

Budgeting and governing for deficit reduction in the UK public sector: act four – risk management arrangements

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Introduction

It is now over a decade since the global financial crisis. This seismic event led to governments in many developed countries arguing that cutting spending and austerity policies were necessary in order to reduce the gap between public revenues and expenditure. In England, many of these spending reductions fell on the shoulders of local authorities, at a time when demand for locally-funded services such as adult social care was increasing (National Audit Office, 2018).

In previous articles (Ferry and Eckersley 2011; 2012; 2015), we have argued that the UK government sought to deliver its austerity programme through three 'Acts':

- Multi-year spending reviews;
- Annual budgets; and
- Changes to audit and accountability arrangements.

Given the UK government's desire to deliver many of its proposed spending reductions through local authorities, we might have expected ministers to increase their oversight of audit and risk management practices within councils, to ensure that funding cuts did not result in service failure. As this article will show, however, there has been a retreat from the 'risk society' and 'audit society' in central government's approach to local authorities. Risk management practices have become more localized as a result, but concerns are increasing about the exposure of councils to significant financial and (especially) service risks.

Risk management

In recent decades, the concept of risk has assumed increasing importance in the public, private and voluntary sectors (Power, 2016; Rana et al., 2019). Presciently, Beck (1992) argued that western countries were evolving into ‘risk societies’: employees, organizations and citizens were becoming increasingly concerned with potential threats, and sought to evaluate and measure them in some way in order to reduce their severity or the likelihood that they may occur. Power (1997) suggested that attempts to quantify, measure and commodify activities outside the realm of finance were resulting in the creation of an ‘audit society’—and that attempts to ‘organize uncertainty’ were resulting in ‘the risk management of everything’ (Power, 2004; 2007). This was despite the fact that we cannot ever know or comprehend all of the risks that we might face—and because people have different perceptions of the danger and acceptability of certain risks, we are likely to manage them in different ways (Douglas and Wildavsky, 1983).

Beck (1992) and Power (1997) were critical of these shifts towards ‘accountingization’ and ‘public administration by numbers’ (Hood, 1995): a desire to quantify and manage phenomena that were previously either neglected or viewed as impossible to measure accurately. Furthermore, risk management has led to individuals and organizations engaging in defensive ‘blame prevention re-engineering’ activities, because complying with standardized practices through a ‘tick-box’ approach enables them to avoid taking responsibility for any negative eventualities that may subsequently occur (Hood et al., 2001, p. 176).

Risk management in local public services in England

Despite these criticisms, risk management has been increasingly influential in local public service practices in recent decades. In particular, we can specifically see how the aphorism

‘what gets measured gets done’ has applied to the English local government. The UK government and relevant professional bodies encouraged the development of comprehensive risk management approaches in public services from around the turn of the century (National Audit Office, 2000; CIPFA, 2001; IRM/AIRMIC/ALARM, 2002), and its inclusion in the comprehensive performance assessment (CPA) regime (Audit Commission, 2006) contributed towards English local authorities adopting key risk management principles by the mid 2000s (Crawford and Stein, 2004).

From 2010 onwards, however, the abolition of the Audit Commission and centralized assessment frameworks, together with austerity funding pressures and localism, have led both central government and councils to change their focus. Many councils are now overwhelmingly concerned with financial sustainability and *conformance* with the statutory requirement to deliver annual revenue budgets, potentially at the expense of service sustainability and operational *performance* (Ferry and Eckersley, 2015). This has had a concomitant effect on how risks are assessed and managed within local government: because councils now know less about how their services are operating, they are less able to put mitigating systems and procedures in place to reduce their vulnerability to various threats and pressures (National Audit Office, 2018). Notably, managers are still keen to monitor operations in those sectors where inspections have continued, for example adult social care and children’s services.

However, it may well be the case that costs (and risks) have been pushed into adjacent areas that are subjected to different budgetary conditions and oversight arrangements—notably the NHS, academy and ‘free’ schools, and the growing portfolios of commercial property that several councils have amassed in recent years under company structures. Indeed, the overall philosophy of localism, as exemplified by the shift away from central direction and towards

‘sector-led improvement’ (Murphy and Jones, 2016), suggests that central government is increasingly less interested in what councils do—provided they spend less money than they did previously. Given rising concerns around both financial and service sustainability, however, it may well be the case that central government will revisit this approach in future spending reviews—thereby kicking off another series of ‘Acts’ through which it aims to deliver its fiscal policy objectives.

Nonetheless, as fiscal constraints continue to tighten, and short-term fixes such as greater reliance on council reserves and ‘emergency’ adult social care funds fail to address deep-seated problems, we are likely to see such problems exacerbated in the coming years. Indeed, as the National Audit Office (2019) argued recently, in the coming years other councils are likely to follow Northamptonshire in issuing section 114 notices. These orders ban all new expenditure with the exception of safeguarding vulnerable people and statutory services, whilst an attempt within a specified period comes up with a balanced budget. Although CIPFA’s financial resilience index may help authorities to understand their fiscal vulnerabilities better, it will not provide them with much-needed funding to ameliorate the constraints within which most services now operate in most areas of the country. And, of course, by focusing on financial management, it may just result in operational performance being neglected even more.

Conclusions

Since 2010, we have witnessed a retreat from the audit and risk society in the context of central-local government relations in the UK. The government is less keen to instruct councils to measure and quantify local government activities in order to make them auditable and help manage associated risks. However, funding cuts have increased the scope and scale of risks

that threaten local authority operations—to an extent that many councils may not be aware of how vulnerable their services are to future threats, still less be able to mitigate such concerns. More generally, central government has transferred some of the risks associated with financial and operational management to local authorities. Given that councils have also been tasked with much of the responsibility to deliver the austerity agenda, it is unclear whether they have the capacity to manage these risks effectively.

With this in mind, it will be interesting to see whether central government's 'hands-off' approach to risk management at the local level will continue following the coming spending review, especially if and when further councils experience financial collapse or service failure. We would encourage further research into how the UK situation may develop, as well as studies into broader changes in the nature of risks and risk management in public services internationally.

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