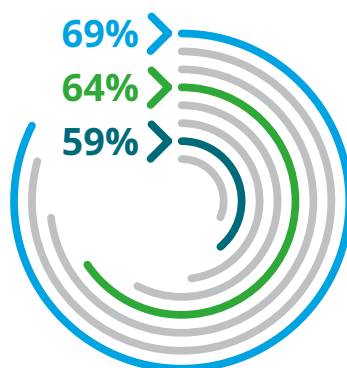


Figure 22: Demand for joined-up public services

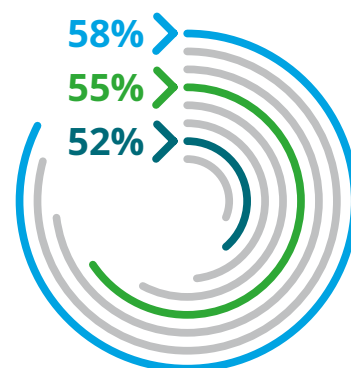
What impact, if any, do you think these different ways of organising public services would have on each of the following? Would it make it better or worse or would it make no difference?

> Percentage better

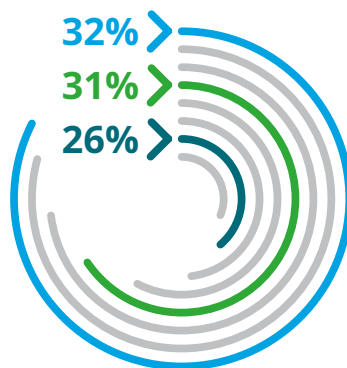
Different public services working together more often



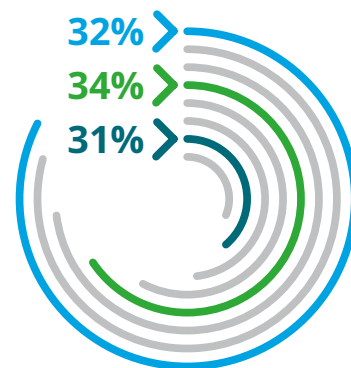
Public sector, businesses and charities all working together to deliver public services



Businesses delivering public services on behalf of central and local government



Charities delivering public services on behalf of central and local government



■ Quality of service ■ Cost effectiveness ■ Accountability to the public

Base: 1463 UK adults.

### The largest appetite for charging for public services is with penalty fines

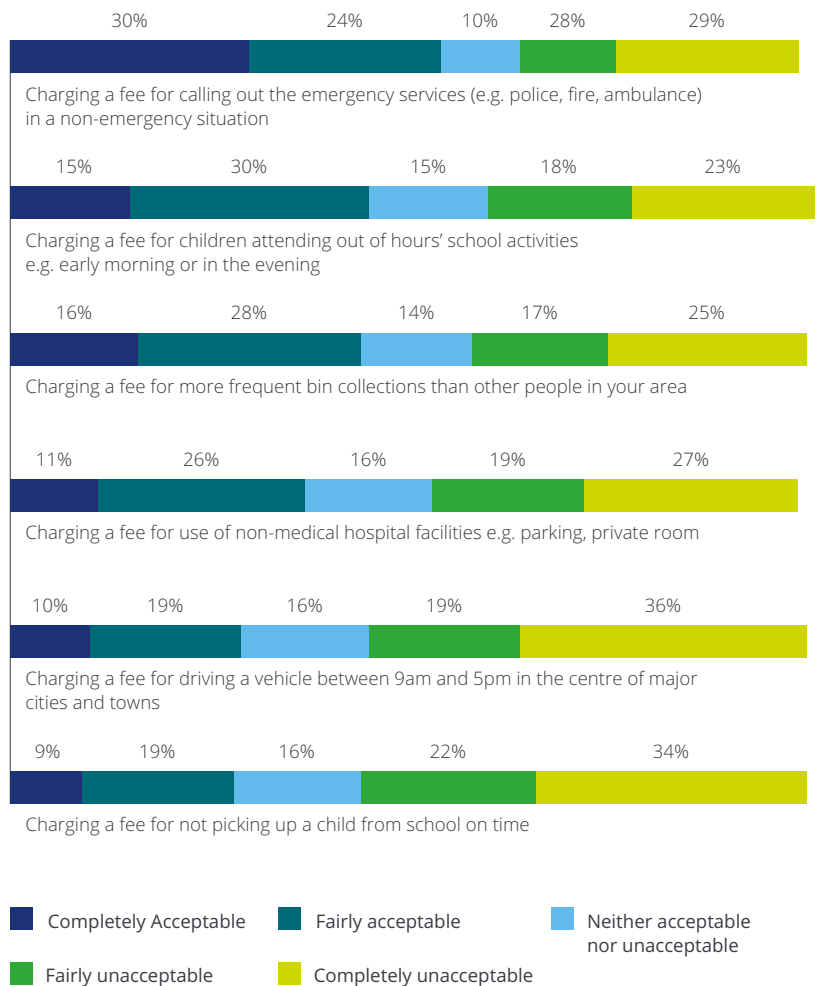
Charging for certain elements of provision in the public services is not new – many people already pay for dentistry, eye care and prescriptions. However, it remains a contentious subject.

This year's survey explored public attitudes towards forms of charging. We asked people how acceptable they would find charges under a range of circumstances and found that their largest appetite was for fining people who wasted public sector time. Figure 23 shows that 54 per cent would find it acceptable to charge people a fee for calling the emergency services in a non-emergency situation, 45 per cent find charges for after-school clubs acceptable and 44 per cent would be open to charges for extra bin collections.



**Figure 23: Support for charging for public services**

**Thinking about funding public services, how acceptable or unacceptable do you feel it is to charge a fee for each of the following:**



Base: 1463 UK adults. Numbers may not add to 100 due to rounding.

Different demographics find different charges more acceptable

Our survey also found that demographic groups differ in their views on charges for public service ‘extras’. Londoners who are used to the congestion charge understandably find it acceptable, but we also found that higher earners are more open to the idea of charges for preferential services. Figure 24 shows which groups find charges more acceptable.

Figure 24: Views on charging by demographic

Charging fees for...	More acceptable to...
More frequent bin collection	15-24s; high earners (50k+); Scottish; mortgage holders
Non-medical hospital facilities	High earners (£50k+); degree holders
Children attending out-of-hours school activities	35-54s; ABs; those with children in the household; mid-high earners £30k+; married; mortgage holders
Not picking up a child from school on time	Married
Calling out emergency services in a non-emergency situation	65+s; low-mid earners (17.5k-£30k); living in Wales; personally impacted by cuts
Driving a vehicle between 9am and 5pm in major cities	Londoners; DEs; single people

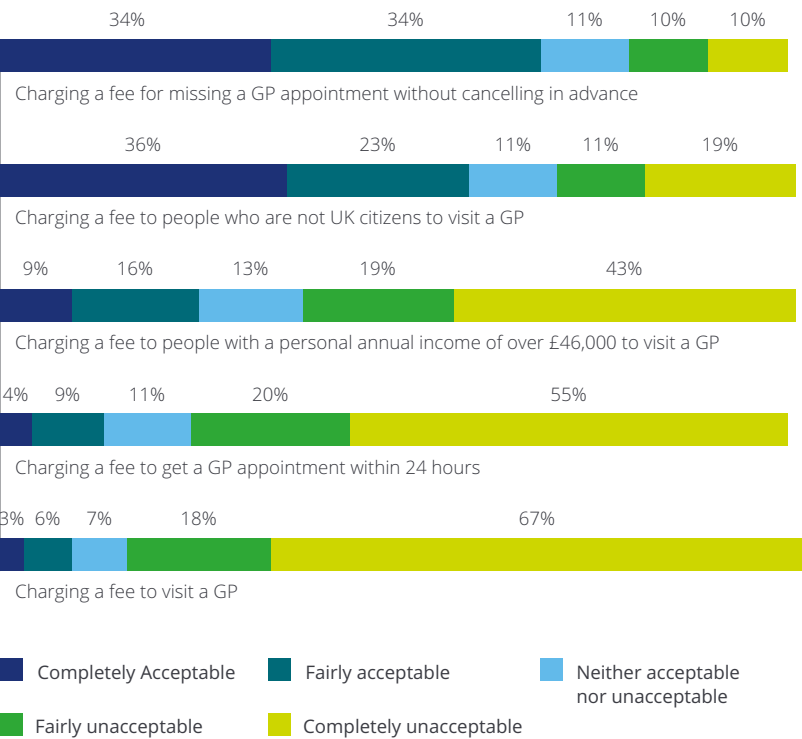
People find penalty fines and charging non-UK citizens for GP visits relatively acceptable

Arguably the most totemic charges debated in the public services are fees to see a GP. Our survey explored how acceptable that would be to the public under a variety of circumstances and again, it found that the public’s appetite is largest for penalty fines – some 68 per cent told us that charging a fee for failing to turn up at a GP appointment would be acceptable. A significant proportion of the public – 59 per cent in our survey – would also find it acceptable to charge non-UK citizens to visit a GP. There also appears to be some support for people with higher incomes to be charged, with 25 per cent of the public finding that acceptable. However, there is overall strong opposition to universal charges for GPs with some 85 per cent opposing the idea, as shown in figure 25.



Figure 25: Views on charging for NHS services

Thinking about funding the NHS specifically, how acceptable do you feel it is to charge a fee for each of the following...



Base: 1463 UK adults. Numbers may not add to 100 due to rounding.



While all demographics find GP charges largely unacceptable, some groups are more open to charging for specific reasons. Figure 26 shows which demographics find charging for GP appointments more acceptable or more unacceptable under four different circumstances.

**Figure 26: Views on NHS charges by demographic**

Charging for GP appointment...	More acceptable to...	More unacceptable to...
<b>If have a personal income over £46k</b>	Over 65s; DEs; social renters; living in NI; lower income (less than £17.5k a year)	35-44s; ABs; highest income (over £50k a year); degree holders; mortgage holders
<b>If not UK citizen</b>	Over 55s; lower education levels; middle income; living in the north or midlands; home owners	15-44s; Londoners; single; BMEs; private renters
<b>If missed appointment without cancelling in advance</b>	Over 55s; C2s; living in Scotland or Midlands; homeowners or mortgage holders	15-24s; 35-44s; Londoners; single; BMEs; degree holders
<b>Within 24 hours</b>	No children in household; living in NI	35-44s; children in household; Londoners; homeowners



# The view from public sector leaders

Every year, Deloitte and Reform interview leaders from across government and the public sector to inform *The State of the State*. This year, we have interviewed more than 50 senior figures in England, Northern Ireland, Scotland and Wales, including permanent secretaries, senior civil servants, police leaders, university vice-chancellors, NHS chief executives, council chief executives, agency directors, finance chiefs and more. These interviews form the most extensive qualitative research of its kind and allow for an unparalleled view of the public sector's central challenges from the people who know them best.

Qualitative research of this kind explores individual opinions, and the views expressed by our interviewees are very clearly their own. *The State of the State* reports on their views – it does not endorse them.

This section of the report describes the main themes from this research alongside direct quotes from the interviews.

## Seven themes emerged in this year's interviews:



**The spending outlook means tough choices ahead**



**Brexit is preoccupying Whitehall – but energising civil servants**



**Local government cuts are having unintended consequences across the system**



**Thriving local economies are everything – as long as they are inclusive**



**Analogue processes are increasingly called out as digital transformation continues**



**Public sector talent needs to be better managed, developed and liberated**



**For governments, the world has become more competitive and less predictable**



### The spending outlook means tough choices ahead

Across government and the public services, leaders are looking ahead to Spending Review 2019 and the trajectory it will set for their budgets beyond the known horizon and into the next decade. Many of our interviewees concurred that the Review will be characterised by tough decisions on spending priorities. Several told us that the recent funding boost to the NHS, indications in the media that defence spending was secure and public sector pay rises would put pressure on spending elsewhere in the sector. Some added that sluggish economic growth added to a perfect storm that pointed to very tight spending settlements in the medium term.

Overall, our interviews suggest that Spending Review 2019 will be difficult for decision makers in government – yet also a massive opportunity to set priorities, budgets and outcomes that could shape the UK's post-Brexit future.

Several of those we interviewed are wondering whether the review will offer a one, three or five-year plan for public spending – arguing that one-year settlements prevent the public services from the kind of strategic, medium term planning it needs to make the most of its funding.

The NHS and social care leaders we interviewed argued that their current funding models are unsustainable and government faces a choice: either it takes decisive action to create a fair, sustainable funding system for social care or it will be forced into costly reactive measures as a series of crises unfold. One senior figure in healthcare warned those crises would be “brutal”.

NHS, social care and local government leaders also talked about the need to recalibrate citizen expectation towards more realistic provision. Many pointed to the need for greater self-care, perhaps supported by technology, as a crucial means for reducing demand on health and social care services.

A number of officials in Whitehall argued that taxpayers’ money would go further if spending decisions were shaped by the outcomes they sought, rather than by departmental allocations. Some had been exploring the Public Service Value Framework, published by HM Treasury last November, as they thought ahead to the Spending Review. Designed by Sir Michael Barber, the framework aims to improve public sector productivity, in part by connecting public spending more explicitly with what public bodies are trying to achieve for citizens. Many of our interviewees told us that the framework is a powerful tool with profound implications – but were not convinced that it would be deployed with sufficient energy to fundamentally alter Spending Review 2019.

Several interviewees, both in Whitehall and the local public services, talked about the importance of real estate in terms of cost efficiency and regional inclusion over the next decade. Civil servants told us that the government retains its objective for greater regional equality and for officials to relocate to regional hubs as part of that agenda, and some expect relocations to form a substantial part of savings in the next Spending Review. Leaders in the public services are also thinking about their property needs, with some wondering how technological, economic and social trends will affect their future estate needs.

Some interviewees suggested that the private sector’s role in the public sector should continue to grow in the future. They acknowledged recent failures but were clear that companies are improving in their ability to engage in the public services while government and the public services are improving in their ability to engage with companies. One private sector chief executive, interviewed for his perspective as a supplier to the public sector, called on government to deregulate and allow other sectors to operate more extensively across the public services.

In Whitehall, some of the most senior officials are thinking about the future of the centre of government. Their conversations explore whether departments at the heart of the state, currently operating as secretariats, should bring in greater experience in order to provide more drive and direction. Others talk about beefing up functional dimensions with government, so that civil servants associate more firmly with their profession than their department.

There’s a very British problem...we make life complicated for ourselves and then we try another initiative when something goes wrong. We never, in the context of health, education or the criminal justice system, we never allow anything to settle down for long enough.  
*Agency Chief Executive*

The Treasury does its finances in buckets, by departments, and not strategically.  
*Local Authority Chief Executive*

We need a long-term funding solution for social care that balances what the state and the individual should pay.  
*NHS Trust Chief Executive*

At some point, we’ve got to think about our HQ – I mean what kind of building will we need in 20 years?  
*Police and Crime Commissioner*



All public bodies who own land generally behave the same way – they say ‘we want top dollar and this isn’t the best market’. They have heroic assessments of what the future will deliver. We need to rethink how we account for public land. We should use it for what’s best for the public: homes.

*Housing Leader*

Having understandably agreed that the NHS is getting extra funding, the key issue is where extra relief should fall. That’s a pressure that can only be solved politically.

*Departmental Non-Executive*

We won’t be much different in ten years. We’ll throw more money in the system just to get by, they’ll be no attempt to change public expectation and the political cycle will keep stopping any change.

*NHS Trust Chief Executive*

I can tell you where I’d love to get to: we will have a mature public conversation, rebalanced investment into primary care, aligned health and social care, invested heavily in the upstream space like early years and we will have started closing prisons because we’ll have stopped cycles of deprivation. What’s more likely? We’ll be catalysed into making changes, and those catalysts will be brutal.

*NHS Trust Chief Executive*

We need to move from a culture of dependence, to be clear that we’re not in the business of doling out services. We’re in the business of enabling households and communities to achieve their potential.

*Local Authority Chief Executive*

There’s been some wobbling in the outsourcing sector, but we’re getting better and they’re getting better. The private sector will continue to play a major role and we’re getting progressively better at how to handle it.

*Senior Civil Servant*

How you run a government, and how accountability works, all need to evolve. You need to rebuild the centre of government with much, much more experience rather than it being just a secretariat.

*Senior Civil Servant*

There are only two options: reduce public expectation to a minimum, emergency offer. Or put more money in.

*Social Care Director*

What we want to know is whether the spending review will cover a year, three years or five years. Planning year-to-year is a crazy way to run a public service and it doesn’t lend itself to any approach on strategy. I’d sooner have a tough settlement for three years than more generous settlements for one.

*Policing Leader*

If there’s a spending review in 2019, there’s a major conversation to be had unlike any the government has had before. There’s no point working out a set of outcomes and not funding them. Our system is going to need to bring the inputs and outputs together or we’ll be in an almighty mess five years from now.

*Senior Civil Servant*



### **Brexit is preoccupying Whitehall – but energising civil servants**

Inevitably, Brexit is preoccupying Whitehall. Senior officials told us that work to leave the EU is dominating their time along with their minister's time, and has reduced the political bandwidth for new reform initiatives.

However, civil servants also told us that leaving the EU has come with unexpected benefits for Whitehall. Some said that it had galvanised staff with many energised by the challenge. Others felt that it had forced officials out of silos and into more collaborative, cross-government teams. One added that the Whitehall skills mix is changing as Brexit is stimulating recruitment of people with business experience.

All the civil servants we interviewed were upbeat, constructive and focused on delivering EU exit – even though they know better than any commentators that it is a massively complex undertaking. Some told us that they were focused on identifying opportunities in Brexit, though warned it was not an easy task. One senior figure felt that the most significant opportunities were in regulation – and especially in relation to emerging industries like artificial intelligence, fintech and autonomous vehicles. He said that “a more liberal, market friendly regime would give us an edge” but went on to warn that such an edge, if constrained to the UK alone, could come with disproportionate costs.

Beyond Whitehall, leaders in the public services told us that their deepest concern over Brexit was its potential impact on the public finances – and what a loss in the UK's GDP could mean for public spending. A key NHS figure said that an economic downturn would lead to more poverty, more mental health problems and more demand on health services as a result.

University leaders are vocal in their concerns about Brexit, given higher education's substantial exposure to Europe and international markets for student and talent. Ultimately, academia is highly connected across the EU and its leaders feels culturally at odds with the political trends that underpin Brexit.

“Beyond Whitehall, leaders in the public services told us that their deepest concern over Brexit was its potential impact on the public finances – and what a loss in the UK's GDP could mean for public spending.”

Brexit has been a galvanising purpose. There's a lot of energy about. It's a good time to be a civil servant in terms of the impact of what you do.  
*Senior Civil Servant*

Actually, too much else is happening. We used to be overprogrammed, about thirty per cent overprogrammed, and now it's more.  
*Senior Civil Servant*

The Brexit fallout so far is anecdotal. It's mood music. People don't feel welcome.  
*University Vice Chancellor*

Given Brexit, there's isn't much appetite for doing anything else difficult.  
*Senior Civil Servant*

We saw spikes in hate crime around the time of the EU referendum and I expect we'll see another when we leave the EU.  
*Police and Crime Commissioner*

There's a sense of coming together. A more collaborative approach. We're in it together and we'll make it work.  
*Agency Director*

In the short-term, there's the supply of goods, but in the longer term, the loss of GDP would mean an increase in poverty and in mental health conditions, and that has an impact on demand for the NHS. So as far as Brexit is concerned, there's the supply issue first but then the bigger issue is the economic loss.  
*NHS Trust Chief Executive*

This place will move really quickly when we need to.  
*Senior Civil Servant*

When you're looking at opportunities for deregulation, they would need to be politically feasible, economically useful and technically possible. By the time you pass anything through those filters, there's not as much left as you might have expected.  
*Senior Civil Servant*

Brexit is our single biggest issue in terms of the amount of resource it consumes, particularly senior resource, including the Secretary of State.  
*Senior Civil Servant*

"All the civil servants we interviewed were upbeat, constructive and focused on delivering EU exit – even though they know better than any commentators that it is a massively complex undertaking."



### Local government cuts are having unintended consequences across the system

Since our *State of the State* interviews began in the 2013 edition, many public sector leaders have told us that austerity – while challenging – has been a driver of innovation and creativity in their organisations. Some even said that their organisations were more sustainable, resilient and focused because of the cost reduction measures they have taken. However, this year, many told us that austerity has taken a toll – and specifically that cuts to local government are having unintended consequences in other parts of the public services.

A senior figure in policing said that “the blanket of the public sector is starting to get holes in it” while an NHS leader told us that austerity is “pulling away at the cords of the safety net”. Both described how their services were seeing increases in demand due to cuts in local government, which have coped with a 40 per cent reduction in their spending power by scaling back non-statutory activities like youth, community and leisure services. Those services are acknowledged to help reduce problems like youth offending, loneliness and obesity, so their loss is being felt beyond local government. Similarly, another NHS chief executive described how a lack of investment in housing stock has led to more injuries from trips as well as other health issues. He concluded that “the NHS and local government have a symbiotic relationship – and not just in social care”.

Ultimately, austerity has forced public sector leaders to make some difficult decisions over their resources, and several interviewees told us that cuts were affecting front line services and organisational capacity. A police leader told us that forces routinely triage calls so that vulnerable victims of crime can be seen by police officers in person while others might not. And an NHS chief executive explained that her trust’s biggest challenge is to cope with day-to-day financial pressures while trying to find the bandwidth for service transformation.

None of the leaders we interviewed believe that their budgets are set to rise - although our interviews took place before the Prime Minister called an end to austerity - and several told us that they expect public sector pay rises and increases in NHS funding to mean ongoing reductions for other parts of the public sector.

Local government used to provide all sorts of preventative activities, like Meals on Wheels, and that’s the stuff that has been eroded. People who were just about able to cope are not and one way or another they end up at the NHS.

*NHS Trust Chief Executive*

I’m not saying austerity is over, but people in the police sector are picking their heads up and looking to the future.

*Police leader*

The blanket of the public sector is starting to get holes in it. There hasn’t been a uniform retraction but some parts of the sector – local government in particular – has shrunk, and that’s affecting those of us that are the catch-all.

*Policing Leader*

The safety net of the public sector is not quite as good at picking people up, but the cuts have got to have an effect eventually. We’re seeing more vulnerable people turning up in our city centres.

*City Council Chief Executive*

Pay restraint has been the biggest thing that the Treasury has used to keep spending down, and that has run out of road.

*Senior Civil Servant*

Austerity basically made us get rid of everything that looked pink and fluffy, and everything with the word ‘development’. But long term, that’s taking a toll.

*NHS Trust Non-Executive*



The NHS and local government have a symbiotic relationship, and not just in social care, so the haemorrhaging of resources from local government has heaped pressure on the NHS. If you think about the lack of investment in housing, that means degraded housing stock and that means more trips and other health problems. It's the NHS that picks up the pieces.

*NHS Trust Chief Executive*

If someone has been burgled and they're vulnerable, they are probably going to get a face-to-face service but we're increasingly triaging people into other channels.

*Policing leader*

There's going to be a lot less money permanently, even with injections coming in, because there's a high risk that'll get soaked up in pay.

*NHS Trust Non-Executive*

The system is fragile. We make the most of the resources we have, but you can see what that looks like when we're stretched.

*NHS Trust Chief Executive*

"Since our *State of the State* interviews began in the 2013 edition, many public sector leaders have told us that austerity – while challenging – has been a driver of innovation and creativity in their organisations."

Libraries have closed, community centres have closed, leisure facilities have closed and they are vital to the vibrancy of a place.

*Local Authority Chief Executive*

The big challenge is dealing with the day-to-day, financial and quality sustainability pressures. Doing that alongside trying to transform health and social care, and doing those things at the same time... that's very challenging.

*NHS Trust Chief Executive*

We're pulling away at the cords of the safety net and people are falling through it more readily.

*NHS Trust Chief Executive*



### Thriving local economies are everything – as long as they are inclusive

More than ever before, leaders across the UK public sector are alive to the need for a thriving economy – nationally, regionally and locally – as well as their institution's role in its development. That focus has been sharpened through the government's regional agenda, strengthened by the industrial strategy and elevated by Brexit.

The industrial strategy, launched two years ago, is seen by leaders from across the public sector as a long-overdue, constructive policy choice that has won buy-in from business. Several interviewees pointed to the need for continued momentum and energy to drive its medium and long-term success and one senior source described the need for the strategy "to live within business as well as government".

A transport agency director pointed to the importance of infrastructure in boosting local economies, and acknowledged the government's substantial investments in HS2 as well as around the Northern Powerhouse. A senior figure in regional government told us that transport infrastructure is the deciding factor in driving growth outside of London – but that co-ordination between major projects is needed to make the most of the investment.

While the local public services see the benefits of being based within a successful economy, they see the need for an inclusive economy as well. As last year's *State of the State* showed, the Grenfell tower tragedy put issues of inequality front of mind across the public sector. This year, some local government interviewees told us about the early days of programmes to tackle in-work poverty. NHS leaders also talked about the effect of inequality on health outcomes, with one senior figure describing how "economic differences translate into much shorter lives and poorer health". And in education, a national figure referred to a "poverty of ambition" found in some parts of the UK.

Housing is a significant factor in inequality, with implications beyond the provision of homes. National housing figures told us that government interventions in recent years are very welcome – but continued progress is needed to secure land for building and the public sector should stop holding on to land in anticipation of higher market values in the future.

All of the leaders we spoke to about devolution deals, whether they were involved in them or not, were enthused by their potential for driving inclusive economic growth, for securing inward investment and for their ability to convene local economic partners. The chief executive of one regional authority summed up the views of many when he argued that the UK's future rests on the government's willingness to pursue a post-Brexit agenda of regional devolution and autonomy.

Grenfell symbolises so much about what's going on in the public services: the effects of austerity, the rise of inequality, what can go wrong when you're working with the private sector and the silos we have put ourselves in.

*NHS Trust Non-Executive*

The industrial strategy is almost universally supported by business. Yes, we need to make our infrastructure better and improve skills.

*Senior Civil Servant*

Health inequalities are a massive issue for London.

*NHS Trust Chief Executive*

We have poverty, but it's in-job poverty.

*Local Authority Chief Executive*

People say the Northern Powerhouse and the Midlands Engine aren't just about transport. Well, they are actually. We need to invest in serious and futureproof infrastructure. The rhetoric is there and I don't doubt the sincerity, but the investment is piecemeal. There's a fair amount of money being spent, but not enough, and it's not co-ordinated.

*Local Authority Chief Executive*

We're competing with Germany, with the Far East, and their governments will bend over backwards for business. Our government is too laissez-faire.

*Regional leader*

Our first big issue is securing and sustaining inclusive economic growth, which has been thrown under a spotlight by Brexit... so how do we corral our energies as part of the industrial strategy, and use the public sector to maximise those opportunities for all of our people?

*Local Authority Chief Executive*

The government has recognised that it's got to do something on housing. There's a lot happening that's much more positive than it has been for a while, but we've not had enough political courage to deal with the fundamental challenge, which is about land. We've created a fantasy in this country that land is a scarce resource.

*Housing Leader*

If you look at what the UK needs, we need infrastructure investment for the economy to grow. I get the policy issues with the north, but we need to balance that with what London does for the UK economy.

*Agency Director*

All public bodies who own land generally behave the same way – they say 'we want top dollar and this isn't the best market'. They have heroic assessments of what the future will deliver. We need to rethink how we account for public land. We should use it for what's best for the public: homes.

*Housing Leader*

The future depends on government's willingness to re-engage, post-Brexit, with an agenda that embraces devolution and regional autonomy and has a forward-looking agenda.

*Regional Chief Executive*

"All of the leaders we spoke to about devolution deals, whether they were involved in them or not, were enthused by their potential for driving inclusive economic growth, for securing inward investment and for their ability to convene local economic partners."



### Analogue processes are increasingly called out as digital transformation continues

Every year, our *State of the State* interviews touch on technology in the public sector. When we started this research series in 2013, the prevailing mood was one of optimism – that technology would deliver the cost reductions needed to mitigate the impact of austerity. This year, many interviewees told us that the hard work of digital transformation is continuing in their organisations, even though they started from a low base, with out-of-date systems.

However, analogue processes seem to stand out more than ever before. Several people we interviewed called out examples of old-fashioned practices they had observed in their organisation or wider sector, like the use of hard copy care records or fax machines. Most were conscious of the need to move away from paper-based working – not just to reduce costs but also to deliver better services for citizens.

In healthcare, several interviewees discussed tensions that arise from new technologies where some demographic groups such as younger professionals may wish to access services online – like GP appointments via Babylon – while others might not. One NHS chief executive reflected that this could lead to a two-tier health system emerging, in which healthier young people accessed services through devices whilst the majority of NHS users would continue to need traditional services. We interviewed a private sector healthcare provider who argued that NHS primary care was established as a place-based service like a grocer's shop in the 1940s – but while grocers developed by joining other shops to form supermarkets, and then supermarkets started offering online services, NHS care has not undergone such fundamental transformation.

Interviewees in the public transport sector told us that technology appears to be changing travel patterns. Transport providers are playing close attention to the impact of technology as more people spend leisure time at home, shop online and work remotely.

University vice-chancellors told us that stories of supplier failure are rife in the sector, and while some higher education institutions are keen to begin major transformation projects, they have little faith that private sector suppliers can deliver at the scale they require. While they believe that tech has a role to play in the educational experience, they all see that role as supporting and supplementing, rather than fundamentally disrupting. Many reflect on the hyperbole that surrounded Massive Open Online Courses (MOOCs) in recent years, which failed to make a significant difference to models of tuition.

While still grappling with this third industrial revolution of digital technology, some of the leaders we interviewed talked about the potential for fourth industrial revolution technologies like artificial intelligence, machine learning and robotics for their organisation and the wider sector. Some were taking tentative steps with these emerging technologies, and ultimately hope they could be used to replace manual processes, improve productivity and even help triage calls to the police.

We've still got care staff writing in a ring-binder that Mrs M hasn't finished her water, and then on a new page a different carer is writing that Mrs M hasn't finished her cup of tea. No-one is tracking trends and noticing that she's about to become dehydrated.

*Agency Chief Executive*

In terms of technology, we've come from a bad position. Getting a chief constable to focus on their back office is hard when all they want to do is fight crime. It's like pulling teeth, getting chief constables to talk about technology.

*Police and Crime Commissioner*

Technology is great when it's supporting and supplementing, enhancing the educational experience. But replacing teachers with Ted Talks on a loop isn't going to get you far.

*Agency Director*

We're in the foothills of technology like machine learning and artificial intelligence. Some could be used on the front end, on call sheets, where it could help correlate risks better, and that could be a huge step forward.

*Policing Leader*



One of the main subjects over a drink with other vice-chancellors is 'how much have you wasted on an HR system?'  
*University Vice Chancellor*

We've spent a fortune and we're not spending enough. We want to revamp all of our systems and there's no supplier who can do it. We've told some 'don't give us a date you can't make' because they over-promise.  
*University Vice Chancellor*

The public sector has a huge technology debt. People are working on old systems.  
*Policing Leader*

We've very behind on Robotic Process Automation and we've still got lots of people doing manual stuff.  
*Senior Civil Servant*

The thing that gets me excited is tech, but it's not happening. Look at the patient population – they are over 70 and not interested. The younger people are, but are less likely to need us.  
*NHS Finance Director*

Everyone's looking at robotics and I'm optimistic what it could do for productivity.  
*Senior Civil Servant*

You think fax machines are retro like a chopper bike, and you can only get them on eBay, but they're alive and well in the NHS. They're the primary means of sharing patient data.  
*NHS Trust Non-Executive*

We're seeing a drop off in leisure, retail and other discretionary transport. Is it that people's leisure and retail activities have changed? I'm thinking Netflix and Amazon Prime. And then there are changes in peoples' working patterns.  
*Transport Agency Director*

In defence, all the emerging stuff like data analytics and artificial intelligence creates a need for us to develop systems and tech to meet them as threats, as well as the opportunity to transform - not only our military capability but how we do business.  
*Senior Civil Servant*

"While still grappling with this third industrial revolution of digital technology, some of the leaders we interviewed talked about the potential for fourth industrial revolution technologies like artificial intelligence, machine learning and robotics for their organisation and the wider sector."



### Public sector talent needs to be better managed, developed and liberated

Interviewees from different parts of the public sector described different challenges in terms of their people – but the need for talent management, leadership development and competitive remuneration were consistent themes.

A strong consensus emerged around leadership development, especially in the NHS. Several leaders saw a long-term lack of investment in leadership for health service managers which has led to the current “shrunk talent pool” and difficulties in recruitment to top jobs.

In Whitehall, departments grappling with the highest number Brexit programmes have seen rapid growth in staff numbers since the EU referendum, and one senior civil servant described the volume challenge of “absorbing thirty per cent of new people after years of a headcount freeze”. Another explained that his department’s Brexit implementation is not constrained by cash – but that the main constraint is access to people with commercial insight and project leadership experience.

Remuneration is a significant factor in the public sector’s talent challenge, with serious implications at the most senior levels. One senior civil servant told us that the gap between private and public sectors – which is most evident in senior roles – reduces the cross-over between sectors to the detriment of both. He reflected that this lack of permeability is a particular disadvantage to government as it strives to improve its commerciality, delivery and understanding of industry.

A small number of leaders in the public services told us about the unintended consequences of pensions. They said that some senior public sector people leave their jobs as soon as they can take their pensions, and pension tax arrangements have created a disincentive for progress into some of the sectors’ best-paid jobs because higher salaries would take applicants over thresholds that attract sizeable tax bills on their pensions.

Several leaders also reflected that the public bodies are attractive places to work for people seeking to make a positive contribution to society, but the sector does little to capitalise on that advantage. A senior policing figure argued that “for some organisations, it should be a walk in the park to recruit but they are failing to capitalise on their brand”.

However, others told us that a perception of risk aversion made the public sector less attractive for high performers. One NHS non-executive complained that regulation across the public sector has a stifling effect on leadership and decision-making, citing a string of regulatory expectations on his trust that instil a sense of risk aversion. A departmental non-executive warned that the difficulty of “getting things done” in the sector had a corrosive effect on talent.

The nanosecond people can take their pensions, they're off. So there's a mass exodus of corporate memory – in other words, people with experience.  
*NHS Trust Chief Executive*

The department is going through a growth spurge. We've got the classic challenge of absorbing 30 per cent of new people after years of a headcount freeze.

*Senior Civil Servant*

It's become a relatively unattractive time to be a public sector leader. The bigger issue is that it's so hard to get big things done, and that's corrosive.

*Departmental Non-Executive*

At a time when we need the best input from the private sector, we have made it difficult because of the wide disparity in wages. Ten years of austerity means that pay levels haven't gone up. It's not too bad up to Grade 7 but then the gap is pretty big. We've created non-permeability.

*Senior Civil Servant*

People are less about a single career now. The world has changed and policy needs to catch up.

*Social Care Director*

People are unaccustomed to making decisions. They do risk assessments, risk registers and risk monitoring, but rarely do I see a decision taken.

*NHS Trust Non-Executive*

The NHS is facing a shrunken talent pool and that's because of a long-term failure to manage its development.

*NHS Trust Chief Executive*

People don't want jobs that are relentless and exhausting. They might be rewarding, but people are making a choice not to do them.

*NHS Trust Chief Executive*

If someone goes for promotion, people say to them 'have you thought about the tax?'. Because if they get promoted, they'll get hit by tax on their pensions. So people don't go for the top job.

*NHS Trust Non-Executive*

You often hear 'we only interviewed one person' for a director role. The big question is: how are we developing leaders? We need some talent management functionality.

*NHS Trust Chief Executive*

There's actually a lot of what millennials say they want from work in the public sector, but the public sector isn't doing anything about that. For some organisations, it should be a walk in the park to recruit, but they are failing to capitalise on their brand and what they do.

*Policing Leader*

Policing is getting further removed from the society we serve and the pace of reform is slowing. We're not getting a sufficient volume of the right people, we're not changing the employment model and we're not reforming workforce practices.

*Policing Leader*

"Interviewees from different parts of the public sector described different challenges in terms of their people – but the need for talent management, leadership development and competitive remuneration were consistent themes"



**For governments, the world has become more competitive and less predictable**

Brexit has inevitably put a spotlight on the UK's diplomatic, trading and security relations. Some of our interviewees described global developments – and not just Brexit – that are affecting the UK's place in the world and together they suggest the world has become more competitive and less predictable for its governments.

Several senior officials noted geopolitical developments with significant ramifications for the state. They included the emergence of new technologies like artificial intelligence that could reshape labour markets, the apparent move towards greater protectionism in trade, the rise of populist politics around the world, the prospect of a shift in economic power from West to East and the implications of social media on society and news. As several interviewees noted, none of the shifts are rooted in Brexit.

Analysts agree that the UK's security and defence landscape has shifted significantly in the past decade. Relations with Russia have become more strained, Brexit has raised questions on European co-operation and the terrorist threat has evolved substantially – from complex attacks organised by a closed network to low-tech attacks by people who self-select to associate with a terror ideology. Interviewees from the police were clear that international terrorism remains a major concern for them, while a defence leader told us that the threat level from other states has now risen as well.

Economically, leaders that we interviewed from the UK's regions were highly focused on attracting foreign investment. One argued that Whitehall must compete with other administrations in their agility and eagerness to attract business to their regions, citing the German government and South East Asian governments as particularly fleet of foot.

The UK's universities are of course highly exposed to EU and global markets for their students, their academic talent and their research funding. The vice chancellors we interviewed felt that government is underestimating higher education's importance to the UK's post-EU future, and should recognise their global pull. Interviewees in Whitehall concurred that the UK's world-renowned higher education is one in-built advantage that could help the UK through the challenges of Brexit.

**“The vice chancellors we interviewed felt that government is underestimating higher education's importance to the UK's post-EU future, and should recognise their global pull.”**

There are lots of governments in South East Asia pumping money into their universities. The problem is that students don't want to come to dilapidated buildings, they want everything shiny, and they feel entitled to that because they are paying university fees.

*University Director*

The UK has got a great education system, we're entrepreneurial, we've got a great, global capital city. Yes, we're in a difficult situation but we'll get through that.

*Senior Civil Servant*

We face considerable threats, not least the greater levels of protectionism and the prospect of a global slowdown on the back of it. We are institutions that are globally facing.

*University Vice Chancellor*

There are huge, global shifts in trade and technology that are nothing to do with Brexit, but Brexit makes them more difficult for us.

*Senior Civil Servant*

We're never been in a time where predictability has been more difficult. Predictability has effectively vanished. All you can do is configure yourself to be adaptive to whatever.

*Departmental Non-Executive*

Political uncertainty and instability is all over Europe, and that's a factor for businesses to think about.

*Senior Civil Servant*

We're in a state of almost continual conflict, short of war. The line between peace and war has become blurred.

*Senior Civil Servant*

In defence, there's a very changed background. Our capability can't just focus on counter terrorism anymore, but state-on-state attacks.

*Departmental Non-Executive*

International terror is not going to go away.

*Police Leader*

The future depends on government's willingness to re-engage, post-Brexit, with an agenda that embraces devolution and regional autonomy and has a forward-looking agenda. But post-Brexit, we expect to rely on our relationships with other cities and their international relationships.

*Regional Chief Executive*

We're competing with Germany, with the Far East, and their governments will bend over backwards for business. Our government is too laissez-faire. Other governments will look at an offer from business and take their hand off.

*Regional Leader*

"Economically, leaders that we interviewed from the UK's regions were highly focused on attracting foreign investment."

Trends from the last Strategic Defence Review have accelerated and materialised faster than expected, and with more intensity. We've seen a rapid re-escalation of state-on-state threats and more wide and more diversified non-state threats.

*Senior civil servant*





# The future of reform: how public sector leaders see the future

While our interviews explored some of the major challenges facing government and the public services, they also cast a light on reforms that interviewees think should be re-energised in the years ahead. They are:

## Outcome-based spending decisions

Interviewees in central government talked about the potential for spending decisions that are based on the outcomes that are being sought rather than departmental settlements. Most felt that such an approach to spending – perhaps driven by the Treasury's new Public Value Framework – would encourage system-wide thinking across the public services, maximising the impact of spending by connecting services around the citizen.

## Further regional devolution

Interviewees across central government, the local public services and higher education recognised the potential of regional governance to pursue inclusive economic growth, attract inward investment and join up local public services. Several hoped to see the UK government restate its commitment to deepening the regional agenda and renew its energy for devolution deals as a post-Brexit policy priority.

## Fair and sustainable social care funding

Leaders in the NHS and local government were clear that the UK needs to rethink its model of funding adult social care to cope with the pressures of an ageing population. Most thought that a new system should balance what the state and the individual pays and, as an example, one cited the Japanese system that blends taxation with a national insurance contribution paid by all citizens over 40.

## Accelerated digital transformation

All of our interviewees see better use of technology as inherent to the future of government and the public services. They acknowledge how digitisation of existing processes differs from fundamental digital transformation, and remain ambitious as the sector's technology journey continues.

## The promotion of greater personal responsibility

Since this interview series began for *The State of the State* in 2013, local public sector leaders have talked about the need to change the citizen-state relationship and reduce peoples' reliance on public services. Many now hope to see clearer action towards this goal, for example through the promotion of better self-care in health.

## More deliberate talent management

Several interviewees argued that the sector needs a more consistent supply of leaders, now and in the future. Most wanted to see greater investment in leadership development and talent management; a cultural shift so that leaders are more empowered to drive change; and for the sector to make more of its public service ethos to attract top talent.

# Northern Ireland

Northern Ireland has now been without ministers for more than 600 days. While citizens may not have noticed a tangible difference in their day-to-day lives, the opportunity cost of this absence of political leadership is impossible to calculate.

The lack of an Assembly and Executive means that decisions have not been made on reform and transformation of public services, on economic and social policies or on major planning decisions since early 2017. In that time, ambitious health reforms have slowed, the economic gap between Northern Ireland, the rest of the UK and the Republic has grown without intervention and long-term infrastructure plans have stalled. In addition, in the absence of local ministers, the devolved Assembly has not been able to directly exert its influence in the ongoing Brexit negotiations.

Against that backdrop, the Northern Ireland Civil Service has been as bold as it realistically could have been to press ahead on programmes that were established before the Executive collapsed. The civil servants we interviewed for *The State of the State* were determined to continue to implement the programmes for which they have relevant authority, acting under legal advice. However, the Arc 21 ruling on a planning decision for an incinerator has put a spotlight on the limitations of their powers, introducing further uncertainty and ramping up concerns over the viability of continued devolved government without ministers.

However, the Secretary of State intends to bring forward legislation to enable NI departments to continue to take decisions in the public interest and to ensure the continued delivery of public services. Nevertheless it is believed that the ongoing delay in major planning decisions is holding back investment of £1 billion with which there are many hundreds of jobs associated.

In the time since the Assembly and Executive were last in place, Northern Ireland's fiscal position appears to have worsened. Several public sector leaders we interviewed told us that costs and demand are rising faster than their funding. One argued that ministers, if they returned, would need to reprioritise spending to core citizen services above their own areas of policy interest.

Looking ahead, there seems little possibility that devolved government will return to Northern Ireland before the uncertainties regarding the UK leaving the EU are clarified – even though the region's border represents a central issue in the negotiations.

This year's *State of the State* will be followed by a deeper dive into the options that would help improve the sustainability of public services in Northern Ireland. The report explores issues of funding for public services, the importance of outcome-based spending and how delivery might be accelerated.

A year ago, we were asked how long we could go on for without ministers, and we said a few weeks. Six hundred days later and we're still here. However, we're determined to press ahead as best we can, and continue to do what we can, taking legal advice on a case-by-case basis.

*Senior Civil Servant*

A pre-requisite of successful reform will be greater multi-year certainty over capital budgets.

*Senior Civil Servant*

It's not like we don't know what needs to be done. We just need the political leadership to do it.

*Senior Civil Servant*

If you look at economic indicators, we're near the bottom and we aren't closing any gaps. Our growth last year was 1.1 per cent, and for the Irish it was seven per cent, so there's a growing gap, and things that were going to be done like low corporation tax... with every year that passes, the positive effect of that change is diminishing.

*Senior Civil Servant*

We need a new infrastructure strategy that will prioritise investment for the next 30 years in the areas of water, waste, transport, energy and telecoms including broadband. But this will show what a huge infrastructure deficit we have and will certainly be in excess of what government can afford from its own resources. I can't think of any other modern country in which the government would try to fund this on its own.

*Senior Civil Servant*

The cost of division is too high and results in the replication of services.

*Local Authority Chief Executive*

Can we live within the 2019-20 budget? No. Something's got to give.

*Senior Civil Servant*

What would the Executive do if they came back? They would find it exceptionally challenging...the UK government needs to give them £100 million or whatever it's going to be, and it has got to be tied to important things and not hobbyhorses.

*Senior Civil Servant*

I worry about our budgetary position. Things are very difficult and next year looks really bad. The gap between what we've got and what we need is about a billion, or ten per cent.

*Senior Civil Servant*

The lack of Government in NI has meant that some key decisions have not been made or will be delayed indefinitely particularly in the area of planning and around agreeing a long term infrastructure plan. Year on year budgets are hampering investment prioritization and investor confidence. There are real world consequences of not having Ministers and the associated political drive and leadership that is required.

*Local Authority Chief Executive*

# Scotland

Scotland's government has now been led by the Scottish National Party for three consecutive terms of office. In those eleven years, the administration has taken forward the possibilities of devolution to shape a Scottish public sector landscape that now differs substantially from the rest of the UK – in its public finances, its policy priorities and its ethos.

The independence referendum in 2014 may have kept Scotland within the union, but it accelerated further devolution of borrowing, tax and welfare powers. In this year's *The State of the State* interviews, leaders in government and the public services told us how those powers have fundamentally altered Scotland's fiscal environment and created a clear connection between the country's economy, its taxpayers and its budget for public spending.

The Scottish Government has achieved a significant upskilling in its capabilities to deal with those new financial responsibilities. As one senior figure explained, no other part of the UK has the same scale and complexity as Scotland's fiscal arrangements. But in government, new powers come with new risks. Financing powers now allow the Scottish Government to borrow up to £3 billion and as a senior civil servant explained, its borrowing will need to remain sustainable and responsible – not least because borrowing may be necessary in

the event of a future financial crisis.

The connection between Scotland's economy and its ability to fund public services is not just felt in its central government, but across its local public services. Local authority chief executives told us that their central challenge was to support growth, but crucially, to make sure that growth was inclusive.

While the Scottish Government has cushioned its public services from the worst effects of austerity, its policy priorities of health, education, children and early years could well see spending squeezed in other areas, while additional pressure could come from the government's policy positions on public sector wages and its ban on compulsory redundancies. Local public sector leaders recognise that their finances are likely to be more strained in the future, and they see greater collaboration, along with a shift towards greater personal responsibility for citizens, as important levers for change.

Our interviews this year made clear that the ethos of Scotland's public sector is unique within the UK. Many described a political outlook that manifests itself as a collective, national desire to address inequalities that play out as life chances. Some were clear that Scotland could be shifting to a more Scandinavian model of more extensive, better funded public sector interventions paid for by higher tax rates.

Several interviewees also told us that the public sector workforce feels more valued by central government than their counterparts in England, which to some extent makes senior roles in Scotland more attractive than they might be south of the border – but not quite enough to alleviate talent shortages being felt across the sector.

Led by Scottish Government policy, Scotland's public sector does not work with the private sector to the same extent as elsewhere in the UK. Leaders across the local public services largely felt that this put them at a disadvantage. One NHS finance director told us that the private sector could help drive the use of technology in the sector, the director of a national agency argued that private sector partners might stimulate innovation and a council chief executive said that a private sector social care contract operates at a fraction of the cost of in-house, public sector delivery.

Brexit is of course a significant pre-occupation in the Scottish Government, but in common with the rest of the UK, leaders in the local public services have seen little impact to date. Most of our interviewees aired concerns that the Scottish Government has not been able to influence negotiations as much as they would like, and one expressed doubt that EU funding for agricultural and regional development would continue to be matched by the UK government in the long term.

The future could be harder financially. We're going to have to collaborate more and things might be better managed at regional level. Plus we need to get the citizen more engaged and driving their own futures.

*Local Authority Chief Executive*



If we have a hard Brexit, we will have taken on new powers at the worst possible time, and government here will have to manage that.  
*National Agency Director*

There's a generally embraced narrative in this country which says it's perfectly acceptable to see financial differences in earning levels. But what isn't acceptable is that those economic differences translate into shorter lives and poorer health. There's a genuine national appetite to fix that.  
*NHS Finance Director*

My wish is for the Scottish Government to let go a bit more. But they've been given the powers and they're not going to give them away.  
*Local Authority Chief Executive*

We've got free prescriptions, free universities, free bus passes. The Scottish Government talks poverty but then goes universal.  
*Local Authority Chief Executive*

We're moving into the early stages of a Scandi-style debate, where the state has a bigger role and there's more to pay if you're a taxpayer.  
*Senior Civil Servant*

Divisions at the UK level have reawakened Scottish citizens' preference for social equality. That's being accelerated by the Trump factor, where a number of those values are being dismissed, and that's making people remind one another, 'that's not us'.  
*Local Authority Chief Executive*

The two Scotland Acts have fundamentally changed the fiscal environment that the Scottish Government sits in, so its budget will rise and fall on the Scottish economy and the money we raise.  
*Senior Civil Servant*

Talent is increasingly a problem. It's probably helped a bit in Scotland that the public sector isn't seen like somewhere you go if you can't make it elsewhere, which can happen in England.  
*National Agency Director*

Our people costs are going up all the time. The Scottish Government expects us to pay the Scottish wage, and there's the ban on compulsory redundancies, so people costs keep going up.  
*Local Authority Chief Executive*

You hear conversations about the economy in parts of the public sector that you wouldn't have in the past. It's front and centre of everything we're doing. If people talk about anything, let's say penal reform, they talk about the importance of getting people economically active.  
*Senior Civil Servant*

# Wales

Welsh devolution takes a big step forward in 2019. From April, the Welsh Government will be able to adjust income tax rates by up to ten pence in the pound as part of devolved powers announced four years ago. Some 13 per cent of the Welsh budget will come from income tax as Wales joins Scotland in a new era of fiscal devolution, autonomy and responsibility. And importantly, this move creates a clear connection between the health of the Welsh economy and the wealth of its public finances.

These developments take place against a backdrop of political renewal, with First Minister Carwyn Jones set to stand down as Labour leader, and both the Conservatives and UKIP having installed new leaders in the Welsh Assembly.

The shift in fiscal self-reliance is one of a number of factors that has raised concerns over the sustainability of public spending among public sector leaders in Wales. Those that we interviewed for *The State of the State* described the same pressures as felt in England – and specifically that continued growth for health spending and a return to growth in public sector pay would continue to squeeze spending in other areas.

The Institute of Welsh Affairs has put forward four options that the Welsh Government could consider to make its spending more sustainable: withdraw from some areas of public sector activity; boost public sector productivity to do more with less; increase its revenue by charging for public services or raising taxes; or find ways to quickly ramp up economic growth. None of those options are easy and most would be contentious, politically, but the Institute concedes that tax rises may be inevitable.<sup>26</sup>

Inevitably, public sector leaders in Wales told us about their concerns over Brexit. Those we interviewed were specifically worried about the potential loss of European funding. Wales currently receives £680 million of support from the EU every year, which includes £200 million of funding from the Common Agricultural Policy to subsidise 16,000

Welsh farms and a rural development programme that is providing £957 million from 2014-20 to businesses, farms and communities. Of course, the people we interviewed are conscious that these levels of investment did not deter the Welsh electorate from voting to leave the EU in the 2016 referendum, alongside English voters. But all of the people we spoke to were concerned that such funding might not be available beyond the UK government's guarantee to maintain levels until 2020.

As in the rest of the UK, the population of Wales is ageing – but the trends are more pronounced. An OECD report found that in fifty years, the over 75s will be the biggest proportion of all age groups in the country. To add to that pressure, health issues related to drinking, smoking and obesity are higher in Wales than the rest of the UK except Northern Ireland.

However, the Welsh Government appears to have pressed ahead in terms of its debate on the future of health and social care. Informed by a report by economist Professor Gerald Holtham, the Welsh Government is examining the future funding of social care, including options for tax rises to fund future needs.

A senior figure in social care told us that the political will to find a sustainable, fair system of funding exists in Wales.

In Wales, we were never as far along the continuum towards independence as Scotland, in terms of appetite or in terms of devolved powers. Maybe the appetite will reach a level where there will be more concessions of devolved powers to satisfy pro tem and avoid the big argument.

*Local Authority Finance Director*

The NHS is costing 50 per cent of the Welsh Government's budget, so everything else is being reduced, and that's just not sustainable.

*Agency Chief Executive*

The Welsh Government is forcing us to do more regionally. Several services are being provided like that rather than through single councils. The issue with that is accountability, because it becomes more fuzzy who is responsible for what.

*Local Authority Finance Director*

Will the workforce disappear because of Brexit? And what's going to happen to the funding for the poorer parts of Wales like the valleys? Westminster might protect that for a few years, but for how long?

*Agency Chief Executive*

Devolved government works because if you're nearer to the people, you understand their needs and you're more responsive. We aren't closed. We're not parochial. We have an international perspective.

*Agency Chief Executive*

The political desire is there... there's definitely more political will in Wales and the voice of social care has been lifted.

*Social Care Director*

There's an additional complexity with the devolveds in Brexit. Any other day the situation with them would be on the front pages. Whatever happens, we'll have a set of framework agreements between us all.

*Senior UK Civil Servant*

# Conclusion

Understandably, EU exit is dominating commentary on government. But *The State of the State* observes that, beyond Brexit, the public sector faces a set of wider set of challenges.

Eight years of austerity have – perhaps inevitably – become more apparent in the local public services. The future of social care funding remains unresolved and inequalities persist between regions and demographic groups across the UK. At the same time, global shifts in trade, in technology and in security are exercising our government and others around the world.

Against that backdrop, the government plans to undertake a Spending Review in 2019. Ten years after the global financial crisis, both the government and public want to see an end to austerity - but neither will want to see extra resources wasted. The past eight years saw many reform ideas that aimed to reduce costs and boost public sector productivity, but arguably did not develop to their full potential. That is why Spending Review 2019 is such a stand-out opportunity for the government to take those ideas forward, recasting its approach to public spending and public sector reform in ways that will help shape a successful, post-Brexit future for the UK.

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## Notes



## Notes

## Endnotes

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