RISK AND REWARD:
LOCAL GOVERNMENT AND RISK
IN THE NEW PUBLIC REALM
CONTENTS

4 FOREWORD

6 EXECUTIVE SUMMARY

8 SECTION 1
THE NEED FOR INNOVATION
• Pressure on public finances
• Policy challenges
• Collaboration between citizen and state
• The role of legislation

10 SECTION 2
WHERE IS RISK MANAGEMENT NOW?
• Risk management in third party relationships
• Commissioning the private sector
• Commissioning the voluntary sector
• The role of scrutiny in risk management

12 SECTION 3
FUTURE CHALLENGES
• Working with the community sector
• The Community Right to Challenge and modern commissioning
• The Community Right to Buy and asset transfer
• A new governance environment
• The role of elected members

16 SECTION 4
IMPLICATIONS FOR RISK MANAGEMENT
• Survey responses and implications for risk management

26 SECTION 5
RECOMMENDATIONS
As the Localism Bill edges ever closer to becoming law, the question of how local authorities engage their communities is again brought into sharp relief. Part of the Government’s Big Society vision, the bill offers new mechanisms for communities to get involved in service delivery, including the Community Right to Buy and Community Right to Challenge. The local authority response to these powers will have major implications for the management of risk.

This report clearly shows that councils must re-evaluate their risk management strategies if they are to deal with this new landscape of public service delivery. Councils are no longer the default providers of services. In looking for new ways of working and providing more for less, they are likely to be entering into more and different supply chain agreements, where risks are spread across public and private organisations. As they shift towards managing a complex ecology of private, voluntary and community sector providers, their understanding of risk will need to adapt, particularly regarding their role as ‘stewards of community risk’. Meeting these challenges will necessarily require innovation in service delivery and greater exposure to risk.

Local authorities must develop their risk tolerance levels if they plan to devolve and delegate more services to the community. This does not mean they should assume a laissez faire attitude to risk, but they must distinguish between risk avoidance, and risk management. This report recommends that councils evaluate their own risk appetite corporately and decide on risk tolerance levels for different areas of delivery. It is equally important that the risk capacity of the community is assessed. Resilience building in the community sector could be crucial in managing council-held risk. We should also recognise that a new approach to risk will require a shift in public attitudes. As a nation, we need to appreciate that service failure may occasionally be the price of innovation, but that in the long-run the cost of risk aversion is far greater.

Most importantly, good risk management requires strong political and managerial leadership. Appetite for risk should be determined corporately, and both cabinet and senior management team have important roles to play in setting out their council’s position. I hope the recommendations in this report will help to shape the risk management debate and prompt further discussion with local government.

Andrew Jepp
Director of Public Services,
Zurich Municipal
The LGiU champions local democracy because we believe it is the best way to empower communities and deliver effective, tailored services.

Besides the legislative agenda framed by the Localism Bill, we think there are a number of drivers for civil society organisations to play a greater role in local government. Complex, long-term issues such as an ageing population and climate change cannot be solved by governments alone and will demand a collaborative response from state and citizen.

Councils are absolutely central to delivering the vision of more engaged communities. Elected members across the country have a vital role to play in bringing communities together. But greater engagement from citizens will have implications for the way local government does business.

In this report we have explored the implications for the management of risk of councils giving more power to communities to design and deliver local services. We are very grateful to all the councils who took part in our research and shared their views with us.

Councils have often had a difficult relationship with risk. With a number of critical high-profile media stories in recent years, the rewards for risk taking have been small, while the penalties for failure have been large. It is unsurprising therefore that so many councils have taken a cautious approach to risk management, particularly in sensitive areas such as Children’s Services. In our survey, over 50 per cent of councils defined themselves as ‘risk averse’.

Nevertheless, if community organisations are to play a greater role in service delivery, local authorities will need to decide to what extent they will support them, and what level of risk they are prepared to take on to make it happen. Risk, where managed correctly, is not necessarily undesirable. Riskier models of delivery can often be the most innovative and effective. Risk and Reward highlights examples of good practice and makes recommendations to support councils to manage their risk more effectively.

I hope this report is useful for councils in evaluating their risk management arrangements. By considering both appetite and tolerance levels for risk, we will be better equipped as a sector, not only to deliver efficiencies, but to offer more innovative, flexible and responsive services in the future.

Andy Sawford
Chief Executive,
LGiU
There has never been a greater need for innovation in local government service delivery. Councils face the challenges of a tough spending settlement, a rapidly changing policy environment and increasing pressure on public services. Councils can meet these challenges in part by making the services that they provide more efficient. But doing “more for less” will not be enough to close the gap between demand and resources entirely. In the future, councils will be required to harness the potential of individuals and communities to close this gap.

Executive Summary

LGiU research conducted for this report has found that councils recognise this need for change, but are not yet fully prepared to manage a successful transition. Polling conducted by the LGiU for this report of council leaders, chief executives, cabinet members and policy leads in over 90 councils found that:

- Councils are concerned about low-levels of demand and capacity in their local communities. 64 per cent said the capability of the community sector in managing services or assets was ‘low’ or ‘very low’. 66 per cent said they would be ‘unmotivated’ or ‘very unmotivated’ to take on such responsibilities. Over half of all respondents said that the Community Right to Buy was ‘not at all important’, or ‘not very important’. Just under half reported the same for Right to Challenge and of ‘mutuals and cooperatives’. However, under 20 per cent had formally assessed the community’s appetite for more involvement.

- Councils limit opportunities for community sector involvement as a result of their pre-occupation with controlling risk. Half of respondents rated their council as ‘risk averse’ or ‘very risk averse’. Two fifths of respondents said they were ‘unlikely to take any risks’ in commissioning children’s services. A third reported the same for adult social care.

- Councils limit opportunities for community sector involvement as a result of their complex structures. Over 60 per cent said that their commissioning and procurement processes would be ‘difficult’ or ‘very difficult’ for the community to access.

- Councils are not prepared for managing the risks created by greater community involvement in service delivery. Nearly 99 per cent had not considered a strategy for managing risk associated with the new community powers. 65 per cent of respondents said that elected members were ‘ultimately responsible’ for risk in their organisations. However, over half said their scrutiny panels were ‘not very’, or ‘not at all’ effective in managing risk.
Making a successful transition will require councils to take a more flexible approach to risk management, involving resilience-building in the community, and a more prominent role for elected members. This report makes the following recommendations to local authorities:

1) establish a **scrutiny panel** dedicated to corporate risk management and the voluntary and community sector;

2) produce a **risk appetite assessment** for services across the council, determining the authority’s appetite for risk, and which areas are most appropriate for community involvement;

3) audit the local community’s **appetite and capacity for risk**;

4) prepare for potential **demand side risks** on the part of the community;

5) develop a strategy for managing the implications of the **Community Right to Buy and Community Right to Challenge**;

6) review the accessibility of **procurement and commissioning policies**;

7) ensure **clarity of communication** regarding the distribution of risk with the community sector; and

8) invest in **capacity and resilience building**.
Local government faces three pressures that will require them to collaborate more closely with communities. First, councils will need to do “more for less” as a result of decreased budgets and increased demand for services. Second, councils need to tackle challenges such as climate change that cannot be resolved by government intervention alone. Third, councils will need to respond to rapid changes in government policy and legislation.

Pressure on public finances

Councils face a challenging financial future. The October 2010 spending review reduced central government’s grant to local government by 28 per cent over four years, offset by an additional £2bn for health and social care. The cuts are front loaded, with the biggest reduction required in 2011/12. At the same time, councils are facing increased demand for the services that they provide. To take just one indicative statistic, there are currently around 10,000 people in Britain over the age of a hundred. Based on current trends, by 2070 that figure will have risen to over one million people. It is impossible to imagine that our current system of adult social care can possibly expand sufficiently to cope with this increased demand.

Collaboration between citizen and state

The long-term public policy challenges that we face are characterised by their complexity, rate of change and unpredictability. Issues such as population movement, climate change, an ageing population and global financial interdependence cannot be resolved by governments alone, but will require a new level of collaboration with citizens. Although local authorities have a long history of working in partnership with their communities, these relationships will need to be taken further than ever before if the new problems faced by councils are to be addressed. Two examples illustrate this emerging context.

First, climate change. Scientific consensus around the existence and potential impact of climate change caused or produced by humans is slowly being matched by a growing public awareness of the problem. This involves a recognition that, while government has a role to play in negotiating international settlements, setting emissions standards and perhaps even using fiscal instruments to change behaviours, this is matched by personal responsibility for the way we live. Any effective response to the problem must draw on both government action and that of individuals.

Second, education. There is strong evidence to suggest that the biggest influence on educational attainment is parental support and encouragement. Responsible parents see this as part of their role and do not think that education is something that can or should be the sole responsibility of the state to provide.

Local authorities will need to be able to mobilise their communities if they are to meet such complex challenges.
Policy challenges

The policy-making of the coalition government is built around the central concept of the Big Society. The Big Society is a vision for society where people come together to solve problems, without direct intervention by the state. It is based on the idea that the state now does things that communities once did for themselves, resulting in dependent communities and an expensive public sector. The government has pledged to devolve power from the state to communities to redress the balance.

The concept of Big Society has been criticised as insubstantial and a smokescreen for public service cuts. Nevertheless, there will be increased pressure on councils to seek alternative delivery arrangements through the local community as spending cuts and increased demand for services bite. Irrespective of the immediate political debate, the sort of long-term challenges described above mean that there will be a need to engage citizens and communities more closely in the design and delivery of services. Moreover there is a growing body of evidence showing that real innovation emerges not from central strategies but from a critical mass of local, contextualised initiatives that are able to adapt and evolve.¹

The Decentralisation and Localism Bill is one of the government’s main delivery mechanisms for the Big Society. It proposes new powers for communities to take over public assets, run services, initiate local referenda and directly determine planning decisions. These powers are designed to enable communities to take more control over their local area and public services. Two of the most important measures on public service delivery are the Community Right to Challenge and the Community Right to Buy.

The Community Right to Challenge opens the way for community organisations, not-for-profits, charities and social enterprises to trigger a procurement process by expressing an interest in providing a service. The Community Right to Buy gives communities the right to identify assets of community value and an opportunity to bid for them on the open market should the asset come up for sale. This is of particular interest to local authorities in relation to services which are currently under threat. The Community Right to Buy relates to the transfer of an asset rather than a service. Community groups may, however, choose to continue a service independently of the council in the event of a local service such as a library or children’s centre being closed.

¹ See for example Tim Harford, 2011, Adapt: Why Success Always Starts with Failure
Section 1 demonstrates a clear need for innovation in local government. Councils will be required to collaborate with a number of partners to deliver services and this will have significant implications for the ways in which councils manage risk. Will existing approaches to risk management of partnerships and contracts be sufficient? In this chapter we describe current practice relating to private and voluntary sector commissioning and look at the lessons from this for working with the community.

Commissioning the private sector

The past 30 years have seen many councils move from their role as providers of services to one of commissioners of services. Some councils still provide the majority of their services in-house and others have responded to financial pressures by bringing services back from outsourcing arrangements. The majority, however, have adopted some level of private sector delivery. This is particularly developed in leisure centres, street-scene and waste management. Private contractors have grown to meet the demand. Serco, for example, has grown every year since flotation on the Stock Exchange in 1998.²

Responsibility for the performance of a third party provider exposes councils to a new world of risk. Third parties have different business models, governance standards, levels of risk acceptance and approaches to risk management. Each relationship with a third party is unique and exposes a council to failure and its associated impact in a different way. These risks are well demonstrated by the sobering number of failures in outsourcing relationships. The recent collapse of Southern Cross, which put the future of over 500 care homes in doubt, clearly illustrated the potential risks to local authorities in entering such partnerships. In the national public sector, the National Audit Office has investigated alleged overspend and overrun of IT contracts worth £18bn. And in the private sector, independent research indicates that the failure of outsourcing contracts to meet expectations is 50 per cent.³ There is significant scope for reputational damage in such arrangements. The public does not differentiate between a service delivered by the council, and one delivered by a third party: if it fails, responsibility ultimately falls with the authority.

Outsourcing is not, however, necessarily a riskier delivery model. Successful councils embed their own risk management processes across the service and ensure that they have the power to introduce change if the risk profile becomes unacceptable. Councils are familiar with what is required of them in these arrangements. So long as the contract is managed effectively, the risk to the authority can remain relatively low.

Commissioning the voluntary sector

Commissioning services from voluntary sector organisations poses a different set of problems for councils. Charities may be small and unable to absorb a high level of risk compared with large public sector organisations or private outsourcing companies. Councils have been able to control their risk portfolio by carefully (and often cautiously) managing the procurement process to secure suitable providers and to mitigate their risk through project management arrangements. Charities with unsatisfactory governance or financial management systems have been managed out by procurement processes and service level agreements that allow authorities to

CASE STUDY 1: CAMDEN LIBRARY SERVICE

The London Borough of Camden is currently consulting on reducing the number of libraries it runs. This may lead to closure of some local library branches, which could then free up premises and reduce overhead support needs.

Local communities have expressed their concern, responding with offers to deliver added value to current or reduced funding. In the case of one branch, 300 volunteers have put themselves forward to help the library open longer. But this raises questions about risk associated with staff running a council resource, and in dealing with the public.

In this same branch, the community are preparing contingency plans for running the library themselves in partnership with an existing community association. However, the council’s approach to risk management entails exacting standards for its contractors, and there is concern that the bar may be set too high for this body. As the council owns the premises, there is apprehension about what lease length it would consider; from the council’s point of view it should be short, to minimise risk, but the association needs a longer term commitment to facilitate effective fundraising. By focusing on short-term risk minimisation, the council may in fact increase the risk that the association will fail to make the project viable. The association is now assessing its own level of risk, and is considering setting up a vehicle to distance it from any liabilities.

identify an exit strategy. These arrangements have tended to favour relatively well established voluntary sector organisations. Market stimulation processes have been employed if a gap analysis reveals the need but these are often limited in scope and tend to be employed in particular service areas.

The role of scrutiny in risk management

Management of risk has tended to be officer-driven. Elected members, however, manage risk through overview and scrutiny panels and high-level risk monitoring. Corporate risk registers offer members the opportunity to keep an eye on risks as they emerge and scrutiny allows panel members to assess in more detail the risks inherent in a project. LGiU research has found that there is concern that these panels are not always effective in their management of risk. More importantly, their role has been very much focused on monitoring risk, rather than shaping risk management decisions. This will have to change as the responsibilities of locally elected representatives shift from a strategic role towards empowering local citizens and facilitating community engagement.

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Councils have developed extensive experience in commissioning the private and voluntary sector. This chapter argues that the Big Society is a radically different prospect. Approaches that were right for the private sector, and some voluntary groups, will not work with the community on a large scale. Councils that support Community Right to Challenge will need to modify the commissioning process to support the involvement of the voluntary sector. Meanwhile, councils that support the Community Right to Buy will need to prepare for a still more radical transformation. Under this new power, councils will need to prepare themselves to transfer total responsibility for a service, without necessarily relinquishing the total risk. With this in mind, councils will need to seriously consider their appetite for risk in service delivery.

Working with the community sector

Councils are already delivering the Big Society. They have a long history of working with the voluntary and community sectors and have developed a range of tools to help them to manage risk in these relationships. They have built up relationships with more informal voluntary and community sector organisations, engaging ‘Friends’ groups in service planning, working with grass-roots organisations to develop regeneration initiatives, establishing volunteer teams in libraries and a plethora of other initiatives, including asset transfer to community organisations and other interested parties. There are without a doubt already many excellent instances of community groups delivering services on behalf of the authority.

Risk management in this type of relationship can vary dramatically. In some cases, the level of involvement of the community group may be carefully delineated within strict boundaries and with clear outcomes. The funding application process allows councils to control the type of project that is funded and insist on monitoring reports. Usually, however, risk management will be less rigorous. Relatively small sums are often involved and the failure of a project will have fairly minor implications for the authority. These arrangements can be successful and may be significant in the context of the local area. They nevertheless expose the council to a limited level of risk and can be coordinated with officer involvement.

Community projects with a high level of risk have tended to be council-led and resource intensive in terms of officer time and funding. Councils are, however, unlikely to have the resources to retain this approach to community involvement in the new financial climate. The current changes in local government will drive a change in risk appetite, as councils no longer have the resources to micro-manage their risk portfolio to the same extent. But, as argued in the preceding chapters, they will be required to work more closely than ever with the voluntary sector. The current picture of hurried budget-saving measures presents a real danger that hasty decisions may be taken without considering the long term risks of a course of action. It is probable that larger, national charities may be perceived as the ‘safe’ option, at the expense of local voluntary groups. While this approach holds fewer short-term risks, it could be to the detriment of the local voluntary sector economy in the long-term.

A new approach to risk management is needed that helps community groups and local citizens to take a more active role in service delivery, that empowers communities to take the initiative and to contribute proactively to local priorities, but does not require long-term financial investment on the part of the authority. The government regards Community Right to Challenge and Buy as central to this goal of community empowerment.
The Community Right to Challenge and modern commissioning

The Community Right to Challenge aims to "break open" public sector monopolies. The Prime Minister has said that the government is "saying to people who work in our public services – set up a mutual, establish a cooperative, do things your way. Saying to a business, faith groups, charities, social enterprises – come in and provide a great service". The Community Right to Challenge, however, is not as straightforward an opportunity for voluntary organisations as this statement suggests. A community organisation can only trigger a procurement exercise by expressing an interest in running a service. It is possible that a council may not decide the resulting competition in favour of the bidding organisation.

The success of the Community Right to Challenge will depend on the support of councils. Some councils may use the process set out in the Localism Bill to frustrate community aspirations to take over services. Most councils, however, are broadly supportive of efforts to promote greater community engagement in the delivery of public services. LGiU research undertaken as part of this report has found that there is cross-party consensus among council leaders on the value of community-run services, mutuals and cooperatives. Political support and leadership will be essential if this consensus is to translate into greater citizen engagement in service delivery.

Councils that support Community Right to Challenge will need to modify the commissioning process to support the involvement of the voluntary sector. Models that are appropriate for conventional outsourcing and commissioning relationships may not be appropriate for the community sector, and councils will have to become more flexible in their approach. There is a risk that a formal commissioning approach loses the potential benefits of a Big Society: that is the rapid emergence of local innovations and the engagement of citizens in a collective response to public service challenges.

A key role for local government is therefore to provide early support to new service providers to mitigate the chances of failure. There is a real need for capacity and resilience building to empower local organisations. Local voluntary support networks will also be an important player in this context. Providing training and support for community groups at an early stage is essential, as it is easier to build a service than to re-build after failure.

The Community Right to Buy and asset transfer

In commissioning relationships, councils retain ultimate responsibility for a service. This allows local authorities to control the risk profile of a service and make changes where necessary. A council can, if necessary, activate a pre-agreed exit strategy in response to a gradual or sudden failure by a provider. An activity can then be taken back in-house or transferred to another provider.

Community Right to Buy is radically different to outsourcing or commissioning as ultimate responsibility for the asset, as well as [in some cases] the service delivery is transferred to a third party. The proposals are designed to allow community groups to take over buildings or land, particularly in cases where an asset is under threat of closure under current management arrangements. Examples could include a children’s centre, library building or even a pub. Under the Local Government Act 1972 [General Disposal Consent 2003], local authorities can
already transfer assets to community ownership at less than market value (up to an under-value of £2m) to further local, social, economic and environmental wellbeing, without seeking the Secretary of State’s consent, and this has been pursued with great success by such authorities as Wirral Council. The Community Right to Buy extends this scope to include private as well as public assets, and gives communities the right to identify assets of community value and a window of opportunity prior to sale to prepare to bid for them on the open market. While previous asset transfer arrangements have tended to be instigated by the council, the new powers allow community groups to take a more proactive approach to initiating a project.

CASE STUDY 2: WIRRAL MBC – ASSET TRANSFER PILOTS

The Advancing Assets programme has provided direct support to three community building projects during 2008-9. Support has included assistance with incorporation and business planning to help the management committees to meet the standards set by the Council for transfer recipients.

A Strategic Assets Review (SAR), undertaken by Wirral MBC during 2008-9, resulted in proposals to invest £20m over four years in 12 state of the art public sector complexes. The council aimed to reap efficiency savings from the closure and disposal of assets that were no longer deemed fit for purpose, cost effective or energy efficient, whilst providing local communities with new high-quality public sector service outlets. The council applied to join the Advancing Assets programme for help in developing a two year community asset transfer offer to local communities and third sector groups.

The facilities include community centres, leisure facilities, libraries, museums and heritage assets. Support was provided to Wirral MBC to develop an appropriate strategy and related policies and processes. Assets ‘for transfer’ can now be viewed via the council’s website, where its community asset transfer policy and standard expression of interest form are also available. Effectively, the council has afforded local communities a ‘window of opportunity’ during which they can register an interest in community ownership and management of such assets, before moving to dispose of them on the open market – a locally conceived ‘community right to buy and/or lease’ assets by any other name. In addition, it intends to procure expert support to assist communities and third sector organisations expressing an interest in assets ‘for transfer’ – in recognition of the community development and capacity building work which may be needed to ensure transfers go ahead on sustainable basis.6

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The potential scope of this scheme is yet to be established. The Community Right to Buy was introduced in Scotland in 2004; this has only resulted in 10 actual purchases from ‘approved community bodies’, despite communities being given the right to first refusal and six months to prepare their case. Difficulties cited have included the cumbersome nature of the planning process. Nevertheless, there have been some high profile successes, including the sale of 62,000 acres of North Harris, which have raised the profile of the scheme and resulted in the formation of Community Land Scotland, an umbrella body of groups dedicated to supporting community land initiatives.

It is likely that similar barriers will be faced by community groups seeking to take advantage of the Community Right to Buy in England and Wales, particularly as they are not expected to have the right to first refusal which is specified in the Scottish legislation. The transfer applies only to the asset, rather than the service, which would be continued at the discretion of the community group in question. However, in this case councils will have limited powers to intervene and control the risk profile of a service, while still holding a significant level of reputational and political risk should the venture fail.

**A new governance environment**

Community Right to Challenge and to Buy represent a significant change in the ability to instigate service change, shifting the impetus from the local authority to the community. Some communities will doubtless be enthusiastic in taking advantage of these opportunities, while others may not have the capacity or motivation to do so. Supporting local voluntary groups to assume greater responsibility will require people within authorities with experience and an understanding of the local context. There is a real danger that these critical resources will be squeezed, as experienced staff retire or seek voluntary redundancy.

The new legislation has serious implications for the way in which local authorities manage risk. Although some authorities may initially see the changes as cosmetic in nature, it is clear that they feed into a re-evaluation of the role of a council in the local area. Part of that evaluation must be an assessment of the council’s risk appetite in relation to community involvement in service delivery, and of the extent to which the authority is willing to facilitate this involvement. It is likely that a contracting budget will drive changes in risk appetite for local authorities, but this must be clearly articulated and carefully managed.

**The role of elected members**

Councillors have a key role to play in this new risk management environment. Local authorities cannot make a full evaluation of their appetite for risk without considering the values of the organisation. The shift from a risk avoidance model, to an approach that selectively tolerates a greater degree of risk will have major implications for the way services are managed. Decision-making about levels of risk appetite for different services will have strategic significance for a local authority, and elected members will need to take a leadership role in empowering their residents and setting the context for their local area.

“Our job will be to help empower communities to organise their own affairs rather than acting as their leaders...Good councillors have always encouraged this type of approach - more will now do so”

(Council Leader)
In researching this project, the LGiU surveyed an opinion pool of local government leaders, senior councillors, chief executives and policy managers. We received 96 responses. A focus group of senior councillors, an in depth roundtable of 20 council Leaders, and individual interviews also contributed to the research.

Our analysis of the survey responses and supporting research suggested a number of risks associated with increased community collaboration.

1) Councils tend to be risk averse

An increasingly litigious climate and a variety of high profile scandals relating to safeguarding have contributed to an aversion to risk in the public sector. As a consequence of media stories and centralised inspection regimes driving council improvement programmes, local authorities have determined their risk management strategies in an environment where the rewards for risk taking have been small, while the penalties for failure have been large. In our survey, 50 per cent of respondents described their council as ‘risk averse’ or ‘very risk averse’ and 84.8 per cent agreed, or strongly agreed, that increased community participation will create new risks for their organisation.

When asked to rate types of community involvement in order of importance, councils revealed their preference for methods that were led by the council.

How important do you think the following will be to your authority over the next five years?

<table>
<thead>
<tr>
<th>Type of Community Involvement</th>
<th>Not at all important</th>
<th>Not very important</th>
<th>Important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing the level of volunteering in council services</td>
<td>26.4%</td>
<td>59.3%</td>
<td>14.3%</td>
<td></td>
</tr>
<tr>
<td>Co-design of services</td>
<td>9.9%</td>
<td>56.0%</td>
<td>34.1%</td>
<td></td>
</tr>
<tr>
<td>Co-production of services</td>
<td>27.8%</td>
<td>60.0%</td>
<td>12.1%</td>
<td></td>
</tr>
<tr>
<td>Mutuels and cooperatives</td>
<td>8.8%</td>
<td>37.4%</td>
<td>41.8%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Full commissioning of services to the local community</td>
<td>4.5%</td>
<td>33.7%</td>
<td>51.7%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Asset transfer to the local community</td>
<td>38.5%</td>
<td>38.5%</td>
<td>53.8%</td>
<td>7.7%</td>
</tr>
<tr>
<td>The Community Right to Challenge</td>
<td>5.5%</td>
<td>38.5%</td>
<td>52.7%</td>
<td>3.3%</td>
</tr>
<tr>
<td>The Community Right to Buy</td>
<td>4.5%</td>
<td>49.5%</td>
<td>61.8%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>
Councils clearly prioritised types of service delivery that could be carefully risk managed by the authority, and primarily those with which authorities are already familiar. In the context of community involvement in service delivery, it is worth considering the risks or opportunity costs of ‘doing nothing’.

Although 50 per cent of respondents described their councils as ‘risk tolerant’, it was also clear that this tolerance extended to some areas of the council and not others. Unsurprisingly, respondents demonstrated a low level of appetite for risk in internal support services, Children’s Services, Highways, Waste Management and Adult Services, while they were more open to taking risk in discretionary services such as Parks, Sports Development and the Arts. 41.1 per cent of respondents said they would be ‘unwilling to take any risk’ in involving the community in Children’s Services.

This raises questions about councils’ understanding of risk appetite. Arguably, Children’s Services and Adult Social Care are the areas in which well managed risk taking could best promote creative approaches and address some of the key challenges facing councils, including independent ageing, young people’s attainment and care for vulnerable groups. A complete avoidance of risk in certain areas also closes down opportunities for service innovation.

“Local authorities struggle with accountability in their relationships with the voluntary sector - instead of managing risk they avoid it. I’ve seen money handed over to the voluntary sector for one year at a time, with a requirement of fortnightly monitoring reports or meetings. It’s not enough time for them to achieve anything and can be really counterproductive.”

(Managing Director of a fostering and residential care organisation)

**How much risk are you willing to take in getting the community involved in the following services?**

![Risk Tolerance Chart](chart.png)
2) Inappropriate systems

If councils seek to engage community groups through existing commissioning and procurement processes, there is a real risk that the groups in question will become disengaged. Without a significant level of support, community groups may not have the capacity to compete with private sector organisations in an open procurement exercise. In the event of a community group succeeding, there is also the risk that the monitoring arrangements under current models of service level agreement will be inappropriate for them. In our survey, 61.1 per cent of respondents thought that community groups would find their current commissioning and procurement systems ‘difficult’ or ‘very difficult’ to access.

Some authorities may inadvertently use such systems as an opportunity to exclude the community from these exercises and to minimise their own risk, but again, there are opportunity costs to this approach. Councils will need to re-evaluate their systems with the community in mind; this is potentially a resource intensive activity at a time when resources are stretched.

Authorities’ systems for managing risk may also be open to question: 53.9 per cent of respondents to our survey said that their current risk management processes were adequate for dealing with the challenge of increased community involvement, but 46.1 per cent disagreed and 50.6 per cent said their scrutiny panels were ‘not very effective’ or ‘not at all effective’ in managing risk in their organisations.

How easy would it be for the community sector to access your current commissioning and procurement processes?

- Very difficult: 51.1%
- Difficult: 37.8%
- Easy: 1.1%
- Very Easy: 10.0%
3) Lack of capacity in the community and voluntary sector

There is a danger that community groups will find it difficult to navigate not only councils’ existing commissioning frameworks, but the new powers of Community Right to Challenge and Community Right to Buy. Groups which are enthusiastic about the opportunities associated with the new powers, may not have the necessary governance models or relevant experience. 64.2 per cent of respondents to our survey rated the capability of their local community sector in taking over services and/or assets as ‘low’ or ‘very low’. When asked to identify the risks associated with transferring services or assets, 50.6 per cent of respondents felt that ‘lack of capacity among community organisations’ was a high risk, while 52.4 per cent saw ‘problems with sustainability’ as a high risk. These figures reflect two separate areas of risk assessment. One prior to the transfer in assessing the ability of a potential partner to effectively share the risk portfolio, and the other subsequent to the transfer, in managing risk associated with implementation and service delivery. It is clear that a significant number of councils are concerned about the capacity of community organisations in both areas of work.

How would you rate the current capability of your local community to take responsibility for running council services or assets?

- Very low capability: 33.7%
- Low capability: 2.2%
- Fair capability: 53.3%
- High capability: 10.9%
The ordering of these risks suggests that councils’ biggest fears in relation to civic engagement relate to the ability of their community sector. With this in mind, councils will have to consider how prepared they are to support community bids for service delivery, and to analyse their own capacity for offering specialist support.
A recent report by Zurich Municipal, with research by Ipsos Mori highlighted the lack of interest in the Big Society among local people; almost a quarter (24 per cent) of the 1,000 people canvassed said they had no interest in how local council services work, as long as they were doing their job. This is a genuine concern for local authorities. While some may be happy to retain the status quo, there are major opportunity costs to not involving the local community, and as we explored in Chapter 1, the need for innovative collaboration with the community is only increasing.

65.9 per cent of respondents to our survey said their communities would be ‘unmotivated’ or ‘very unmotivated’ in taking on a more active role in service delivery and 76.9 per cent of respondents thought their community groups would only be willing to take on a ‘low’ or ‘very low’ level of risk. However, 80.2 per cent had not yet assessed their community’s appetite for risk, suggesting a potential further risk inherent in councils’ assumptions. By assuming a lack of interest, this line of investigation is closed before even being explored.

How motivated do you think your local community will be to take over council services or assets?

- Very unmotivated: 58.2%
- Unmotivated: 33.0%
- Motivated: 1.1%
- Very motivated: 7.7%

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5) Lack of preparation

At the other end of the spectrum, councils face a new risk under the Right to Buy and Right to Challenge legislation. Previously they have been able to control their level of local community involvement in service delivery, and thus manage their risk portfolio. Under the new powers, communities will be able to take matters into their own hands and proactively seek local ownership of services or assets. Unless councils are prepared for this eventuality, there is a risk of them being put on the back foot, opening themselves up to legal challenge and poor publicity, or to devolving responsibility for services in a piecemeal fashion without an overarching strategy. When asked to identify how important different modes of community involvement would be in the future, a surprising 56.1 per cent of respondents said the Community Right to Buy was ‘not important’ or ‘not at all important’ and 44 per cent said the same of the Community Right to Challenge. 98.8 per cent of councils did not have a strategy for managing additional risk associated with Community Right to Buy and Right to Challenge. When the legislation comes into force, councils will need to develop a strategy for managing this process, but more importantly, to consider their position on the two powers, including how appropriate it may be for the local area and how far their appetite for risk extends in working with the community. If a change in risk appetite is reactive rather than reflective, it could leave councils in a vulnerable position.

“Councils are going to have to respond to the Right to Challenge – why not preempt it and invest in capacity building now? Is it better to invest some time and resources in building mutuals with the third sector at this point, or to wait until your backs are against the wall 18 months’ down the line, when you’re forced into quickly outsourcing the service or closing it down completely? If councils want it, they can make it happen”

(CVS Deputy Chief Officer)

6) Diminished accountability

In the event of a service or asset being transferred to the community, there is a risk concerning its future management arrangements. In a formal Service Level Agreement or contract, councils have the ability to enforce service standards if they are not met by the partner organisation. In the case of community groups, there will be a need for a more supportive relationship. If the partnership fails on these grounds, the council leaves itself open to reputational damage and financial risk (particularly if services have to be taken back in-house). Councils will have to decide what level of risk they can tolerate, and potentially develop more flexible arrangements. Again, this is resource intensive at a time when staffing is being squeezed.

7) Service failure

Although some councils may feel that transferring a service or asset to the community results in a full transferral of risk, this risk can never be completely transferred. The failure of a service, even one that is no longer the direct responsibility of a council, could have serious reputational risks for the authority. In many cases there would be a public expectation that they would offer financial support to the organisation in the event of its failure; the closure of a local library would have similar political implications irrespective of whether it was being operated by the council or by a community group at the time. Because of this factor, it is unlikely that a council would wish to transfer a community asset or service without some level of agreement and the involvement of council officers in monitoring the relationship. In this case resilience building assumes a new level of significance, and has major resource implications.
CASE STUDY 3: HAVERING MUSEUM

The London Borough of Havering has established a local history museum in partnership with a small community organisation, using a mixture of developer contributions and Heritage Lottery Funding. There was no recent precedent for a local museum of this kind in the area, and the council did not wish to take on the additional risk of running the service. However, they were supportive when approached by a group of residents who had constituted themselves as a charitable company with the aim of lobbying for a museum to be established in the borough.

The group at this time were lacking formal governance arrangements and the Council supported them to establish these, allowing them to take on a long term lease from the authority on a peppercorn rent for an empty building in Romford Brewery. Agreeing the lease was a slow process, but once it was in place the Council worked with the group to submit a successful joint Lottery bid, and managed the capital stage of the development before handing the operation of the new museum over to the charity.

Although Havering Museum is entirely independent of the council, a project board including both Museum directors and council officers continues to meet monthly to ensure the smooth running of the operation. The Museum contributes strongly to the council’s regeneration goals for the town centre and to manage the risk of project failure, the Board and the council are working together closely to develop their business strategy. Havering Museum Ltd has now been running the museum successfully for over a year.

On the other side of the equation, councils could potentially seek to transfer too much risk to a community group, leaving them serious liabilities. When asked about risk sharing, 63 per cent of respondents to our survey said that their organisation is willing to take on a higher level of risk to facilitate community involvement in service delivery, but 37 per cent disagreed, and 86.9 per cent said that community groups would be required to take on a ‘considerably higher level of risk’ than is currently the case. In general, councils recognised that they retained a level of responsibility when a service or asset is transferred to the community: 84.5 per cent disagreed or strongly disagreed when asked if risk was completely transferred along with the service. However, 32.9 per cent agreed or strongly agreed when asked if the risk was completely transferred with an asset.
8) Reduction in the resources available for risk management

The areas of changing risk highlighted above may be compounded by the shrinking pool of resources available within a local authority. The transferral of services and assets to the community requires a high level of front-loading in terms of resources. As councils reduce their staff base and budget lines, these resources may simply not be available.

The usual mechanisms of risk management, in the form of contracts, service level agreements and lease clauses are of limited use when it comes to dealing with the community sector, unless they are accompanied by a degree of market stimulation and service support. In our survey, 60.7 per cent of respondents identified ‘resilience/capacity building’ in the community sector as a high priority for the future, but 77.4 per cent of respondents also saw ‘lack of dedicated officer time’ as a medium or high risk in terms of transferring services or assets to the community. As older, more experienced staff retire, or seek voluntary redundancy, the resources to support this type of work may be diminishing.

“I think the biggest danger with the Big Society concept is that there may be instances when a complete void is left when no one is willing to take things on.”

(Policy Manager)

9) Lack of engagement of elected members in risk management

Our survey raised serious concerns about the role of elected members in risk management. While 65.1 per cent of respondents said that elected members were ‘ultimately responsible’ for risk in their organisation, only 4.8 per cent thought that their scrutiny panels were ‘very effective’ in managing risk. Nearly 50 per cent felt that they were ‘not very effective’ or ‘not at all effective’. This suggests that while responsibility for risk lies with elected members (ultimately measured at the ballot box) the day-to-day management of risk tends to fall to officers in service areas. An over-arching strategy for risk, led by councillors, appears to be missing. As the demand for councils to re-assess their risk appetite and tolerance levels rises, it will become increasingly important for elected members to be responsible for strategic decisions around risk.

Who is ultimately responsible for risk in your organisation?

- Officers: 65.1%
- Elected members: 34.9%
Implications

The primary implication of our survey is that local authorities are still wedded to models of risk avoidance, rather than risk management. If we accept the need for innovation in community collaboration described in Chapter 1, councils will no longer have the leisure to control their risk portfolio to the same extent, and will need to take measured decisions about their appetite for risk across a portfolio of services. If these decisions are not articulated, councils may be driven towards riskier models of service delivery without appropriate controls. Conversely, they may become even more risk averse, undermining the vision of wider engagement in local public services.

If a greater degree of community participation is to be achieved, the mechanisms and operational methods by which local authorities commission partners and procure services will need to be reviewed. This may look different in different service areas, and it is unlikely councils would want to apply a one size fits all model. The operational implications of new powers like the Community Right to Buy and to Challenge will also need to be considered in more detail, and an audit undertaken of the capacity of the local community sector.

More important than all these operational changes however, will be a re-assessment of how risk management is approached across the council as a whole, and where decision making about risk is located. A truly strategic approach to risk appetite and tolerance will require greater involvement and leadership from elected members, and will be essential in opening up new and creative methods of service delivery. In the next chapter we discuss what this might look like, and offer recommendations for authorities in meeting this challenge.
Section 5

RECOMMENDATIONS

Our research suggests several overarching principles regarding local authority risk management in relation to the Big Society.

- Councils recognise that more collaboration between communities and councils will be essential in meeting the challenges of service provision in the future.
- Their current approaches to risk management may stifle creativity and put obstacles in the way of innovative solutions involving the community.
- A strategy of risk avoidance is no longer viable, and councils will need to adapt to more flexible methods of risk management.
- An investment in resilience and capacity building of the community sector will be an increasingly important aspect of risk management in future.
- Elected Members should play a more prominent role, not simply in monitoring risk, but in setting the strategic risk tolerance boundaries within which services are delivered. As local volunteers in their own right, councillors are ideally situated to be more than representatives of the people; as community facilitators, who inspire action, hold the ring between competing interests and insure inclusivity and accountability.

Adopting a new approach to risk management involves long-term culture change across the organisation, but a number of initial actions can be taken by councils.

1) Establish a **scrutiny panel** dedicated to corporate risk management and the voluntary/community sector. As our research identified, 65.1 per cent of respondents identified elected members as being ultimately responsible for organisational risk, but nearly 50 per cent felt that scrutiny panels were ineffective in managing such risk. Only 4.8 per cent felt they were ‘very effective’. The risk management panel would take on a strategic role in relation to risk across the whole authority, including identifying the parameters for risk tolerance within which services are delivered. Rather than regarding risk as a product of service delivery to be controlled, the panel would establish the council’s risk appetite across a range of services, and would also be responsible for taking the lead in recommending potential areas for increased community involvement.

2) Produce a **risk appetite assessment** for services across the council, determining the authority’s appetite for risk, and which areas are most appropriate for community involvement. The assessment should seek to address the following questions.

- How much risk is the authority willing to take on?
- How much are they willing to pass to the community?
- What services have the greatest capacity to tolerate risk?
- Where will a capacity to tolerate risk return the greatest rewards?
- To what extent does the organisation support Community Right to Buy and to Challenge?
Included in this assessment should be a model for deciding where the transfer of services and assets to the community will be most appropriate. This assessment should seek to categorise services across the authority using the risk/return matrix below. In this diagram both risk and return refer to increasing community involvement in service delivery.

Services that offer the lowest risk and highest return for community involvement are generally the areas where local authorities have facilitated most civic engagement. Low risk/low return areas may be those that authorities are now closing, and in some cases this will offer opportunities for voluntary groups to fill the gap; for example, transferring a poorly used community hall to local use. High risk/low return areas may include back-office functions such as finance and HR, where increased community involvement would offer little benefit, but greatly increase the service risk. However, areas that offer high returns, but also high risks will tend to be the services over which councils retain most control. These are also often the areas where a more flexible approach to risk would be an advantage.

**CASE STUDY 4: THIRSK SUMMER PLAY-SCHEME**

North Yorkshire County Council discovered that a group of local parents had independently set up a summer play-scheme for children with learning disabilities. It was established without council involvement in response to local need, but was making a positive contribution to outcomes for local people and to council services. Parents could either attend with their children, helping them to meet other families and to build support networks, or leave their children for the day, offering the young people the chance to socialise independently and providing respite to the parents. The scheme was very popular. Because it wasn’t branded as a ‘social service’, members of the community were less likely to feel stigmatised and were more willing to attend.

At the same time, the scheme was saving the council money: young people who attended were not spending time at council respite centres, which can cost several thousand pounds per visit. The council decided to fund more places on the scheme and work with the voluntary group to expand their capacity. Although this meant that the authority could no longer control the day to day running of the programme as they did with respite centres, the benefits outweighed the risks.
As part of this assessment, local authorities should audit their local communities’ appetite and capacity for risk. Less than 20 per cent of surveyed councils had addressed this issue and their assumptions about the interest and ability of local community groups to take part in the delivery of services may not therefore be accurate. By assessing the strengths and weaknesses of the community sector, and mapping them according to location and type, councils can more effectively target capacity building and market stimulation.

**CASE STUDY 5: CENTRAL BEDFORDSHIRE COUNCIL**

Central Bedfordshire Council wanted to engage their local community sector as more equal partners in service delivery. To audit the scope for handing over assets and services, they consulted with their town and parish councils and with several larger voluntary sector organisations to explain their ambitions. They were honest about their need to reduce expenditure and were surprised by the realism and understanding in the responses they received.

As part of the audit, they undertook a risk assessment across a range of services. Where they were planning to close discretionary services they concluded that the risks of transferral were low in comparison with the risk of closure that they were currently facing. As a result of this work, the Council’s relationship with these organisations has seen a marked improvement. They have just completed the transfer of town centre toilets to Town Councils, and are now beginning the same process with the management a range of services including town markets.

3) Develop a strategy for managing the implications of the Community Right to Buy and Community Right to Challenge. Nearly 99 per cent of respondents to our survey had not considered their response, with two major implications. Firstly, as councils largely have not assessed their local communities’ appetite for increased engagement, the response to this legislation cannot be predicted. Councils could find themselves unprepared to deal with local groups initiating their own challenge to local services, particularly where services and buildings are facing closure. This could expose authorities to a completely new set of risks. Secondly, councils need to decide whether they are prepared to support the community in using the new powers and to what extent.
4) Review their **procurement and commissioning policies**. Our research demonstrated that over 60 per cent of respondents felt that it would be ‘difficult’ or ‘very difficult’ for the community sector to access current commissioning and procurement procedures. Although EU procurement regulations will remain in force, there is scope for local authorities to re-assess their current policies in partnership with the local community and voluntary sector with reference to the risk tolerance assessment above. If councils are committed to working with the community sector, they will need to be flexible in managing their procurement processes, perhaps even positively discriminating in favour of certain groups in order to manage their growth.

5) **Clarity of communication** is needed about their aspirations for community involvement in the local area, and about the distribution of risk when community groups are involved. If the risk is to be shared, clear communication of the risk appetite and tolerance levels of all partners around shared objectives is critical, as well as an honest approach to the benefits for each partner, and potential sources of discord in the relationship.

“The secret to effective partnership working between councils and the voluntary sector is complete honesty about what both parties have to gain, and about what the potential areas of conflict might be. You have to invest in building trust at the beginning of the relationship.”

(M MANAGING DIRECTOR OF A FOSTERING AND RESIDENTIAL CARE ORGANISATION)

6) This links closely to the need for investment in **capacity and resilience building**. Investment in resilience and capacity building should be recognised as efficiency measures in the long term, particularly given that 52.4 per cent of respondents to our survey saw ‘problems with sustainability’ as a high risk in relation to service or asset transfer to the community. Investing in, and empowering, local voluntary sector support networks will also become increasingly important. Capacity building in the voluntary sector can be a far more effective method of managing risk than contract management and direct monitoring. The risk associated with any service transfer is distributed between the risk profile of the delivery partner and the actions of the local authority. Paradoxically, by trying to squeeze the most out of a contract with the community sector, rather than investing in their resilience, a local authority could actually increase the risk of service failure.

“If you’re interested in collaboration with the third sector, you have to invest in its capacity – to make it fit for contracting and for monitoring outcomes. Investing in the community sector is not cost neutral. But if you’re looking at a new model of local government then the cost of not investing could be market failure.”

(CVS DEPUTY CHIEF OFFICER)
Of course capacity building needs to take place within both the community sector, and local authorities. If councils and communities are to collaborate effectively, it is essential that they share an understanding of risk and of risk management. With this in mind, there is a fundamental need for risk education among local government officers and elected members and their community sector partners. Arriving at this shared understanding will contribute to an effective risk management strategy; one that is prepared to take calculated risks, as well as simply seeking to avoid them. This especially needs to focus on the new complex disciplines of risk management associated with partnership working and outsourcing, such as supply chain management and data security, to name a few.

**Conclusion**
The research in this report has shown a varied landscape in local government risk management. Many councils admit they are risk averse, and even those that claim a level of risk tolerance display aversion to risk in the delivery of some of their largest service areas. Most importantly risk management practice is still very much focused on minimising risk across the board, rather than assessing strategically where risk can be tolerated, and where it cannot. When it comes to engaging with the community sector, a strategic evaluation of risk appetite and tolerance levels will be crucial, as well as an audit of the local community’s capacity for risk and the need for resilience building.

As councils struggle with in-year savings in response to a drastically reduced financial settlement, there is a real danger that they will make decisions about services without considering the opportunities for involving the community sector. This is a result both of aversion to risk, and of lack of time to consider the range of options available to them. Now more than ever, there is a need for councils to take a strategic approach to risk in relation to partnership working and devolution. The recommendations of this report seek to offer councils the opportunity to question their risk management decisions and the basis on which they are made. Until current assumptions about risk are re-evaluated, the vision of a truly collaborative model of service delivery will remain out of reach.

By continuing to avoid, fully transfer or tightly manage risk in partnerships with the voluntary sector, local authorities will only disempower communities and make the vision of civic renewal more difficult to attain. By taking time to consider strategically their appetite and tolerance levels for risk, councils stand a better chance of not only increasing their efficiency savings, but of offering more innovative, flexible and responsive services in the future.
The LGiU is an award winning think-tank. Our mission is to strengthen local democracy to put citizens in control of their own lives, communities and local services. We work with local councils and other public services providers, along with a wider network of public, private and third sector organisations. Through information, innovation and influencing public debate, we help address policy challenges such as demographic, environmental and economic change, improving healthcare and reforming the criminal justice system.

Zurich Municipal is the leading provider of risk and insurance solutions to Britain’s public service organisations. Zurich Municipal works with a broad range of public sector bodies including: local authorities, charities, voluntary groups, social housing providers, fire & police services and educational establishments. Handling some of the most significant incidents in the public sector, from catastrophic floods to major fires, Zurich Municipal advises these organisations on identifying and managing risk effectively.

In recent years, Zurich Municipal has been working closely with senior level executives within the public sector on the challenges of the emerging risk landscape. To view and download the risk publications that Zurich Municipal has produced in order to highlight the complexities of the emerging risk landscape in austere times, please visit www.NewWorldofRisk.com. For more information about Zurich Municipal, please visit www.ZurichMunicipal.co.uk