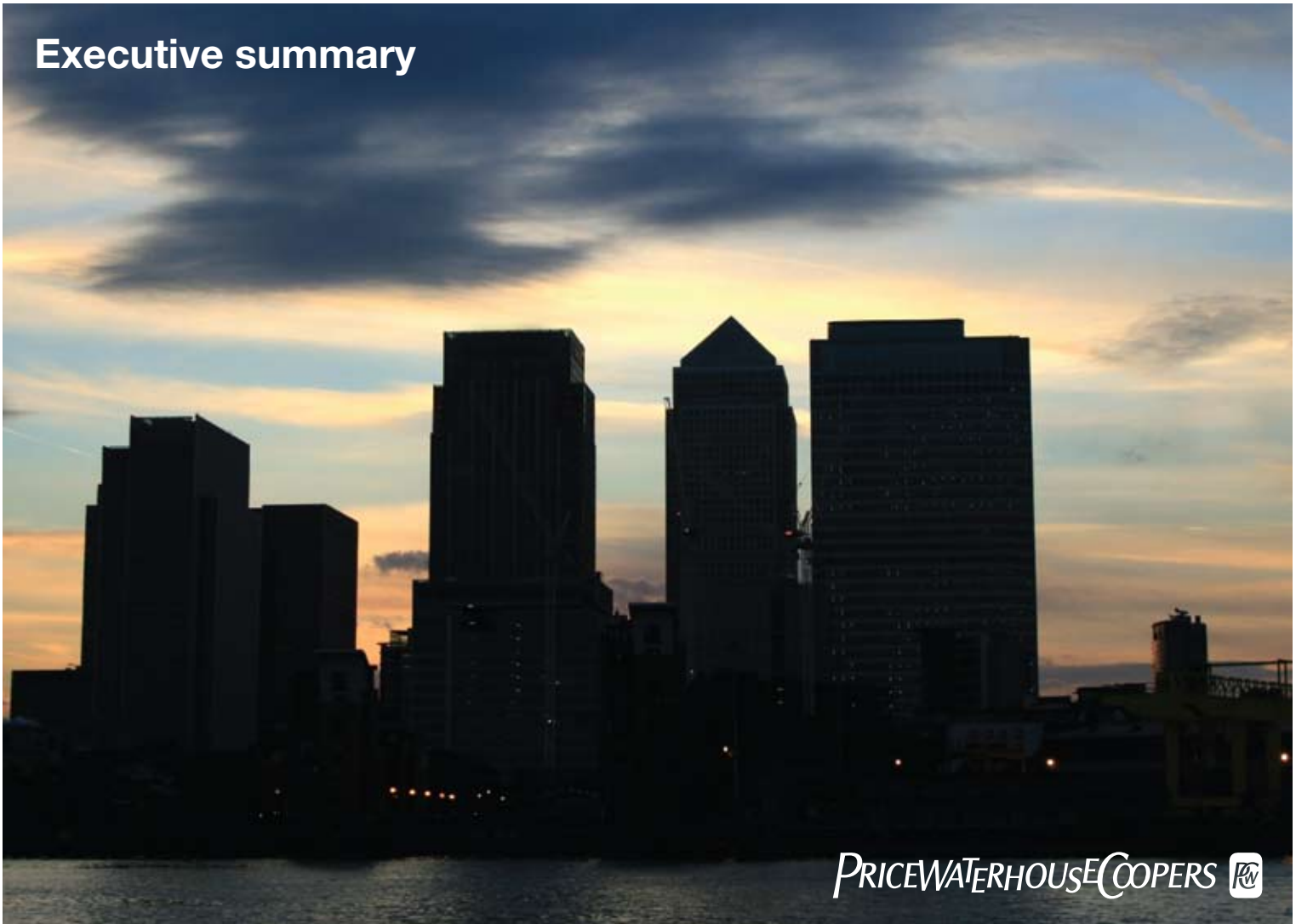


Seizing the day

The impact of the global financial crisis
on cities and local public services

a PwC Public Sector Research Centre publication

Executive summary



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Fears of a protracted global recession, over-regulation, lack of access to capital markets and a rising tide of protectionism dominate business concerns across the world.¹ In contrast, governments at all levels have seen the demand for their services rise inexorably which has led to a significant increase in public sector spending.

But all this is about to change. The insulated environment for cities and local government will not survive, with swingeing budget cuts on the horizon. Those city and local government leaders ('local leaders') who believe that the growth days for public spending will continue risk complacency and failing to put in place the foundations for a very different future from the first decade of the 21st century.

Within 12-18 months the 'Great Recession' will have ended for the private sector but will only just be beginning for the public sector. There is recognition amongst many, but not all, of the local leaders we surveyed that trouble is brewing with a revenue crisis top of their concerns:

- just over two thirds (67%) of the local leaders in our survey believe that the global financial crisis has had a significant or very significant impact on their organisations, particularly in the Developed economies;²
- almost two thirds (63%) of respondents have already seen a revenue shortfall for 2008 or 2008/09 of up to 20%, with another 13% seeing revenues impacted by 20% to 40% and a remarkable one in twenty (5%) already seeing an impact of over 40%; and
- over half (55%) believe there has been a slight or highly adverse impact of the crisis on their city's/local government's brand/perceived image.

So where does this leave the leaders of cities and local government? The current model of local government faces major threats and is at risk of breaking. Public spending will have to be cut to turn the tide of debt in many (particularly Developed) economies and capital and talent is likely to move from the safe haven of the public sector to the higher returns to be found in private enterprise as the latter recovers. Many of the Developing countries, however, which had less exposure to the impact from the financial crisis also have an opportunity – to leap-frog to a new operating model with more focus on strategic commissioning, public-private partnering and pan-public sector working, from which Developed countries in turn can learn.

We believe, therefore, that there is a window of opportunity in the next year for local leaders to prepare for transition and ensure that, as the private sector takes off again, cities and local governments have:

- positioned themselves to take advantage of a resurgence of global economic growth;
- protected their 'capitals' from the worst of the onset of public sector recession;
- innovated their service delivery models and roles in the supply chain;
- built resilience into their organisations by transforming their capabilities; and
- exploited this 'once in a generation' opportunity to transform the role they play in society.

We have already seen this cycle in the private sector. CEOs responded to the Great Recession by cutting costs and reducing staffing whilst focusing much more on managing risk. Yet, whilst CEOs battled to restore their relationship with consumers as well as regulators, trust in government's brand (at international, national, regional or city levels), appears to have survived. Indeed, the brand of local government is on the up – as a safe haven and trusted employer. So how can local leaders build on this and sustain themselves and their organisations into the medium term?

City managers and local government organisations around the world are facing tough choices and need to innovate, collaborate with their neighbours and build effective and durable organisations. This is endorsed by the findings of our survey where we found that:

- frequent use is already being made of a variety of collaborative partnerships, such as public-private partnerships, public-voluntary partnerships, outsourcing and shared services with opportunities both to reduce costs but also increase revenues;

1 For more details of business views on their key business issues as they affect government, see 'Rethinking and reshaping the business environment: Government and the global CEO', PwC's Public Sector Research Centre (PSRC), January 2010.

2 'Developed' countries are defined as OECD members; 'Developing' as non-OECD members.

- almost all (96%) local leaders believe that nurturing innovation is important or very important to their city/town's future growth and development, which in turn requires a supportive leadership and culture as well as talented staff; and
- about 80% believe that service re-design and service rationalisation are the most effective responses to financial crisis.

But it also appears that many local leaders may be underestimating the size of the challenge they face and may not be considering the true extent of the range of strategic responses they will need to adapt to their new environment:

- seven in ten (72%) are confident or very confident that they will be able to achieve their socio-economic development targets in the next five years;
- over half of the local leaders believe they have the tools to control spending, are empowered to make decisions and have control and flexibility over the management of local resources; and
- only one in five (21%) ranked commissioning in their top three important functions today, which falls to 12% in three year's time, despite this being one of a range of important strategic responses likely to be needed to address cut backs in public spending.

The responses to our survey therefore suggest a lack of urgency in the face of the storm to come. Now is not the time for incremental reductions of 5% or so year on year in budgets, rather it is a time to contemplate immediate deep cuts of up to 25%-30%.³ Experience has shown that the private sector did not anticipate the severity and depth of the recession and acted too late but local leaders can learn this lesson. Our challenge to local leaders is – why wait before acting?

With clear thinking, and careful planning, cuts of this order need not decimate services. **Local leaders** therefore need to:

- get back to basics, prioritising between core and optional services and ask whether services and activities are needed to fulfil legal obligations, to meet local needs or simply because 'we've always done it this way' (and could therefore be stopped or done radically differently):

- focus on retaining talent, identifying the critical functions for local government and protecting the talent critical to delivering these functions;
- design and develop new service delivery models, particularly commissioning and early intervention and prevention models; and
- collaborate across agencies, private and voluntary sectors and also spatially, across geographies.

There are also some important implications for **central governments** which need to:

- provide a stable and sustainable framework within which local leaders have the freedom to invest strategically and sustainably in the various 'capitals' needed by their cities for long-term prosperity; and
- put in place the mechanisms to facilitate collaboration more easily across geographical and administrative boundaries to assist in the creation of 'joint capitals'.

Finally, for **private and voluntary enterprises** the challenges are to:

- develop the business case for their investments in local markets by understanding better the implications of the 'make or buy' decision and the scale of the potential markets that may be created by the onset of public sector recession at a local level;
- build relationships with commissioners and understand better their needs now and in the future; and
- work with local leaders to create a business environment attractive to business.

The window of opportunity is now, for making tough choices and building partnerships to sustain local government into the future. Cities and local governments need to take advantage of the current crisis and innovate their service delivery, re-shape and transform their roles and functions and put in place measures to retain the talent attracted over the last two years. For when the private sector returns to growth, it will be too late!

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³ From an in-depth analysis of UK local government pressures – 'Perfect Storm' UK PwC, 2009.

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