

# The public sector lens



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## Introduction

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

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

## Themes from our interviews

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

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



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

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

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

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

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

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

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

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

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

*Student debt means a lot of students are working part time. When they do it for a few hours, there's a positive impact on studies because they are organised.*

*But for those that work longer hours, they are more likely to get a 2:2. And which students need work? The ones from less advantaged backgrounds. So this is a social mobility issue.*

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3 The boundaries between public and private sectors continue to blur

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

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

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

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

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

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

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

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

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

#### 4 Digital has changed the public sector's world

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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