ZURICH
Municipal

Rising to the challenge

The future of the public and voluntary sectors

This whitepaper is the first report reflecting the findings from Zurich Municipal's customer research in conjunction with You Gov, on current and future changes in the public and voluntary sectors. The report contains contributions and reflections from our partners at SOLACE, the NHF, CIPFA, ALARM and NCVO, on the findings of the research and future trends affecting their member organisations.

The research explored general sentiment about the future of the public and voluntary sectors; views on current and future drivers of change and their relative impact; and future challenges and opportunities and how well-placed organisations are to deal with them.

Our respondents reported that in recent years change has been largely reactive, exacerbated by the pandemic, with the most profound changes across all sectors affecting all UK regions being driven by COVID-19.

But the external context in which organisations are operating is constantly changing and becoming more challenging. Service demand is high and more varied across all areas and sectors. Expectations, both political and within communities, are high. However, there is no certainty about operating environments. Organisations don't know what financial and human resources will be available, or how sustainable their business models may be, and the legislative framework is unclear.

Despite lack of clarity and financial security, public and voluntary sector organisations have tackled great challenges over the past 18 months. The pandemic has been the catalyst for welcome change and new opportunities. People don't want to lose traction on making progress and strengthening resilience.

Our You Gov survey has revealed that slightly more people are pessimistic about the future of the public and voluntary sectors than optimistic. Financial worries are top of the list for most sectors and may be fuelling pessimism.

However, the vast majority of respondents are feeling prepared to face future challenges and are well placed to take advantage of future opportunities. The way organisations have dealt with the unprecedented challenges and adversity of the pandemic has left many feeling that they have the skills, confidence and resilience to adapt longer-term, and to rise to the challenges in the future for the public and voluntary sectors.

Andrew Jepp
Managing Director
Zurich Municipal

"The negative influences on the future are reduction in funding, weak policy framework and low government commitment to innovate and lead."

Higher education respondent

"I think always erring on the positive puts us in the right frame of mind to be receptive to change initiatives for a better future."

Housing Association respondent

"Change is certain, but the nature and direction of travel is difficult to predict".

SOLACE

"We say we are in recovery but actually this council still feels in pandemic response mode."

ALARM risk respondent.

78% of organisations feel prepared to face future challenges

Resilience

Public and voluntary sector organisations have responded with unprecedented speed and agility to the pandemic emergency. New requirements from government, and increased and urgent demand from communities, have led organisations to offer additional services, adapt existing services, deliver with new parters, and work in unimagined ways. The emergency response has shown what can be achieved, and just how flexible a traditionally inflexible public sector can be.

The pandemic has shone a positive light on the public and voluntary sectors, highlighting efforts and achievements under desperately challenging conditions. There's a strong sense of community within the sector that many are hopeful will stay. For some respondents, the difficulties of the past year have made the job even more rewarding. Their optimistic outlook is driven by a new understanding of resilience and for many a renewed confidence in organisational resilience. Many will be working on learnings from experiences and strengthening organisational and community resilience for a long time to come. Apart from honing emergency responsiveness and ensuring services are resilient against known existential and systemic threats, organisations have tested weaknesses in business planning, business continuity, and financial resilience.

Some elements of resilience – particularly funding and fiscal – are in part outside of the control of the public and voluntary sectors. Organisations have now demonstrated how many elements of resilience are actually within their control and there are now huge learnings to build on. Plans, preparation and readiness have been tested. This should and is resulting in a new confidence in preparedness, however this may be fragile if the learnings are not acted upon.

Individual frontline services have been protected from budget savings as much as possible. This has mitigated some of the risk inherent in historic austerity and pandemic related demand. However, it masks an insecurity and threat to resilience we are now seeing in organisations who have made efficiencies in back office and support services. Councils, for example, have less capacity to respond effectively as issues emerge that are cross cutting or complex. Infrastructure organisations have been hard hit from the pandemic, and there is a risk that support organisations will have reduced future capacity.

The day to day running of charities has become harder, making finding the space to tackle deep-rooted and long-term challenges facing the sector (and society) more difficult. These issues require significant effort, energy, and resource at a time when all are already stretched. Continued learning and development are critical to enable an effective response. Charities and volunteers want and need support to do their work effectively.

Leaders, senior managers and risk managers work together to create resilient organisations and there is an opportunity to really embed good practice. As providers of essential services – from schools and universities to social housing and policing – we have learned that it's also essential to work across regions, sectors, agencies and communities, collaborating to provide joined up resilience, delivering all types of services to communities as a whole.

Organisational resilience has not been tested to this extent, since WW2, and never has risk management had such a high profile. One positive to come out of this experience is that the role of the risk manager and the value in managing risk is now better understood and more widely appreciated and engaged with.

"We've got experience of adapting now, so even though things are getting tougher we are more resilient"

Third sector respondent

"The focus on efficiency over the last 10-15 years has been at the expense of agility, with organisations finding it harder to respond to or anticipate strategic challenges"

SOLACE

"It's fundamental public service organisations learn from the experience of the past 18 months, but not be blinkered by it. The focus now is on building on the great resilience shown in the emergency."

ALARM risk respondent

"Job losses and closures, already a feature of the third sector, are set to continue."

NCVO

Funding and Fiscal

The compound effect of the pandemic and funding challenges across sectors are the biggest factors influencing those reporting a pessimistic outlook and are also identified as the biggest drivers of change in recent times. Increased service demand against a background of reduced or limited funding brings a tension to public service delivery. The related impact is also felt by the voluntary sector, and ongoing increased demand and reliance on council funding will test their ability to maintain future services.

Respondents predict that the combination of funding and fiscal policy, with climate change adaptation, will have the largest impact on housing associations. The sector believes these will be key drivers for changes to other factors, such as organisational and sector structures, digital data and automation, and changing community expectations and needs.

Across all organisations surveyed, a lack of security of long-term funding is one of the greatest threats to overall resilience. For charities and voluntary organisations, loss of income during the height of the pandemic will be hard to make up for. Although discrete funding through government schemes currently remains on offer, not all organisations have been able to access it. The experiences of austerity and the pandemic have elicited a sense of doubt and lack of confidence in future income, with little hope of sustainable funding.

The world has changed and finances will have to be balanced by public services and charities that have extended their remit and reach in many cases while facing a reduced income . All organisations are keen for stability and are looking at the sustainability of their operations. Medium to long-term funding and investment opportunities are a focus now and will remain so into the known future due to the long term nature of the challenges faced. Financial constraints have been a challenge for public and voluntary sector organisations for some time and go well beyond the well highlighted pressures across health and social services. It is unlikely this will change, and organisations may consider riskier solutions to meet the challenge.

Many charities are relying on reserves to continue their work, and thousands of voluntary organisations have accessed the job retention scheme. Many charities are likely to struggle financially in the year ahead, making a focus on effective governance more important than ever.

"The fiscal picture coupled with rising demand feels the most immediate and existential threat" **SOLACE**

"Covid-19 continues to present both financial and operational challenges, and long-lasting implications for charities, volunteering, and communities."
Higher Education respondent

"Local government continues to be underfunded and the gap between the services we want to provide and can afford to provide, continues to grow".
Housing Association respondent

"Public money provided essential economic support during the pandemic but ultimately that funding (most of it from borrowing) will have to be repaid and difficult choices will have to be made, the skills of senior finance professionals will be even more essential". **SOLACE**

"There is evidence the public dug deep for charities in 2020. The support from the public for charities has been great but they can never be expected to cover the full loss." **NCVO**

Regulation, Legislation & Policy

Only respondents from the social housing sector ranked legislation and central government policy as a significant driver of change for their organisations in recent years. Looking forwards the significance of this driver will increase as government will expect all public and voluntary sector organisations to meet targets like zero carbon, adhere to new regulations and standards, and adapt to legislative changes. But there is much uncertainty about the macro-economic outlook, which will determine the Government's future approach to public investment following the pandemic and, polarisation around policy risks undermining trust in local institutions and their ability to operate.

The delivery of many of the Government's manifesto commitments have been delayed because of the pandemic with attention and resources diverted to responding. A backlog of parliamentary business needs and a raft of legislation, ranging from the Environment Bill, and the Building Safety Bill, to the Planning Reform Bill and the Procurement Bill, all bring opportunities and risks across all sectors. The Government's climate change ambitions will need strong local leadership and partnerships, whilst the decarbonisation and further climate change related targets will be a factor in pushing climate change transition up everyone's agenda.

Zurich Municipal have seen how community organisations and charities have risen to the challenges presented by Covid-19, in many cases joining forces with other organisations and service providers to prevent duplication and to maximise their ability to support local residents. However, it remains to be seen what lessons will be learned from the benefits and challenges of a greater relaxation of the third sector regulatory environment during the pandemic. In some areas changes to the rules continue, for example in relation to new guidance issued by the Charity Commission during 2020 on serious incident reporting, mergers, and collaboration.

Following the FE White Paper, a Skills and Post-16 Education Bill, introduced in May, includes significant changes to the Student Loans' Company systems, and gives more government jurisdiction over FE colleges. The Bill will impact on the way sixth forms, colleges and universities all do business.

Some reforming legislation and guidance is in stasis and some has been promised but not yet scheduled. The transforming action and major commitments required will inform long term business planning, but until then, organisations remain in reactive mode. Statutory instruments may be used to build back better (and greener) and to meet levelling up ambitions, but there is no date for further clarity on these.

Respondents to the research did not rate changing organisational structures as a key driver of change however Local Government reform is still on the table, with a perceived push for more Unitary Authorities for some areas as well as the County Deals.

The UK's departure from the EU gives central and local government an opportunity to rethink the way decisions are made in the UK. This is not an opportunity to consolidate power in Whitehall, Holyrood, Cardiff Bay and Stormont but should lead to further powers for local communities through local government.

41% Legislation and central government policy have been the most significant drivers for change for housing associations in the last five years, with 41% of respondents ranking it as such, more than Covid-19 (32%).

"There may be greater government (and other) intervention such as legislative re-organisation at the very time expectations of councils' local responsiveness and ability to respond to the levelling up agenda are at their highest". **SOLACE**

"A solution for delivery of social care is still awaited. Difficult decisions may have to continue to be made by local politicians". **CIPFA**

"The financial implications of building safety and decarbonisation will have to be known and properly planned for". **NHF**

"Scottish government policy has been the biggest driver of change for our organisation in recent times." **Council respondent**

Changing Nature of Work

The survey confirmed the changing nature of work as having a hugely significant impact on organisations across all sectors over the last 12 months, however respondents indicated that they expect the impact to be less significant over the next five years.

The positive ways in which organisations have responded to the pandemic has put huge responsibility – and commensurate pressure – on workforces. Frontline staff have had to adapt on an individual basis, often without the supervisory and back-office support they were used to. Operational structures have had to become more fluid and responsive. Service provision has been subject to prioritisation. Teams have been dispersed, with office workers operating remotely. Every sector has become much more reliant on digital communications, but has had to operate a variety of systems with variable reliability.

Learning new skills and working outside of job descriptions has spawned opportunities for growth - for individuals and organisations. Workers have had to rely on each other, trust colleagues' judgement and work ethic, accept longer working days, and recognise one another's limitations and vulnerabilities. Organisations can now use this huge and rapid transformation to become more effective and future proofed.

The new working life bonuses of flexibility, informality and tolerance have come at a cost, however. After eighteen months of responding to an emergency and being always on, workforces are isolated, overworked, exhausted, anxious, stressed and unwell. They are uncertain about the future of their jobs, how to manage their home lives, and plan their careers.

Blended (or hybrid) working, which appears the way forward, doesn't suit everyone. Some employees will want to stay at home, or stay in the office, or do things completely differently. Some councils have seen an influx of proposals from employees to work out of the country. Employers will have to be attentive to individual needs and be mindful of the personal pitfalls of the liberalisation of the workplace. Solid leadership, appropriate training, and ongoing incentives will become essential in a competitive marketplace for modern skills.

Uncertainty around the workforce appears to be an emerging issue, with shortages being reported across service areas and geography, and in senior talent across the public sector. Increased flexibility may be exacerbating the problem, with employees having greater choice about where they work. Also, time in lockdown has given employees time to re-evaluate their working lives, resulting in career changes.

There has been a significant change in the way we all work, with digitalisation of services at every level. Now with an acknowledgment of those changes being permanent, there are implications for many areas of business. Some councils are seizing the opportunity to rationalise their property portfolio, while others are keen to retain a bricks and mortar connection to communities and their local economy.

Universities are still unsure whether blended programmes of education will predominate in the sector. Over the past year this teaching model came with enterprise risks. UK students may not be so inclined to leave home and pay for campus accommodation if teaching is mainly remote. The onus on teaching staff to continue to deliver online and in-person, puts further strain on staff wellbeing and mental health, training and personal development, and staffing sustainability.

68% The changing nature of work, for example hybrid working and workforce challenges, has had the biggest impact in the past 12 months.

"Staff will be under pressure to continue performing at an emergency level – if they did it for 18 months, why can't they do it permanently? But they will expect to work more flexibly and be paid for the hours they work."
ALARM

"A shift to virtual crime, with capacity and capability challenges associated with digital investigations and encrypted communications, has added much more specialist, technology-based work to general policing."
Police force respondent

"The changing nature of work is impacting significantly on the external expectation of public services. It is also driving mental health issues, inequalities within communities, and the need for improved digital responses". **CIPFA**

Communities

"The public commitments by voluntary organisations to address systemic inequalities faced by people from marginalised groups and communities must now move to action." **NCVO**

"Expectations both within communities and politicians are that councils have the levellers to make significant changes to the local place." **SOLACE**

"There is an increased need to provide support in communities and society which traditional government-led services can no longer provide, or just aren't providing. The third sector has a key role to play."
Third sector respondent

Changing community expectations and needs came through as the final driver with significant impact for survey respondents, and this is one area where the impact is expected to increase over the next five years.

There has been an increased demand for services across all sectors. A surge of need is expected as pandemic measures and support end. Organisations will need to balance community and user group led responses with government requirements and budget constraints.

For councils, a renewed focus on communities and their ability to contribute within their own areas has been a powerful force during the pandemic. An example is local voluntary groups (sometime via parish councils), which have been an untapped resource, with the ability to deliver better outcomes, not just financial savings. There is now opportunity to harness this. Community led policy and projects better target need and meet expectations. Generalised needs-based services don't go far enough. The pandemic has changed whole communities. Community interventions will need to follow the culture, lifestyles, and life changes of citizens.

The focus on delivery outcomes for communities also links into planning reforms, which could be a significant change for many councils, particularly those with local planning responsibilities.

For charities and volunteers, the impact of the pandemic has been uneven and unpredictable. For many, their range of services has decreased since March 2020, while organisations anticipate a further increase in demand. Food and other essentials, as well as support for people facing mental health issues, debt, and homelessness are areas of increasing need. As the economy contracts, unemployment and inflation rise, and welfare support returns to pre-crisis levels, this trend will likely continue. There will be continued demand for support from all organisations.

What Next?

In the next five years it is expected that funding and fiscal challenges will have an even bigger impact on organisations than has been felt already. Adapting to climate change was rated as low impact by survey respondents. However this is an area where Zurich Municipal see significant change coming so perhaps this needs focus by public and voluntary sector organisations in terms of engagement and activity.

Other drivers of change such as digital, data and automation were not rated as highly as may have been expected, and inequalities and levelling up came through as a new area for focus.

"Universities have to deal with a reduction in funding, a weak policy framework, and low government commitment to innovate and lead."

Higher Education respondent

"We will have to reimagine the way work happens, the way we deliver services and campaigns with communities, and the way we empower individuals and communities to do more."

SOLACE

Climate Change

The challenge of adapting to climate change was not rated as having a significant impact on organisations in the next five years by the charity and education sectors. This is in contrast to the housing sector which rated it as by far the most impactful challenge. Even though local government are at the forefront of many initiatives on the climate agenda, the impact was not rated as particularly high.

The climate challenge is a well established risk, and expert opinion is that it is the most critical risk area facing this generation. Plans for a green recovery are developed, building on the drop in carbon emissions experienced during the pandemic and responding to the pathways to net zero identified by the UK Climate Change Committee. The impacts of climate change are already being felt, in flooding, wildfires, heatwaves, and adverse weather events. However, the wider impact of climate change and sustainable communities are yet to be fully understood by all.

There are a variety of roles public and voluntary sector organisations play in the climate change agenda, with every organisation needing to engage with their roles if national and global ambitions to mitigate the risks are to be realised. All organisations must be considering action they can take to reduce their carbon footprint. Charities and volunteers will continue to play an important part campaigning for tougher action, while supporting communities to adapt. Education institutions must respond to student concerns and activism on this agenda, as well as consider how the curriculum and skills offerings are preparing for a warming planet. Housing organisations are focused on the impacts that will be felt by the requirements for net zero construction, improved energy efficiency across the residential estate and a move to renewable energy sources. Local authorities are leading their areas in planning both to reduce carbon emissions and to respond to the increasing weather and climate related risks faced by communities.

The impacts of climate change on organisations will be significant if the current trajectory of increased extreme weather events and increased legislation and policy developments on energy, transport, buildings and carbon reduction plans continues towards 2030 targets. The fact that these impacts were not highlighted by respondents to our survey indicates that there is much work still to be done to educate organisations, employees and communities.

"We know we have to address climate change resilience and meet zero carbon targets, but it's just the thought of adding more major projects and programmes of work to our increasing responsibilities."
Council respondent

"Issues such as equality, diversity, and inclusion, as well as climate change, are too often avoided or deprioritised". **NCVO**

"Climate change has been put on the back burner because of the pandemic. Now we are seeing and experiencing some of the consequences, it feels more relevant and urgent."
ALARM risk

34% Although it will have more of an impact in the next five years, climate change was reported as the least significant driver for change in the last five years.

Collaboration

Organisations and self-organised groups have needed to mobilise and organise in different, innovative, and collaborative ways to achieve their purpose - or respond to the emerging, pressing needs of those they serve. To achieve ambitions and meet future challenges, organisations will need to maximise effectiveness through existing and future collaborations.

Collaboration at a place-based level can underpin management of massive systemic issues (like deprivation and climate change). The pandemic has made organisations look at serving whole communities, not differentiating services by geographical or political boundaries, or business sector. Organisations that understand local issues and have grassroots networks are now more involved in delivering outcomes for central and local government. National charities run by local bodies and neighbourhood-based groups are especially good at this. Councils retain responsibility for achieving outcomes in their areas, but there is a growing realisation they don't always have to deliver them.

Working with partners brings many opportunities for local government to add enrichment to statutory duties. However, councils may have to skill up staff or pull in contract and supply chain management expertise to be effective commissioners of services. Third sector organisations should be given equal opportunity to compete for projects too. Once again, legislation can either enable or threaten these opportunities - the nascent Procurement Bill will be followed with interest.

Housing associations are already seeing the need for and benefits of working with partners to deliver building safety remediation and decarbonisation. These challenges will require long-term planning and investment, consideration of organisational structures , and more collaboration across the social housing sector.

"Collaboration has become more of a prominent feature in how third sector organisations work, a trend that will continue". **NCVO**

"The integration of care is important to top-tier councils to ensure better partnership working, which can have significant service improvements, alongside some financial benefits." **SOLACE**

Connectivity

Public service organisations have embraced changes to enhance connectivity with workers, service users, and partners. Organisational and digital transformation has happened in weeks and months, not the previously predicted years and is enabling new ways of working and of service delivery.

It has been proven that public services and charities can be innovative and dynamic accelerating technological advancements and practical applications in response to urgent need. They have created digital products, mobilised volunteers, procured medical equipment, established medical facilities, and distributed food.

Many technological advances accelerated by the pandemic are unlikely to reverse. Digital trends in particular, have had many benefits, particularly increasing reach, being more accessible, and freeing up human talent. The shift to digital working through the pandemic has altered both the nature of work and the expectations from communities, in terms of what can and can't be provided online.

Continued adoption of digital and data driven solutions is expected by respondents across all sectors. Areas where previously it was felt that digital communications weren't appropriate or effective are being revisited and confidence in these solutions has increased through experience, both in organisations and in service users.

The advantages and opportunities from increased connectivity are clear but there remain challenges in implementing solutions and changing work cultures and service relationships. Issues of ethics, accountability and governance must be ever present in conversations about the future use of digital, data driven and automation practices to ensure that the positive impacts expected from these developments are delivered.

Ensuring organisations and service users have the appropriate skills and capacity to engage with an increasingly digital world must remain a key priority as must cyber resilience and data security across an increasingly connected and complex network. And in a world that is increasingly digital by default, ensuring that services, information and engagement remain inclusive and do not exacerbate digital inequality is the responsibility of any community facing organisation.

"There are digital transformation projects going on across the sectors which should allow us to focus on service delivery, rather than administration".
Housing association respondent

"Addressing the digital divide has become more pressing than ever, in terms of ensuring access for disadvantaged groups". **NCVO**

Inequality & Levelling Up

Local public and voluntary sector organisations of all types (and politics) are shifting focus towards the inequalities that have been revealed and exacerbated by the pandemic. Each local area will interpret this and respond in different ways. This can be seen in local versions of 'levelling up', redressing specific inequalities, a more intense focus on local communities, or developing high streets and local (physical and social) infrastructure. This action is described in different ways, but all share similar aims and outcomes. They stem from a renewed focus on enabling more equitable outcomes for communities, as well as being a response to rising demand in areas such as children's services and housing.

One area that must remain a focus for all sectors is the need to rise to the equality, diversity and inclusion challenge within workforces. Organisations will need to change the way they operate, so they more accurately reflect the communities and individuals they serve, both internally and in the way they provide services as well as attract and retain a workforce that best delivers on organisational priorities.

The inequalities starkly highlighted and accelerated by the pandemic, along with the Black Lives Matter movement and protests around the world sparked by the death of George Floyd, have added further weight to the Charity So White campaign, driving the voluntary sector to become more equitable, diverse and inclusive.

Equality of opportunity in employment and training should apply to under-represented groups, but also consider those who have been particularly hard hit by the pandemic. Women, especially those with caring responsibilities, have been most disadvantaged, and there has been much publicity around the difficulties of young workers and those leaving training and education. At the other end of the age scale, older workers in their fifties and sixties are more likely to be let go at the end of the furlough scheme, many of whom are women working later than expected to fill the pension gap. However, across all ranges, it is BAME workers who have come off worst .

"Local government and blue light services have on the whole met the needs and expectations of government and communities in an emergency, doing well and in some ways exceeding expectations. But as we come out of response and into recovery, those expectations will increase". **ALARM risk**

"Food and other essentials, as well as support for people facing mental health issues, debt, and homelessness are all areas where need is increasing." **NCVO**

"There is an opportunity for housing associations to be seen as key contributors to the levelling up agenda, but the Government's approach to investment which prioritises 'additionality' above all else would need to change." **NHF**

"Black Lives Matter has put a new and overdue focus on diversity issues". **NHF**

How Zurich Municipal can help

It is important to be aware of the future changes that may impact your organisation, in order to understand the associated challenges and opportunities.

Our teams of specialist risk consultants cover all strategic and organisational risk aspects and are ready to support our customers as they consider their approach to horizon scanning and risk management responses.

For further public sector insurance and risk updates, the Zurich Municipal News & Insight pages are regularly updated with topical articles and thought leadership as well as the annual Global Risk Report from the World Economic Forum.

At Zurich Municipal we believe in a brighter future for our communities. That's why we make it our purpose to help make them more resilient.

To discuss any aspect of this whitepaper further, or for more information, email info@zurichmunicipal.com or call us on 0800 232 1901

ZURICH Municipal

With thanks to our partners:

ALARM embrace risk

CIPFA The Chartered Institute of Public Finance & Accountancy

NATIONAL HOUSING FEDERATION

NCVO

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Chartered Insurers

We are Chartered Insurers, publicly committed to a customer-first approach and values that align with a professional Code of Ethics. We'll provide solutions relevant to your needs, maintaining our knowledge through qualifications and ongoing professional development.

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